ELCOTEQ NETWORK CORPORATION | Stock Exchange Bulletin
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INTERIM REPORT JANUARY - JUNE 1998 (UNAUDITED)

Six months in review

Elcoteq Network's consolidated net sales between January and June totaled FIM 918.1 million, up 44.7 % on the same period last year (FIM 634.7 million). The growth in net sales was especially attributable to an increase in projects requiring large material volumes. The operating profit was FIM 19.1 million (January - June 1997: FIM 36.6 million) and the profit before extraordinary items was FIM 14.9 (28.0) million. Earnings per share were FIM 0.43 (1.27). Compared to the result for the same period last year, the result for the first half of the year was weakened in particular by lower than planned capacity utilization due to stronger and more rapid fluctuations in demand.

Gross capital expenditure amounted to FIM 84.0 (88.0) million. Most investments were made to raise production capacity and the level of technology knowhow. The figure also includes investments related to the introduction of a new enterprise resource and planning system. The factory investments in Hungary and Mexico will be scheduled mainly during the second half of the year and in 1999.

The balance sheet totaled FIM 1,054.8 (539.5) million. The Group's financial position remained strong. The solvency ratio, including the capital notes treated as equity, was 70.3 % (40.2 %). The Group's cash reserves at the close of the six-month period were FIM 310.0 million (FIM 517.3 million at the start of the year) and unused credit limits totaled FIM 284.9 million.

Elcoteq had 2,739 (2,405) employees on average during the period and 2,869 (2,691) employees on 30 June.

Second quarter in review

Elcoteq's sales and profit development between April and June did not meet the company's earlier expectations. Net sales totaled FIM 465.5 million, compared to FIM 335.7 million in the second quarter in 1997. The operating profit was FIM 7.1 (21.8) million and the pre-tax profit was FIM 4.4 (16.8) million.

Net sales increased 51.4 % during the first quarter of 1998 but, as the company had predicted in its January - March interim report, net sales growth slowed to 38.7 % in the second quarter.

Markets and competition

The global telecommunications equipment and mobile phone markets continued to develop strongly despite the uneven market development in Asia. Mobile phones, together with their components and accessories accounted to 71 % (62 %) of Elcoteq's net sales in the first six months of the year. Industrial electronics contributed 13 % (14 %) of net sales.

ABB, Ericsson and Nokia clearly remained Elcoteq's largest customers, with Ericsson and Nokia generating altogether 76 % (66 %) of Elcoteq's net sales. Industrial electronics deliveries to ABB rose substantially after Elcoteq took over the electronics manufacturing unit of ABB's Relays and Network Control Division in Vaasa, Finland at the start of the second quarter. Nevertheless, due to the rapid growth in the telecommunications markets the relative contribution of industrial electronics to Elcoteq's net sales was slightly reduced.

The availability of electronics components remained satisfactory and Elcoteq's production operations were not affected by availability problems.

Equipment installation in Hungary, construction started in Mexico

The manufacturing capacity expansion projects in Elcoteq's internationalization program progressed as planned. The company will gain a total of roughly 19,000 square meters of new factory space in Hungary and Mexico, providing new capacity in anticipation of continued growth in demand for electronics manufacturing services. After these factories enter production Elcoteq will be able to offer its manufacturing services with greater geographical coverage to both existing and new customers.

Construction of the factory in Pécs, Hungary, is now virtually complete, allowing equipment installation to start in early September. Production will start in October with a staff of about 200 people. Once in full production, the factory will have roughly 1,000 employees, all of whom will receive extensive training.

The construction contract was signed for the new factory in Monterrey, Mexico, and construction was started in July. The factory is scheduled to begin production during the first quarter of 1999.

The start-up of an aftermarketing services unit in Johor Bahru, Malaysia, will be delayed by a few months due, among other things, to problems obtaining suitable premises. This unit, which will supply repair, spare parts and logistics services, will be brought into operation during the last quarter of the year.

Cooperation agreement increases R&D knowhow

At the end of the second quarter Elcoteq concluded a joint technology development agreement with Elektrobit, an Oulu, Finland based company engaged mainly in research and design of data communications and industrial electronics applications. At the same time Elcoteq acquired a 10 % holding in Elektrobit's subsidiary Extrabit. Extrabit's mechanical and layout planning expertise, together with its capacity for producing prototypes and small series for R&D purposes, will strengthen and supplement Elcoteq's own technology and product development services unit set up in February.

Global framework agreement with Nokia

In June Elcoteq concluded a worldwide framework agreement with Nokia in which both companies stated their willingness to develop their mutual business relationship and defined the general principles which this will adopt. This agreement was supplemented by a global framework agreement concluded with Nokia Telecommunications. Detailed product and component manufacturing agreements will be made separately case by case.

Two new manufacturing contracts for GSM phones

In June Elcoteq secured two new contracts to manufacture GSM mobile phones. Both are box-build manufacturing contracts, i.e. Elcoteq will supply the customers with ready-assembled phones. Orders were received from two different customers. Volume production of the phones is expected to start in the final quarter of the current year.

For more than one year Elcoteq has been the only electronics manufacturing services (EMS) company in the world able to manufacture digital mobile phones.

International recognition for rapid growth

Elcoteq was ranked among Europe's fastest growing companies by Europe's 500, an analysis published at the start of the second quarter under the patronage of, and partially funded by, the European Commission. According to the Birch index given in the same analysis Elcoteq was Europe's eighth fastest entrepreneurial creator of new jobs between 1991 and 1996.

Quality certificate for Vaasa factory

Elcoteq's factory in Vaasa, Finland, received ISO 14001 certification for its environmental management system in June, the first Elcoteq unit to do so. An environmental management system currently being set up at the Lohja unit is expected to be certified at the end of the year.

Appointments

Mr Jukka Forsström, MSc (Econ.) was appointed Corporate Treasurer in May. Mr Petri Helin, Dip. Business Studies, was appointed General Manager of Elcoteq's aftermarketing services unit in Malaysia in June. Ms Anja Rouhiainen, MSc, was appointed Vice President - Production Development at Elcoteq Inc. with responsibility for the start-up and production capabilities of the Monterrey factory project in Mexico.

Prospects

Large electronics companies continue to outsource their manufacturing through EMS companies. Fiercer competition for outsourcing projects with the toughest technological requirements and largest production volumes has further reduced the margins obtainable by EMS companies. Outsourcing decisions depend, in addition to price competitiveness, on the EMS company's available capacity, level of technology, delivery capability and speed in various geographical regions, scope of services and quality. Through its internationalization and development programs now in progress, Elcoteq will substantially enhance its capabilities in these critical areas, although these programs will create considerable start-up costs during the current and following year. The Group's international expansion projects will enable the company to continue growing rapidly in 1999 and 2000. They also lay the foundation for Elcoteq's competitive strength and profitability in the longer term.

The new box build GSM phone deliveries are crucial for Elcoteq but they will not have an impact on the result until the final quarter of the year. Manufacture of end products has brought Elcoteq significantly closer to end users and largely eliminated the product stocks which previously acted as a buffer. For this reason the strong and rapid fluctuations in demand, both in general and for specific products, make capacity management and financial forecasting increasingly difficult.

During the third quarter the growth rate of Elcoteq's net sales will slow down, compared to the same period last year when growth was extremely vigorous. The third quarter result is expected to remain below the company's previous estimates. Similarly, net sales growth for the full year is likely to fall somewhat short of the 50 % growth target, and the year's pretax profit is expected to roughly equal last year's level.

Elcoteq's interim report for the January - September period will be published on November 5, 1998.

Helsinki, August 5, 1998

Board of Directors

Further information:

Managing Director Tuomo Lähdesmäki +358 19 313 11
Group Vice President, Communications and Investor Relations Osmo Kammonen
+358 19 313 1406
CFO Mikko Hietanen +358 19 313 1248

APPENDICES
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3 Key Figures
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APPENDIX 1

Income Statement FIM million	**Jan.- June 1998**	**Jan.- June 1997**	**Change %**	**Fiscal 1997**
Net Sales	**918.1**	**634.7**	**44.7**	**1, 678.6**
Other income from operations	2.3	2.0	17.5	2.7
Operating expenses	-879.0	-586.5	49.9	-1, 565.1
Depreciation	-22.3	-13.6	64.2	-34.8
Operating profit	**19.1**	**36.6**	**-47.7**	**81.3**
% of net sales	2.1	5.8	-63.8	4.8
Financial income and expenses	-4.2	-8.5	-50.9	-24.3
Profit before extraordinary items	**14.9**	**28.0**	**-46.7**	**57.0**
Extraordinary items	-2.3*)	-		-
Profit before taxation	**12.7**	**28.0**	**-54.8**	**57.0**
Income taxes	-4.4 **)	-7.8	-44.3	-13.3
Minority interests	-	0.0	-100.0	-0.0
Net income	**8.3**	**20.2**	**-58.9**	**43.7**

* Includes FIM 1.1 million income arising from a difference in the valuation of inventories.

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

APPENDIX 2

Balance Sheet FIM million	**June 30, 1998**	**June 30, 1997**	**Change %**	**Dec. 31, 1997**
Fixed assets	271.0	207.7	30.5	226.9
Current assets				

Inventories	220.3	133.2	65.4	227.0
Other current assets	563.4	198.7	183.6	737.6
Assets	**1, 054.8**	**539.5**	**95.5**	**1 191.5**
Restricted equity	532.5	5.5		532.3
Convertible capital notes	110.0	110.0	0.0	110.0
Non-restricted equity	99.1	98.5	0.6	95.6
Minority interests	-	2.9	-100.0	0.5
Provisions	1.0	0.4	163.2	0.3
Long-term liabilities	63.9	91.6	-30.3	77.9
Short-term liabilities	248.3	230.7	7.7	374.8
Shareholders' equity and liabilities	**1, 054.8**	**539.5**	**95.5**	**1, 191.5**

APPENDIX 3

Key Figures	**June 30, 1998**	**June 30, 1997**	**Change %**	**Dec. 31, 1997**
Personnel on average during the period	2, 739	2, 405	13.9	2, 593
Gross capital expenditure FIM million	84.0	88.0	-4.6	132.0
- of which leasing	0	4.6		4.6
Return on equity (ROE) %	1.7	19.9		12.1
Return on investment (ROI) %	3.6	10.1		13.2
Current ratio	3.2	1.4		2.6
Solvency 1) *	59.9	19.8		52.7
Solvency 2) **	70.3	40.2		62.0
Net gearing 1) *	-0.2	2.3		-0.4
Net gearing 2) **	-0.3	0.6		-0.5
Earnings per share (EPS) . FIM	0.43	1.27	-66.5	2.64
Equity/ share FIM	27.09	6.55	313.3	26.93
Interest-bearing liabilities FIM million	65.8	150.1	-56.2	159.1
- (incl. convertible capital notes)	175.8	260.1	-32.4	269.1
Non-interest-bearing liabilities FIM million	246.5	172.2	43.1	293.6

* 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.

APPENDIX 4

Assets pledged and contingent liabilities **FIM million**	**June 30, 1998**	**June 30, 1997**	**Change %**	**Dec. 31, 1997**

For own liabilities				
Mortgages on movable assets	52.0	74.5	-30.2	69.5
Pledged accounts receivable	0.0	53.5	-100.0	7.6
Mortgages on real estate	58.0	31.5	84.1	86.1
For others				
Guarantees	7.4	9.6	-22.9	8.5
Other own liabilities				
Leasing liabilities	40.3	63.1	-36.1	52.6
Nominal values of other own commitments				
Interest and currency swap agreements38.1	40.0	-4.8	41.7	
Forward exchange contracts	209.8	0.0		177.6

If the currency and interest swap agreements outstanding at 30 June, 1998 had been sold at the market price, the positive effect would have been FIM 6,4 million.