

Interim Report January - September 1998 (Unaudited)

ELCOTEQ NETWORK CORPORATION Stock Exchange Bulletin
November 5, 1998 9 a.m. (Helsinki)

Elcoteq's January-September net sales grew by 24 % and were FIM 1,392 million (FIM 1,120 million). Operating profit was FIM 22.6 million (FIM 59.1 million) and profit before extraordinary items FIM 17.2 (46.9) million. Earnings per share totaled FIM 0.49, having been FIM 2.02 at the same time last year.

Elcoteq Network's consolidated net sales between January and September totaled FIM 1,392 million. Comparable net sales in the same period last year were FIM 1,120 million, and hence, the increase was 24 %. Elcoteq's growth corresponded with worldwide growth in the electronics manufacturing services industry although it was clearly below the company's own target. Elcoteq's capacity utilization was lower than planned due to fluctuating demand for its customers' products.

The Group's profitability was substantially affected by rapid changes in capacity utilization, the company's internationalization program and in particular the costs arising from the start-up of new plants. Elcoteq's January-September operating profit was FIM 22.6 million (comparative period: FIM 59.1 million) and the profit before extraordinary items was FIM 17.2 (46.9) million. Earnings per share totaled FIM 0.49, having been FIM 2.02 at the same time last year.

The pace of investment in the Group accelerated considerably during the third quarter. In anticipation of strong demand expected during the final quarter the company increased production capacity at the Tallinn and Gunnarla plants. The first assembly line was brought into operation at the new plant in Pécs, Hungary, during the first days of October. Investments in machinery and equipment at this plant will continue during the remainder of the year and a large proportion of them will fall due during 1999. Construction of the new plant in Monterrey, Mexico, was started during the third quarter. Elcoteq's capital expenditure between January and September totaled altogether FIM 164.6 (113.1) million.

The balance sheet increased by a good FIM 150 million to FIM 1,207 million, compared to the end of June, following the introduction of new capacity and the increase in working capital. The solvency ratio at the end of September was 61.5 % (33.1 %). The convertible capital notes are treated as shareholders' equity in the calculation of the solvency ratio.

The Group's financial position remained strong throughout the period. Cash reserves at the end of September amounted to FIM 108 million. Unused credit limits totaled FIM 270 million. The company's strong balance sheet provides a solid basis for financing its projects to expand operations.

The Group had 2,843 (2,522) employees on average during the first nine months of the year, up 13 %. Personnel totaled 3,186 (2,826) on September 30, 1998.

Third quarter in review

Elcoteq's net sales between July and September totaled FIM 473.9 million (FIM 468.5 million). Profitability weakened owing to the adverse effect of the lower than planned utilization of the company's increased manufacturing capacity, the costs arising from the start-up of new plants – especially in Pécs and St. Petersburg - and costs arising from the move of the Helsinki plant. The operating profit in the third quarter was FIM 3.5 (22.5) million.

Markets

Mobile phones, together with their subassemblies and accessories, accounted for 70 % (68 %) of Elcoteq's net sales in the January – September period. Industrial electronics contributed 12 % (13 %) of net sales. Altogether 76 % (74 %) of Elcoteq's net sales came from customers belonging to the Ericsson and Nokia groups.

Work was started at the Tallinn plant on the two box-build contracts to manufacture GSM mobile phones, announced in the second-quarter interim review. Volume production of these Nokia and Ericsson phones will start during the final quarter of the year.

ABB and Kone are Elcoteq's next two largest customer groups after Ericsson and Nokia. Elcoteq's deliveries to Kone increased clearly at the beginning of October when the company took over Kone's elevator electronics manufacturing unit in Hyvinkää, Finland. Elcoteq's Helsinki plant, which specializes in industrial electronics, was moved to new premises in Konala, Helsinki, at the end of July.

Economic turmoil has affected Elcoteq's customers and therefore the company itself in a varying manner. The overall impact on Elcoteq has been increased volatility and a reduction in orderstock to a maximum of only a few weeks. The increase in box-build production has had the same effect on Elcoteq. Previously, Elcoteq and its customers were separated by product stocks which offset the effect of fluctuations in demand but these no longer exist in the case of box-build manufacturing; today, Elcoteq's manufacturing operation and end user demand are only a few days apart.

The availability of electronics components and their price levels have so far remained satisfactory although there are signs that the component markets might become tighter during 1999.

All in all demand for electronics manufacturing services continued to grow. This growth was more pronounced in telecommunications products than in other segments of the electronics industry. The policy of the leading electronics manufacturing services companies is to serve their customers globally.

Internationalization in full swing

During 1998 Elcoteq has been implementing an extremely rapid internationalization program based on the concept of co-evolution with its key customers.

The manufacturing facilities at the new plant in Hungary were completed by the end of September, allowing production to start on October 5. The first product is an electronic subassembly for a Central European automotive electronics supplier. Recruitment and training of personnel and equipment installation continue in Hungary.

Construction of the new plant in Monterrey, Mexico, was started in July. Production is due to start during the first quarter of 1999.

Expansion of Elcoteq's pilot manufacturing operation in St. Petersburg, Russia, was hampered by uncertainty in the business environment. The plant is still unprofitable. The plant had roughly 50 employees at the end of September.

Decisions concerning the final location and start-up of the planned aftermarketing services unit in Malaysia have been postponed until 1999.

China has emerged during 1998 as one of the largest telecommunications markets in the world. Elcoteq is currently evaluating the needs of this market and the feasibility of starting its own manufacturing operation in China.

Prospects

Elcoteq's core business, electronics manufacturing services, will continue to expand rapidly. The final quarter of 1998 will be a period of intensifying growth for Elcoteq. The strengthened orderbook and added capacity utilization will also clearly improve the result and enhance profitability during this period. However, net sales for the full year are expected to fall clearly below the 50 % growth target. The pretax profit for 1998 in Finnmarks is expected to roughly equal the level in 1997.

Elcoteq will publish its 1998 Financial Statements Bulletin on Thursday, February 11, 1999 at 9.00 am (Helsinki time).

Helsinki, November 4, 1998
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Financial Statements from the Interim Report January-September 98

- This page only contains the financial statements from the Interim Report January-September 1998.
- You can read the text from the Interim Report January-September 98 from here.

Income Statement	FIM million	Jan.- Sept. 1998	Jan.- Sept. 1997	Change %	Fiscal 1997
Net sales		1,392.1	1,120.0	24.3	1,678.6
Other income from operations		5.1	3.0		2.7
Operating expenses		-1,338.3	-1,040.8		-1,565.1
Depreciation		-36.3	-23.1		-34.8
Operating profit		22.6	59.1	-61.8	81.3
% of net sales		1.6	5.3		4.8
Financial income and expenses		-5.4	-12.2		-24.3
Profit before extraordinary items		17.2	46.9	-63.4	57.0
Extraordinary items		-2.3	-		
Profit before taxation		14.9	46.9	-68.3	57.0
Income taxes		-5.1	-14.8		-13.3
Minority interests		-	-0.1		-0.1
Net income		9.8	32.1	-69.6	43.7

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

Balance Sheet	Sept. 30, 1998	Sept. 30, 1997	Dec. 31, 1997
Fixed assets	354.2	223.2	226.9
Current assets			
Inventories	400.9	179.9	227.0
Other current assets	452.1	292.8	737.6
Assets	1,207.2	696.0	1,191.5
Share Capital	46.6	31.7	46.6
Convertible capital notes	110.0	110.0	110.0
Other shareholders' equity	586.2	84.2	581.3
Minority interests	-	3.0	0.5
Provisions	1.2	0.4	0.3
Long-term liabilities	63.1	116.2	77.9
Short-term liabilities	400.1	350.6	374.8
Shareholders' equity and liabilities	1,207.2	696.0	1,191.5
Key Figures	Sept. 30, 1998	Sept. 30, 1997	Dec. 31, 1997
Personnel on average during the period	2,843	2,522	2,593
at the end of period	3,186	2,826	2,793
Gross capital expenditure *)	164.6	113.1	132.0
- of which leasing	-	4.6	4.6
Return on equity (ROE) **)	1.9	29.8	12.1
Return on investment (ROI) **)	4.8	16.1	13.2
Current ratio	2.1	1.3	2.6
Solvency 1 ***)	52.4	17.2	52.7
Solvency 2 ****)	61.5	33.1	62.0
Net gearing 1 ***)	0.1	2.5	-0.4
Net gearing 2 ****)	-0.1	0.8	-0.5
Earnings per share (EPS). **)	0.49	2.02	2.64
Equity / share	27.14	7.31	26.93
Interest-bearing liabilities	69.8	189.3	159.1
- (incl. convertible capital notes)	179.8	299.3	269.1
Non-interest-bearing liabilities	398.9	287.8	293.6

*) In addition leasing agreements totaling FIM 16.3 million were purchased from financing companies.

**) The key figures have been calculated using the key 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. Calculation of several figures presented above has been significantly affected by the increase in share capital and in number of shares in connection with the Initial Public Offering of Elcoteq in November 1997.

Assets pledged and contingent liabilities	Sept. 30, 1998	Sept. 30, 1997	Dec. 31, 1997
For own liabilities			
Mortgages on movable assets	52.0	74.5	69.5
Pledged accounts receivable	0.0	56.1	7.6
Mortgages on real estate For others	58.0	31.5	86.1
Guarantees	7.1	9.6	8.5
Other own liabilities			
Leasing liabilities	19.9	57.7	52.6
Nominal values of other own commitments			
Interest and currency swap agreements	35.3	40.8	41.7
Forward exchange contracts	405.2	89.7	177.6

If the currency and interest swap agreements outstanding at September 30, 1998 had been sold at the market price, the positive effect would have been FIM 3.9 million.