Elcoteq Network Corp.   Financial Statements Bulletin
Feb. 11,1999 at 9.00 a.m.(Helsinki)

Elcoteq's net sales rise 40 %

Elcoteq's net sales for 1998 rose 39.8 % to FIM 2,346.3 (1,678.6) million. The pre-tax profit was FIM 51.4 (57.0) million and the operating profit was FIM 61.8 (80.9) million. Earnings per share in 1998 totaled FIM 1.88 (2.64). The Board of Directors proposes that the dividend remain at FIM 0.20 per share. In 1999 Elcoteq's net sales for the full year will increase substantially and its result will improve.

Market conditions

Global demand for electronics manufacturing services is forecast to rise at an annual rate of roughly 25 % during the next few years. The reason for this continued rapid growth is based both on increased outsourcing of manufacturing and on changes in the way demand itself is structured. Electronics manufacturing services (EMS) companies are required to provide an ever wider scope of services, complete end-products, and increasingly often also worldwide delivery. To do this, they must have a local presence sufficiently close to the main markets of their customers. They must also be able to offer competitive purchasing and logistics services as well as the ability to make manufacturing and product development services available to their customers.

The large international EMS companies have intensified their marketing efforts in Europe and taken their share of market growth. EMS companies fall more clearly than ever into two categories. The major players continue to grow rapidly; they specialize in partnering OEMs with global operations and are able to take on large contracts. The smaller companies with slower growth remain small and, with more limited resources, serve the needs of local customers.

Elcoteq's core business is the manufacture of electronics for telecommunications, a field which is expanding considerably faster than on average in the electronics industry. In 1998 Elcoteq consolidated its global EMS presence with the start-up of new plants in America and Asia. Demand for the Group's manufacturing services rose during the year. The increase in net sales was strongest in the last quarter of the year.

Net sales and performance

Consolidated net sales increased 39.8 % to FIM 2,346.3 (1,678.6) million, 64.7 % (77.8 %) of which came from invoicing outside Finland. The main factors underlying this growth were new manufacturing services contracts, and in particular contracts with Ericsson and Nokia to manufacture GSM mobile phones. These projects were started at the Tallinn plant in summer 1998 and by the final quarter of the year had reached full-scale production. The industrial electronics manufacturing operations acquired from ABB Transmit and Kone during the year contributed approximately FIM 75 million to the Group's net sales. The aggregate annual net sales of these operations is about FIM 170 million.

Elcoteq's principal customers are companies belonging to the ABB, Ericsson, Kone, Nokia and Philips groups. Ericsson and Nokia companies contributed altogether 80 % (76 %) of Elcoteq's consolidated net sales. Manufacture of mobile phones, their components and accessories accounted for 73 % (66 %) of net sales.

The Group's operating profit decreased 23.6 % on the previous year to FIM 61.8 (80.9) million, representing 2.6 % (4.8 %) of consolidated net sales. Capacity utilization at Elcoteq plants was lower than planned during the first three quarters of the year owing to fluctuations in demand for customers' end-products. The costs arising from the start-up of the new plants in Hungary and Mexico, as well as other costs resulting directly from internationalization projects, totaled about FIM 30 million. Most of these projects will start to generate revenues during 1999.

Despite an increase in personnel numbers (19.0 %), personnel expenses increased only 13.2 % on the previous year to FIM 219.0 (193.4) million. This was because most of the increase in personnel took place in low-cost countries. Depreciation of fixed assets rose 63.9 % on the year before to FIM 57.9 (34.8) million, primarily due to the increase in investments related to the expansion of manufacturing capacity.

The Group's profit before extraordinary items and taxes was FIM 53.3 (57.0) million. Interest expenses decreased 26.4 % on the year before to FIM 14.7 (19.9) million. The bulk of interest expenses consisted of interest payable on the convertible capital notes issued at the end of 1996.

The Group's pretax profit came to FIM 51.5 (57.0) million. Extraordinary items included FIM 3.4 million in non-recurring costs arising from the sale of the Printeq-Piirilevyt Oy printed circuit board operation, and a FIM 1.6 million one-time gain resulting from a change in inventory valuation principles.

The Group's profit after tax and minority interests totaled FIM 42.5 (43.7) million. Direct taxes for the year amounted to FIM 14.9 (13.3) million. A tax refund arising from the 1997 Public Offering reduced the taxes by FIM 5.9 million; this refund was not included in the consolidated result until 1998.

The balance sheet total increased 27.8 % to FIM 1,522.8 (1,191.5) million. Capital expenditure raised fixed assets to FIM 430.5 (227.2) million at the year end. Inventories totaled FIM 396.0 (227.0) million and accounts payable were FIM 388.5 (231.3) million at the close of the period. Accounts receivables totaled FIM 571.4 (183.5) million. The level of accounts receivables was exceptionally high at the year end owing to very high invoicing during the final quarter. Return on investment was 8.1 % (14.1 %) and return on shareholders' equity was 6.6 % (12.1 %). Capital totaling FIM 500.4 million raised by the Public Offering in 1997 enabled the Company to implement the growth projects required by its strategy; most of these projects will begin to generate revenues in 1999.

Capital expenditure

The Group's gross capital expenditure totaled FIM 261.7 (132.0) million. In addition to this the Company purchased back leasing contracts for FIM 16.3 million.

FIM 142.4 million was invested in raising capacity and technology levels at the Lohja and Tallinn plants to match increased demand. Investments in the Hungarian plant totaled FIM 64.9 million, which included the building and the first machinery and equipment. The plant in Mexico operates in leased premises built for Elcoteq's use. Most of the investments in machinery and equipment at the Mexican plant will fall due in 1999. FIM 26.2 million was invested in information systems and related equipment; most of this figure applied to the Company's new enterprise resource planning system.

In March Elcoteq took over ABB Transmit's electronics manufacturing operation in Vaasa, and in October Kone's elevator electronics manufacturing operation in Hyvinkää. Both acquisitions involved the purchase of operations and assets and each also included a delivery contract with the customer.

The investment projects now in progress lay the groundwork for doubling manufacturing capacity.

Internationalization and other development projects

Elcoteq's strategy is to grow and develop a manufacturing services network capable of serving customers globally, if necessary. The largest of Elcoteq's customers are top-rated international corporations requiring their partners to provide competitive electronics manufacturing services in all their main markets.

It was for these reasons that Elcoteq decided in February to set up a new plant in the town of Pécs, Hungary, which on its start-up in October provided added manufacturing capacity close to the markets of Central and Southern Europe. In March the Company began operations in Dallas, USA, and in May it decided to establish a new plant in Monterrey, Mexico. The Monterrey plant entered production after the close of the financial year in January 1999. Elcoteq's operations in Hong Kong got under way in December and the Company reached agreement with Nokia Mobile Phones and Dongguan Nanxin Industrial Development Corporation in China to take over manufacture of mobile phone accessories at a plant in Dongguan, China, in February 1999. This plant continues to manufacture subassemblies and accessories for Nokia mobile phones, but it will also seek to expand both its product range and customer base.

A purchasing office was set up in Japan in February 1998 to safeguard availability of Japanese components and favorable price levels.

In June 1998 Elcoteq signed a framework agreement with Nokia in which the companies state their willingness to develop their business relationship and define the general principles for doing so. This agreement was supplemented by a framework agreement concluded with Nokia Telecommunications.

In June 1998 the Company introduced a new enterprise resource planning system. This will be operational in all the Group's plants in 1999.

In March the Company set up a new technology unit responsible for providing manufacturing and product technology development services and also for steering technology transfer within the Company. Supplementing this unit's operations, Elcoteq also reached agreement in June on collaboration in technology development with Elektrobit Oy, a Finnish product development services company. In conjunction with this deal, Elcoteq took a 10 % holding in Elektrobit's subsidiary Extrabit Oy.

The turbulence in the Russian market slowed down the expansion of the pilot manufacturing plant in St. Petersburg. The plant operated at a loss. It had 86 employees at the end of December.

Financing

The Group's liquidity remained strong throughout the year. The Group's solvency ratio was 51.0 % (62.0 %) at the end of the year. Of this figure, 7.2 percentage points was attributable to the convertible capital notes, which in this calculation were treated as shareholders' equity. Of voluntary provisions and the accumulated depreciation difference, 28 % was recognized as the deferred tax liability and the remainder as shareholders' equity.

The most significant new financing item during the year was a FIM 300 million medium term note program. The first stage of this program was the launch of a FIM 52 million bond with a maturity of four years. In all other respects the Group's growth was financed mainly through strong liquidity at the start of the financial year. The Group's strong balance sheet and good solvency ratio create a solid foundation for financing further expansion in the coming years.

The Group's cash reserves on the balance sheet date were FIM 81.6 (517.3) million, in addition to which the Company had unused credit limits totaling FIM 272.4 (284.7) million.

At the end of 1998 variable interest loans accounted for 53.2 % of all interest-bearing debt, i.e. FIM 373.3 million, and 55.2 % if leasing contracts are included. The average interest payable on interest-bearing debt at the close of the year was 6.58 %, or 6.48 % if leasing contracts are included. The above figures include as interest-bearing debt the convertible capital notes of FIM 110 million at a fixed interest rate of 9.39 %.

The Group's operations are international and therefore sensitive to exchange rate risks. The Group's policy is to hedge its major open foreign exchange positions. Its purchasing and sales positions are hedged using mainly forward foreign exchange contracts with a maturity of normally no more than four months. Loans raised in foreign currencies are generally translated into Finnish markka using swap contracts.

The year 2000

At the beginning of the period Elcoteq initiated a project to identify the risks to the continuity of the company's operations associated with the change of millennium, to eliminate identified risks and to significantly reduce the probability of such risks arising. This project is expected to be completed by the end of June 1999. The company is confident that the steps already taken and still in progress will ensure the continued functionality of its operations when the year 2000 takes effect.

Group structure

The Group's parent company is Elcoteq Network Oy (Elcoteq Network Corporation in English).

During the year the Company formed Elcoteq, Inc. based in Dallas, USA. Elcoteq S.A. de C.V. was formed in Monterrey, Mexico. At the beginning of March the Company's printed circuit board manufacturing operation, Printeq-Piirilevyt Oy, including its machinery and equipment, was sold to the Danish company Chemitalic A/S to whom the plant's property was leased.

At the end of the year all the Group's subsidiaries were wholly owned by the parent company.

Board of Directors and President

The Annual General Meeting of Elcoteq Network Corporation was held in Helsinki on March 17, 1998. The meeting re-elected the following to the Board of Directors of the parent company: Mr. Antti Piippo, Mr. Heikki Horstia, Mr. Henry Sjöman, Mr. Juha Toivola and Mr. Jorma Vanhanen. The Board elected Antti Piippo as chairman and Juha Toivola as deputy chairman. Antti Piippo, Heikki Horstia and Juha Toivola constitute the Board's Review and Compensation Committee.

The company's president for the whole year was Mr. Tuomo Lähdesmäki MSc (Eng.), MBA.

Auditors

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

Personnel

The Group had 3,085 (2,593) employees on average during the year. There were 2,793 employees at the start of the year and 3,874 at the close.

Subsequent events

An agreement was announced between Elcoteq and Nokia in January according to which Elcoteq would start manufacturing cellular phone accessories and subassemblies for Nokia Mobile Phones' plant in Ft. Worth, Texas. Manufacturing of these products started at the Monterrey plant in Mexico at the end of January.

As agreed in December, Elcoteq will take over manufacturing of mobile phone accessories and subassemblies at the plant in Dongguan, China, previously owned by Nokia and the Chinese minority shareholder Dongguan Nanxin Industrial Development Corporation. A new company was set up in China in which Elcoteq holds 70 % and Dongguan Nanxin Industrial Development Corporation the remaining 30 %. At the same time it was decided to start up an Elcoteq Customer Center in Hong Kong which, among other things, would be responsible for supporting the Dongguan plant. Elcoteq Asia Ltd was set up in Hong Kong after the close of the financial year to manage the Group's operations in Asia.

At the beginning of January the operations of Finnish subsidiaries Elcoteq Helsinki Oy and Elcoteq Lohja Oy were transferred to the parent company in order to simplify the Group's administrative functions.

Prospects for 1999

The electronics and EMS markets continue to grow. Competition is expected to remain intense. Elcoteq has sharpened its competitive edge by extending its plant network to America and Asia.

The company believes that its full year net sales will increase substantially. The bulk of net sales will accrue in the latter half of the year. The full-year profits will improve, compared to the previous year, but the start-up costs of the new plants will continue to burden performance in the early part of the year.

Proposal of the Board of Directors

The Group's distributable funds totaled FIM 91,624,830 at the close of the financial year. The parent company posted a profit of FIM 25,941,958 for the financial year and retained earnings totaling FIM 67,158,204.

The Board of Directors proposes that the parent company pay a dividend for the period of FIM 4,663,100, i.e. FIM 0.20 (0.20) per share. After this, undistributed retained earnings in the parent company will total FIM 88,437,062 million.

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Elcoteq's Annual General Meeting will be held on March 17, 1999. The Company will publish its 1999 first quarter interim report on Thursday, May 6, 1999 at 9.00 a.m. (Helsinki time).

Elcoteq Network Corporation

Osmo Kammonen
Group Vice President, Communications and Investor Relations

APPENDICES:
Income Statement, 1
Balance Sheet, 2
Cash Flow Statement, 3
Personnel, 4
Key Figures, 5
Contingent Liabilities, 6

Appendix 1

CONSOLIDATED INCOME STATEMENT FIM 1000

STATEMENT OF INCOME	Jan.1 – Dec.31, 98	Jan.1 – Dec.31, 97
NET SALES	**2,346,302**	**1,678,573**
Change in inventories of finished goods and work in progress	21,271	5,243
Other operating income	8,777	4,923
Raw materials and services		
Materials, consumables and goods		
Purchases during the financial year	-2,057,937	-1,366,153
Change in inventories	152,839	85,354
Materials, consumables and goods	-1,905,098	-1,280,798
External manufacturing services	-10,618	-13,728
	-1,915,715	-1,294,526
Personnel expenses		
Wages and salaries	-168,942	-149,682
Social security costs		
Pension costs	-20,292	-18,692
Other social security costs	-23,419	-21,154
Other personnel costs	-6,352	-3,909
	-219,005	-193,437
Depreciation and writedowns		
Depreciation according to plan	-56,294	-34,318
Amortization of goodwill on consolidation	-730	-482
	-57,024	-34,799
Other operating expenses	-122,782	-85,048
OPERATING PROFIT	**61,823**	**80,929**
Financial income and expenses		
Financial income		
Other interest and financial income		
Exchange gains	6,402	6,912
Other financial income	11,767	3,238
	18,169	10,150
Financial expenses		
Interest expenses	-14,682	-19,945
Exchange losses	-9,726	-2,830
Other financial expenses	-2,330	-11,277
	-26,738	-34,052
Financial income and expenses	-8,569	-23,901

PROFIT BEFORE EXTRAORDINARY ITEMS	**53,254**	**57,028**
Extraordinary income and expenses		
Extraordinary income	1,584	-
Extraordinary expenses	-3,378	-
PROFIT BEFORE TAXES	**51,459**	**57,028**
Income taxes		
Income taxes for the financial year	-9,796	-8,903
Income taxes from prior years	5,867	-12
Change in deferred tax liability	-5,062	-4,382
	-8,991	-13,298
Minority interests	-	-53
NET PROFIT FOR THE FINANCIAL YEAR	**42,468**	**43,677**

Appendix 2

CONSOLIDATED BALANCE SHEET FIM 1000

	Dec.31,1998	Dec.31,1997
ASSETS		
FIXED ASSETS		
Intangible assets		
Intangible rights	289	374
Other long-term expenditure	21,338	3,580
Advance payments	1,286	131
Goodwill on consolidation	1,401	2,131
	24,314	6,215
Tangible assets		
Land and water	4,332	2,715
Buildings	103,186	78,384
Machinery and equipment	292,837	135,878
Advance payments and construction in progress	1,736	2,436
	402,092	219,413
Investments		
Shares in associated companies	251	264
Receivables from associated companies	520	300
Other shares and holdings	3,345	1,007
	4,115	1,571
FIXED ASSETS	**430,521**	**227,199**
CURRENT ASSETS		
Inventories		
Raw materials and consumables	346,800	198,372
Work in progress	25,816	22,647

Finished products/goods	23,087	5,971
Advance payments	284	-
	395,988	226,990
Non-current receivables		
Deferred tax receivables	4,987	-
Other loan receivables	226	297
	5,214	297
Current receivables		
Accounts receivables	571,415	183,453
Other receivables	-	1,392
Prepayments and accrued income	38,016	34,903
	609,431	219,748
Cash in hand and at banks	81,624	517,302
CURRENT ASSETS	**1,092,257**	**964,337**
ASSETS	**1,522,779**	**1,191,536**

CONSOLIDATED BALANCE SHEET FIM 1000

	Dec.31,1998	Dec.31,1997
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	46,631	46,631
Share premium fund	485,452	485,452
Other reserves	396	208
Translation difference	343	-115
Retained earnings	90,889	52,054
Net profit for the financial year	42,468	43,677
Convertible capital notes	110,000	110,000
SHAREHOLDERS' EQUITY	**776,179**	**737,908**
MINORITY INTERESTS	-	540
PROVISIONS		
Provisions for pensions	216	346
PROVISIONS	**216**	**346**
LIABILITIES		
Non-current liabilities		
Bonds	15,000	15,000
Medium-term notes	52,000	-
Bonds with warrants	1,114	1,082
Loans from financial institutions	33,587	132,981

Pension loans	3,011	3,252
Other non-current liabilities	674	300
Deferred tax liability	16,651	6,601
	122,037	159,216
Payments due after one year	-5,600	-81,319
	116,437	77,898
Current liabilities		
Loans from financial institutions	164,360	88,694
Pension loans	242	228
Advances received	1,162	-
Accounts payables	388,474	231,338
Other current liabilities	9,300	3,995
Accruals and deferred income	66,409	50,590
	629,947	374,845
LIABILITIES	**746,384**	**452,743**
SHAREHOLDERS' EQUITY AND LIABILITIES	**1,522,779**	**1,191,536**

Appendix 3

CONSOLIDATED CASHFLOW STATEMENT FIM 1000

	Jan.1-Dec.31,98	Jan.1- Dec.31,97
Cashflow from operations		
Net profit for the financial year	42,468	43,677
Adjustments		
Depreciation	57,024	34,799
Change in provisions	-130	-1,768
Interest expenses	14,682	19,955
Interest income	-11,525	-649
Taxes	8,991	13,298
Other items	2,322	9,970
Operating profit before change in working capital	113,833	119,282
Change in net working capital		
Increase in trade receivables	-389,844	-44,235
Increase in inventories	-172,542	-90,598
Increase in interest-free current liabilities	162,412	105,625
	-399,974	-29,208
Cashflow from operations	-286,142	90,074
Interest, net	-3,469	-12,049
Taxed paid	-1,075	-14,702

Net cashflow from operations	-290,686	63,323
Cashlow from investing activity		
Investments in fixed assets	-267,028	-127,362
Proceeds from sale of fixed assets	17,661	1,680
	-249,367	-125,682
Cashflow from financing activity		
Public offering	-	500,445
Change in other shareholders' equity	466	-
Increase in long-term liabilities	52,672	58,042
Payment of long-term liabilities	-89,851	-20,075
Increase/decrease in current liabilities	151,398	-54,519
Increase in non-current receivables	-4,917	60
Dividends paid	-4,663	-9,731
Minority interest	-540	-33
Other, net	-190	-13,116
	104,376	461,073
Decrease/ increase in liquid funds	-435,677	398,714
Liquid funds at Jan. 1	517,302	118,588
Liquid funds at Dec. 31	81,624	517,302

Appendix 4

Personnel

The Group had 3,085 (2,593) employees on average during the year, distributed geographically as follows:

	At Jan. 1	At Dec. 31	Change	Average
Finland	956	949	-7	917
Estonia	1,829	2,504	675	2,021
Hungary	-	292	292	93
Germany	3	3	-	3
Russia	5	86	81	37
USA	-	7	7	3
Mexico	-	25	25	6
Japan	-	5	5	4
Hong Kong	-	3	3	1
Total	2,793	3,874	1,081	3,085

Appendix 5

KEY FINANCIAL FIGURES

	1998 12 mths Group	1997 12 mths Group	1996 12 mths Group	1995 10 mths Group	1994 12 mths Group
OPERATIONS					
Net Sales MFIM	2,346.3	1,678.6	988.1	755.6	462.5
Exports as percentage of net sales %	64.7	77.8	68.4	60.8	59.0
Gross capital expenditure MFIM	261.7	132.0	92.8	84.4	56.9
- of which leasing	-	4.6	25.0	40.9	29.1
Personnel on average during the year	3,085	2,593	1,888	1,651	1,081
PROFITABILITY					
Operating profit MFIM	61.8	80.9	48.7	83.3	36.8
as percentage of net sales %	2.6	4.8	4.9	11.0	8.0
Profit before taxation MFIM	51.5	57.0	33.9	76.5	31.5
as percentage of net sales %	2.2	3.4	3.4	10.1	6.8
Net income MFIM	42.5	43.7	21.0	55.8	19.6
as percentage of net sales %	1.8	2.6	2.1	7.4	4.2
Return of equity (ROE) %	6.6	12.1	22.8	92.6	91.3
Return of investment (ROI) %	8.1	14.1	16.6	47.0	38.5
FINANCIAL RATIONS					
Current ratio	1.7	2.6	1.7	1.3	1.2
Solvency 1 %	43.8	52.7	17.0	22.7	14.2
Solvency 2 %	51.0	62.0	36.5	22.7	14.2
Net gearing 1	0.4	-0.4	1.8	1.4	2.6
Net gearing 2	0.2	-0.5	0.3	1.4	2.6

The convertible capital notes are treated as shareholders' equity in the equity ratio 2) and net gearing 2).

FINANCIAL RATIONS PER SHARE

Earnings per share (EPS) FIM	1.88*)	2.64	1.32	3.52	1.23
Shareholders' equity per share FIM	28.57	26.93	5.89	5.39	1.94
Dividend per share	0.20**)	0.20	0.61	0.76	0.01
Dividend per earnings %	11.0**)	10.7	46.4	21.5	0.7
Dividend yield %	0.4**)	0.3			
Price/ earnings (P/E)	30.1	26.1			
Quotation					
* lowest share price FIM	31.00	64.00			
* highest share price FIM	85.00	76.00			
* average share price FIM	56.23	70.45			
* Closing rate Dec. 30 FIM	55,00	68,50			
Market capitalisation					
* A share FIM	700.6	872.6			
* K share FIM	581.7	724.5			
* Total FIM	1,282.4	1,597.1			

The closing rate of the A share at 30 December 1998 is used to calculate the market capitalization of both share seris..

Trading of shares			
* Number of shares traded	Shares	12,508,204	889,992
* %	%	98.2	7.0

In 1998 and 1996 Elcoteq's financial year coincided calendar year. In 1995 financial year was from 1 March to 31 December (10 months). In 1994 financial year was from 1 March to 28 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 1998 is the Board of Directors' proposal to the general meeting.

Appendix 6

ASSETS PLEDGED AND CONTINGENT LIABILITIES

	Group		Parent Company	
	1998	1997	1998	1997
FOR OWN LIABILITIES				
Mortgages on real estate				
Loans from credit institutions	35,891	48,239	4,500	6,500
Mortgages	67,326	66,596	12,000	12,000
Mortgages on movable assets				
Loans from credit institutions	4,376	6,403	4,376	6,403
Mortgages for other loans	40,000	40,000	40,000	40,000
Other pledges given as collater				
Mortgages on moveable assets	12,000	29,500	7,000	-
Pledged trade receivables	-	7,603	-	7,603
Mortgages on real estate	500	19,500	500	500

ON BEHALF GROUP COMPANIES

	Group		Parent Company	
	1998	1997	1998	1997
Pledges	-	-	-	3,449
Guarantees	-	-	92,137	70,142
Mortgages on moveable assets	-	-	-	7,000
ON BEHALF OF OTHERS				
Guarantees	7,145	8,507	7,145	8,507
LEASING COMMITMENTS	16,575	52,573	14,809	48,465
DERIVATE CONTRACTS				
Interest and currency swap contracts	31,391	41,739	31,391	41,739
Forward contracts	428,604	177,640	428,604	177,640

If the interest and currency swap contract outstanding at December, 31, 1998 had been sold at the market price, the positive effect would have been FIM 3.2 million.