FINANCIAL REPORT 1ST QUARTER 1999

ELSA

ELSA AG FINANCIAL REPORT FIRST QUARTER 1999

Internet access products and numerous innovations drive growth in European sales

With its many acclaimed top-quality products, ELSA AG is among the world's leading suppliers of PC peripheral products for the future computer graphics and data communications markets. ELSA develops, manufactures and markets graphics boards, color monitors and flat-screen monitors in the Computer Graphics division, as well as high-speed modems, ISDN solutions and videoconferencing systems in the Data Communications division. Product ranges are targeted for professional high-end users as well as for demanding consumers. The brand name ELSA stands for recognized leadership in innovation, technically advanced products and outstanding customer service.

THE MARKET

Record attendance at CeBIT boosts industry confidence
Main themes are Internet bandwidth and consumer demand for multimedia content

The first quarter of the new fiscal year saw its peak during CeBIT, which attracted record attendance again this year. The Internet and the much anticipated bandwidth revolution have impressed the market with strong continued growth. The growing demand from private consumers for cost-effective Internet access, higher bandwidths and multimedia web content display were the main subjects of interest. The efforts in this segment further penetrated the household markets and have led to a highly competitive market situation with great growth opportunities.

CeBIT defines a significant milestone in ELSA's year — the transition from the product innovation phase to the product sales and marketing phase. The positive reception and acclaim for the newly introduced products from each of ELSA's divisions is a significant indicator of strong sales to come and of a successful fiscal year in 1999.

DATA COMMUNICATIONS

The completed product line now covers all Internet access technologies
Market share in Germany extended — first success through European expansion

At an early stage of the Internet's development, ELSA anticipated the Internet's continued use and growth in both the commercial and private sectors. The technological innovation phase of the preceding fiscal year culminated at CeBIT with the introduction of a comprehensive range of products. ELSA now addresses all of the current Internet access technologies with a range of products from high-speed analog modems for Internet new-comers and ISDN solutions to Europe's first cable modem and ELSA's first DSL router. In particular, the success of the new *MicroLink* Internet modem, positioned for cost-effective Internet access and offering ELSA's innovative brand quality at an aggressive price/performance level, is leaving the competition behind and gives foresight into the clear gains in German and European market share.

The Europe-wide expansion of ELSA's sales infrastructure, with an emphasis on the growing Internet access and data communications segments, is showing the first signs of success. The coming quarters will clearly see a growth in revenues (the first evidence of which was obvious in the months of April and May). The new sales infrastructure, together with the product developments concluded in the first quarter, brings ELSA into a strong position to achieve its primary goal—the fast expansion of its European presence.

COMPUTER GRAPHICS

New product mix featuring tried-and-trusted high-end technology
New professional graphics line and significant 3D innovation

The Computer Graphics business division too profited from the Internet boom, the continuing penetration of the PC into private households. The professional segment has grown through the replacement of classical UNIX workstations with Windows NT. CeBIT represented the highlight of the yearly marketing cycle here as well. ELSA's strategic realignment, which was marked by strong competition and falling prices the previous year, resulted in the introduction of new product lines in the professional and consumer graphics segments.

A significant innovation was the introduction of the first professional graphics board for NT workstations based on a consumer graphics chip, featuring ELSA's own driver technology. This innovation offered tried-and-trusted technology at a new price/performance level and its positive reception by the market was perceived as a clear message. In a market segment dominated by consolidation processes, this positive response confirmed the independent value generated by ELSA's engineering know-how as an outstanding achievement. ELSA has thus secured a market position widely independent of a specific chip manufacturer. Follow-up contracts from worldwide leading OEM partners clearly signal the ELSA brand acceptance in the market place, while continuing negotiations with further OEM partners confirm the independent and competitive position of ELSA's offerings.

In the consumer graphics segment, several new product lines were introduced simultaneously. This included the next generation of high-end 3D gaming boards for ambitious PC game players, as well as the high-volume and low-cost, yet reliable and high-quality graphics solutions for systems integrators and OEMs.

The *ELSA 3D REVELATOR*, 3D glasses for the consumer segment which provide truly spatial display of virtually three-dimensional scenes or objects on conventional monitors, should be especially mentioned. The expected positive reception of the market has been confirmed by the initial acclaims at both CeBIT and at American trade shows. This innovation is an example of the active differentiation strategy with which ELSA is countering the price wars of the consumer graphics segment.

SALES

In the first quarter of 1999, ELSA revenues amounted to 76.8 million DM , compared to 84.9 million DM in the same period of last year. Of this, DM 51.5 million were generated by the Computer Graphics division and DM 25.3 million by the Data Communications division. Compared with 1998 the Data Communications division increased its revenue share from 28.7% to 33.0%. The export quota for the quarter amounted to 27%.

EARNINGS

The slightly negative earnings resulted from several factors, including the efforts to gain market share (which is strategically vital when concentration processes are prevalent), the costs incurred by the expansion of the international sales structures, and the continuing pressure on prices in the consumer graphics segment. According to US-GAAP, the consolidated results were DM -2.3 million (Q1 1998: +1.6 million), according to DVFA/SG results were DM -2.7 million (+1.5 million), the cash flow according to DVFA/SG was DM -1.7 million DM.

The entry into the US retail business by the end of 1998 and a strengthened European presence, with three new sales and marketing organizations which were founded during the first quarter of 1999, will result in revenue and unit sales growth and the consequent benefits of economies of scale. Already today, four of the five business units are again operating on solid gross margins.

EMPLOYEES

On March 31, 1999 ELSA AG employed 573 staff worldwide, compared with March 31, 1998 an addition of 29 employees.

BUSINESS OUTLOOK

Innovations and expanded sales- and marketing infrastructure provide firm foundation for 1999 Half-year revenue of last year already for end of May expected

According to independent market research, the demand for high-speed access to the Internet is forecasted with rapid growth in the coming years. For the year 2000, 1.6 million DSL connections are expected in Europe. The Deutsche Telekom alone is planning the rapid deployment of up to 80,000 connections in Germany. The market volume for cable access is forecasted at nearly US$ 2 billion over the next 5 years with annual growth rates measured in tens of percent. The market for PCs, which continues to be the primary medium for global network access, also benefits from the Internet growth dynamics.

As a pioneer in the PC market, ELSA will continue to position itself as a recognized leader in innovation. Europe's first cable modem, presented to the public for the first time during CeBIT, will soon enter production. ELSA's secure Internet access solution, the *LANCOM* family of routers, rounded off with a high-speed DSL solution presented at CeBIT, which was introduced in the second half of 1998, is currently seeing a high degree of market acceptance especially among SOHO customers and mid-sized companies. Shipping since April, the new ISDN and Internet modems, featuring the new and user friendly USB-connectivity for Windows 98 and Windows 2000 were presented in a new "lifestyle" product design. In cooperation with Siemens, ELSA developed one of the first communications systems for the wireless networking of PCs. New product lines of the Computer Graphics division and the new business unit Professional Displays, have come to the market for the first time in the current second quarter. The successful introduction of the 3D glasses demonstrates ELSA's potential to innovate even in existing market segments.

An important goal of ELSA's investment is to strengthen its local presence in international markets. A significant boost was given to the development of the distribution network within Europe's growth markets with the foundation of three independent sales and marketing organizations in France, Great Britain and Italy. The founding of additional European sales and marketing companies is in preparation. ELSA expects they will integrate and expand quickly as experienced high-profile industry experts with excellent market contacts could be hired to spearhead the European organizations. The expansion of the Management Board and the separation of responsibilities in the Sales and Marketing areas will satisfy further important prerequisites for growth.

A clear priority is the reorganization of the core processes with a view to increased flexibility and the further acceleration of internal processes. The completion of the European logistics center in Aachen in mid-1999 will enable significant savings in warehousing and logistics. Optimization of the flow of material and a strengthened procurement position (supplier managed inventory) are the first expected results of these activities.

ELSA addressed the millennium problem at an early stage. All hardware and software products will be able to carry out the year 2000 change smoothly and without problems. The stability of all internal processes after January 1, 2000 is also confirmed.

During the current fiscal year the described innovations and activities will significantly strengthen the company's financial condition and will contribute to the worldwide establishment of the ELSA brand as a synonym for leadership in innovation, highest quality standards, outstanding customer orientation, and competitive price/performance ratio. The fact that ELSA has in only five months already reached last year's mid-year revenues, provides confidence that the outstanding performance of past years will soon be reestablished.

Aachen, May 1999

The Board

ELSA AG—CONSOLIDATED INCOME STATEMENT—HGB
FOR THE PERIOD JANUARY TO MARCH 1999
(UNAUDITED)

	1998 Jan - March DM	1999 Jan – March DM
1. Sales	84,872,870.22	76,776,490.77
2. Change in finished goods inventories and work in process	5,080,443.64	-1,474,555.73
3. Other operating income	651,163.70	277,157.68
4. Cost of materials	63,304,645.85	58,181,912.89
5. Personnel expenses	10,029,761.34	11,194,674.05
6. Depreciation	895,887.11	1,014,572.41
7. Other operating expenses	11,143,428.93	8,210,860.34
8. Other interest and similar income	10,175.25	51,119.26
9. Interest and similar expenses	483,728.71	164,392.87
10. Results from ordinary activities	**4,757,200.87**	**-3,136,200.58**
11. Extraordinary results	**0.00**	**0.00**
12. Taxes on income	2,704,361.34	-484,192.19
13. Other taxes	4,508.00	4,759.65
14. Profit attributable to dormant partner	552,666.68	0.00
15. Net income/net loss	**1,495,664.85**	**-2,656,768.04**

ELSA AG, AACHEN—CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 1999—HGB (UNAUDITED)

ASSETS			Mar. 31, 1998 DM	Mar. 31, 1999 DM
A.	**Fixed assets**			
	I.	**Intangible assets**		
		1. Concessions, industrial property rights and similar rights and assets and licenses in such rights and assets	**797,702.17**	**914,295.35**
	II.	**Property, plant and equipment**		
		1. Land, land rights and buildings including buildings on third-party land	12,916,555.08	12,919,428.08
		2. Other equipment, operating and office Equipment	5,459,864.72	5,227,495.77
		3. Payments on account and assets under construction	3,975,111.56	6,731,161.32
			22,351,531.36	**24,878,085.17**
	III.	**Financial assets**		
		1. Other loans	**588,530.04**	**589,952.20**
B.	**Current assets**			
	I.	**Inventories**		
		1. Raw materials and supplies	20,354,795.16	11,773,027.22
		2. Work in progress	12,608,400.37	13,064,330.24
		3. Finished goods and merchandise	16,449,551.00	16,025,513.67
		4. Payments on account	6,685.74	507,199.56
			49,419,432.27	**41,370,070.69**
	II.	**Receivables and other assets**		
		1. Trade accounts receivable	30,200,434.99	32,450,819.13
		2. Other assets	9,700,964.99	11,695,589.17
			39,901,399.98	**44,146,408.30**
	III.	**Checks, cash-in-hand, postal giro and bank balances**	**16,960,327.85**	**5,567,009.28**
C.	**Deferred tax assets**		**367,018.78**	**0.00**
D.	**Prepaid expenses**		**549,922.41**	**647,888.00**
Sum of assets			**130,935,864.86**	**118,113,708.99**

ELSA AG, AACHEN—CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 1999—HGB (UNAUDITED)

EQUITY AND LIABILITIES		Dec. 31, 1998	Mar. 31, 1999
		DM	DM
A.	**Equity**		
1.	Subscribed capital	17,500,000.00	17,500,000.00
2.	Capital reserves	83,180,000.00	83,180,000.00
3.	Revenue reserves	490,327.83	575,153.78
4.	Earnings/Losses carried forward	0.00	-17,357,123.02
5.	Net income/net loss	-17,399,846.52	-2,656,768.04
6.	Minority interest	-15,309.19	79,831.92
		83,755,172.12	**81,321,094.64**
B.	**Provisions**		
1.	Provisions for pensions	603,977.50	531,428.50
2.	Tax provisions	73,655.39	0.00
3.	Other provisions	5,399,442.88	4,669,139.01
		6,077,075.77	**5,200,567.51**
C.	**Liabilities**		
1.	Borrowings	877,500.00	872,500.00
2.	Liabilities to banks	11,777,555.59	14,522,948.42
3.	Trade accounts payable	22,806,232.05	15,108,218.66
4.	Other liabilities	5,642,329.33	1,088,379.76
		41,103,616.97	**31,592,046.84**
Sum of liabilities		**130,935,864.86**	**118,113,708.99**

ELSA AG—CASH FLOW STATEMENT AS OF MARCH 31, 1999—HGB (UNAUDITED)

	DM
1. Consolidated net income/net loss for the year	-2,656,768.04
2. Depreciation including low-value assets	1,014,572.41
3. DVFA/SG cash flow	**-1,642,195.63**
4. Increase/decrease in provisions	-876,508.26
5. Increase/decrease in inventories	8,049,361.58
6. Increase/decrease in receivables	-4,245,008.32
7. Other non-cash income and expenses	-97,965.59
8. Increase/decrease in liabilities	-12,251,962.96
9. Net cash used in operating activities	**-9,422,083.55**
10. Proceeds from the disposal of fixed assets	0.00
11. Payments for investments in fixed assets	-3,659,141.56
12. Proceeds from the disposal of financial assets	0.00
13. Net cash used in investing activities	**-3,659,141.56**
14. Increase in capital stock	42,723.50
15. Distributions to shareholders	0.00
16. Capital consolidation/currency translation adjustments	179,967.06
17. Repayments of liabilities to banks	1,046,747.28
18. Deferred tax assets	367,018.78
19. Net cash provided by financing activities	1,636,456.62
20. Total increase in cash and cash equivalents	**-13,086,964.12**
21. Cash and cash equivalents at the beginning of the period	**14,256,578.85**
22. Cash and cash equivalents on March 31, 1999	**1,169,614.73**

ELSA AG –CONSOLIDATED INCOME STATEMENT—US-GAAP FOR THE PERIOD JANUARY TO MARCH, 1999 (UNAUDITED)

	1998 Jan - March DM	1999 Jan - March DM
Revenues	84,872,870.22	76,776,490.77
Cost of goods sold	62,361,071.65	63,584,789.96
Gross margin on sales	**22,511,798.57**	**13,191,700.81**
Selling costs	10,110,719.67	9,712,610.04
Research and development expenses	2,913,240.60	2,749,554.37
General and administration expenses	5,028,995.23	4,513,400.46
Other revenues and gains	934,890.91	1,492,450.14
Income from operations	**5,393,733.98**	**-2,291,413.92**
Interest income	10,149.67	51,119.26
Interest expense	1,036,113.92	164,392.87
Results from ordinary activities	**4,367,769.73**	**-2,404,687.53**
Income taxes	-2,800,029.44	-64,301.04
Net income/net loss for the year	**1,567,740.29**	**-2,468,988.57**

ELSA AG—CONSOLIDATED BALANCE SHEET AS OF MARCH 31 1999—HGB (UNAUDITED)

ASSETS	Mar. 31, 1998 DM	Mar. 31, 1999 DM
Current assets		
Cash and cash equivalents	16,960,327.85	5,567,009.28
Trade accounts receivable	30,140,885.68	32,391,269.82
Other receivables	9,615,855.28	0.00
Inventories	49,468,441.29	40,990,082.77
Prepaid expenses	556,608.15	1,155,087.56
Other assets	13,294.58	15,280,036.54
Deferred tax assets	4,511,728.12	0.00
	111,267,140.95	**95,383,485.97**
Fixed assets		
Land, land improvements and buildings	13,441,445.08	12,919,428.08
Machinery and equipment	6,916,770.72	5,752,385.76
Payments on account	3,975,111.56	8,188,067.32
	24,333,327.36	**26,859,881.16**
Long–term investments	**588,530.04**	**589,952.20**
Intangible assets	**5,383,547.57**	**6,164,896.57**
Sum of assets	**141,572,545.92**	**128,998,215.90**

ELSA AG—CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 1999—US-GAAP (UNAUDITED)

EQUITY AND LIABILITIES	31.12.98	Mar. 31, 1999
	DM	DM
Current liabilities		
Short-term borrowings incl. current portion of long-term debt		
Portion of long-term debt	2,738,775.69	4,397,394.55
Trade accounts payable	22,806,232.05	15,108,218.66
Other liabilities	5,607,302.64	1,088,379.76
Other provisions	5,473,098.27	4,669,139.01
	36,625,408.65	**25,263,131.98**
Non-current liabilities		
Long-term debt	9,073,806.59	10,125,553.87
Provisions for pensions	541,832.00	469,283.00
Provisions for taxes incl. deferred tax liabilities	3,544,834.72	3,476,279.02
	13,160,473.31	**14,071,115.89**
Borrowings	**877,500.00**	**872.,500.00**
Minority interest	**-15,309.19**	**79,831.92**
Equity		
Capital stock	17,500,000.00	17,500,000.00
Capital reserves	76,857,465.22	76,857,465.22
Retained earnings/losses	-3,689,282.59	-5,964,610.32
Cumulative translation adjustments	256,290.52	318,781.21
	90,924,473.15	**88,711,636.11**
Sum of liabilities	**141,572.,545.92**	**128,998,215.90**

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