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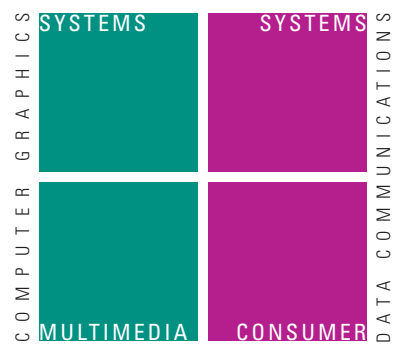
Targets

APPENDIX

as of 31

AUDITOR'S OPINION

KDM	1995	1996	1997	Changes 96-97 in %
REVENUES	118.891	226.163	286.565	26,7%
COMPUTER GRAPHICS	80.049	144.727	196.692	35,9%
DATA COMMUNICATIONS	38.842	81.436	89.873	10,4%
EXPORT RATE	12,6%	12,8%	27,1%	—
EBDIT	7.285	17.747	19.148	7,9%
RESULT FROM ORDINARY ACTIVITIES	4.602	14.121	13.853	-1,9%
NET INCOME FOR THE YEAR	2.193	7.312	6.548	-10,4%
RESULT ACCORDING TO DVFA/SG	2.638	6.143	6.965	10,7%
CASH FLOW ACCORDING TO DVFA/SG	4.186	9.022	10.348	14,7%
INVESTMENTS (incl. minor assets)	2.116	7.618	5.586	-26,7%
EQUITY/TOTAL ASSETS AS OF 12/31/97	18,7%	17,7%	14,8%	—
RETURN ON EQUITY	28,6%	58,0%	43,7%	—
RETURN ON SALES	3,8%	5,9%	4,5%	—
PERSONNEL AS OF 12/31/97	238	413	511	—
*1995 and 1996 ELSA GmbH, 1997 ELSA AG, consolidated				



ELSA focuses on the divisions

Computer Graphics and Data Communications.

The know-how acquired in the development of innovative

high-tech solutions for the professional market

is put to efficient use by developing attractive solutions

for the consumer market.

DEAR FUTURE SHAREHOLDERS, DEAR FRIENDS,

We are delighted to present to you the first annual report for ELSA AG. The annual report is part of the open dialogue we would like to establish between the company and its shareholders.

Since the early stages of the PC market in the mid-80s, ELSA has been selling PC peripherals into the computer graphics and data communications segments of the market. In both of these segments we produce products that help people to deal with their tasks quickly and efficiently.

Our products support and improve the use of PCs for communications, display quality, ergonomics and performance. We also put the knowledge we gain while developing innovative high-tech solutions to efficient use by creating attractive solutions for the consumer business. This gives us a competitive edge in the market.

REVENUES AND EARNINGS

In the last fiscal year, ELSA has made considerable progress toward becoming a global supplier of computer graphics and data communications products. Total sales increased by 26.7 % from DM 226.2 million to DM 286.6 million. Our operating result amounted to DM 13.9 million.

We were able to solidify our leading domestic market position in all business units. Parallel to this, we expanded our international activities considerably. By establishing subsidiaries in Taiwan and Japan last year we strengthened our presence in Asia.



As a result of our international expansion that we initiated and will pursue in the coming years, the percentage of sales from international markets rose from 12.8% to 27%. Our business grew by more than the market average, particularly in international markets, allowing us to continue abroad the success we enjoy in Germany.

CUSTOMERS

We would like to thank our customers and distribution partners for their co-operation. We are confident that, in the current year, we can continue and further expand the success we have enjoyed so far. We remain committed to fulfilling your needs with excellent service and state-of-the-art products.

PERSONNEL

In the past year we created 145 jobs, resulting in an average annual headcount of 489 employees world-wide. We would like to express our thanks to all our staff who, with above-average performance and much personal dedication, have ensured the realization of our strategy for success.

TARGETS FOR 1998

We have set ambitious sales and revenue targets for 1998. We are confident that we will be able to further improve ELSA's worldwide market position in the current fiscal year. We intend to meet these targets by focusing on our core competencies, tightening our product range, investing in the expansion of our infrastructure and our subsidiaries, as well as specific measures to strengthen our European sales network.

L E T T E R F R O M T H E M A N A G E M E N T B O A R D

We plan to go public in mid-1998, with ELSA shares to be listed on the Neuer Markt at the Frankfurt Stock Exchange, which will secure the funds required for our growth and considerably increase the company's visibility in the market. We believe that ELSA shares will be an attractive investment.

We would like to develop the same partnership with our shareholders as we have with our customers, suppliers and employees. Therefore, we will personally do our utmost to maintain what makes ELSA so special both in terms of internal relations as well as in terms of our co-operation with all our partners.



Theo Beisch



Peter Gueldenberg



Josef Beisch

ELSA AG was incorporated, on August 25, 1997, thereby converting ELSA GmbH to ELSA AG. ELSA's first supervisory board was appointed by the founding shareholders and consisted of Mr. Max Beisch (Dipl.-Kfm.), Mr. Friedhelm Hammer (Attorney) and Dr. Hanno Schmitz-Hueser (Auditor and Tax advisor). A special meeting was held on December 18, 1997, at which the following persons were elected as the new members of ELSA's supervisory board:

Mr. Wolfgang Dondorf (Dipl. Ing.), chairman

Mr. Theodor Ludger Lieven, deputy chairman

Dr. Hanno Schmitz-Hueser, deputy chairman

The supervisory board considered verbal and written reports concerning ELSA's business affairs during fiscal year 1997. In its meetings, the supervisory board addressed fundamental questions of business strategies, cost development, investment and financial planning.

In addition to the resolutions adopted at its meetings, the supervisory board supported the management board on an ongoing basis.

In particular, all processes which statutorily require the consensus of the supervisory board were addressed.

The annual financial statements presented by the ELSA AG management board, the consolidated financial statements and the annual report have been examined by Arthur Andersen Wirtschaftsberatungsgesellschaft—Steuerberatungsgesellschaft, Hamburg, Germany, and received an unqualified auditor's opinion.

LETTER FROM THE SUPERVISORY BOARD

The supervisory board has examined this report, agrees with the findings of the auditors and has approved the underlying annual financial statements presented by the management board. The supervisory board agrees with the suggestion for utilization of the retained earnings.

The supervisory board would like to thank the members retiring from the supervisory board, the management board and all of the employees for their excellent and successful work.

Aachen, April 1998



Wolfgang Dondorf



Theo Lieven

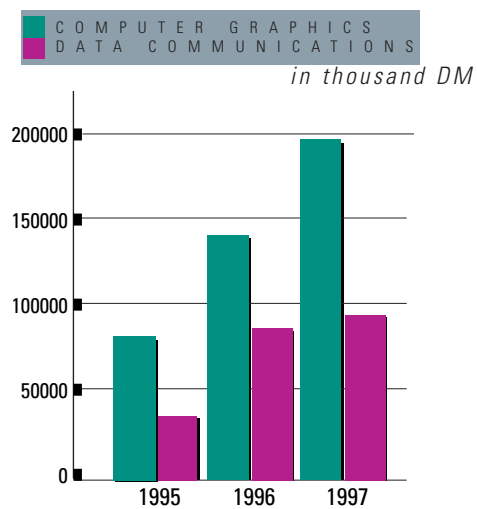


Dr. Hanno Schmitz-Hueser

The Supervisory Board

S U P E R V I S O R Y B O A R D



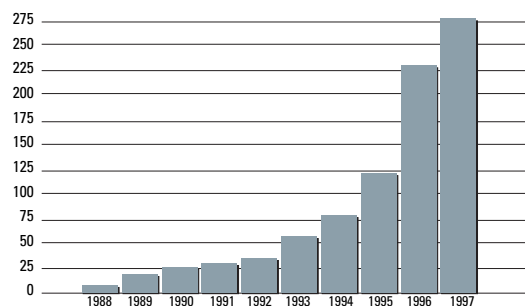


The 1997 fiscal year was characterized by various factors:

- Strong growth in Windows NT workstations in the US
- Moderate adaptation of the Internet in Germany, particularly with regard to high-speed modems due to lack of standardization
- Temporary weakness in PC sales in the second quarter

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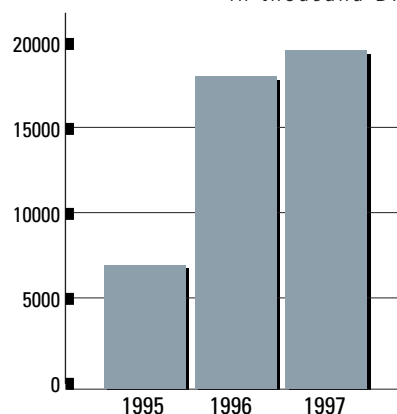
REVENUES DEVELOPMENT
in million DM



Despite a market environment which was at times difficult, ELSA was able to continue in 1997 the success of previous years.

EBDIT 1995 - 1997

in thousand DM



REVENUES

Revenues, which were consolidated at the group level for the first time in 1997, amounted to DM 286.6 million compared to DM 226.2 million in the previous year. The Computer Graphics division accounted for 69%, the Data Communications division contributed 31%. Dynamic growth was sustained by both divisions. The percentage of international sales rose from 12.8% in 1996 to 27% in 1997.

COST OF MATERIALS

The cost of materials increased from DM 182.7 million to DM 212.7 million at company level and DM 212.9 million on a consolidated basis and thereby remained in proportion to total revenues.

PERSONNEL

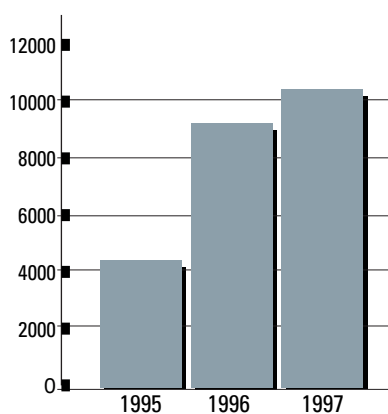
Due to the expansion of research and development as well as pre and post-sales activities, our increase in personnel expenses was slightly disproportionate to sales. We invested DM 9 million in research and development alone, an increase of DM 2.7 million compared to the previous year.

OPERATING RESULTS

Pre-tax income for the group totalled DM 13.9 million in 1997, thereby remaining close to the previous year's level of DM 14.1 million. The effect of the unexpectedly weak demand in the German PC consumer market and the one-time expense of the company's conversion to a stock corporation and the planned initial public offering and listing on the Neuer Markt at the Frankfurt Stock Exchange were almost balanced out by the success of the American subsidiary, ELSA Inc.

CASH FLOW 1995 - 1997

in thousand DM



INVESTMENTS

Investments in tangible assets amounted to DM 5.6 million in 1997, mainly relating to the expansion of the company's facilities in Aachen. The new development center, in use since 1996, and other office and production buildings were completed. Investments in operations and business equipment mainly related to IT and workstations. In total, ELSA invested over DM 13 million in the expansion of its facilities in Aachen during the last two years. To strengthen our international market position, a financial investment of DM 1.6 million was made to establish our new subsidiaries in Japan and Taiwan.

STRUCTURE OF BALANCE SHEET

Equity accounted for 26.2% of the consolidated balance sheet total at December 31, 1997. 84% of current assets are complemented by 16% of fixed assets.

The company plans to go public in 1998, which will result in a significant increase in equity and will permit further long-term growth.

The transition from a service-oriented society to an information society is characterized by the merging of computers, communications technologies and, increasingly, home entertainment products. We anticipated this development early on and focused on those segments which lie at the center of this convergence: computer graphics and data communications.

Divided into the two business divisions, Computer Graphics and Data Communications, ELSA has been supplying the PC market since its early stages in the mid-80s. The PC is the focal point of the company's activities.

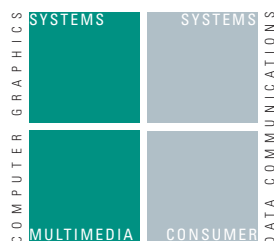
Constant improvement of the products is required in order to achieve and maintain a leading market position in these areas. ELSA has been successfully meeting this challenge for years through increasing investments in research and development.

Important factors which contribute to the continued success of all product groups are early entry into the market, innovative leadership and a high degree of acceptance.

B U S I N E S S D I V I S I O N S

COMPUTER GRAPHICS

ELSA's Computer Graphics division offers a wide range of graphics boards and monitors:



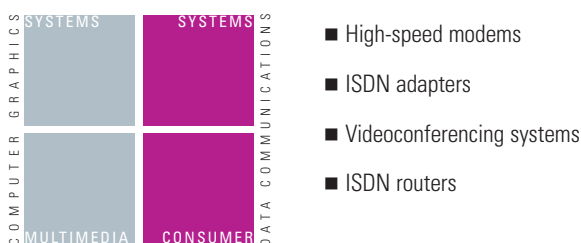
- High-end graphics boards for 2D and 3D engineering workstations
- 2D and 3D graphics boards for the office and corporate design markets
- High-performance graphics boards for game enthusiasts and PC beginners
- 17" to 24" color monitors
- TFT flat-screen monitors

Our sales strategy in the past year mainly focused on Original Equipment Manufacturers (OEMs) who, by entering the PC workstation market, have had considerable influence on the trend to move away from proprietary UNIX solutions towards Windows NT.

For this reason, ELSA continues to rely on its own strong Research and Development division in order to timely integrate important market trends and new technologies into its own products.

DATA COMMUNICATIONS

For the Data Communications division, the important growth factors are the Internet and the spread of ISDN technology in the telecommunications area with its advantageous impact on communications costs. ELSA succeeded in further improving its excellent position in the German market with the following products:



In the coming years we will strengthen our distribution network with a view to offering our data communications products throughout Europe. ELSA fulfills the needs of professional and private users with top-of-the-line products in the computer graphics and data communications segments.

B U S I N E S S D I V I S I O N S

The know-how acquired in the development of innovative high-tech solutions is put to efficient use by developing attractive solutions for the consumer market.

The Computer Graphics and Data Communications divisions are subdivided into four focused business units to meet the specific needs of the different markets and target groups.

- Graphics Systems
- Multimedia
- Communications Systems
- Consumer Communications

With these four pillars of success, ELSA can make optimal use of the sales opportunities in all product groups, as the activities of each of the four business units are focused on and specialized in a dedicated market segment either in the high-end or consumer business.

GRAPHICS SYSTEMS

High-end 2D and 3D graphics boards. ELSA is a pioneer in terms of professional 2D and 3D graphics boards. With a market share of approximately 20% (source: 3DLabs), ELSA became the world market leader in the high-end 3D market under Windows NT last year. To further increase its market share the Graphics Systems business unit will be strengthened in the U.S. and will expand into the Asian market as well. New innovative products, a close collaboration with OEM partners and new OEM customers will support this strategy.

The graphics boards of the *ELSA GLoria* product family are used in Windows NT workstations based on PCs. They enable comparatively low priced PC technology to be used for applications that were previously only available on more expensive proprietary UNIX workstations. The increasing spread of Windows NT workstations caused an increasing demand for graphics boards. In 1997, ELSA sold more than 39,000 units compared to 9,000 in the previous year. Renowned PC manufacturers such as Acer, Compaq, Dell, Hewlett-Packard and Siemens Nixdorf have already decided to use ELSA graphics boards. For the coming years, independent market surveys predict an average growth of 40% per year for the professional Windows NT workstation market (sources: IDC, Intel).

The new high-end 3D products, among others, are establishing the basis for continued growth. ELSA continues its diversification in vertical market segments. ELSA's multi-screen technology—which allows multiple independent monitors to be driven by one PC and which has been used successfully in CAD construction workstations—will also be developed further in order to make them attractive for other users, e.g. in the rapidly growing financial markets with a need of more 'screen real estate'.

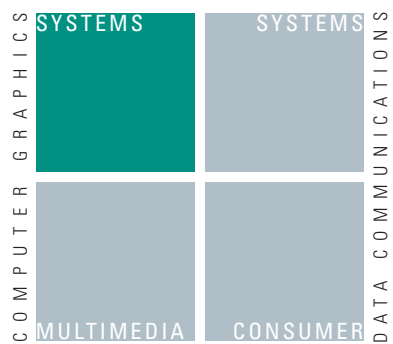
C O M P U T E R G R A P H I C S

PROFESSIONAL MONITORS

In the past year, ELSA has been working on establishing its own monitor brand for professionals. The company developed its own product line of 17 to 24 inch monitors, branded *ELSA ECOMO*. Its target markets are primarily in Germany and neighboring countries.

Graphics systems sales increased by 38.7% during the past fiscal year. By selling more than 15,000 large monitors in the 20 inch + category, ELSA holds an important position in the German monitor market.

In 1998, ELSA will start develop and introduce a product line of digital interface TFT flat-screen monitors.



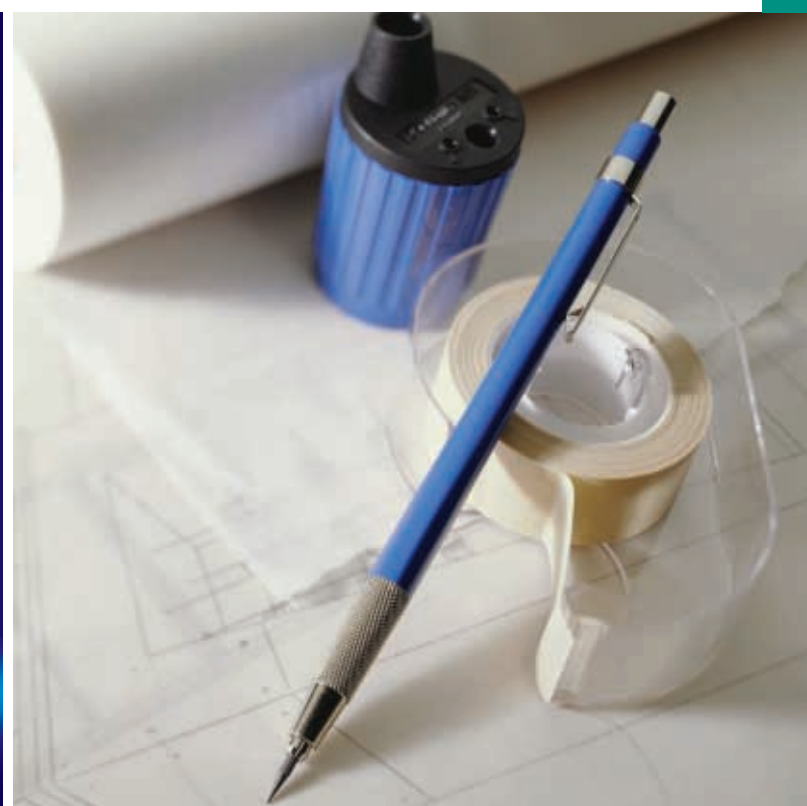
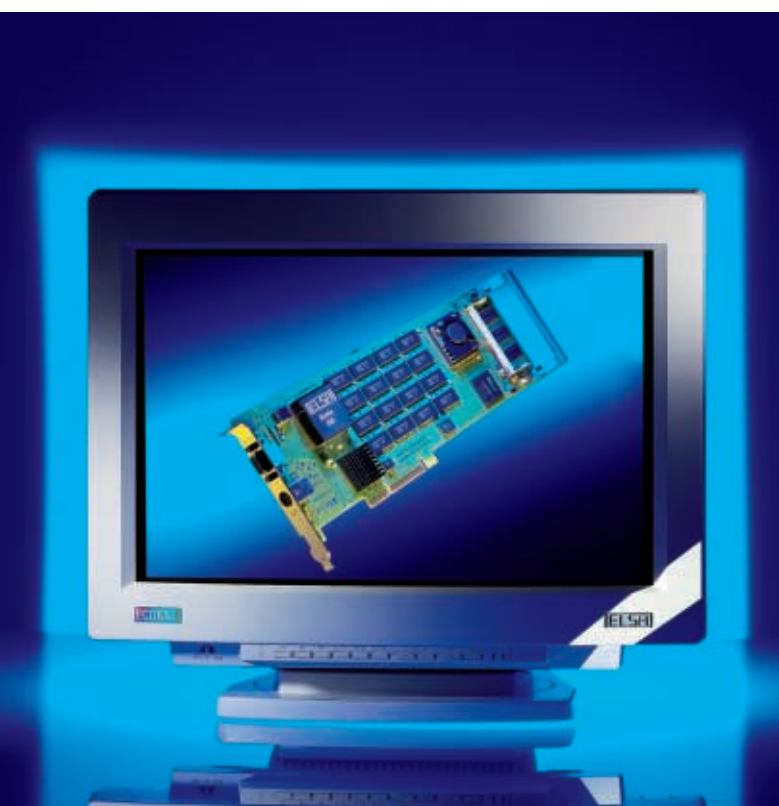
Graphics systems for professional

applications are high-end products.

ELSA belongs to the

worldwide leaders in this

attractive market segment.



MULTIMEDIA

The multimedia market is a fast growing, but fiercely competitive market. ELSA successfully faces this challenge with sophisticated 2D and 3D graphics accelerators for home and office computers. ELSA has one of the most successful solutions for ambitious 3D gamers—the *ELSA VICTORY Erazor*.

At present, the office PC is mainly used for word-processing and spreadsheets, but the Internet as well as presentation and publishing applications are gaining more importance in this market. The graphics boards of the *ELSA WINNER* product line are well equipped for these and future requirements—for example, the future market for videoconferencing.

In the multimedia market, the focus of our sales strategy is on co-operation with original PC manufacturers who integrate the ELSA graphics solutions in their computers as a standard item.

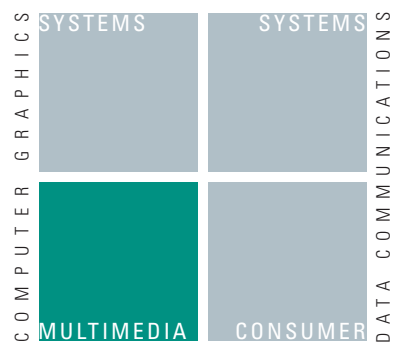
In 1997, ELSA was ranked for the first time among the top ten of the world's most renowned vendors of consumer graphics boards. With a world market share of 4%, ELSA managed to jump straight into fifth place (source: Jon Peddie Associates).

C O M P U T E R G R A P H I C S

The Multimedia business unit consistently takes advantage of synergies stemming from its own experiences in the professional graphics market. Developments in the innovative technologies of the high-end market are transferred to consumer products. This means that the consumer-market user benefits from early market availability of highly developed graphics board technologies with a reasonable price/performance ratio. Our existing OEM partnerships with the leading international PC manufacturers are the basis for our further growth.

The Multimedia business unit's product portfolio is being further developed by the expansion into related technologies. These include, for example, video input and output ports, digital video support (Digital Versatile Disk = DVD), analog and digital television and virtual reality.

Further growth will help ELSA to expand its market position in Europe, the U.S. and Asia. As in the past, ELSA expects to participate both in the strong growth of the market and in the quest for new market shares.

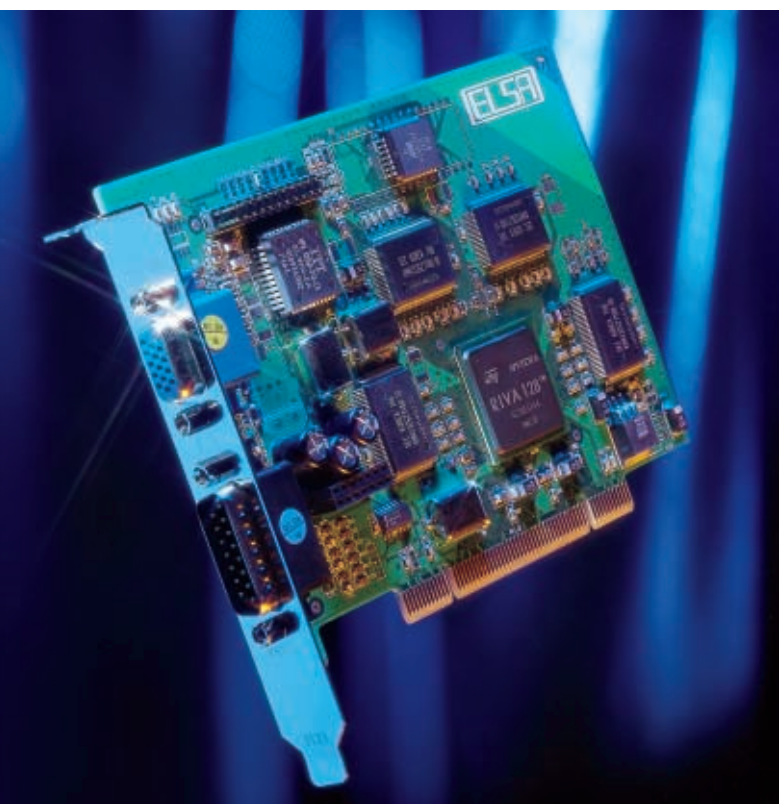


The multimedia market is growing

at a breathtaking speed worldwide.

ELSA intends to seize the opportunities

offered by this dynamic market.



COMMUNICATIONS SYSTEMS

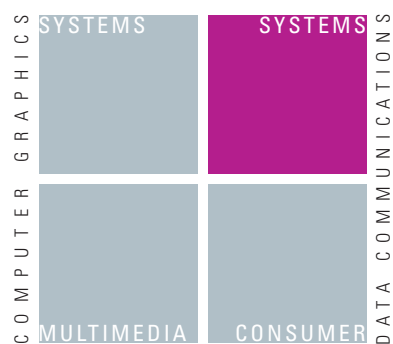
In the data communications market, ELSA offers professional PC based videoconferencing systems and ISDN routers for Internet access and communications solutions for small networks. The main applications are in video communications, data transfer, fax, Internet, intranet, remote access and remote maintenance. In a market that demands quick reactions and up-to-date knowledge, ELSA has a substantial competitive advantage through its many years of research.

With *ELSAvision*, ELSA has secured a strong position in the videoconferencing market. In developing its videoconferencing technology, ELSA was able to take advantage of its experience in computer graphics and data communications. After premiering the world's first videoconferencing solution for Windows NT 4.0 in 1997, we now offer network functionality for the system. ELSA has already carried out successful projects with major customers such as Deutsche Telekom, BMW and Bosch.

D A T A C O M M U N I C A T I O N S

The breakthrough in the future market of videoconferencing systems is expected soon. With faster processors and increasing bandwidths, the systems will soon achieve TV quality at prices attractive to consumers. Both acceptance and distribution will, therefore, increase significantly.

With its ISDN routers, ELSA is also strongly involved in the rapidly growing networking market. The total European sales volume in this market is expected to increase from US \$ 332.5 million in 1996 to over US \$ 600 million in 1998 (source: Frost & Sullivan). ELSA's new router family which meets the increasing requirements of the SOHO (Small Office/Home Office) market is currently in the initial phase of market introduction, and the first reactions from customers and the trade press are encouraging. We are confident that this new generation of products will be a success.



The transition away from

the services age towards

the information age demands

that communications systems

be optimized. This presents

ELSA with an ongoing challenge.



CONSUMER COMMUNICATIONS

Due to the rapidly increasing availability of online services and the quick spread of the Internet, data communications are increasingly becoming a standard feature in private households. In addition to attractive pricing, products in this market must offer a high degree of user-friendliness, a comprehensive set of product features and a complete range of support services. ELSA has positioned itself in this growing market with high-speed modems, PC cards for laptops and notebooks as well as ISDN cards and adapters.

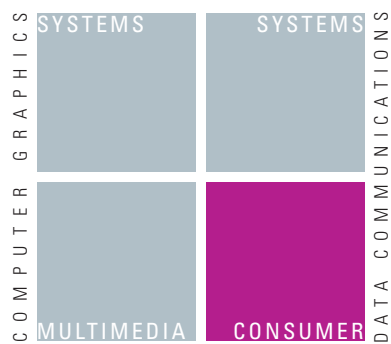
ELSA is one of the pioneers providing analog modem technologies immediately after the German telecommunications market was deregulated more than 10 years ago. Despite increased competition, ELSA was able to increase the number of units sold in 1997 and strengthen its market position. The increasing use of the Internet will ensure a continued strong demand for high-speed modems.

D A T A C O M M U N I C A T I O N S

The recent global standardization of analog 56k modems (V.90) will also contribute to this favorable market environment. This new technology, which is, among other features, incorporated in the *ELSA MicroLink 56k*, provides users of the analog telephone network with a real alternative to ISDN transfer rates. The new transmission standards will also increase the product life of analog modems and stimulate sales for an extended period of time.

By offering PC cards for laptops and notebooks, ELSA is responding to the trend towards increased mobility in data communications.

In the ISDN solutions market, ELSA offers internal PC boards and external terminal adapters. Due to the simple installation and user-friendliness of its products, ELSA has received numerous awards from the trade press. The growing acceptance of ISDN solutions in Europe will have a positive impact on ELSA's further international expansion.



More and more private users

are turning to online communications.

With its powerful modems and

ISDN adapters, ELSA is a pioneer

of this future market.



RESEARCH & DEVELOPMENT

Among ELSA's main success factors are the company's research into new technologies and the timely development of products in accordance with market demands.

As a core competence of the company, research and development is mainly carried out internally. This ensures a competitive edge in terms of know-how and shortens the time to market both for graphics and data communications products. ELSA's development process meets the high expectations of the high-tech markets with respect to performance and quality as well as the feasibility of large-scale production. On average, it only takes four to seven months for a product to progress from the initial idea to the manufacturing stage, which allows ELSA to successfully service even short-lived markets. ELSA engineers consider time to market an important strategic

T E C H N O L O G Y

factor which is constantly improved to strengthen the company's market position. Market-oriented thinking—combined with knowledge of the newest trends and technologies—secures a leading role for ELSA in PC-based graphics and communications products.

In addition to its market-related development activities, the Research & Development department is already laying the technological foundation for servicing the markets of the future and creating a basis for future product generations and trends such as xDSL, ATM, IEEE1394, videoconferencing and cable modems.

29% of ELSA's employees work in Research & Development. This demonstrates ELSA's commitment to achieving its declared goal of improving its market position through first-rate technological performance.

MANUFACTURING

Production planning, selection of suppliers and distribution are performed in-house at ELSA. The entire procurement process is subject to quality control. ELSA's teams monitor the operations of suppliers to ensure compliance with quality standards.

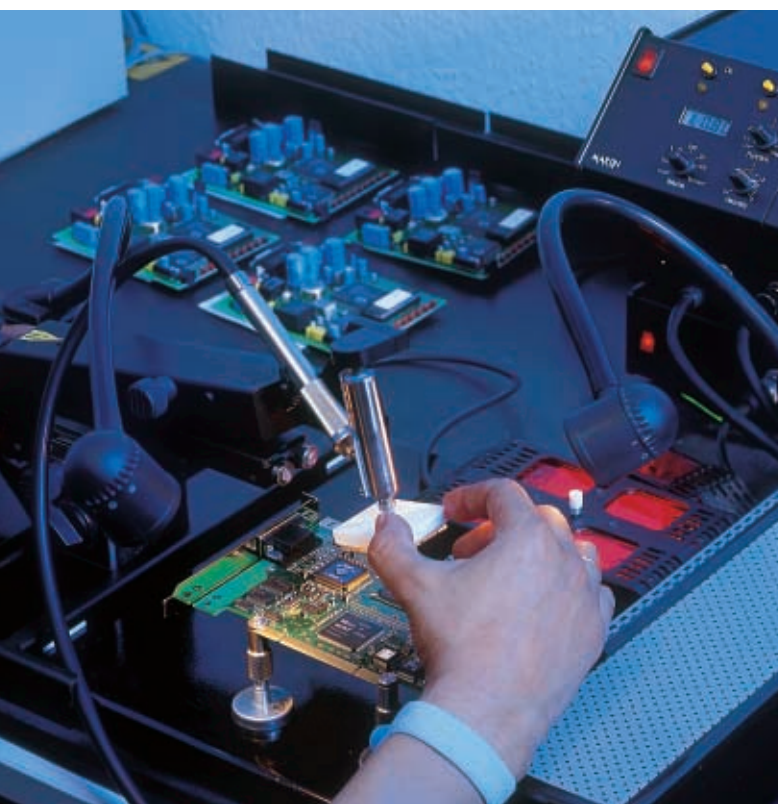
Because of the short innovation cycles in this industry, outsourcing the capital-intensive production of electronic assemblies and monitors has considerable advantages:

- flexibility in case of fluctuating production volumes, especially for short-term high-volume ramp up
- no capital tied up in expensive production equipment
- reduction of costs

This strategy allows ELSA to devote its resources to activities with a higher value-added quota and to avoid production shortages. In the course of our OEM business expansion, additional globally operating production service companies are being qualified to deliver to large customers directly on-site.

ELSA's internal processes are subject to equally high standards. Besides being DIN EN ISO 9001 certified, ELSA meets the strict World Wide Supplier guidelines of, among others, Compaq, Dell, Hewlett-Packard, Packard Bell NEC or Siemens Nixdorf.

P R O D U C T I O N





SERVICE & SUPPORT

For each of its products ELSA provides extensive pre and post-sale services which are available free of charge to users, OEM partners, distributors and value added resellers. The services ELSA offers are an important competitive factor. Our services accompany the customer from product selection to purchase and thereafter throughout the entire life of the product. To ELSA, service means, above all, that products must be user-friendly. When a customer buys an ELSA solution, he not only receives the technology, but also a comprehensive package of services that ensures the reliability of the product. This package includes:

- up to 6 years' warranty
- immediate exchange of defective products within the first 100 days after purchase
- on-site service for the repair and exchange of color monitors

Our European call center, staffed with over 50 qualified engineers and technicians, provides fast and efficient support on all technical questions over our hotline. Our support specialists are available for immediate help on ten telephone hotlines, divided by product group. Customer feedback is recorded and analysed to help with the continuous further development and improvement of the quality of our products and services.

S E R V I C E S

In addition to the conventional communication channels of telephone and fax, any interested person or user can utilize these electronic media 24 hours a day:

- Internet
- ELSA LocalWeb
- Service and Support faxline

ELSA intends to expand its services and enhance its support system. One of the steps will be the implementation of a knowledge database available via the Internet that should contribute to the further improvement of availability and response times.

MARKETING & SALES

Continuous marketing efforts and a user-specific approach in the high-end and consumer markets contribute to the company's long-term success. In 1997, ELSA presented itself to international market participants at the best-known computer trade shows in the world, for example Siggraph in Los Angeles and at the largest specialized trade fairs of the industry, CeBIT in Hannover and Comdex in Las Vegas.

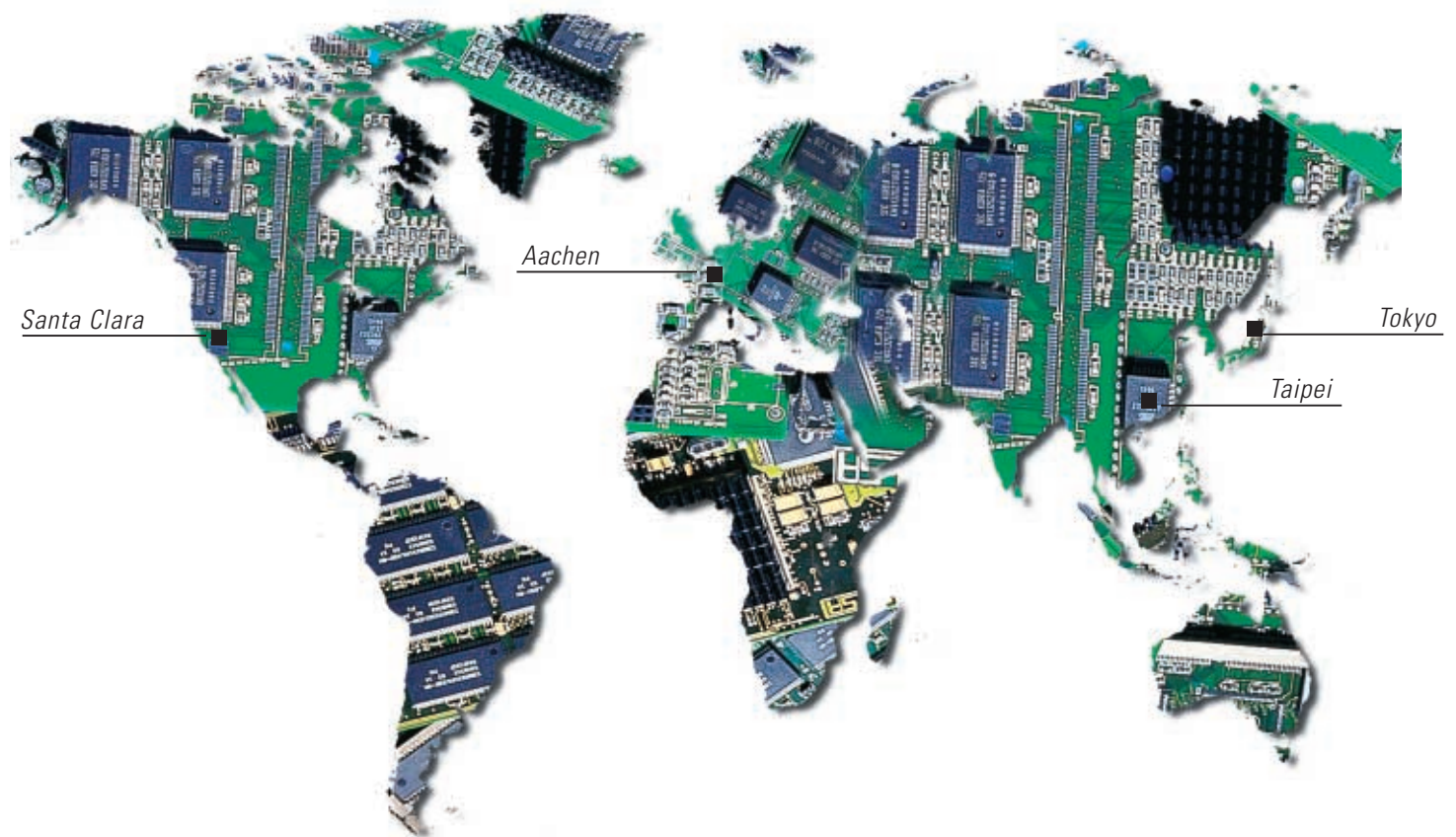
ELSA distributes its products exclusively through external distribution partners who are supported by our own international distribution organization. To ensure optimal coverage of different customer groups, ELSA utilizes a variety of distribution channels. By co-operating with all partners, ELSA achieves comprehensive market coverage which also ensures geographic proximity to the end user.

Europe, the Middle East and Africa are serviced from Aachen. Our U.S. subsidiary controls distribution activities in Canada, North America, Australia and New Zealand. Our Taiwan and Japan based subsidiaries, incorporated in 1997, are responsible for the Asian region. With its representation in the most important intercontinental markets, ELSA has laid the foundation for its global market presence.

ELSA, Inc., located in Santa Clara, California, was founded in 1993. Its location in Silicon Valley, the center of the world's computer industry, is next door to the major chip and software manufacturers. Our close co-operation with the chip industry ensures the global marketability and user acceptance of ELSA products already in the development phase. We are particularly pleased about our continuously increasing sales and marketing success in the U.S., which is still the most important PC market in the world. In 1997, our U.S. subsidiary achieved sales totalling US \$ 23 million (compared to US \$ 10 million in the previous year), and thus not only increased ELSA's export ratio but, for the first time, contributed significantly to the group's operating result.

ELSA Japan, Inc. was founded at the end of 1997. An experienced management team with the necessary contacts to the major national manufacturers and familiar with the market ensures our success in this strategically important region. With a population of 120 million and its high industrialization, the Japanese market is an attractive target. The Japanese industry's demand for highly professional CAD workstations is growing constantly.

Established in 1994 as a purchasing organization, ELSA Asia, Inc. in Taiwan significantly assisted ELSA's entry into the consumer market for computer graphics and data communications products. The central location in Asia secures access to one of the most important international procurement markets in the industry. Through intensive market analysis and cultivation of relationships with suppliers, ELSA Asia Inc. makes a significant contribution to market research and to the optimization of logistics and production processes. Since 1997, ELSA Asia, Inc. also conducts sales and marketing activities, with special emphasis on servicing our Asian OEM customers.



E L S A I N T E R N A T I O N A L

Our increased international activity constitutes the foundation

for global expansion and for the establishment of our brand.

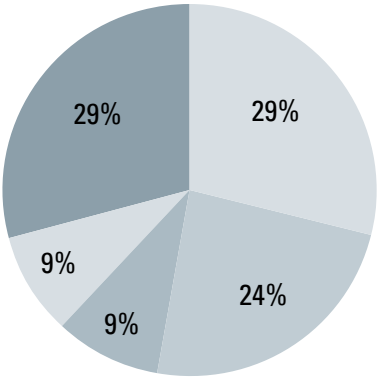
ELSA hopes to utilize the enormous potential of these markets

to establish its position as a global player in the areas of

computer graphics and data communications.

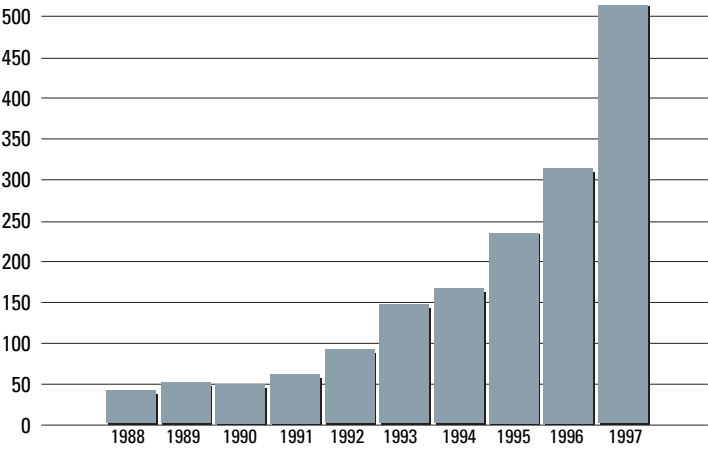
PERSONNEL DISTRIBUTION

■ <i>R & D</i>	29%
■ <i>Administration</i>	9%
■ <i>Subsidiaries</i>	9%
■ <i>Manufacturing</i>	24%
■ <i>Sales, Marketing, Service, Support</i>	29%



E L S A

PERSONNEL DEVELOPMENT



PERSONNEL

Knowledge and experience are the most important factors for transforming visions into successes. This applies to competitive industries in general, but holds particularly true for high-tech companies. Due to its proximity to the renowned Technical University of Aachen (RWTH), ELSA has immediate access to new generations of highly qualified engineers. With an average employee age of only 32 years, ELSA is a young company. Pioneering spirit, enthusiasm and creativity are the success factors which enable ELSA to stand its ground in a competitive and fast-paced market.

Despite its tremendous growth in the past years, ELSA has maintained its open and friendly atmosphere which is characterized by the unbureaucratic, friendly communication across all business divisions and levels of management.

In order to further improve its market position, ELSA created 133 new jobs last year at its Aachen location alone. Worldwide, 145 new employees joined. ELSA employed an average of 489 people worldwide in 1997.

ELSA is an attractive environment for its employees. Each individual's performance counts, and every employee is encouraged to make suggestions. The company values the skills of each individual, which in turn motivates creativity and promotes team-oriented problem-solving. The low staff turnover at ELSA is evidence of the high degree of employee satisfaction.



C O M M U N I C A T I O N S

ELSA



INTRANET & INTERNET

As early as 1995, ELSA began to establish its presence on the World Wide Web. ELSA's web site, which can be reached at www.elsa.de and www.elsa.com, currently comprises almost 700 editorially managed pages and more than 4000 automatically generated pages. In March 1998, the ELSA server counted an average of 5,300 hits per day, which is more than double the number of visitors compared to the previous year. In order to meet the increasing demand and provide fast worldwide access with a high bandwidth, the server was connected directly to a high-bandwidth line in the U.S.

ELSA's customer services and technical staff can be contacted directly through the WWW, so that questions and issues can be submitted instantly around the clock and then be processed efficiently.

In 1997, Computer Reseller News voted ELSA's web site the "Dealer-Friendliest Web Site" of all large modem and ISDN manufacturers.

ELSA is also relying on modern Internet technologies for internal communications. The in-house intranet provides all ELSA employees with convenient access to all relevant information.

C O M M U N I C A T I O N S

THE ELSA WEB SITE OFFERS THE FOLLOWING INFORMATION:

- corporate profile and company information
- job offers
- investor relations
- latest news
- product information
- press reactions to ELSA products and press releases
- exclusive areas for dealers, distributors and journalists
- support information
- software and driver updates

TARGETS

We have set the following targets for 1998:

- further improvement of our time to market
- reduction of inventory by reducing turn-around time
- decentralization of production by qualification of new, globally operative production service companies
- increase of return

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To achieve these goals we will focus on the following:

- expansion of our development capacities
- increase of our sales activities in Europe, the U.S. and Asia
- merging of the three German logistics locations into our new European logistics center
- implementation of the new version of our own PPS software
- staff training

Results for the first quarter of the current financial year have met our projections. This leads us to expect the measures we have taken to be successful and that we will achieve our targets. The company believes that the PC and our target markets in computer graphics and data communications continue to offer excellent opportunities for growth.

The market trends in the area of communications promise a 100-fold increase in bandwidth in the near future at prices affordable for the average consumer. This will create the technological basis for implementing completely new applications.

New products are currently in development and will be introduced to the market in 1998. New projects are being negotiated with our largest customers. Increased costs will be offset against growing economies of scale. A rise in unit turnover should result from our efforts toward increased expansion into new geographical markets. In furtherance of our goals, we will be recruiting new staff for our distribution units, especially in Europe, and for research and development.

Going public will provide the financial basis for ELSA's future growth. In addition, the listing of ELSA shares on the Neuer Markt of the Frankfurt Stock Exchange will facilitate future strategic acquisitions to increase the long-term value of the company as a whole.

G R O U P A P P E N D I X & A P P E N D I X A S O F 1 2 / 3 1 / 1 9 9 7