

ELCOTEQ'S PROFITS UP 68%

Elcoteq's pre-tax profit grew by 68.2% to FIM 57.0 million. Sales were FIM 1,669.0 million, up 68.9% from the previous year's FIM 988.1 million. The operating profit was FIM 80.9 million (FIM 48.7 million), representing 4.8% (4.9%) of net sales. EPS doubled to FIM 2.64. The Board proposes that a dividend of FIM 0.20 per share be paid. Elcoteq forecasts that its net sales will continue to increase strongly throughout the year and that its result for the full year will be an improvement on 1997.

Market conditions

The global electronics market is forecast to grow at an annual rate of roughly 7% during the next few years. At the same time demand for electronics manufacturing services is expected to grow by 25% a year as OEMs continue to outsource their production to specialized electronics manufacturers.

Demand for electronics manufacturing services is also changing in scope; OEMs are increasingly requiring larger service packages, complete end-products and even global deliveries. This makes it imperative for electronics manufacturing services companies to create a local presence close to their customers' prime markets. They must also be able to offer more competitive purchasing and logistics services and make product development services available to their customers.

Competition in electronics manufacturing services has further intensified as the large multinational companies have increased their marketing efforts in Europe and taken their share of the growth in demand.

Elcoteq's core business is the manufacture of electronics for the telecommunications industry. Growth in this sector has been considerably faster than on average in the electronics industry. Demand for Elcoteq Network's manufacturing services increased vigorously during 1997.

Net sales and performance

Consolidated net sales increased 68.9% to FIM 1,669.0 (988.1) million, mainly as a result of new manufacturing contracts. The most notable of these was a contract concluded with Ericsson for the manufacture of GSM mobile phones, which began at the Tallinn factory early in the summer. Exports accounted for 77.8% (68.4%) of the Group's net sales. The expansion to the Tallinn factory was completed at the end of 1996 and by the final quarter of 1997 production capacity was almost in full use.

Altogether 66% (59%) of Elcoteq's net sales was derived from manufacturing services for digital mobile phones and their accessories. The Group's largest customers were Nokia and Ericsson, which accounted for an aggregate 76% (69%) of net sales.

The Group's operating profit rose 66.0% to FIM 80.9 (48.7) million on the previous year, and was 4.8% (4.9%) of net sales.

The largest increase in expenses was net material costs, which rose 85.0% on the previous year to FIM 1,289.0 (696.7) million. The reason for this was the growth in net sales coupled with an increasing shift in manufacturing services towards box build projects, which increased the volume of materials used in Elcoteq's business.

Despite a sharp increase in the number of employees, personnel expenses rose only 13.1% on the year before to FIM 193.4 (171.1) million. This was mainly because most of the personnel increase took place in Estonia. Investments in production capacity and a change in financing methods increased depreciation on fixed assets by 113.8% to FIM 34.8 (16.3) million. The Group's expenditure on machinery and equipment was previously funded mainly by leasing, which meant that capital expenditure was entered under rental expenses in the income statement. However, since the beginning of 1997 the Group has purchased most of its new machinery and equipment.

Expenses were pushed up further by the start of several development projects during the year related to capacity increases, geographical expansion and improvements to customer service.

The Group's pre-tax profit rose 68.2% to FIM 57.0 (33.9) million. Interest expenses increased 117.7% to FIM 20.0 (9.2) million, most of which was attributable to interest payable on the convertible capital notes issued at the end of 1996. Listing on the Helsinki Stock Exchange gave rise to non-recurring costs totaling FIM 9.2 million, which was entered under other financial expenses. Funds generated by the listing produced an interest gain of approximately FIM 2.3 million. The net impact of the listing in November on the Group's pre-tax profit was approximately FIM -6.9 million.

The Group's profit after tax and minority interests rose 108.1% to FIM 43.7 (21.0) million. Direct taxes for the year came to FIM 13.3 (12.7) million. The amount of tax in proportion to net sales was considerably lower than in the previous year since it was not possible until 1997 to use the accumulated losses of Printeq-Piirilevyt Oy to offset the Group's taxable income. Excluding the net impact of the listing, the Group would have posted a profit for the year of about FIM 48.7 million.

Printeq-Piirilevyt Oy, which manufactures printed circuit boards mainly for consumer electronics and computer monitors, showed a loss before extraordinary items and provisions of FIM -4.6 (-8.2) million. Printeq's loss arose during the second half of the year following a rapid decline in demand. In January Elcoteq signed a provisional agreement to sell its Printeq operation.

Capital Expenditure

The Group's capital expenditure totaled FIM 132.0 (92.8) million, which included FIM 4.6 (25.0) million from leasing payments.

FIM 80.8 million of the total figure went in machinery and equipment to raise the capacity of the Tallinn factory, which was roughly tripled. Surface mount capacity was also added in Lohja.

In November the company leased 1,200 square meters of factory space in St. Petersburg, Russia, for start-up of a pilot electronics manufacturing services operation.

In October the decision was made to build an 11,000 square meter manufacturing services factory in Hungary. The factory and its machinery will have an estimated investment cost of FIM 150 million. Its purpose is to ensure sufficient modern and cost-competitive product capacity for the Group's future needs.

The Group continues to study possibilities to set up manufacturing operations in North America and in Asia.

Listing

In November 1997 Elcoteq Network Corporation was listed on the Helsinki Stock Exchange, which substantially boosted the Group's capital adequacy. The company attracted FIM 500.4 million in new capital, creating a solid financial base for further expansion. The company's shares are traded on the Helsinki Stock Exchange and on the SEAQ Stock Exchange Automated Quotations System International of the London Stock Exchange.

In September, before the listing, the company lowered the nominal value of its shares from FIM 10 to FIM 2 per share through a share split. It also launched a bonus issue and decided to create a new K series of shares. The bonus issue raised the share capital from FIM 5.3 million to FIM 31.7 million. The share capital comprised 10,577,000 K shares, each carrying 10 votes at shareholders' meetings, and 5,288,500 A shares, each carrying 1 share at shareholders' meetings.

The company sold altogether 7,450,000 new A shares to investors in the listing, which raised the share capital by FIM 14.9 million to FIM 46.6 million. The company's K share is not listed. In the share issue the company's owners sold 1,600,000 A shares to investors. As a result

Elcoteq's free float comprises 9,050,000 A shares, representing 38.8% of the total number of shares.

At the end of the period the company's share capital consisted of 10,577,000 K shares and 12,738,500 A shares.

The listing also determined the conversion price of the convertible capital notes issued in 1996. As stipulated by the terms of this issue the conversion price was set at 15% above the offer price in the listing, i.e. FIM 80.50 per share. Conversion of the FIM 110 million loan would entitle noteholders to 1,366,459 new A shares. In accordance with the requirements of the new Companies Act, which came into force on September 1, 1997, the capital notes are treated in the balance sheet as a separate item under shareholders' equity and not under long-term liabilities as before.

Bonds with warrants for key executives

To ensure the continued loyalty of key executives, the company decided to offer bonds with warrants totaling FIM 1,125,000 entitling bond holders to subscribe for 1,125,000 A shares at a 10% discount to the offer price in the listing. If fully exercised, this would represent 4.6% of the company's shares and 0.9% of the voting rights. The subscription period is incremental between September 2000 and January 2004.

Other financing

The Group's liquidity remained good throughout the period. Listing raised the solvency ratio to 62.0% (36.5%), which was well above the 40% target. The convertible capital notes are included when calculating shareholders' equity, and they have an impact of 9.3 percentage points. Of voluntary provisions and the accumulated depreciation difference, 28% was recognized as the computed deferred tax liability and the remainder as shareholders' equity.

In May Elcoteq signed a US\$ 45 million revolving credit loan to secure financing for its growth plans. US\$ 10 million of this credit was in use at the balance sheet date.

The Group's cash reserves on the balance sheet date were FIM 517.3 (118.6) million, in addition to which the company had unused credit limits totaling FIM 284.7 million.

The Group's operations are international in nature and therefore sensitive to foreign exchange risks. The Group's policy is to hedge its major open foreign exchange positions. Its purchase and sales positions are hedged using mainly forward foreign exchange contracts with a maturity normally of three months. Loans raised in foreign currencies are generally translated into Finnish markka using swap contracts.

At the end of 1997 variable-interest loans accounted for 52% of all interest-bearing loans totaling FIM 269.1 million, and 60% if leasing contracts are included. The average interest payable on interest-bearing loans at the close of the year was 7.4%, or 7.0% if leasing contracts are included. The above figures include the convertible capital notes of FIM 110.0 million at a fixed interest rate of 9.392%.

Group structure

The Group's parent company is Elcoteq Network Oyj (Elcoteq Network Corporation in English). The parent company's Articles of Association were amended on October 1, 1997 to take account of changes required by the Companies Act including the "Oyj" to designate its status as a public limited company. The amendments were recorded in the trade register on October 17, 1997.

Elcoteq Network is a group of nine companies. At the beginning of the financial year the subsidiaries were Elcoteq Lohja Oy, Elcoteq Helsinki Oy, AS Elcoteq Tallinn in Estonia and Printeq-Piirilevyt Oy. Elcoteq (Deutschland) GmbH was founded as the Group's sales company in Germany in May. In October Elcoteq, Inc. was established to support the Group's activities in the USA. Elcoteq JSC in Russia was established in October and Elcoteq Magyarorszag Kft. in Hungary in December.

In mid-October Elcoteq acquired Finnfund's 33.2% share of AS Elcoteq Tallinn for FIM 4.1 million in accordance with an agreement signed by the two parties when AS Elcoteq Tallinn was set up in 1993.

At the close of the period all the subsidiaries were wholly owned by the parent company except Printeq-Piirilevyt Oy (91%).

Board of directors and president

The parent company's Board of Directors until August 25, 1997 consisted of Mr. Antti Piippo (chairman), Mr. Heikki Horstia, Mr. Henry Sjöman, Mr. Mikko Tapola and Mr. Jorma Vanhanen. On August 25, 1997 a shareholders' meeting elected Mr Juha Toivola to the Board of Directors in place of Mikko Tapola, who had resigned. Since then the Board of Directors has comprised Antti Piippo (chairman), Heikki Horstia, Henry Sjöman, Juha Toivola and Jorma Vanhanen. Antti Piippo, Heikki Horstia and Juha Toivola constitute the Board's Review and Compensation Committee.

Henry Sjöman BSc (Eng.) was the parent company's president until October 31, 1997, and Mr. Tuomo Lähdesmäki MSc (Eng.) MBA thereafter.

Auditors

The company's auditors are the authorized public accounting firm KPMG Wideri Oy Ab under the supervision of principal auditor Mr. Birger Haglund, Authorized Public Accountant.

Personnel

The Group had 2,593 (1,888) employees on average during the period.

At the beginning of November 1997 Elcoteq was reorganized on a geographical basis to ensure the successful outcome of its growth and internationalization projects. The Group has three regional organizations: Europe, Asia and America. The European operations are headed by Mr. Jorma Vanhanen, the Asian operations by Mr. Kari Häyrinen, and the American operations by Mr. Ilkka Pouttu.

Subsequent events

In January 1998 Elcoteq reached an agreement with ABB Transmit Oy to acquire this company's printed circuit board assembly and module manufacturing operation from its Relays and Network Control Division in Vaasa, Finland. The operation has annual net sales of approximately FIM 70 million. The agreement takes effect on April 1, 1998.

In January 1998 Elcoteq decided to build a new electronics manufacturing services factory in the town of Pécs in southern Hungary and for this purpose bought an industrial site. Elcoteq aims to build a new 11,000 square meter factory on this site by the end of the year. When in full production it will employ about 1,000 people.

Also in January 1998 Elcoteq signed a provisional agreement with the Danish company Chemitalic A/S to sell its Printeq-Piirilevyt Oy operation with effect from March 1, 1998. This divestment supports Elcoteq's strategy of focusing on electronic manufacturing services. Should the transaction be finalized, a cost of a few million Finnish markka will be recorded in the accounts for the first quarter of 1998.

In January 1998 Elcoteq decided to strengthen and expand its customer services with a new Technology and Product Development Services unit. This will provide technology and product development services which support Elcoteq's range of electronics manufacturing services.

In February 1998 Elcoteq set up a purchasing office in Japan to enhance its procurement capabilities.

Prospects for 1998

The electronics and electronics manufacturing services markets continue to grow. Competition is expected to remain intense since globally operating competitors are showing considerable interest in Elcoteq's core markets. Elcoteq Network will further increase its

production capacity, raise cost efficiency and develop new technology in response to the increase in competition, growing demand and the needs of its customers.

However, during the first quarter of 1998 Elcoteq believes that growth in net sales will slow down in pace, mainly because of seasonal fluctuations in mobile phone manufacture which has caused order postponements to later in the year. The Company is likely to report a small loss in the first quarter due to the temporary slowdown in growth of net sales, the non-recurring costs which will be recorded on the planned divestment of Printeq-Piirilevyt Oy, and costs arising from several major investment projects. However, the market outlook has not changed and Elcoteq forecasts that its net sales will continue to increase strongly in 1998 and that its result for the full year will be an improvement on 1997.

Dividend policy

Elcoteq's dividend policy is based on the assumption that in the rapidly developing and expanding markets shareholders' investments are likely to give best returns if the Group invests its profits primarily in developing its business.

Proposal by the Board

The Group had distributable funds totaling FIM 79,382,744 at the close of the period. The parent company showed a profit of FIM 14,999,475 for the year and retained earnings totaling FIM 56,821,829.

The Board proposes that the parent company pay a dividend for the period of FIM 4,663,100, i.e. FIM 0.20 per share. After this the parent company will have unused retained earnings totaling FIM 67,158,204.

For further information call

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Elcoteq's Annual General Meeting will be held on March 17, 1998.

Elcoteq Network Oyj

Osmo Kammonen

Group Vice President, Communications and Investor Relations

APPENDICES

Income Statement, 1

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Appendix 1

CONSOLIDATED STATEMENTS OF INCOME

STATEMENTS OF INCOME (FIM 1,000)	1.1.97 – 31.12. 97	1.1.96 – 31.12.96
Net Sales	1,669,034	988,060
Change in finished goods inventories	4,431	134

Other income from operations	2,659	1,342
Operating expenses		
Materials and supplies		
Purchases during period	-1,375,127	-662,708
Change in inventories	86,166	-33,973
External services	-19,687	-12,602
Personnel expenses	-193,437	-171,062
Rental expenses	-32,210	-28,248
Share of loss of associated companies	-10	-11
Other operating expenses	-26,090	-15,912
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	-1 560,395	-924,516
Operating profit before depreciation	115,728	65,020
Depreciation on fixed assets and other long-term expenses	-34,318	-15,881
Write-off on Group goodwill	-482	-399
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	-34,799	-16,280
Operating profit	80,929	48,740
Financial income and expenses		
Interest income on long-term investments	14	38
Interest income on short-term investments	3,220	1,198
Other financial income	946	993
Interest expenses	-19,955	-9,167
Other financial expenses	-8,126	-7,898
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	-23,901	-14,835
Profit before taxation	57,028	33,905
Income taxes		
For the current period	-8,903	-11,868
For prior periods	-12	-28
Change in deferred tax liability	-4,382	-802
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	-13,298	-12,699
Results applicable to minority interests	-53	-216
Net income	43,677	20,990

Appendix 2

CONSOLIDATED BALANCE SHEETS

ASSETS, FIM 1,000	31.12.97	31.12.96
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Fixed assets and other long-term investments		
Intangible assets		
Intangible rights	374	366
Goodwill	2,131	961
Other long-term expenditures	3,580	3,934

Advance payment	131	680
	6,215	5,942
Tangible assets		
Land and water areas	2,715	2,445
Buildings	78,384	52,681
Machinery and equipment	135,878	47,283
Advances payments and construction in progress	2,436	28,574
	219,413	130,982
Other long-term investments		
Investments in associated companies	264	273
Other investments	1,007	1,008
Loans receivable	597	657
Advances payments		300
	1,868	2,238
Current assets		
Inventories		
Raw materials	198,372	108,869
Work in progress	22,647	26,467
Finished goods	5,971	1,056
	226,990	136,392
Receivables		
Accounts receivable	183,453	145,641
Loans receivable	65	142
Prepaid expenses and accruals	34,903	25,939
Other receivables	1,328	49
	219,748	171,772
Cash and cash equivalents	517,302	118,588
Total assets	1,191,536	565,913

CONSOLIDATED BALANCE SHEETS

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.97	31.12.96
(FIM 1,000)		
Shareholders' equity		
Restricted equity		
Share capital	46,631	5,289
Other restricted fund	485,660	183

	532,291	5,471
Convertible capital notes	110,000	110,000
Non-restricted equity		
Retained earnings	51,939	67,056
Net income	43,677	20,990
	95,616	88,046
Minority interest	540	2,903
Provisions		
Obligatory provisions	346	2,114
Liabilities		
Long-term		
Bonds	15,000	15,000
Bonds with warrants	1,082	0
Loans from financial institutions	132,981	92,480
Deferred tax liability	6,601	2,219
Loans from pension insurance companies	3,252	10,950
Other long-term liabilities	300	600
	159,216	121,249
Less current portion	-81,319	-12,537
	77,898	108,712
Current		
Loans from financial institutions	88,694	73,893
Loans from pension insurance companies	228	767
Advance payments	0	69
Accounts payable	231,338	126,923
Accrued expenses	50,590	30,311
Other current liabilities	3,995	16,705
	374,845	248,667
Total shareholders' equity and liabilities	1,191,536	565,913

Appendix 3

CONSOLIDATED STATEMENTS OF CASH FLOWS

STATEMENTS OF CASH FLOWS (FIM 1,000)	1.1.97 - 31.12.97	1.1.96 - 31.12.96
Cash flows from operating activities		
Net income	43,677	20,990

Adjustments for		
Depreciation and amortization	34,799	16,280
Provisions	-1,768	2,114
Interest expenses	19,955	9,167
Interest income	-649	-339
Income taxes	13,298	12,699
Borrowing costs	729	5,820
Initial Public Offering costs	9,234	-
Operating profit before working capital changes	119,282	66,731
Change in net working capital		
Increase in trade receivables	-44,235	-30,536
Decrease (increase) in inventories	-90,598	33,772
Increase in interest free short-term liabilities	105,625	1,376
	-29,208	4,612
Net cash provided by (used in) operations	90,074	71,343
Interests paid	-12,049	-7,514
Income taxes paid	-14,702	-24,978
Net cash provided by (used in) operating activities	63,323	38,851
Cash flows used in investing activities		
Investments in fixed assets	-127,362	-61,897
Sales of fixed assets	1,680	923
Net cash used in investing activities	-125,682	-60,974
Cash flows from financing activities		
Proceeds from share issue	500,445	-
Proceeds from long-term liabilities	58,042	168,980
Payment of long-term liabilities	-20,075	-13,529
Proceeds from short-term liabilities	-54,519	249
Proceeds from (payments of) long-term receivables	60	-928
Dividends paid	-9,731	-12,302
Minority shareholders' interests	-33	-2,193
Borrowing costs	-4,592	-5,820
Initial Public Offering costs	-8,464	-
Other, net	-59	-150
Net cash provided by financing activities	461,073	134,307
Net increase in cash and cash equivalents	398,714	112,184
Cash and cash equivalents at beginning of period	118,588	6,404
Cash and cash equivalents at end of period	517,302	118,588

Appendix 4

Personnel

	Start of financial year	End of financial year	Change	Average
Finland	848	956	+108	937
Estonia	1,314	1,829	+515	1,654
Germany	-	3	+3	1
Russia	-	5	+5	1

Total 2,162 2,793 +631 2,593

Appendix 5

KEY FINANCIAL FIGURES

		1997	1996	1995	1994	1993
		12 months	12 months	10 months	12 months	12 months
		Group	Group	Group	Group	Group
OPERATIONS						
Net Sales	MFIM	1 669,0	988,1	755,6	462,5	198,9
Exports as percentage of net sales	%	77,8	68,4	60,8	59,0	53,0
Gross capital expenditure	MFIM	132,0	92,8	84,4	56,9	18,5
- of which leasing		4,6	25,0	40,9	29,1	
Personnel on average during the year		2,593	1,888	1,651	1,081	535
PROFITABILITY						
Operating profit	MFIM	80,9	48,7	83,3	36,8	6,2
as percentage of net sales	%	4,8	4,9	11,0	8,0	3,1
Profit before taxation	MFIM	57,0	33,9	76,5	31,5	2,0
as percentage of net sales	%	3,4	3,4	10,1	6,8	1,0
Net income	MFIM	43,7	21,0	55,8	19,6	3,3
as percentage of net sales	%	2,6	2,1	7,4	4,2	1,7
Return of equity (ROE)	%	12,1	22,8	92,6	91,3	0,8
Return on investment (ROI)	%	13,2	16,6	47,0	38,5	12,3
FINANCIAL RATIONS						
Current ratio		2,6	1,7	1,3	1,2	1,5
Solvency-1	%	52,7	17,0	22,7	14,2	16,8
Solvency-2	%	62,0	36,5	22,7	14,2	16,8
Net gearing-1		-0,4	1,8	1,4	2,6	2,1
Net gearing-2		-0,5	0,3	1,4	2,6	2,1

FINANCIAL RATIOS PER SHARE

		1997	1996	1995	1994	1993
Earnings per share (EPS) *)	FIM	2.64	1.32	3.52	1.23	0.2
Shareholders' equity per share	FIM	26.93	5.89	5.39	1.94	0.7
Dividend per share **)	FIM	0.20	0.61	0.76	0.01	0.0
Dividend per earnings **)	%	10.7	46.4	21.5	0.7	1.0

Dividend yield **) % 0.3

Price/ earnings (P/E) 26.1

Quotation

* lowest share price	FIM	64.00
* highest share price	FIM	76.00
* average share price	FIM	70.45

Market capitalisation

* A share	FIM	872.6
* K share	FIM	724.5
* Total	FIM	1,597.1

Trading of shares

* Number of shares traded	Shares	889,992
* %	%	7.0

Adjusted weighted average number of shares during the period

Shares	16,558,377	15,865,500	15,865,500	15,865,500	15,865,500
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Adjusted number of shares at the end of the period

Kpl	23,315,500	15,865,500	15,865,500	15,865,500	15,865,500
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In 1997 and 1996 Elcoteq's financial year coincided calendar year. In 1995 financial year was from 1 March to 31 December (10 months).

All financial years before that were from 1 March to end of February (12 months).

*) The diluted profit for the period/ share (EPS) is not presented due to its being higher than the undiluted EPS because of interest expenses for convertible capital notes.

**) Dividend for the financial year 1997 is the Board of Directors' proposal to the general meeting.

Appendix 6

ASSETS PLEDGED AND CONTINGENT LIABILITIES

Guarantees and pledges

	Group		Parent company	
	1997	1996	1997	1996
For own liabilities				
Guarantees	7,702	58,397	7,702	58,397
Mortgages on moveable assets	69,500	77,700	40,000	40,000

Pledged accounts receivable	7,603	44,382	7,603	44,382
Mortgages on real estate	86,096	31,500	12,500	12,500
Against Group company debt				
Mortgages on moveable assets	-	-	7,000	7,000
Pledged subsidiary company shares	-	-	3,449	3,449
Guarantees	-	-	70,142	64,411
Repurchase obligations	-	-	-	-
For others				
Guarantees	8,507	10,704	8,507	10,704
Other own liabilities				
Leasing liabilities	52,573	68,708	48,465	-
Nominal values of other own commitments				
Interest and currency swap agreements	41,739	7,080	41,739	7,080
Forward exchange contracts	177,640	-	177,640	-

If the currency and interest rate swap agreement outstanding at 31 December, 1997 had been sold at market price, the positive effect would have been FIM 6.7 million.