



CENIT AKTIENGESELLSCHAFT SYSTEMHAUS
Schulze-Delitzsch-Strasse 50 • D-70565 Stuttgart
Tel.: +49/711/780 73-388 • Fax: +49/711/78073-688
E-mail: aktie@cenit.de • Internet: <http://www.cenit.de>

cenit verändert

cenit

Dear Shareholders,

The extremely positive development of business in the third quarter proves us to be on the right course. In the period under review, CENIT AG's sales succeeded in hitting the TDM 71,733 mark. Gross earnings rose by 63% to TDM 33,793. Operating earnings rose by TDM 5,339 to TDM 2,569 compared with last year. Incoming orders remained at the same high level despite the fact that the months of July to September are traditionally the summer vacation period.

In the third quarter we succeeded in winning numerous new customers and in intensifying existing business relationships. For example, one of the world's biggest manufacturers of cleaning equipment and CargoLifter AG, which uses airships in an entirely new logistics concept for the transportation of heavy goods, have selected CENIT AG as their partner. Particularly gratifying is the highly promising start made by our still new "Virtual Reality" division which received its first major order from BMW, a customer of many years' standing.

In the particularly strong growth sectors workflow and document management, we won our first contracts with public utilities such as the Berlin waterworks.

If business continues on its present satisfactory course, CENIT AG expects its earnings targets of currently DM 4.05 per share (DVFA) to be exceeded by 5 to 10%.



We want to strengthen our position on the market not least through the acquisitions we have planned, and thus create further upside potential for the CENIT share.

Yours

Chairman of the Board of Management

[2]

CENIT AG

1.-3. quarter 1998 at a glance

	Q1 to Q3 1998	Q1 to Q3 1997
Sales revenue	71,733 TDM	46,211 TDM
Gross earnings	33,793 TDM	20,775 TDM
Operating earnings (EBIT)	2,569 TDM	- 2,770 TDM
Flotation costs	3,731 TDM	0 TDM
Earnings after tax	- 323 TDM	- 1,222 TDM
Net profit DVFA/SG	1,245 TDM	- 1,222 TDM
Number of employees at the end of the period	281	201

Negative figures are shown with a minus sign. Otherwise no sign is shown.

The present nine-month financial statements were drawn up in accordance with HGB (German Commercial Code) guidelines.

[3]

The development of business

The development of business in third quarter 1998 must again be considered fully satisfactory.

As per September 30, CENIT AG Systemhaus sales reached TDM 71,733. Compared with the third quarter of last year, this corresponds to an increase of 55%. Gross earnings, an item which is of decisive importance for CENIT AG's growth, rose by 63% to TDM 33,793. In particular the divisions concerned primarily with services benefited from the excellent order-book position.

Divisions which are concerned primarily with the sale of software and hardware products can also look back on a successful third quarter.

Major medium and long-term projects with well-known enterprises ensure a vigorous future development of the workflow and document management segments.

The management is very satisfied with the development of business.

The development of earnings

At the end of third quarter 1998, operating earnings amounted to TDM 2,569 thus rising by TDM 5,339 on the corresponding period of last year.

The development of earnings in the first three quarters is marked by non-recurring expenses of TDM 3,731 for going public. DVFA earnings at the end of the first nine months of 1998 amounted to DM 1.25 per share and are thus higher than we expected.

Since earnings traditionally rise appreciably in the fourth quarter compared with previous months, CENIT AG expects its earnings targets to be exceeded by 5 to 10% if business continues on its present satisfactory course.

Additional expenses resulting from the steep growth of CENIT AG in the third and fourth quarters will be offset by a better-than-planned productivity.

Statement of income

	Q1 to Q3 1998 Jan. 1, 1998— Sept. 30, 1998 TDM	Q1 to Q3 1997 Jan. 1, 1997— Sept. 30, 1997 TDM	Changes in absolute terms TDM	Change %
Sales revenues	71,733	46,211	25,522	55
Change in inventories	1,151	1,539	- 388	- 25
Gross earnings	72,884	47,750	25,133	53
Material purchased	39,091	26,974	12,116	45
Gross margin	33,793	20,775	13,017	63
Personnel costs	21,454	15,836	5,617	35
Other operating expenses	5,179	3,499	1,679	48
Overheads	3,103	2,830	272	10
EBDIT	4,057	- 1,390	5,447	
Depreciation	1,488	1,379	108	8
EBIT (operating earnings)	2,569	- 2,770	5,339	
Financial earnings	132	- 464	596	
Other operating expenditure/revenue	262	324	- 63	- 19
Flotation costs	3,731	0	3,731	
Other non-recurring expenses/income	0	0	0	
EBT (pre-tax earnings)	- 769	- 2,909	2,141	
After-tax earnings	- 323	- 1,222	899	
Earnings according to DVFA/SG	1,245	- 1,222	2,467	
Earnings per share according to DVFA/SG	1.25*			

* DM per share

Balance sheet

All balance-sheet items developed as planned. CENIT UK Ltd. has not been included.

Assets/TDM	As at Sept. 30, 1998	As at Dec. 31, 1997	Liabilities/TDM	As at Sept. 30, 1998	As at Dec. 31, 1997
Fixed assets	3,161	2,151	Subscribed capital	5,000	1,000
Current assets	2,042	888	Equity/ revenue reserves	36,000	1,304
Accounts receivable	18,692	20,862	Retained earnings	- 323	1,196
Securities	2,000	0	Equity	40,677	3,500
Liquid assets	25,279	609	Accruals	1,853	2,493
Deferred charges and prepaid expenses	125	150	Liabilities	8,769	18,667
	51,299	24,660		51,299	24,660

Statement of cash flow from January 1, 1998–September 30, 1998/TDM

Net income for the period	- 323
Depreciation of fixed assets	1,488
Changes in accruals	- 640
Disposal of fixed assets	0
Changes in inventories	- 1,155
Changes in accounts receivable for goods and services	1,989
Changes in other assets and deferred charges and prepaid expenses	206
Changes in payments received, in liabilities due to bills of exchange and in liabilities from accounts payable	- 2,645
Changes in other liabilities and in prepaid and deferred items	- 996
Cash flows from operating activities	- 2,076
Payments for investments in fixed assets	- 2,498
Outflows from investment activities	- 2,498
Shareholders' contribution	1,500
Premium from flotation	36,000
Securities	- 2,000

[4]

[5]

Statement of cash flow from January 1, 1998–September 30, 1998 /TDM (continued)

Changes in liability to banks	– 6,257
Proceeds from financial activities	29,243
Changes in cash and cash equivalents effected by payments	24,670
Cash and cash equivalents at the beginning of the period	609
Cash and cash equivalents at the end of the period	25,279

CENIT changes

Following the successful execution of contracts with well-known new customers such as Allianz Bauspar AG, the German weather service and Deutscher Sparkassenverlag in the second quarter, numerous enterprises decided in favour of a cooperation with CENIT AG in the third quarter. This underscores the confidence our customers place in CENIT AG's know-how in changing business processes and making them more efficient.

[6]

Competence in CATIA

CATIA is the world's leading software solution for computer-aided design and manufacturing. The growth rate of the market for this system in 1998 is estimated at approx. 20%. In its CAE solutions division, CENIT AG rose by 59% in the first three quarters 1998 on the corresponding period last year.

One of CENIT's important new customers is one of the world's biggest manufacturers of cleaning equipment. CENIT supports the company in development and design. The framework training agreement also includes the training of its employees in the methodology and applications of CATIA.

CargoLifter AG counts on CENIT's competence in the development of its 260-metre airships. In addition to the implementation of CATIA, the company now wants to use "digital mock-up"—a technology for developing complete prototypes in the computer.

Virtuality becomes reality

With its new "Virtual Reality" division, CENIT AG is taking a decisive step towards the future. This technology permits virtual prototypes to be more vividly experienced and understandable at much earlier stages of development. According to expert estimates, this permits a drastic reduction of product development time—in some cases by as much as 80%.

BMW AG, which has been a CENIT customer for many years, placed a virtual reality order with CENIT AG in the third quarter. The project has a total volume of over three quarters of a million D-Mark and comprise the installation of a four-wall projection room. This will be used by BMW primarily for developing car bodies. Talks with other interested enterprises are currently under way.

Strong growth of corporate solutions

In the period under review, the workflow and document management sectors rose by 180% compared with the same period in 1997. In the third quarter, for the first time in the company's history, CENIT succeeded in winning substantial orders from utility companies such as Berlin's waterworks. Existing business relations were successfully intensified with follow-up orders, and new business relationships established—amongst others with the building and loan association Bausparkasse Schwäbisch Hall.

Acquisition talks continue

In the third quarter, acquisition talks with several enterprises were continued. The planned takeovers are intended to strengthen CENIT AG's position on the market and to expand its clientele. Consequently, negotiations concentrate on firms which meaningfully complement CENIT AG's spectrum of services. These include fast-growing future-oriented high-tech enterprises in the CAD/CAM and corporate solutions sectors (workflow and document management, groupware, e-commerce, etc.).

Negotiations are now bringing results with one target company. The management expects contracts to be signed in fiscal 1998.

CENIT UK becomes established

Our wholly owned subsidiary in the UK is becoming increasingly well established. It now has eleven employees who made sales of £568,954 in the first nine months of 1998. Business is developing as planned for CENIT UK Ltd. The management expects the British subsidiary to make a positive contribution to consolidated earnings in the current year. Pre-tax earnings are currently £38,687.

The Company's figures presented above for the partial year do not yet include the results of CENIT UK.

Financial statements according to HGB

The results presented in this report were drawn up in accordance with HGB (German Commercial Code) guidelines.

CENIT AG has resolved to present its annual report for 1998 in accordance with International Accounting Standards (IAS). This form of presentation provides the investor with an appreciably clearer picture of the Company.

Internally, the annual financial statements for 1997 were checked retrospectively on the basis of IAS principles. As expected, no substantial changes in the figures resulted.

Development of human resources

At the end of the third quarter of 1998, CENIT AG had a workforce of 281 employees (Q3 last year: 201). Despite the shortage of IT specialists on the labour market, CENIT AG has been highly successful in finding qualified staff. Since the beginning of the year, 69 new jobs have been created.

High level of motivation—low staff turnover

The management of CENIT AG considers its employees its most valuable asset and implements this conviction consistently in its personnel policies. This marked orientation towards its employees results in a high level of motivation amongst them and keeps staff turnover low. Identification with the Company is also demonstrated by the number of employees who hold shares in CENIT AG and are convinced of the Company's long-term success. Employee participation programs are currently being planned and will be implemented this year.

CENIT AG encourages continuous basic and further training. Cooperation with the Berufsakademie (college of vocational training) and the supervision of diploma theses are important components in the training of qualified junior staff.

The human resources division is to be expanded in the third quarter in keeping with its growing importance.

[7]

OUTLOOK FOR 98

OUTLOOK FOR 98

The fourth quarter of 1998

Business developments in the first nine months of fiscal 1998 exceeded our expectations. Since CENIT AG's sales and earnings traditionally peak in the fourth quarter, this period is one of particular importance.

The order books for the fourth quarter are full—particularly in the service division. Further major orders are pending in the corporate solutions segment (workflow and document management). Talks with well-known enterprises hold promise of further orders in the "Virtual Reality" division.

This year, CENIT AG will become one of IBM's most successful business partners. This is suggested by the effective marketing and the vigorous demand for high-end hardware. Moreover, in the CAE sector, CENIT is already IBM's number one business partner in Europe by a long way.

Thanks to the highly positive development of business to date in 1998, the management will present a revised plan for fiscal 1999 in the fourth quarter.

At the beginning of the coming fiscal year, CENIT AG will hold an analysts' conference on preliminary figures for 1998 and its final plans for 1999.

CENIT is ready for the euro

CENIT AG sees European monetary union as a great opportunity for strengthening the competitiveness of the European economic area. The single currency will bring advantages to both enterprises and consumers.

We have therefore made all the arrangements necessary for a rapid conversion to the euro from the very beginning of the statutory transition period.

We aim to be able to convert to the euro in dealings with business partners from the beginning of next year. Starting from spring 1999, we shall make offers, pricing, invoicing and payment transactions optionally either in euro or in the old currency.