Elcoteq Network Corporation

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INTERIM REPORT JANUARY – SEPTEMBER 1999 (Unaudited)

* Net sales growth accelerated and was 103 %
* Net sales totaled MEUR 475, operating profit MEUR 5.3, EPS EUR 0.02
* Rapid net sales growth will continue and the full-year result will improve slightly

Elcoteq Network Corporation's net sales between January and September totaled MEUR 475.2 (234.1), up 103 % on the same period in 1998. The operating profit reached MEUR 5.3, compared with MEUR 3.8 in the same period last year. The profit before extraordinary items and taxes was MEUR 2.6 (2.9). Earnings per share were EUR 0.02 (0.08).

During the third quarter the company's net sales growth accelerated strongly compared to the first months of the year. Once again the plants in Finland and Estonia were responsible for the Group's result and most of its growth but volumes also increased substantially at the new plants. Despite the rapid increase in capacity loads at these plants, however, they continued to burden the company's performance.

The plants built in Hungary and Mexico are expected to break even on a monthly level by the end of the current year. The plant acquired in China continued to be profitable.

According to a survey published in October by the American market research company Technology Forecasters Inc., Elcoteq now ranks the 13th largest EMS company in the world. The same survey two years ago rated Elcoteq in 24th place.

Component availability has become more difficult during the fall. Delivery times have lengthened, particularly of semi-conductors and passive components.

Third-quarter growth 155 %

The company's net sales during the third quarter totaled MEUR 202.8 (79.7), an increase of 155 % on the third quarter last year. The operating profit was MEUR 5.3 (0.6) and the profit before extraordinary items and taxes was MEUR 3.9 (0.4). Earnings per share in the third quarter were EUR 0.12 (0.01).

Performance between January and September 1999

The company's gross capital expenditure between January and September 1999 was largely similar to last year's level, MEUR 26.2 (27.7). The bulk of investments was attributable to machinery and equipment purchases in Europe and Mexico, and to the acquisition of the manufacturing operation in China. Depreciation doubled to MEUR 12.7 (6.1) owing to the company's investments. Elcoteq's investments in 1998 and 1999 have created an international network of production plants capable of doubling the company's present business volume at relatively lower additional investment cost.

Elcoteq's balance sheet at the end of September totaled MEUR 342.3, having been MEUR 203.0 one year earlier. The continuing rapid growth in business volume also increased accounts receivable and inventories significantly.

The Group's solvency ratio, which includes treating the convertible capital notes as shareholders' equity, was 39 % (61.5 %).

The financial position remained good during the period although liquidity was constrained by the increase in working capital. The Group's cash reserves at the close of the period totaled MEUR 24.1 (18.2) and it had MEUR 82.8 (45.4) in unused credit limits at its disposal.

Elcoteq had 4,406 employees on average during the period, which was 55 % more than in the same period last year, when personnel averaged 2,843 employees. On September 30, the number of employees was 5,131 (3,186).

Year 2000

The main thrust of the company's Year 2000 project has focused on ensuring uninterrupted operation of its information systems, production machinery and equipment, and the embedded information systems in its building utilities at the change of millennium. Elcoteq's main internal operations are handled by an enterprise resource planning system, which was implemented at Elcoteq's operations in 1998-1999.

Elcoteq had for the most part completed testing and contingency plans for its Year 2000 project by the end of October. Command Centers will be established during the final quarter to ensure that Elcoteq's operations continue undisturbed as the millennium changes.

Elcoteq believes that the measures it has already carried out, and those that will be completed by the end of 1999, will ensure the company's uninterrupted operation as the year 2000 takes effect.

Distribution of net sales

Altogether 73 % (70 %) of Elcoteq's net sales between January and September were derived from mobile phones and their accessories. Other telecommunication products accounted for 10 % (8 %) and industrial electronics 8 % (12 %). Customers belonging to the Ericsson and Nokia groups represented 85 % (76 %) of the company's net sales.

Internationalization projects

The plant in Hungary had 661 employees at the end of September, compared with 350 at the end of June. In August the plant started to provide after sales services for Philips Consumer Communications.

The number of employees at the Mexico plant increased during the third quarter from 265 to 354. Several new product projects have been started up at the plant.

The customer base of the Dongguan plant in China, acquired from Nokia Mobile Phones at the beginning of April, has expanded. The number of employees increased from 371 at the end of June to 387 at the end of September.

Productivity and quality levels at the pilot manufacturing plant in St. Petersburg, Russia, have reached a good level. The number of employees remained unchanged and totaled 96 at the close of the period.

Prospects

The electronics and EMS markets continue to grow. Competition is forecast to remain intense.

Elcoteq's ability to serve its customers in China and America, in addition to Europe, has substantially sharpened the company's competitive edge and service capabilities. Using this international network of production plants Elcoteq is now able to offer its customers competitive capacity to meet the rapidly growing demand for EMS services.

Elcoteq's third-quarter net sales were the highest in its history and its performance was good as well.

The start-up costs of the new plants will weigh against Elcoteq's full-year result. Demand at the end of the year will be strong and the company believes it will reach at least the same level of production volume in the fourth quarter as in the third quarter. However, the full-year result is expected to improve only slightly compared to last year owing to the uncertainty associated with component availability.

Elcoteq will publish its 1999 financial statements bulletin at 9.00 am (EET) on Thursday, February 10, 2000.

Helsinki, November 3, 1999
Board of Directors

This interim report uses the following conversion rates:

1 EUR = FIM 5.94573
1 EUR = USD 1.06645
1 USD = FIM 5.57499

Elcoteq will hold a press conference for investors and analysts at the Hotel Palace (10th floor), Helsinki, starting at 1.30 pm (Helsinki time) on November 4, 1999.

Elcoteq will hold a conference call for investors and analysts in English, starting at 1.00 pm (UK time) on November 4, 1999. To participate, please call +44 181 781 0574, code Elcoteq.

Osmo Kammonen
Group Vice President, Corporate Communications and Investor Relations

For further information, please contact:

President Tuomo Lähdesmäki, +358-10-413 11
Group Vice President, Corporate Treasurer Jukka Forsström, +358-10-413 1705
Group Vice President, Communications and Investor Relations Osmo Kammonen, +358-10-413 1406

APPENDICES

1 Income Statement
2 Balance Sheet
3 Key Figures
4 Assets Pledged and Contingent Liabilities

APPENDIX 1

INCOME STATEMENT, MEUR	1-9/1999	1-9/1998	% change	1998
Net sales	475.2	234.1	103.0	394.6
Other income from operations	1.7	0.9	103.8	3.6
Operating expenses	-458.9	-225.1	103.9	-376.1
Depreciation	-12.7	-6.1	108.9	-9.6
Operating profit	5.3	3.8	40.7	10.4
% of net sales	1.1	1.6		2.6
Financial income and expenses	-2.8	-0.9	204.9	-1.4
Profit before extraordinary items	2.6	2.9	-11.3	9.0
Extraordinary items	-	-0.4		-0.3
Profit before taxes	2.6	2.5	2.3	8.7
Income taxes *)	-1.0	-0.9	21.0	-1.5
Minority interests	-1.1	-		-
Net income	0.4	1.6	-75.6	7.1

*) Taxes for the period are calculated as a proportion of estimated taxes for the full year.

APPENDIX 2

BALANCE SHEET, MEUR	Sep.30,1999	Sep.30,1998	% change	Dec.31,1998
Fixed assets	85.3	59.6	43.1	72.4
Current assets				
Inventories	99.6	67.4	47.8	66.6
Other current assets	157.4	76.0	107.0	117.1
Assets	342.3	203.0	68.6	256.1
Share capital	7.8	7.8	0.0	7.8

Convertible capital notes	18.5	18.5	0.0	18.5
Other shareholders' equity	104.2	98.6	5.7	104.2
Minority interests	2.8	-		-
Provisions	0.0	0.2		0.0
Long-term liabilities	24.2	10.6	128.3	19.6
Short-term liabilities	184.6	67.3	174.4	105.9
Shareholders' equity and liabilities	342.3	203.0	68.6	256.1

APPENDIX 3

KEY FIGURES	Sep.30,1999	Sep.30,1998	% change	1998
Personnel on average during the period	4,406	2,843	55.0	3,085
Gross capital expenditure, MEUR	26.2	27.7	-5.5	44.0
Return on equity (ROE), % *)	1.3	1.9		6.6
Return on investment (ROI), % *)	3.2	4.8		8.1
Earning per share (EPS), EUR	0.02	0.08	-79.2	0.32
Current ratio	1.4	2.1		1.7
Solvency Ratio 1 **)	33.6	52.4		43.8
Solvency Ratio 2 ***)	39.0	61.5		51.0
Gearing 1 **)	0.6	0.1		0.4
Gearing 2 ***)	0.4	-0.1		0.2
Equity per share, EUR	4.81	4.56	5.3	4.81
Interest-bearing liabilities, MEUR	77.8	11.7	562.6	44.3
Incl. convertible capital notes, MEUR	96.3	30.2	218.4	62.8
Non-interest-bearing liabilities, MEUR	131.1	67.1	95.4	81.3

*) The key figures have been calculated using figures specific to each accounting period in question.
**) Convertible capital notes are included in interest-bearing liabilities.
***) Convertible capital notes are included in shareholders' equity.

APPENDIX 4

ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR

	Sep.30,1999	Sep.30,1998	% change	Dec.31,1998
FOR OWN LIABILITIES				
Mortgages on real estate				

Loans from financial institutions	5.6	6.8	-18.1	6.0
Mortgages	11.2	9.7	16.2	11.3
Mortgages on movable assets				
Loans from financial institutions	0.5	0.8	-39.6	0.7
Mortgages for other loans	6.7	6.7	0.0	6.7
Other pledges given as collateral				
Mortgages on movable assets	2.0	2.0	0.0	2.0
Mortgages on real estate	0.1	0.1	0.0	0.1
ON BEHALF OF OTHERS				
Guarantees	1.0	1.2	-12.7	1.2
LEASING COMMITMENTS	1.3	3.3	-60.3	2.8
DERIVATIVE CONTRACTS				
Interest and currency swap contracts	5.0	5.9	-15.0	5.3
Forward contracts	62.2	68.1	-8.8	72.1
Currency options	44.1	-		-
Interest rate derivatives	50.0	-		-

If the currency and interest swap contracts outstanding at September 30, 1999 had been sold at the market price, the positive effect would have been EUR 1.0 million.

APPENDIX 1

INCOME STATEMENT, MFIM	1-9/1999	1-9/1998	% change	1998
Net sales	2,825.5	1,392.1	103.0	2,346.3
Other income from operations	10.3	5.1	103.8	21.3
Operating expenses	-2,728.3	-1,338.3	103.9	-2,236.2
Depreciation	-75.7	-36.3	108.9	-57.0
Operating profit	31.8	22.6	40.7	61.8
% of net sales	1.1	1.6		2.6
Financial income and expenses	-16.6	-5.4	204.9	-8.6
Profit before extraordinary items	15.2	17.2	-11.3	53.3
Extraordinary items	-	-2.3		-1.8
Profit before taxes	15.2	14.9	2.3	51.5
Income taxes *)	-6.2	-5.1	21.0	-9.0
Minority interests	-6.6	-		-
Net income	2.4	9.8	-75.6	42.5

*) Taxes for the period are calculated as a proportion of estimated taxes for the full year.

APPENDIX 2

BALANCE SHEET, MFIM	Sep.30,1999	Sep.30,1998	% change	Dec.31,1998
Fixed assets	507.0	354.2	43.1	430.5
Current assets				
Inventories	592.4	400.9	47.8	396.0
Other current assets	935.6	452.1	107.0	696.3
Assets	2,035.0	1,207.2	68.6	1,522.8
Share capital	46.6	46.6	0.0	46.6
Convertible capital notes	110.0	110.0	0.0	110.0
Other shareholders' equity	619.5	586.2	5.7	619.5
Minority interests	16.7	-		-
Provisions	0.2	1.2		0.2
Long-term liabilities	144.1	63.1	128.3	116.4
Short-term liabilities	1,097.9	400.1	174.4	629.9
Shareholders' equity and liabilities	2,035.0	1,207.2	68.6	1,522.8

APPENDIX 3

KEY FIGURES	Sep.30,1999	Sep.30,1998	% change	1998
Personnel on average during the period	4,406	2,843	55.0	3,085
Gross capital expenditure, MFIM	155.5	164.6	-5.5	261.7
Return on equity (ROE), % *)	1.3	1.9		6.6
Return on investment (ROI), % *)	3.2	4.8		8.1
Earning per share (EPS), FIM	0.10	0.49	-79.2	1.88
Current ratio	1.4	2.1		1.7
Solvency Ratio 1 **)	33.6	52.4		43.8
Solvency Ratio 2 ***)	39.0	61.5		51.0
Gearing 1 **)	0.6	0.1		0.4
Gearing 2 ***)	0.4	-0.1		0.2
Equity per share, FIM	28.57	27.14	5.3	28.57
Interest-bearing liabilities, MFIM	462.5	69.8	562.6	263.3
Incl. convertible capital notes, MFIM	572.5	179.8	218.4	373.3
Non-interest-bearing liabilities, MFIM	779.5	398.9	95.4	483.1

*) The key figures have been calculated using figures specific to each accounting period in question.
**) Convertible capital notes are included in interest-bearing liabilities.

***) Convertible capital notes are included in shareholders' equity.

APPENDIX 4

ASSETS PLEDGED AND CONTINGENT LIABILITIES, MFIM

	Sep.30,1999	Sep.30,1998	% change	Dec.31,1998
FOR OWN LIABILITIES				
Mortgages on real estate				
Loans from financial institutions	33.0	40.3	-18.1	35.9
Mortgages	66.8	57.5	16.2	67.3
Mortgages on movable assets				
Loans from financial institutions	2.9	4.8	-39.6	4.4
Mortgages for other loans	40.0	40.0	0.0	40.0
Other pledges given as collateral				
Mortgages on movable assets	12.0	12.0	0.0	12.0
Mortgages on real estates	0.5	0.5	0.0	0.5
ON BEHALF OF OTHERS				
Guarantees	6.2	7.1	-12.7	7.1
LEASING COMMITMENTS	7.9	19.9	-60.3	16.6
DERIVATIVE CONTRACTS				
Interest and currency swap contracts	30.0	35.3	-15.0	31.4
Forward contracts	369.7	405.2	-8.8	428.6
Currency options	262.0	-		-
Interest rate derivatives	297.3	-		-

If the currency and interest swap contracts outstanding at September 30, 1999 had been sold at the market price, the positive effect would have been FIM 5.7 million.