1998

ANNUAL REPORT

CENIT AG SYSTEMHAUS

cenit innovates

CENIT AT A GLANCE

	1998 in millions of DM	1997 in millions of DM	Change in %
Sales	120.50	79.10	52
Gross profit	59.20	38.20	55
Operating earnings (EBIT)	6.23	3.03	105
Earnings acc. to DVFA/SG	4.52	1.31	245
Net income	2.70	1.20	125
Cash flow	5.28	3.10	70
Total assets	70.06	25.08	179
Shareholders' equity	43.85	3.63	1108
Equity ratio	62.6%	14.47%	–
Investments	4.65	1.14	308
Depreciation	2.55	1.85	38
Number of employees (as at December 31.)	315	211	49

It's ideas off the beaten track that get things moving.

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FOREWORD BY THE BOARD OF MANAGEMENT

FOREWORD

Dear Shareholders,

For CENIT, 1998 was more than just a jubilee year. It was doubtlessly a year of changes and the most successful year in the company's history since its foundation in 1988. The past business year was dominated by the conversion of CENIT GmbH into a joint stock company, followed by going public. The CENIT share was listed for the first time on the Neuer Markt of the Frankfurt stock exchange on May 6. Its price has developed very satisfactorily ever since.

The extremely positive development experienced by the company in 1998 far exceeded our expectations. With an increase of over 52 per cent, sales reached a record DM 120.5 million. Gross profit rose by 55 per cent on the previous year's figure to DM 59.2 million. CENIT's consolidated operating earnings rose by 105 per cent to DM 6.23 million. Adjusted by the costs of going public, earnings per share (DVFA/SG) rose to DM 4.52. This corresponds to a rise of 245 per cent on the previous year. As we announced on going public, subject to approval by the annual general meeting, we shall distribute about one third of net income as dividend.

The result that has been achieved was the outcome of the above-average development of all three business segments. In the CAD/CAM-Solutions segment, CENIT AG won first place amongst all IBM Business Partners worldwide, as it had done several times before. The highlights in this segment included the building up of the new field of activity: "Virtual Reality". "Virtual Reality" permits products to be examined in virtual space before they actually exist. We have acquired the exclusive selling rights to the respective software from the Fraunhofer Institut für Arbeitswirtschaft und Organisation (IAO). This technology transfer underscores CENIT's leading position in the field of computer-aided design and manufacture.

With a growth rate of 107 per cent, the e-business segment was particularly dynamic. The primary factors contributing to this were a rising demand for solutions in groupware as well as in workflow and document management. It was also attributable to the high degree of acceptance of CENIT AG as a competent partner - especially by banks, financial services providers, trading companies and public utility corporations.

The IT Services segment also rose sharply at 84 per cent. This can be attributed in particular to the rising need for high-availability and client/server solutions, growing demand for system management solutions and the accelerating trend towards selective outsourcing.

In all three business segments, we succeeded in growing at faster pace than the respective sector - a goal we have set ourselves again for the current year. The conditions for this are good - the Information Technology Federation forecasts a higher growth rate for the German IT market this year than last year.

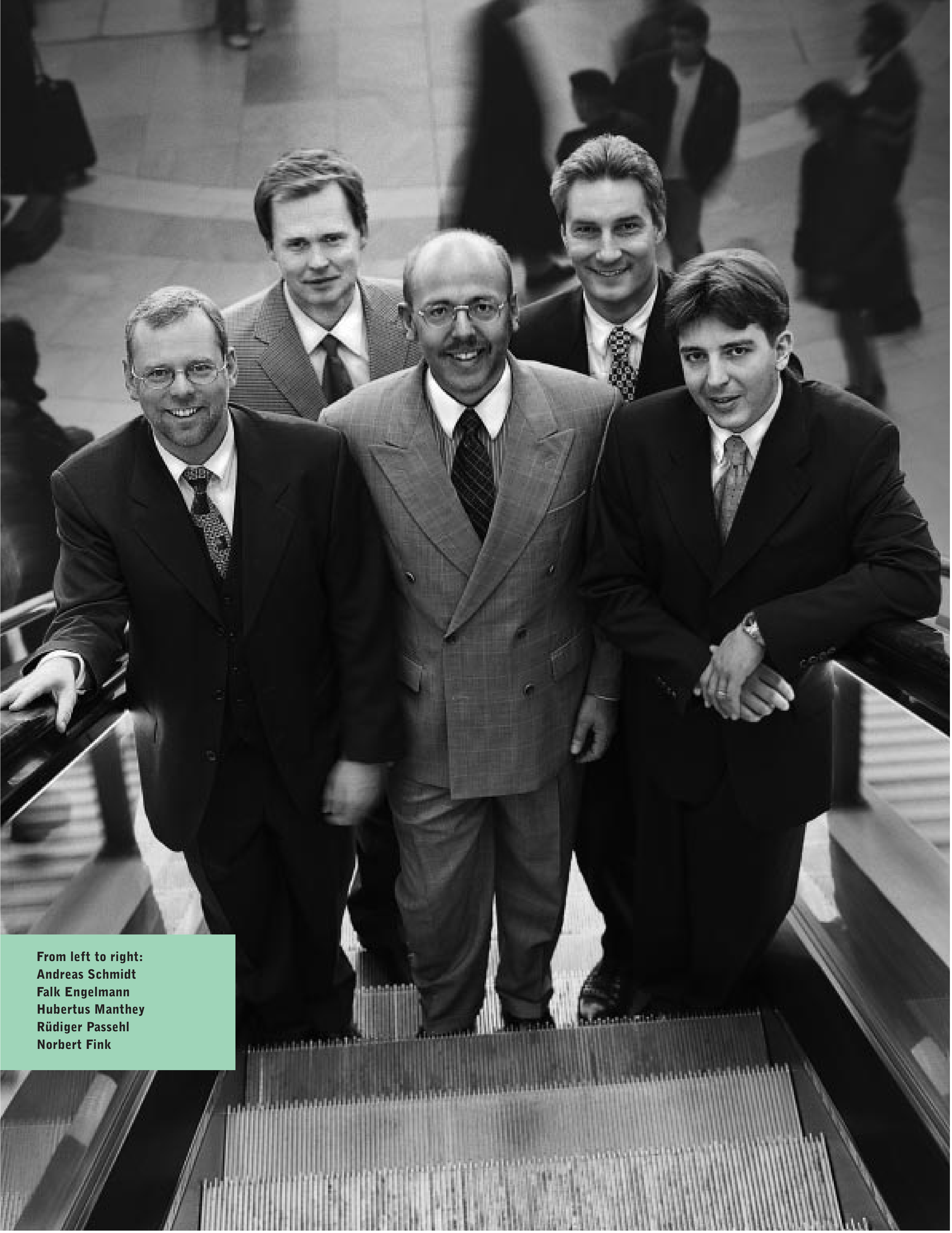
Our consistent orientation to our customers' needs and our role as a technology pioneer has won recognition - and not only from the market . Last July, German President Roman Herzog honoured CENIT as one of the thirty most innovative German firms in communication and information technology. The occasion was the initiative Mutige Unternehmer braucht das Land ("The country needs courageous entrepreneurs") launched by the BDI, the federation of German industries. Out of about 30,000 firms, CENIT was one of thirty enterprises with the "most promising economic performance" selected by a team of experts at the Steinbeis-Stiftung für Wirtschaftsförderung. Selection was made on the basis of particularly innovative services and products, interesting management and organisation structures, high growth rates and the creation of new jobs.

Last year we recruited over 100 new specialists and thus raised the number of our workforce to a total of 315. We want to say a heartfelt word of thanks to our employees whose great commitment and very hard work contributed to the success of the company.

We also want to thank you – our shareholders – for the confidence you have shown in our company with your investment in CENIT AG.

Yours sincerely

Falk Engelmann
Spokesman for the
Board of Management



From left to right:
Andreas Schmidt
Falk Engelmann
Hubertus Manthey
Rüdiger Passehl
Norbert Fink

REPORT OF THE SUPERVISORY BOARD

Dr. Axel Sigle

For CENIT AKTIENGESELLSCHAFT SYSTEMHAUS, the year 1998 was dominated by the conversion of CENIT GmbH into a joint stock company, followed by going public. With their resolution of March 5, 1998, the founding partners of CENIT GmbH CAD/CAM Integration und Organisation established CENIT AKTIENGESELLSCHAFT SYSTEMHAUS by changing the legal form of the company. The company's capital was increased to DM 5,000,000.00. The company's shares were admitted to the Geregelter Markt (regulated market) for trading on the Neuer Markt at the Frankfurt stock exchange.

During 1998, the supervisory board performed the duties assigned to it by law and by the company's memorandum of association, and supervised the business management of the company. It was kept informed of the development of the company's business and all other important matters at the four meetings of the supervisory board held in the course of the year, and through regular written and verbal reports. The chairman of the supervisory board also discussed the most important business transactions and matters of basic policy with the board of management. No committees were established by the supervisory board.

Discussions concentrated on the strategic orientation of the various fields of activity, planned mergers and acquisitions, and the conversion of the company's accounting system to International Accounting Standards (IAS).

The present financial statements and the annual report for the year 1998 were audited by the auditing company Ebner, Stolz & Partner, Wirtschaftsprüfungsgesellschaft, Stuttgart, who had been appointed auditors by resolution of the partners on April 15, 1998. The audit showed that the accounts and the financial statements comply with statutory regulations, and that the financial statements give a true and fair view of the assets, liabilities, financial position and profits of the company. The management's report is consistent with the annual financial statements and presents an accurate picture of the course of business and the position of the company. The auditors have given their unqualified opinion.

The consolidated financial statements for 1998 and the management report for the group were also audited by Ebner, Stolz & Partner. The consolidated financial statements including the statement of cash flow and the appropriation of profits account accordingly make a reasonable presentation of all material aspects of the company's assets and financial position as at December 31, 1998, its earnings position and the payment flows of the past fiscal year. They are in compliance with the accounting standards of the International Accounting Standards Committee (IASC). The management's report on the group is consistent with the con-solidated financial statements and makes an accurate presentation of the development of the group.

The supervisory board has examined the annual financial statements, the management's report, the proposal for the distribution of profits, the consolidated financial statements and the annual report for the group, and discussed it at the board's meeting on March 24, 1999. The auditors responsible for the audit attended this meeting when the relevant items on the agenda were discussed. They reported on material results of their audit and answered questions. The supervisory board expressed its concurrence with the result of the audit.

After completing our own audit of the annual financial statements and the annual report, we raise no objections. The supervisory board approves the financial statements drawn up by the board of management which are thereby ratified. The supervisory board concurs with the board of management's proposal regarding the appropriation of profits for 1998. The supervisory board also concurs with the consolidated financial statements and the annual report for the group.

The supervisory board has the following members elected by the general meeting of partners held on March 5, 1998: Dipl.-Kfm. Hubert Leypoldt, Dr. Dirk Lippold and Dr. Axel Sigle. At its constitutive

CORPORATE BODIES

meeting on March 5, 1998, the supervisory board elected Dr. Axel Sigle chairman and Dipl.-Kfm. Hubert Leypoldt deputy chairman of the supervisory board. The term of office of the members of the supervisory board ends at the close of the annual general meeting at which a resolution is passed to ratify the acts of the supervisory board for the fiscal year closing on December 31, 2002.

Falk Engelmann, Norbert Fink, Hubertus Manthey, Rüdiger Passehl and Andreas Schmidt were appointed members of the board of management by the supervisory board at its meeting on March 5, 1998. These elected Falk Engelmann as their spokesman.

We thank the board of management and all the company's employees for their great commitment in 1998 which made possible the success of the company, and also for the way they coped with the additional burdens imposed on them by the company's going public.

Stuttgart, March 24, 1999

For the Supervisory Board
- Dr. Axel Sigle - Chairman

Board of Management

Dipl.-Ing. Falk Engelmann

Dipl.-Ing. (FH) Norbert Fink

Dipl.-Ing. Hubertus Manthey

Dipl.-Ing. Rüdiger Passehl

Dipl.-Ing. Andreas Schmidt

Supervisory Board

Dr. Axel Sigle
Attorney
Chairman

Dipl.-Kfm. Hubert Leypoldt
Auditor, tax consultant
deputy chairman

Dr. Dirk Lippold
Managing director

A less buoyant economy in the second half of the year

The economic crises in Asia, Russia and Latin America caused a slight slowdown of the German economy in the second half of 1998. Despite this, according to preliminary calculations by the German federal bureau of statistics, the gross domestic product rose by 2.8% (1997: 2.2%). Rising domestic demand partly made up for losses in exports during the year. Decisive factors here were the positive development of private consumption and a marked growth in capital investments.

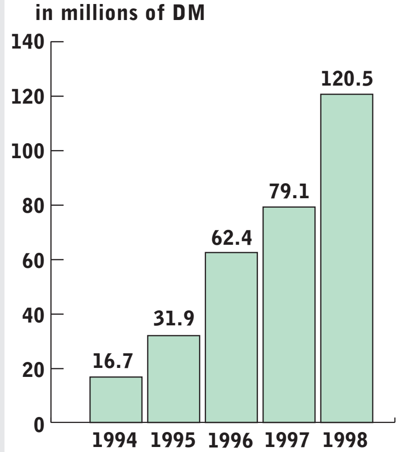
The company's position strengthened within the sector

Developments in the information technology sector remained largely unaffected by the slight slowdown in the economy. Especially the market sectors of relevance to CENIT were characterised by dynamic growth rates again in 1998. In this context, CENIT AG succeeded in further strengthening its position as one of the leading German systems sellers and providers of IT services. Strategic partnerships with established firms like Dassault Systèmes, FileNET, IBM, Lotus, Microsoft, and SAP made a decisive contribution to strengthening the company's position on the market.

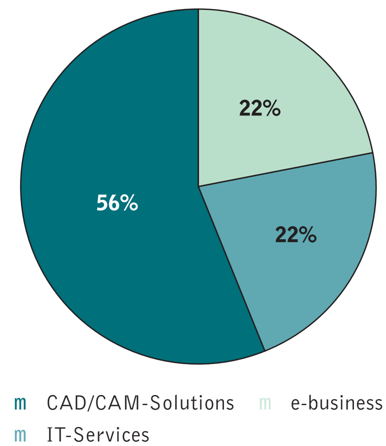
Sharp increase in sales

Compared with the previous year, group sales rose by 52% to DM 120.5 million (1997: DM 79.1 million). One typical indicator of growth is the figure for gross profit (sales less mer-chandise and purchased services) which rose by 55% to DM 59.2 million (1997: DM 38.2 million) for the group. CENIT AG made sales of DM 117.5 million (1997: DM 78.2 million), the UK subsidiary CENIT Ltd. boosted sales by 222% to DM 3.0 million (1997: DM 0.9 million).

Development of sales in millions of DM



Distribution of sales according to business segments



The business segment CAD/CAM Solutions made sales of DM 67.0 million (1997: DM 51.7 million). This corresponds to a rise of 29.6%. This makes CENIT Europe's most successful IBM Business Partner in the CAD/CAM sector as it has been several times before. A major factor contributing to the development of this business segment was the persistent expansion of the sales organisation in all branches, and the continuing improvement in customer relations. Business developments were also positively influenced by readiness on the part of enterprises to invest.

With a rise of 107% in sales to DM 26.9 million (1997: DM 13.0 million) the e-business segment experienced a more than proportional growth rate. CENIT won numerous renowned companies as new customers in this segment. This is attributable to rising demand for solutions in groupware as well as in workflow and document management in conjunction with the relevant integration know-how.

In the IT-Services segment, sales rose by 84% to DM 26.5 million (1997: DM 14.4 million). This segment benefited in particular from rising demand for high-availability and client/server solutions, rising demand for solutions in systems management, and an accelerating trend towards selective outsourcing.

A gratifying development in earnings

The CENIT group boosted net income by 125% to DM 2.7 million (1997: DM 1.2 million). Adjusted by the non-recurring costs of going public (DM 3.7 million) DVFA/SG earnings are DM 4.52 million. Compared with DM 1.31 million in the previous year, this is an increase of 245%.

The board of management and the supervisory board will ask the annual general meeting on July 14, 1999 to distribute DM 1 million of profits and allow the shareholders to participate in the CENIT group's successful development with the payment of a dividend of DM 1.00 per share.

Balance sheet structure

	1998 in millions of DM	1997 in millions of DM
Assets		
Fixed assets	4.47	2.12
Current assets	65.44	22.81
Prepaid expenses	0.15	0.15
Total	**70.06**	**25.08**
Liabilities		
Shareholders' equity	43.85	3.63
Special items with an equity portion	0.01	0.03
Accruals	5.98	2.61
Liabilities	20.22	18.81
Total	**70.06**	**25.08**

Ahead of going public, the equity capital of the company was raised from DM 3.5 million to DM 5 million through cash contributions amounting to DM 1.5 million. This subscribed capital is divided into 1,000,000 bearer shares with a nominal value of DM 5.00.

The revenue from going public (DM 37.5 million) raised the equity ratio for the group from 14.5% to 62.6%.

ANNUAL REPORT

Investments primarily to expand the workforce

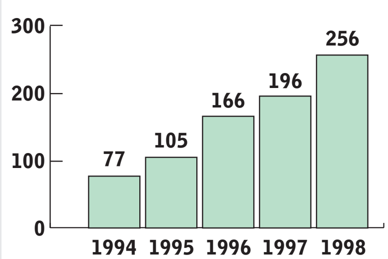
Investments in the CENIT group amounted to DM 4.87 million (1997: DM 1.14 million). They primarily concentrated on expanding the workforce and related expenditure on training and working equipment. CENIT also made investments for expanding the infrastructure - at company headquarters in Stuttgart, at its branches (Frankfurt, Düsseldorf, Hanover, Munich and Saarbrücken) and at its UK subsidiary CENIT Ltd. Expenditure on technical equipment amounted to DM 3.7 million. Money was also spent on intangible assets, goods of low value, office equipment and installations. Depreciation in 1998 amounted to DM 2.55 million (1997: DM 1.85 million).

Expansion of the workforce continues successfully

Despite the shortage of qualified IT specialists on the market, CENIT succeeded in raising the number of people employed in the group by 104 to 315 on December 31, 1998 (1997: 211). People working on a diploma thesis or in the company for work experience, temporary and part-time staff are not included in this figure. The reasons for this successful development lie, for one, in the prospects that CENIT offers its employees as a dynamically growing enterprise. Another reason lies in the positive influence of going public on the company's image. At less than 5%, personnel turnover and absence due to illness were extremely low.

CENIT continues the further training of its employees with various measures. Co-operation with vocational training academies and support for diploma candidates are important components in the training of qualified future employees.

Development of the workforce (annual average)



Research and development

CENIT does no pure research. In co-operation with partners like Dassault Systèmes, SAP and FileNET, for example, the company develops customer-specific expansions of existing software solutions.

The performance of the most recent hardware and software products is tested at the CENIT Competence Centre (CCC). The information concerning current developments collected in this manner is readily available to employees and thus gives them a decisive advantage over competitors.

A customer-orientated product spectrum

In order to be in the position to offer customers solutions for different business processes, CENIT has added various products and services to its spectrum. These include digital manufacturing software from Deneb, and hardware, software and services in the Virtual Reality segment. In the e-business segment, CENIT developed the Tivoli Plus Module for Panagon.

Outlook

Between balance sheet date (December 31, 1998) and date on which the present annual report went to press, no major events or changes occurred which could influence the business of the CENIT group decisively.

According to economic experts, the financial and currency crises in Asia, Russia and Latin America will continue for a while in 1999. Recessive exports will probably weaken corporate readiness to invest. Underpinned by rising domestic demand, the gross domestic product will probably rise by about 2%. No dramatic improvement is to be expected on the labour market. Economic conditions in the environment of the CENIT group's business remain positive. The year-2000 problem and conversion to the euro will not affect the business of the CENIT group much.

The target for 1999 is to boost sales by 38% to about DM 166 million. Growth in the CAD/CAM Solutions segment should be about 28%, in the e-business segment about 52% and in the IT-Services segment about 47%. For group earnings in accordance with IAS, a rise of about DM 7 million is expected as far as it is possible to tell today. Earnings according to IAS are not expected to diverge much from earnings according to DVFA/SG. In 1999 - as in the year under review - shareholders are to participate in the company's success through the payment of a dividend.

CENIT will use some of the revenue from going public for mergers and acquisitions. Talks are already under way with possible candidates. Such activities are restricted to firms operating in segments where the CENIT group is already active.

The number of people employed by CENIT is expected to rise to over 400 by December 1999. The appeal of CENIT as an employer is to be further enhanced by the planned employee participation program.

In keeping with the requirements of the KonTraG the board of management will introduce a risk management and early warning system. This will guarantee transparence in corporate control and early identification of risks.

Stuttgart, March 19, 1999

CENIT AKTIENGESELLSCHAFT
SYSTEMHAUS

The Board of Management

I have a dream.

CORPORATE PHILOSOPHY

CENIT innovates

The courage to innovate is an important prerequisite for survival in a dynamically changing competitive environment. For it is only where something changes that room is created for something new.

With a highly motivated staff, CENIT helps to optimise existing structures and make visions come true.

We analyse existing processes and show how the potential offered by modern technologies can be used effectively. We thus make a lasting contribution to strengthening our customers' competitiveness.

CAD/CAM-SOLUTIONS

In the beginning was the drawing board

The days when new products were created exclusively at the drawing board have long been gone. The computer has become part of normality as an aid to development work. Instead of paper and Indian ink, designers today use modern CAD programs.

CATIA/CADAM Solutions is the world's leading CAD/CAM system sold by CENIT. CATIA is far more than just a design software. The advantage of this system is that it covers the entire process of creating a product – from development through calculation, design and production, right up to digital simulation.

Design and development

Designers' ideas can be transferred into the system at the click of a mouse. Three-dimensional models or even complete products are produced on the screen from the various components. These can be represented as volumes or as realistic solids as in a photo. Various integrated analytical tools even permit the parts created in this way to be tested for stability and structural feasibility.

Nearly all leading enterprises in the automobile and aviation industries use CATIA as their core CAD/CAM system. Their business partners and suppliers also largely work with this development tool. Modern communication techniques permit data sets to be exchanged and forwarded electronically without problem. This provides the basis for rapid and smooth co-operation.

Overview in the data jungle

The creation of new products entails the creation of huge quantities of data. A product undergoes the greatest number of changes especially during the development process. Requirements are reformulated, drafts are modified, models revised. Numerous related items of information pile up - from design drawings through CAD models, simulation models, checking records right up to all sorts of written matter.

It is the task of Product Data Management (PDM) to administer all data and documents created during the life cycle of a product. Since operating procedures differ considerably from enterprise to enterprise, PDM systems must be carefully adapted to existing processes. With extensive know-how and experience gained in numerous projects, CENIT draws up solutions specially tailored to the particular customer.

"Test drive" in the computer

As the product matures, prototypes are constructed for testing purposes at various stages of development. A number of versions precede the final product in the automobile industry for example. The construction of scale prototypes is particularly costly and time-consuming - costs which can go into tens of millions.

With the help of modern technologies, time and expense can be drastically cut in the course of development and design right up to readi ness for mass production. "Digital Mock-up" permits the creation of prototypes in the computer by digital means. This appreciably reduces the number of real prototypes needed. The technology has even more advantages: connected via electronic communication systems, several teams can work on one and the same product - even across borders. In this way, packaging can be made or, for example, various components such as gears harmoniously coordinated with engine output, and optimised in the design. Developments have even gone so far that "virtual test drives" on the computer are no longer wishful thinking.

Virtuality becomes reality

Digital prototypes exist only in the computer. But "Virtual Reality" (VR) brings them within easy reach of the viewer - true to size. Unlike conventional presentations on a display, VR conveys a realistic feeling of space. As part of an environment simulated by computers, the user can thus immerse himself directly in the virtual world.

This is made possible by a special projection technique. The spectrum here ranges from projection on a single wall right up to rooms in which the pictures generated by computers are projected on walls, ceiling and floor. Equipped with shutter glasses (special 3D glasses) users can easily view complex CAD models from all sides. Even objects which would weigh several tonnes in reality can be moved easily through virtual space at the press of a button, and examined to search for any weaknesses in the design. Even complete vehicles can be presented in this way to study their design. With special software, the calculation results of crash or flow analyses can be visually represented. Thus, for instance, it is possible to simulate the air currents in the interior of a car when designing its ventilation system.

VR technology results in enormous savings of time and costs, and will make decisive changes in future product development.

The factory of the future

Conventional procedures are elaborate. On the basis of data from design drawings, a special program is written for each part in the operations scheduling phase. These programs are responsible for controlling the machines used in the manufacturing process.

Besides standard solutions for turning and milling, CENIT offers software modules which it has developed itself, expanding the CAD system CATIA with the addition of the machining processes wire cutting and laser cutting. These make it possible to calculate the control commands for the machines concerned directly from the data of CAD models. Moreover, the respective manufacturing steps can be simulated by the computer. The user can then eliminate any problems that may occur before work starts. Marked savings in time and materials result.

With 3D simulation programs by Deneb, CENIT can also produce the virtual factory. Complete production lines, machining processes and robot simulations can be run through and optimised. And this before any costly investments are made.

Bernhard Kienzle develops general IT solutions with CATIA/CADAM Solutions

Armin Freiberg accelerates company-wide processes with efficient workflow solutions

E-BUSINESS

The flood of information rises every day. To organise and manage it properly becomes a growing challenge for enterprises. This becomes all too clear, for example, when one considers the office work that regularly has to be done. Filing, finding and forwarding paper documents manually takes up to 40% of daily working time. With special software solutions, such procedures can be largely automated.

Properly organised information

As the most successful FileNET Partner outside the USA, CENIT markets the software solution Panagon. This workflow and document management system permits the electronic archiving and retrieval of information from different sources such as texts, tables, videos, images and technical documents. The distribution of access rights determines which employees in the company are permitted to read, change or distribute which document. Moreover, complete work processes can be controlled rapidly and reliably. This system organises the entire process: it hands the respective unit of work to the right person, monitors the deadline, takes deputy arrangements into account and forwards the material to the next person responsible.

Cross-border communication

In the world of business, communication processes between staff, enterprises, co-operation partners and customers are changing dramatically. The role of the Internet is becoming more and more important. And in the age of globalisation, cross-border co-operation is becoming more important than ever before. In future, teams in offices distributed all over the world will be working on one project. Consequently, all concerned must be in the position to inform one another, to discuss proposals and to co-ordinate deadlines.

With Lotus Notes/Domino, CENIT offers the basis for smooth co-operation. This groupware solution - as the basis for the development of interactive business processes via the Intranet, Extranet and Internet - does more than bring all the people concerned in a project to the conference table. It also integrates customers, suppliers, salespeople and business partners in the communication process. This saves valuable time and cuts costs too.

The software OverQuota is another module in the CENIT portfolio. This solution is based on Lotus Notes/Domino and helps in structuring and organising the knowledge available in an enterprise for marketing. This permits staff to access the information which is relevant to customers. It also improves the quality of consulting services and strengthens customer relations.

The virtual shop

The number of Internet users is rising rapidly. Experts reckon that by the year 2010 about one billion people will be frequenting the World Wide Web. This opens up entirely new business opportunities through electronic commerce (e-commerce). With Net.Commerce from IBM, CENIT assists enterprises in building up their "virtual shop".

This system permits an electronic shop or an entire department store to be built up. All IT and commercial aspects of the offered range to be developed can thus be developed and operated via the Intranet, Extranet or Internet. The advantage: customers can call up information on product characteristics, operating instructions and availability at any time and thus shop around the clock.

IT-SERVICES

Computers have made decisive changes in our lives in recent years. Some things have become simpler and many processes have been speeded up. But systems have become more and more complex as demands rise. And anyone who wants to keep up with the dynamic development of markets today must use modern information technologies (IT). CENIT supports enterprises with tailor-made service packages here, so that they can concentrate on their core business. For example, a manufacturer of printing machines can continue to focus on the production of printing machines without having to concern himself with the EDP environment.

Close to customers from the very beginning

Competent consulting services always begin with a comprehensive analysis at the customer's: what EDP systems are already being used, and where is there room for improvement. CENIT then draws up a system plan on the basis of which new structures can be built up or additional components meaningfully integrated into the existing IT infrastructure.

Even after installation, qualified staff will be standing by to assist the customer with word and deed. The service spectrum ranges from system maintenance, to on-the-spot assistance, and right up to hotline support. With a wide range of training courses, CENIT also passes on extensive know-how to its customers, since smooth system operation is possible only if one has the necessary know-how. As partner for selective outsourcing, CENIT also takes responsibility for the IT operation of entire divisions. In these cases, CENIT staff work at the customer's and look after its EDP.

Effective data security

Data are becoming a more and more valuable resource for enterprises, particularly at a time when information is increasingly available in electronic form. CENIT draws up tailor-made concepts for its customers, to effectively prevent the loss of data through hard- and software errors. These high availability solutions minimise risks in the operation of complex information technologies.

The system environment is under control

The meteoric development of information technology has had the consequence that, particularly in bigger companies, a number of different systems are being used. Many sectors have their own special solutions which explains why a very varied EDP environment has grown up in the course of the years. Everything is often there, from the PC, through client/server architectures and networks, right up to mainframe computers. The smooth operation of the various systems ties down staff and gives rise to high costs.

Tivoli, one of the world's leading software solutions for integrated system management, is marketed by CENIT. Tivoli permits the efficient control of non-standardised IT infrastructures. Moreover, applications which are decisive for inter-enterprise processes (e.g. SAP R/3, Lotus Notes/Domino or FileNET Panagon) can easily be supervised and always kept available. Tivoli can also be used for the central management of thousands of workplaces in all the locations of an enterprise. The system administrator can control software distribution, co-ordinate access rights and check hardware functions without being on the spot himself. The huge time savings achieved through this are obvious.

With his know-how, Jürgen Haun ensures the smooth operation of complex IT solutions

EMPLOYEES

People who innovate

CENIT is more than a "high tech" company. In fact it is primarily people who work with great commitment in the interest of customers and for the future of the enterprise. A fair and amicable relationship to one another ensures the very harmonious working environment needed for innovative work.

The CENIT management sees its staff as its most valuable resource, and implements this view consistently in its personnel policy. This ensures that staff is highly motivated and turnover stays very low. Mutual confidence is also expressed by the fact that working time is not registered at CENIT. This creates areas of freedom which promote the creativity of each and every employee.

Numerous jobs created

Thanks to the positive development of business in 1998, CENIT was able to create new jobs. Despite the fact that people with information technology expertise are in very great demand on the labour market just now, it managed to hire 104 new people in the year under review. This raised the number employed in the group to 315 (1997: 211) altogether. This success in expanding the workforce is due to the outstanding prospects offered by CENIT as a dynamic enterprise listed on the stock exchange.

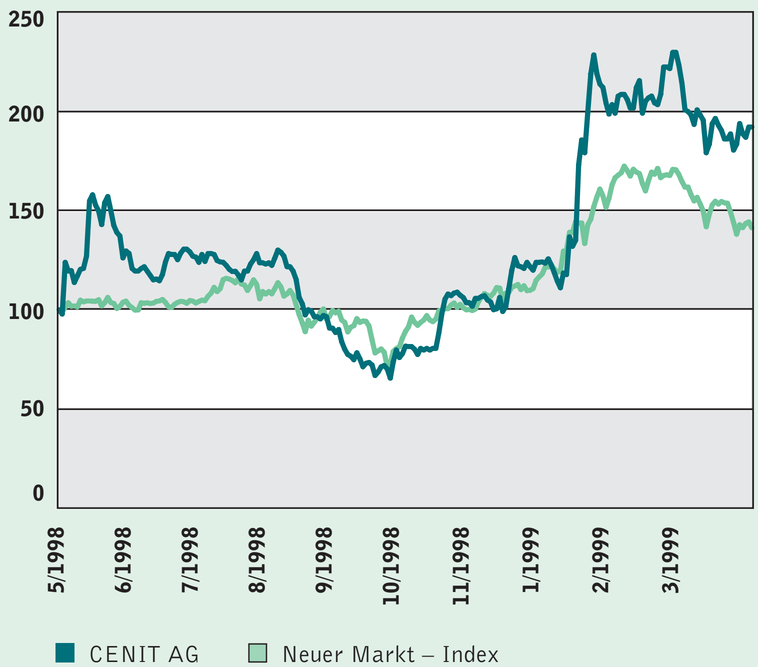
Continuous training

Especially the tempestuous changes in the information technology environment make the expansion of existing knowledge essential. Which is why CENIT provides various courses for the continuous further training of its staff. In addition, to provide training for up and coming staff, the company co-operates with vocational academies and sponsors students working on their diploma thesis.

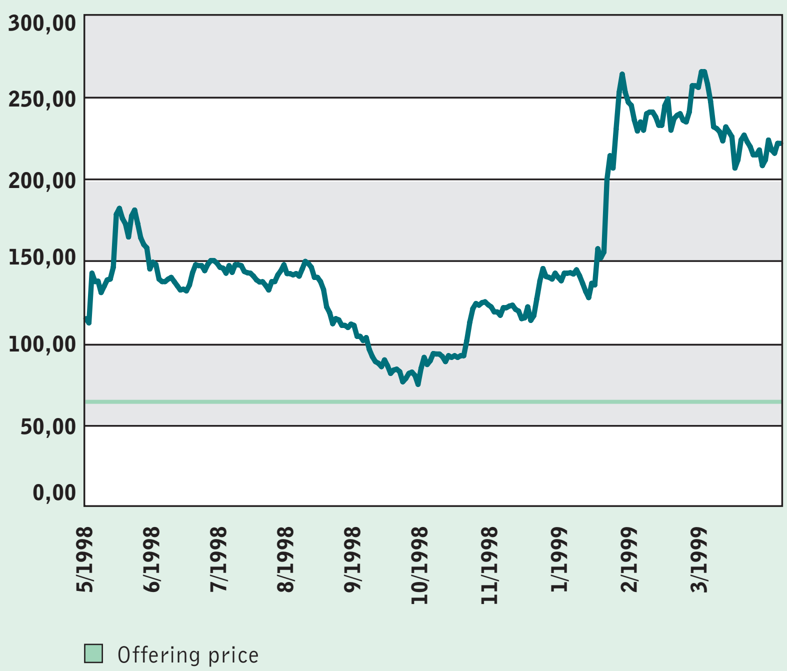
BRANCH OFFICES

We are always where we are needed most - at the customer's

Comparison of the CENIT share with the Neuer Markt Index (in %)



The CENIT share price (in euro)



THE SHARE

The share of CENIT AG SYSTEMHAUS with the security identification number 540 710 has been listed on the Neuer Markt of the Frankfurt stock exchange since May 6, 1998. Vigorous demand on the part of investors far exceeded the supply of 400,000 ordinary shares of DM 5.00 nominal value. The CENIT share was subscribed 128 times over.

Shares held by the board of management and the supervisory board

At balance sheet date, the board of management held 49.27 per cent of the company 's shares. For tax reasons, 10.01 per cent are in the hands of a holding company, and 0.72 per cent are held by relatives of board members. In all cases it was ensured that the stipulations of the underwriting agreement, in particular those regarding the holding period, would be complied with. The supervisory board holds less than 0.1 per cent of shares.

Gratifying development of the share price

This great demand got the new share off to a gratifying start on the very first day. The issue price determined by the bookbuilding procedure was DM 125, the price on the first day of listing had risen to DM 240. With the economic crisis in Asia, Russia and Latin America, the Neuer Markt also went through a phase of consolidation, but the price of the CENIT share always remained well above its issuing price.

An extremely successful course of business and the confidence of investors in CENIT AG underpinned the price upswing that followed. On the last day of trading in 1998 the CENIT share was quoted at DM 251 and thus closed the year up 100 per cent on the issuing price. The market capitalisation as at December 31, 1998 was DM 251 million. The dividend for the year under review will be DM 1 per share – subject to the annual general meeting's approval.

Capital increase and share split planned

The board of management and the supervisory board have prepared the ground for a positive stimulation of the development of the CENIT share. By resolution of the annual general meeting to be held on July 14, 1999, the equity capital of CENIT AG is to be raised from internal company resources from hitherto DM 5 million to EUR 4 million (DM 7,823,320).

It is also planned to convert the CENIT share into a no-par-value share and to resolve a share split in the ratio of 1:4. These measures are intended to promote trade in CENIT shares. Shareholders' rights and obligations are not affected by this.

GLOSSARY

Glossary

CAD
Computer Aided Design means design and development work performed with the help of computers. The use of CAD programs permits technical drawings and three-dimensional models to be made with maximum precision. Such drawings / models, therefore, are no longer made at the drawing board and can be changed later without difficulty in the computer.

CAE
CAE stands for Computer Aided Engineering. It is the generic term for computer-aided development and production of designs which are simulated with the aid of a computer from the initial idea to production.

CAM
Abbreviation for Computer Aided Manufacturing. It includes the use of computers for controlling machines. Besides a very powerful computer and highly specialised software, a number of special interfaces are needed to run the machines.

Client
A hardware or software component which makes use of the services of a server (client/Server principle) is called a client. For instance, a client is a computer which only uses the services of other computers but makes none available itself.

Client/Server principle
With the client/server principle, certain computers - the servers - make available a number of different services which can be used by other computers - the clients. For this, the computers must be networked. The data of the system are centrally stored in the servers and can thus be better managed and monitored. With this procedure, a system can also be expanded and reduced very flexibly.

Data security
Data security is the storage of data on media to keep them safe, and the procedures commonly used for this.

Document management system (DMS)
A DMS manages and stores electronic documents . It protects documents against unauthorised access, administers various versions of a document and supports the user in the search for particular documents with certain contents.

Digital Mock-up (DMU)
DMU stands for the construction of complex products to create digital prototypes.

e-business
All business procedures which are handled via the Intranet/Extranet/Internet.

EDP
This is the abbreviation for electronic data processing.

Extranet
The networking of several decentralised users within a closed group of users with the help of Internet technology.

Groupware
An artificial word combining "group" and "software". A general term for all programs which permit and facilitate the co-operation and coordination of working groups in a network.

Internet
Abbreviation for International Network. The Internet is a worldwide computer network consisting of a number of smaller networks.

Intranet
Intranets are private networks using the technology and the concept of the Internet.

IT
Information technology.

Knowledge management
Knowledge management means the structuring and organisation of knowledge in an enterprise so that it is available to the staff in processed form to facilitate customer relations.

NC
Abbreviation for "Numeric Control". NC is based on the conversion of all data relevant to production (equipment, tools raw materials, energy distribution, etc.) into alphanumeric codes.

PDM
Product Data Management is the task of managing documents of all types created in the course of a work process in such a manner that each changed condition of the document during the work process is recorded. The work process itself is also controlled. PDM systems also offer varied interfaces, e.g. to CAD systems and pro-duction control and planning systems (PPS). PDM is often used as a synonym for Engineering Data Management (EDM).

PDM II
Product Development Management (Version 2) is an extension of PDM.
Besides the company-wide tasks of Product Data Management (PDM), PDM II also comprises tasks in CAD-related sectors, such as Digital Mock-Up (see also DMU) and Virtual Product Development Management (see also VPDM). As well as this, PDM II opens the way to digital production through virtual simulation of the entire production process before a real production line is actually set up (see also Virtual Reality, VR). The term PDM II was defined by Gartner Group, a business consulting company.

Rapid Prototyping
Rapid Prototyping is a process which permits prototypes, samples and pilot runs (mostly of plastic) to be rapidly provided.

Scalability
Scalability is the adaptability of an EDP system to requirements of a user as regards processing rate and storage capacity.

Systems Management
Systems Management comprises activities in the management of complex IT infrastructures: stock-taking, identifying possible problems in advance and developing the EDP landscape reliably and consistently. Moreover, the current operation of all systems used in an enterprise can be standardised to a certain degree.

Unix
Unix is an operating system. Unix comprises a kernel, file system and shell (user interface). There are numerous Unix versions for mainframe computers, workstations and Intel-PCs.

Virtual Reality (VR)
"Virtual Reality" is a recent term and designates the conversion of every-day information to the virtual space of computer reality. Unlike conventional two and three-dimensional representations, Virtual Reality permits the viewer to participate actively in the presented scenarios.

VPDM
Virtual Product Development Management supports the computer-based development of complex products – e.g. motor vehicles, ships or machines. Here, besides the functions for comparatively unregulated behaviour in the early stages of product development, management functions are available which permit both the logical and the geometrical management of complex products in their component structure. Digital Mock-up is frequently the method used here (see also DMU).

Workflow
Workflow corresponds more or less to "operation processing" or "business process control". In EDP, workflow describes a software category which controls information on business processes deterministically, and directs them throughout the organisation via various workplaces.

World Wide Web (WWW)
The WWW is the best-known information system on the Internet. With the help of a Web Browser, images and texts from computers networked worldwide can be shown on the display.

Results are what counts.

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The CENIT group

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CENIT AKTIENGESELLSCHAFT SYSTEMHAUS

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THE CENIT GROUP

Consolidated balance sheet as at December 31, 1998

	Dec. 31, 1998 DM	Dec. 31, 1997 DM
Assets		
Short-term assets		
Liquid assets	19,758,466.41	798,929.21
Securities and own shares	799,500.00	150,000.00
Accounts receivable	38,178,798.98	21,125,089.80
Accounts receivable	6,852,329.73	887,960.28
	65,589,095.12	22,961,979.29
Long-term assets		
Tangible assets	4,215,294.60	1,845,847.85
Intangible assets	252,934.66	276,888.00
	4,468,229.26	2,122,735.85
	70,057,324.38	**25,084,715.14**
Short-term liabilities		
Reserves	5,985,268.58	2,605,577.56
Special item with an equity portion	13,654.00	27,758.00
Accounts payable for goods and services and sundry liabilities	9,361,551.95	7,995,341.49
Liabilities to banks	9,346,580.29	9,326,856.85
	24,707,054.82	19,955,533.90
Long-term liabilities	**1,500,000,00**	**1,502,400.00**
Eigenkapital		
Shareholders' equity	5,000,000.00	1,000,000.00
Subscribed capital	0.00	150,000.00
Reserves for own shares	36,000,000.00	1,153,856.00
Currency reserves	9,809.00	18,688.14
Unappropriated retained earnings	2,840,460.56	1,304,237.10
	43,850,269.56	3,626,781.24
	70,057,324.38	**25,084,715.14**

Consolidated statement of income for the period from January 1 to December 31, 1998

	1998 DM	1997 DM
1. Sales revenue	120,455,693.35	79,096,031.56
2. Changes in inventories	85,000.00	-983,968.00
3. Gross earnings	120,540,693.35	78,112,063.56
4. Other operating income	818,149.54	1,014,872.99
Operating performance	121,358,842.89	79,126,936.55
5. Cost of material		
a) Expenses for merchandise	61,486,829.15	39,921,138.23
b) Expenses for outsourced services	664,662.30	1,023,174.71
	62,151,491.45	40,944,312.94
6. Personnel expenses		
a) Wages and salaries	27,509,652.34	19,552,700.20
b) Social security payments and pension payments	4,439,626.43	3,181,309.09
	31,949,278.77	22,734,009.29
7. Depreciation on intangible and tangible assets	2,548,079.62	1,850,340.18
8. Other operating expenses	14,890,807.11	9,818,310.44
Operating earnings	9,819,185.94	3,779,963.70
9. Interest and similar income	667,574.84	2,291.67
10. Depreciation on securities in current assets	200,500.00	142,480.00
11. Interest and similar expenses	327,987.71	607,389.94
12. Earnings from ordinary business	**9,958,273.07**	**3,032,385.43**
13. Extraordinary expenses	3,731,438.85	0.00
14. Taxes on income and earnings	3,371,932.00	1,732,752.94
15. Deferred taxes	70,370.21	9,755.02
16. Other taxes	52,164.55	43,123.35
17. Net Income	**2,732,367.46**	**1,246,754.12**

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Consolidated statement of cash flow for the period from January 1 to December 31, 1998

	1998 DM 000	1997 DM 000
Cash inflows and outflows from current business activities		
Earnings before tax	6,227	3,032
Adjustments for:		
depreciation on intangible and tangible assets	2,548	1,850
earnings from the disposal of assets	– 135	– 77
disposal on consolidation	0	– 72
depreciation on financial assets	0	142
interest income	– 668	– 2
interest expenses	328	607
Cash inflows from changes in net current assets	**8,300**	**5,480**
Increase (-)/decrease in accounts receivable for goods and services and other assets	– 17,704	– 2,272
Increase (-)/decrease in inventories	– 5,964	933
Increase (-)/decrease in accounts payable for goods and and services and other short-term accruals and liabilities	4,731	– 2,728
Liquid assets from current business activities	**– 10,637**	**1,413**
Interest expenses	– 328	– 607
Interest income	668	2
Paid income taxes	– 3,372	– 1,733
Other paid taxes	– 52	– 43
Deferred taxes	– 70	– 10
Net cash from current business activities	**– 13,791**	**– 978**
Cash inflows and outflows from investment activities		
Acquisition of fixed assets	– 4,758	– 1,199
Revenues from the sale of fixed assets	0	245
Net cash payments for investment activities	**– 4,758**	**– 954**
Inflows and outflows from financial activities		
Payments received / made (-) on long-term bank loans	– 2	1,478
Payments received / made (-) on short-term bank loans	20	748
Payments to shareholders	0	– 20
Transfers to capital reserves	37,650	0
Transfers from currency reserves	– 9	0
Dissolution of reserves for own shares	– 150	0
Net cash payments for financial activities	**37,509**	**2,206**
Changes in funds due to changes in exchange rates	0	0
Net increase in cash and cash equivalents	**18,960**	**274**
Cash and cash equivalents at the beginning of the period under review	**798**	**524**
Cash and cash equivalents at the end of the period under review	**19,758**	**798**

Statement of appropriation of income and the development of shareholders' equity

	Subscribed capital DM 000	Capital reserves DM 000	Accruals DM 000	Retained earnings DM 000	Currency reserves DM 000	Total DM 000
As on Jan. 1, 1997	**1,000**	**–**	**754**	**628**	**–**	**2,382**
Net income	–	–	–	1,246	–	1,246
Currency changes	–	–	–	–	19	19
Transfers to reserves	–	–	550	– 550	–	–
Distributed dividend	–	–	–	– 20	–	– 20
As on Dec. 31, 1997	**1,000**	**–**	**1,304**	**1,304**	**19**	**3,627**
As on Jan. 1, 1998	**1,000**	**–**	**1,304**	**1,304**	**19**	**3,627**
Dissolution of reserves for own shares	–	–	– 150	–	–	– 150
Transfers to reserves	–	–	1,196	– 1,196	–	–
Capital increase out of company resources	2,350	–	– 2,350	–	–	–
Capital increase	1,650	36,000	–	–	–	37,650
Net income	–	–	–	2,732	–	2,732
Currency changes	–	–	–	–	– 9	– 9
As on Dec. 31, 1998	**5,000**	**36,000**	**–**	**2,840**	**10**	**43,850**

THE CENIT GROUP

Notes to the consolidated financial statements for the fiscal year 1998

1. Reporting according to IAS - principles of accounting

The consolidated financial statements of CENIT AG have been drawn up and published on the basis of the International Accounting Standards.

The consolidated financial statements are based on standard accounting and evaluation principles. Application was made of the Framework principles and the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) in the version valid at balance sheet date.

Accounting was entirely converted to IAS. Deviations due to differences in the regulations regarding approach and evaluation between local regulations and consolidated statements based on IAS were determined for the first time on January 1, 1997, and offset in 1997 with no effect on earnings. Whenever special IAS were applied, this is mentioned in the notes to individual items.

2. The group

a) Companies included in the consolidation

CENIT Ltd., Altrincham/UK,

is included in the consolidated financial statements as well as the parent company

CENIT AKTIENGESELLSCHAFT SYSTEMHAUS, Stuttgart,

Since CENIT AG holds 100% of the voting rights in this subsidiary, the latter has been fully consolidated in the consolidated financial statements. There was no need to take different balance sheet dates into account.

There were no changes in the companies included in the consolidation. The shares held by CENIT are shown in the following table:

Company	CENIT Ltd., Altrincham/ UK	
Share held	100%	
Sales	DM GBP	2,971,000 1,019,000
Earnings after taxes	DM BP	10,000 3,000
Average number of employees for the year	10	

b) Principles of consolidation

The basis for the consolidated financial statements is provided by the annual financial statements of the companies included in the consolidation drawn up according to standard rules as at December 31, 1998 and audited and approved by the auditors (IAS balance sheet II based on the regulations of the IASC).

The capital of subsidiaries was consolidated in accordance with the book value method by netting the costs of purchase with the shareholders' equity held by the parent company at date of acquisition. No difference resulted. Differences arising from currency conversion at balance sheet date are shown as currency reserves.

Sales, expenditure, income, all accounts receivable and liabilities between consolidated companies were eliminated.

Inventories and fixed assets contain no asset items from intra-group deliveries. There was no need eliminate intra-group earnings.

c) Currency conversion

In the balance sheet of CENIT Limited drawn up in the national currency, current assets (cash, accounts receivable and accounts payable) shown in the foreign currency are evaluated at the exchange rate applying at balance sheet date in keeping with IAS 21. There were no hedged items.

All currency differences arising from the conversion of current assets were credited to income. The income statement shows losses from currency conversion amounting to DM 93,000 alto-gether from business activities.

The concept of functional currency is applied to the conversion of the financial statements of included companies drawn up in foreign currencies. Since consolidated companies run their business independently, they have been included as "foreign entities" in the meaning of IAS 21. Accordingly, asset items and liabilities are converted at the exchange rate applying at balance sheet date, shareholders' equity at historic exchange rates and expenses and income at the average exchange rate for the year.

Resulting differences are offset against shareholders' equity without affecting earnings.

3. Balance sheet

Assets

a) Liquid assets

Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
19,758	799

The development of liquidity in financial assets pursuant to IAS 7 is shown in the statement of cash flow.

b) Securities and own shares

Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
800	150

Own shares shown in the previous year were withdrawn from circulation and offset against the corresponding revenue reserves. The portfolio shown as at December 31, 1998 relates to shares which are being held temporarily.

c) Accounts receivable

	Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
Accounts receivable for goods and services	35,282	20,053
Other receivables	2,744	922
Prepaid expenses	153	150
	38,179	**21,125**

All accounts receivable have a residual term of less than one year.

Accounts receivable for goods and services are shown at their nominal value. Default risks are taken into account through adequate specific provisions. No general provisions were made.

Accounts receivable in foreign currency are converted at the exchange rate at transaction date in accordance with IAS, later, in accordance with IAS 21, at the exchange rate applying at balance sheet date. The difference of DM 2,000 in the year under review was offset with effect on expenses.

Other accounts receivable are shown at their nominal value. These include deferred tax assets amounting to DM 14,000.

d) Inventories

	Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
Merchandise	1,996	888
Licences	4,771	0
Unbilled work	85	0
	6,852	**888**

The inventories shown relate to merchandise and to still unbilled work.

Inventories are always shown at cost of purchase or manufacture. Financing costs are not shown as assets since no direct attribution can be made as required by IAS 23.

A correction of inventories to show the lower realisable net sales value pursuant to IAS 2 was not necessary.

e) Prepaid expenses

Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
153	150

These are prepaid expenses for insurance, discounts, special leasing payments and the like.

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f) Tangible assets

	Buildings on land not owned DM 000	Plant and machinery DM 000	Operating and business equipment DM 000	Total DM 000
Original cash outlays				
as at Jan. 1, 1998	121	4,536	938	5,595
Difference arising on currency conversion	0	– 1	– 1	– 2
Additions	454	3,703	497	4,654
Disposals	0	107	232	339
as at Dec. 31, 1998	**575**	**8,131**	**1.202**	**9,908**
Accrued depreciation				
as at Jan. 1, 1998	101	2,992	628	3,721
Additions	67	1,858	385	2,310
Disposals	0	107	232	339
as at Dec. 31, 1998	**168**	**4,743**	**781**	**5,692**
Residual book value	**407**	**3,388**	**421**	**4,216**

Tangible assets are shown at cost of purchase or manufacture (IAS 16 par. 15) less regular depreciation (IAS 16 par. 43). No extraordinary depreciation pursuant to IAS 16 par. 56 was needed. Financing costs are not shown as assets in accordance with IAS 23 par. 11, since no direct attribution to asset items can be made as required by IAS 23.

Tangible asset items are written down on a straight-line basis in accordance with their expected useful life. This useful life is four to ten years for other assets and operating and business equipment. There were no substantial residual values according to IAS 16 par. 48 to be taken into account in determining the amount of depreciation.

No additions which are required pursuant to IAS 16 par. 59 once the reasons for depreciation cease to exist were made in the year under review.

Maintenance costs are treated like expenses.

Substantial additions to technical equipment relate in particular to several workstations and risk system computers, a Unix server and various Notebooks and PCs.

In particular, office furniture is shown as an asset under office and business equipment.

g) Intangible assets

Franchises, industrial rights, similar rights and assets, and licences to such rights and assets.

Acquired intangible assets are shown at cost of purchase plus incidental costs of purchase. They are regularly written down in the course of their useful life according to the straight-line method. The useful life of software is three years. Extraordinary adjustments to the value of merchandise (increases/decreases) were not required in the year under review. Where necessary, an extraordinary depreciation was made which was

	DM 000
Original cash outlays	
as at Jan. 1, 1998	804
Additions	211
Disposals	6
as at Dec. 31, 1998	**1,009**
Accrued depreciation	
as at Jan. 1, 1998	527
Additions	235
Disposals	6
as at Dec. 31, 1998	**756**
Residual book value	**253**

reversed once the grounds for it cease to exist.

Because they fail to satisfy the criteria required by IAS 9 par. 17, development costs are not shown as assets.

Additions relate to various technical software licenses.

Short-term liabilities

h) Accruals

	Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
Tax accruals	2,274	1,549
Other accruals	3,523	953
Deferred tax liabilities	188	104
	5,985	**2,606**

Tax accruals relate to the current fiscal year and subsequent payments due on account of the external tax audit.

Other accruals (premiums, bonus model, leave still to be taken, royalties, social security payments, warranties, commissions, outstanding invoices, audit of the financial statements, etc.) include all ascertainable liabilities to third parties in accordance with IAS 10. They are shown at their probable amount.

The differences in amounts and evaluations stated in the tax balance sheet and in the commercial balance sheet (HB II according to the rules of the IASC) for the included enterprises resulted in deferred tax liabilities in the following items:

	Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
General value adjustment for bad debts	172	98
Liabilities CENIT UK	16	6
	188	**104**

Deferred tax liabilities amounting to DM 16,000 on the basis of evaluations at balance sheet date for liabilities in foreign currencies were calculated using the relevant tax rate for British enterprises, 21%. Due to adjustments made to evaluations, deferred tax liabilities of DM 172,000 resulted for CENIT AG. These were calculated on the basis of a tax rate of c. 58%.

i) Special item for investment grants

The special item for investment grants relates to an investment grant under the Regionales Förderprogramm Saarland (the regional promotional program for Saarland). It will be dissolved in the course of the utilisation period and reflected in earnings.

j) Liabilities

Liabilities are always shown at their redemption value. Liabilities in foreign currencies are converted at the exchange rate applying at balance sheet date as required by IAS 21 pars. 9 and 11. Differences due to changes in exchange rates amounted to DM 91,000 and were entered under earnings.

k) Accounts payable for goods and services and sundry liabilities

Accounts payable for goods and services relate exclusively to other enterprises.

Sundry liabilities comprise the following:

	Dec. 31, 1998 DM 000	Dec. 31, 1997 DM 000
Liabilities for taxes	1,860	1,447
Liabilities for social security	770	520
Other	427	203
	3,057	**2,170**

l) Liabilities to banks

Liabilities to banks are short-term liabilities in connection with the financing of sales and overdraft facilities.

m) Long-term liabilities

These are long-term liabilities to banks with the following residual terms:

	DM 000
Up to 1 year	94
1 to 5 years	750
Over 5 years	656
	1.500

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n) Shareholders' equity

Only ordinary shares have been issued. All shares confer identical rights. No shareholders have been granted special rights or preferences. This also applies to the right to a dividend.

The development of shareholders' equity is shown in the appropriation of profit account.

4. Income statement

a) Sales revenues

The distribution of sales revenue is shown according to corporate divisions and regions and is set forth in the enclosed segment reports. The sales figures reflect ordinary business activity.

b) Other operating earnings

Other earnings comprise earnings from the adjustment of the commercial balance to the tax balance on the basis of findings made by the external audit, book gains from the disposal of assets, integration allowances and paid insurance claims.

c) Cost of materials

This item refers to expenses for merchandise and for outsourced services.

d) Personnel expenses

These relate to wages and salaries, voluntary social security payments, transfers to accruals for leave still to be taken, the profit-sharing scheme for employees, emoluments for the board of management, contributions to social security and old-age pensions.

e) Depreciation on intangible and tangible assets

Depreciation items are shown under "Development of fixed assets".

f) Other operating expenses

	1998 DM 000	1997 DM 000
Costs of sales	6,975	4,715
Administration costs	7,015	4,535
Other	901	568
	14,891	**9,818**

g) Other interest and similar income

This item relates exclusively to interest income from credit balances with banks.

h) Depreciation on securities in current assets

This is depreciation on the lower value to be applied to the share portfolio.

i) Interest and similar expenses

Interest expenses result from the utilisation of credit lines and of credits by way of guarantees.

j) Extraordinary expenses

All payments made to third parties outside the company for going public are shown as extraordinary expenses.

k) Taxes on income and earnings

	1998 DM 000	1997 DM 000
Current year	3,026	1,730
Previous years due to the external audit	346	0
	3,372	**1,730**

l) Other taxes

	1998 DM 000	1997 DM 000
Taxes on motor vehicles	23	43
Previous years due to the external audit	29	0
	52	**43**

m) Deferred taxes

This deferred tax item - with due allowance for the exceptions required by IAS 12 par. 15 a and b - is made for accounting and valuation differences in the consolidated financial statements of the companies included in the consolidation.

5. Segment reporting

The breakdown of sales is shown in the two summaries given below in keeping with IAS 14. Delivery prices are agreed between group companies and between them and third parties. Internal sales between the corporate segments are shown separately. The fields of activities of the segments and the composition of the geographic segments are shown in detail:

Fields of activity

		CAD/CAM-Solutions DM 000	e-business DM 000	IT-Service DM 000	not distributed DM 000	Total DM 000
External sales						
	1998	67,015	26,911	26,530	0	120,456
	1997	51,678	12,992	14,426	0	79,096
Internal sales						
	1998	411	0	0	0	411
	1997	0	0	0	0	0
Segment earnings*						
	1998	16,127	3,163	8,266	132	27,688
	1997	10,430	1,291	3,538	844	16,103
Operating capital						
	1998	23,673	11,709	10,737	23,938	70,057
	1997	15,109	3,435	4,324	2,217	25,085
Liabilities						
	1998	8,538	3,429	3,380	10,861	26,208
	1997	6,944	1,746	1,939	10,829	21,458
Investments						
	1998	2,288	454	1,608	515	4,865
	1997	1,157	146	689	203	2,195
Depreciation						
	1998	1,140	243	860	302	2,545
	1997	976	123	580	171	1,850

*) Segment earnings: Gross profit less directly assignable personnel expenses and depreciation.

Regions

		Germany DM 000	UK DM 000	Total DM 000
External sales				
	1998	117,486	2,970	120,456
	1997	78,178	918	79,096
Segment earnings*				
	1998	26,924	764	27,688
	1997	15,489	614	16,103

*) Segment earnings: Gross profit less directly assignable personnel expenses and depreciation.

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6. Contingent liabilities and other financial obligations

Other financial obligations

Other financial obligations comprise the following:

	Due in 1999 DM	Due 2000–2003 DM	Due 2004 and later DM	Total DM
Obligations under leasing contracts				
Leased motor vehicles	1,149	1,477	0	2,626
Other	280	234	29	543
Rents	1,741	3,051	0	4,792
	3,170	**4,762**	**29**	**7,961**

As stated, at balance sheet date there were no other contingent liabilities to be noted in the balance sheet or to be stated in the notes, or in evidence from the balance sheet or the notes. We have found nothing to contradict this.

7. Other items in the notes

a) Personnel expenses and employees

	1998 DM 000	1997 DM 000
Wages and salaries	27,510	19,553
Social security payments	4,440	3,181
	31,950	**22,734**
Number of employees	257	196

b) Relations to related companies and persons

There are no relations to "related parties" in the meaning of IAS 24.

c) Supervisory board and management

The supervisory board of the company had the following members:

Dr. jur. Axel Sigle, attorney, Stuttgart, chairman, deputy chairman of the supervisory board of Icon Brand Audit AG, Nuremberg,
Dipl.-Kfm. Hubert Leypoldt, deputy chairman, chartered accountant, tax consultant, Dettingen/Erms,
Dr. Dirk Lippold, managing director, Friolzheim.

The board of management had the following members in the year under review:

Dipl.-Ing. Falk Engelmann, Leinfelden-Echterdingen,
Dipl.-Ing. (FH) Norbert Fink, Metzingen,
Dipl.-Ing. Hubertus Manthey, Walddorfhäslach,
Dipl.-Ing. Rüdiger Passehl, Ehningen
Dipl.-Ing. Andreas Schmidt, Ebersbach.

In the year under review, the emoluments of the board of management amounted to DM 2,160,664.35. The supervisory board received remuneration of DM 63,000.00 for its activities.

Stuttgart, March 19, 1999

CENIT AKTIENGESELLSCHAFT
SYSTEMHAUS

The Board of Management

Auditors' opinion

We have audited the consolidated financial statements of CENIT AKTIENGESELLSCHAFT SYSTEMHAUS, Stuttgart, as at December 31, 1998 including the consolidated statement of cash flow and the consolidated statement of appropriation of income for the past fiscal year. The board of management of the company is responsible for drawing up these financial statements and for the content thereof. It is our task to give an opinion regarding adherence to International Accounting Standards in the present consolidated financial statements on the basis of the audit we have performed.

We performed our audit in accordance with the International Standards on Auditing of the International Federation of Accountants (IFAC). These principles require that the audit of the consolidated financial statements be planned and performed in a manner which allows an adequately reliable assessment to be made of whether the consolidated financial statements are free of substantially erroneous statements. The audit of the consolidated financial statements includes random checks of the evidence used for accounting and for the statements made in the consolidated financial statements. They also include an examination of the methods used for accounting and evaluation, and material estimates of the business management, plus an assessment of the overall picture conveyed by the consolidated financial statements. We are of the opinion that our audit provides a sufficiently reliable basis for our audit opinion.

The company drew up the present consolidated financial statements together with the statement of cash flow and the statement of appropriation of income in compliance with International Accounting Standards.

We are convinced that the present consolidated financial statements together with the statement of cash flow and the statement of appropriation of income present an adequate picture of the assets and financial position of CENIT AKTIENGESELLSCHAFT SYSTEMHAUS as at December 31, 1998 in all material aspects, and the earnings position and cash flows of the past fiscal year, and complies with the Standards of the International Accounting Standards Committee (IASC).

Stuttgart, March 22, 1999

Dr. Ebner, Dr. Stolz und
Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Wolfgang Russ
Chartered Accountant

Dieter Höreth
Chartered Accountant

CENIT AKTIENGESELLSCHAFT

Balance sheet of CENIT AKTIENGESELLSCHAFT SYSTEMHAUS as at December 31, 1998

Assets

	as at Dec. 31, 1998 DM	as at Dec. 31, 1997 DM 000
A. Fixed assets		
I. Intangible assets		
Franchises, industrial, similar rights and assets, and licenses to such rights and assets	252,934.66	277
II. Tangible assets		
1. Buildings on land not owned	406,685.82	20
2. Plant and machinery	3,214,918.35	1,518
3. Other plant, operating and business equipment	348,529.57	292
	3,970,133.74	1,830
III. Financial assets		
Shares in affiliated companies	71,574.00	72
Fixed assets – total	4,294,642.40	2,179
B. Current assets		
I. Inventories		
1. Unbilled work	85,000.00	0
2. Merchandise	6,767,329.73	888
	6,852,329.73	888
II. Accounts receivable and other assets		
1. Accounts receivable for goods and services	33,962,529.60	19,452
2. Accounts receivable from affiliated companies	1,419,629.25	579
3. Other assets	2,678,140.10	681
	38,060,298.95	20,712
III. Securities		
Own shares	0.00	150
Other securities	799,500.00	0
	799,500.00	150
IV. Cash on hand	19,350,887.35	609
C. Prepaid expenses	152,568.96	150
	69,510,227.39	**24,688**

Liabilities

	as at Dec. 31, 1998 DM	as at Dec. 31, 1997 DM 000
A. Shareholders' equity		
I. Subscribed capital	5,000,000.00	1,000
II. Capital reserves	36,000,000.00	0
III. Revenue reserves		
Reserves for own shares	0.00	150
Other revenue reserves	0.00	1,154
IV. Retained earnings	2,741,011.01	1,196
	43,741,011.01	3,500
B. Special item with an equity portion **Special item investment grant under the Regionales Förderprogramm Saarland** **(Regional promotional program for the Saarland)**	13,654.00	28
C. Accruals		
1. Accruals for taxes	2,273,719.70	1,546
2. Other accruals	3,518,166.09	947
	5,791,885.79	2,493
D. Liabilities		
1. Liabilities to banks	10,846,580.29	10,829
2. Accounts payable for goods and services	6,224,139.27	4,801
3. Sundry liabilities	2,892,957.03	3,037
	19,963,676.59	18,667
	69,510,227.39	**24,688**

CENIT AKTIENGESELLSCHAFT

Statement of income for CENIT AKTIENGESELLSCHAFT SYSTEMHAUS for the period from January 1 to December 31, 1998

	1998		1997
	DM	DM	DM 000
1. Sales revenue		117,896,283.28	78,178
2. Increase/decrease (-) of inventories of still unbilled work		85,000.00	0
		117,981,283.28	78,178
3. Other operating income		806,389.33	428
		118,787,672.61	78,606
4. Cost of material			
a.) Expenses for raw materials , supplies- and merchandise	61,023,576.26		40,905
b.) Expenses for outsourced services	664,662.30		1,023
		61,688,238.56	41,928
5. Personnel expenses			
a.) Wages and salaries	26,232,078.72		18,674
b.) Social security payments and payments for pensions and relief	4,439,626.43		3,181
		30,671,705.15	21,855
6. Depreciation on intangible and tangible assets		2,481,653.35	1,839
7. Other operating expenses		14,212,680.21	9,269
8. Other interest and similar income		691,294.78	15
9. Depreciation on financial assets and on securities in current assets		200,500.00	143
10. Interest and similar expenses		327,987.71	607
11. Earnings from ordinary business		**9,896,202.41**	**2,980**
12. Extraordinary expenses		3,731,438.85	0
13. Taxes on income and earnings		3,371,932.00	1,730
14. Other taxes		52,164.55	43
15. Net income		**2,740,667.01**	**1,207**
16. Profit carried forward		1,196,488.00	561
17. Transfers to other revenue reserves		1,196,144.00	561
Appropriation of profits		0.00	11
18. Retained earnings		**2,741,011.01**	**1,196**

Notes to the annual financial statements for the fiscal year 1998

1. General remarks

The present financial statements were drawn up in accordance with Articles 242 ff. HGB (German Commercial Code) and Articles 264 ff. HGB, and in accordance with the relevant stipulations of AktG (joint stock corporation law). The provisions for big corporations apply.

Classifications have remained unchanged. The income statement was drawn up in accordance with the total cost method.

2. Principles of accounting and valuation

Assets

Intangible assets
Purchased intangible assets are shown at cost of purchase less regular accumulated depreciation on a straight-line basis. The depreciation of additions is made in proportion to the time since purchase.

Tangible assets
Tangible assets are valued at cost of purchase or manufacture less regular accumulated depreciation.

Assets are written down on a straight-line basis over their normal useful life. Depreciation on additions is made in proportion to the time since purchase or manufacture. Asset items of low value were fully written off in the year of purchase pursuant to Article 6 par. 2 EStG (income tax law), their immediate disposal is assumed.

Financial assets
Shares in affiliated companies are shown at cost of purchase. In determining the cost of purchase, amounts in foreign currency were converted at the exchange rate applying at the date on which they were entered into the accounts for the first time.

Inventories
Unbilled work is shown at approximated costs of manufacture.

Merchandise was always evaluated at the average cost of purchase or replacement cost, whichever was the lower at balance sheet date. Particular items were written down on account of long periods of storage or because of lacking or restricted possibilities of use.

Accounts receivable and other assets
Accounts receivable and other assets are shown at their nominal value.

Ascertainable risks were taken into account through specific provisions. A general provision was also made for bad and doubtful debts. Irrecoverable debts were fully written off.

Accounts receivable in foreign currency were converted at the exchange rate applying at date of their creation or at the bid exchange rate at balance sheet date, whichever was the lower.

Securities in current assets
Securities in current assets are shown at cost of purchase or at their price at balance sheet date, whichever is the lower.

Cash on hand
Cash on hand is shown at its nominal value.

Prepaid expenses
The discount shown under prepaid expenses is written down on a straight-line basis over the fixed-interest period of the respective loan.

Liabilities

Accruals
Other accruals take all ascertainable risks and contingent obligations into account and have been evaluated in accordance with principles of conservative commercial assessment.

Liabilities
All liabilities are shown at their redemption value. Liabilities in foreign currencies were converted at the exchange rate applying at the date on which they were created or at the offering rate at balance sheet date, whichever is the higher.

3. Notes to the balance sheet

Fixed assets
The development of the various fixed asset items is shown under depreciation for the fiscal year in the statement of fixed assets in Annex 3. Annex 3 is an integral part of the Notes.

Financial assets
Shares in affiliated companies shown in the balance sheet relate to CENIT Limited, Altrincham/UK. The company has a subscribed capital of GBP 30,000 held by CENIT. The financial statements as at December 31, 1998 show a net income of GBP 3,000.

Inventories
Inventories mainly comprise merchandise and software licences which are intended for sale.

CENIT AKTIENGESELLSCHAFT

Accounts receivable and other assets

	DM 000
Accounts payable for goods and services	33,963
Accounts payable to affiliated companies	1,420
Other assets	2,678
	38,061

The accounts receivable and other assets have a residual term of up to one year.

Cash on hand
This item comprises credit balances with banks as well as cash on hand.

Prepaid expenses
Prepaid expenses include discounts totalling DM 49,000 (1997: DM 55,000).

Shareholders' equity

Subscribed capital
Only ordinary shares have been issued. All shares confer identical rights. No shareholders have been granted special rights or preferences. This also applies to the right to a dividend.

Capital reserves

	DM 000
As on Jan. 1, 1998	0
Additions through the capital increasethrough going public	36,000
as on Dec. 31, 1998	**36,000**

Revenue reserves

	Reserve for own shares DM 000	Other revenue reserves DM 000	Total DM 000
As on Jan. 1, 1998	150	1,154	1,304
Transfer	0	1,196	1,196
	150	2,350	2,500
Withdrawals	– 150	– 2,350	– 2,500
	0	**0**	**0**

These reserves were used up on connection with the withdrawal of our own shares.

Other revenue reserves were used to increase capital from company resources.

Special item with an equity portion
This relates to an investment grant under the Regionales Förderprogramm Saarland (regional promotional program for Saarland). It will be dissolved in the course of the utilisation period and reflected in earnings.

Accruals
Tax accruals comprise as yet unassessed tax liabilities for past years, tax liabilities arising from the external audit, and tax obligations for the current fiscal year.

Other accruals essentially comprise accruals for the bonus model, leave still to be taken by employees, contributions to workmen's compensation insurance, risks through court proceedings, warranty obligations, still outstanding supplier bills. etc.

Liabilities
Liabilities to banks comprise the following, classified according to residual terms:

	DM
Up to 1 year	9,440,330.29
1 to 5 years	750,000.00
Over 5 years	656,250.00
	10,846,580.29

To provide security for liabilities to banks, the board of management has given a joint and several guarantee for DM 1.5 million. A fixed-term deposit of DM 10 million was also pledged. Furthermore, Bürgschaftsbank Baden-Württemberg GmbH has placed an indemnity bond for 70% of the loan from Dresdner Bank AG, Frankfurt/Main, Stuttgart branch.

For accounts payable for goods and services there are the customary reservations of title to the delivered goods.

Sundry liabilities comprise the following:

	DM 000
Tax liabilities	1,860
Liabilities under social security obligations	770
Liabilities to members of the board of management	12
Other liabilities	251
	2,893

Liabilities to members of the board of management result from travel expenses.

Accounts payable for goods and services and sundry liabilities have a residual term of up to one year.

4. Notes to the statement of income

Sales revenue

Sales revenue is distributed amongst segments and regions as follows:

	DM 000
CAD/CAM-Solutions	64,455
e-business	26,911
IT-Services	26,530
	117,896
Germany	115,342
Abroad	2,554
	117,896

Other operating earnings

Other operating earnings amounting to DM 806,000 include earnings to an amount of DM 733,000 unrelated to the accounting period. These are earnings resulting from the external audit, insurance refunds, earnings from the disposal of fixed assets and exchange rate differences.

Pension payments

The item "Social security payments and payments for pensions and relief" includes expenses for pensions amounting to DM 166,000 (1997: DM 125,000).

Other operating expenses

Other operating expenses essentially include administration expenses and selling costs.

Expenses not related to the accounting period

Other operating expenses includes expenses amounting to DM 105,000 which are not related to the accounting period. These are losses of accounts receivable and expenses relating to the disposal of fixed assets.

Taxes on income and earnings include expenses amounting to DM 167,000 and other taxes include expenses amounting to DM 29,000 which are not related to the accounting period.

Other interest and similar income

Other interest and similar income relate to affiliated companies in an amount of DM 40,000 (1997: DM 12,000).

Extraordinary expenses

These expenses relate to the costs of going public.

CENIT AKTIENGESELLSCHAFT

5. Contingent liabilities and commitments, other financial obligations

The other financial obligations exist in the following amounts:

No contingent liabilities and commitments exist other than those shown under other financial obligations.

	Due in 1999 DM 000	Due in 2000–2003 DM 000	Due in 2004 or later DM 000	Total DM 000
Obligations under leasing contracts				
Leased motor vehicles	992	1,164	0	2,156
Other	186	202	23	411
Rents	1,630	2,673	0	4,303
	2,808	**4,039**	**23**	**6,870**

6. Other information

Affiliated companies

At balance sheet date the company held 100% of the capital in CENIT Ltd., Altrincham/UK.

	GBP 000
Equity capital	40
Profit for the year	3

The following are currently members of the board of management:

Dipl.-Ing. Falk Engelmann, Leinfelden-Echterdingen
Dipl.-Ing. (FH) Norbert Fink, Metzingen
Dipl.-Ing. Hubertus Manthey, Walddorfhäslach
Dipl.-Ing. Rüdiger Passehl, Ehningen
Dipl.-Ing. Andreas Schmidt, Ebersbach

In the year under review, the following were members of the supervisory board:

Dr. jur. Axel Sigle, attorney, Stuttgart, chairman, deputy chairman of the supervisory board of Icon Brand Audit AG, Nuernberg
Dipl.-Kfm. Hubert Leypoldt, deputy chairman, chartered accountant, tax consultant, Dettingen/Erms,
Dr. Dirk Lippold, managing director, Friolzheim

In the year under review, the emoluments of the board of management amounted to DM 2,160,664.35. The supervisory board received a remuneration of DM 63,000.00 for its activities.

On the average, the company employed 247 persons during the year under review. The workforce consisted of

	Number
Members of the board of management	5
Employees	242
	247

Proposal regarding the appropriation of profits

With the concurrence of the supervisory board, the board of management proposes to distribute retained earnings of DM 2,741,011.01 as follows:

	DM
Paid out as dividend	1,000,000.00
Transferred to other revenue reserves	1,700,000.00
Carried forward to new account	41,011.01
	2,741,011.01

Stuttgart, March 19, 1999

CENIT AKTIENGESELLSCHAFT
SYSTEMHAUS

The Board of Management

Auditors' opinion

The accounts and annual financial statements which we have audited in accordance with professional standards comply with German statutory provisions. The annual financial statements prepared in accordance with accounting principles generally accepted in Germany give a true and fair view of the assets, liabilities, financial and earnings position of the company. The content of the management report is consistent with the annual financial statements.

Stuttgart, March 22, 1999

Dr. Ebner, Dr. Stolz und
Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Wolfgang Russ
Chartered Accountant

Dieter Höreth
Chartered Accountant

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