Elcoteq Network Corporation

Stock Exchange Release
August 7, 2003, 9.00 am (EET)

ELCOTEQ NETWORK CORPORATION'S INTERIM REPORT JANUARY-JUNE 2003 (unaudited)

April – June

- Second-quarter net sales up 18 % on same period last year and totaled MEUR 500.4 (MEUR 425.2)
- Operating profit MEUR 1.7 (MEUR 1.2), pretax loss MEUR –0.3 (MEUR –1.3)
- Earnings per share (EPS) EUR –0.08 (EUR –0.08)
- Return on investment (rolling 12-month ROCE) 13.0 % (-3.4 %)
- Cash flow after investing activities MEUR 13.6 (MEUR 26.1)
- Gearing 0.1 (-0.1)

January – June

- Six-month net sales approx. 23 % higher than in first half of 2002 and totaled MEUR 1,017.6 (MEUR 827.5)
- Operating profit MEUR 7.0 (MEUR –5.3), pretax profit MEUR 3.5 (MEUR –9.4)
- Earnings per share (EPS) EUR –0.01 (EUR –0.34)
- Cash flow after investing activities MEUR –44.1 (MEUR 69.7)
- Interest-bearing net debt MEUR 24.2 (MEUR -32.4)

(Figures in brackets are those for the same period in 2002 unless otherwise stated.)

Overview

The business environment in general and conditions within electronics manufacturing services (EMS) for communications technology products, the market chosen by Elcoteq as its strategic core business, have remained challenging during 2003. China, the fastest growth market in this field, was hit by the effects of the SARS epidemic; the global economy by the ongoing worldwide slowdown and prolonged economic uncertainty resulting from the Iraq war; and international business by changes in the rate of the US dollar against the euro. This has further emphasized the continuous need to reduce production costs which in China, alongside oversupply of manufacturing capacity, has led to aggressive competition on prices.

At the start of the year Elcoteq estimated that its full-year net sales would increase by some EUR 1.2 billion on the previous year, half of this from the GKI companies acquired in China at the end of 2002 and the other half from organic growth, chiefly from existing customers of the Terminal Products business area. The SARS epidemic and changes in the dollar-euro exchange rate have reduced Elcoteq's growth prospects in China, while the expected increase in organic growth has so far not materialized as planned. Production volumes of ongoing projects have not developed in the manner expected, and the company was unable during the reporting period to gain significant new customer accounts or conclude the acquisitions it was evaluating. For these reasons at the beginning of June Elcoteq lowered its full-year net sales growth estimate from 60 % to 40 %.

The company has actively continued implementation of its communications technology strategy announced in August 2002. The volume of requests for offer received by the company is substantially higher than before the new revised strategy was adopted. Elcoteq is engaged in negotiations covering acquisitions and new EMS partnerships in Europe, Asia and the Americas.

April - June: net sales and result

Second-quarter net sales rose approximately 18 % on the same period last year and, in line with the revised forecast issued at the beginning of June, totaled MEUR 500.4 (MEUR 425.2). The figure was roughly 3 % lower than net sales in the first quarter of 2003 owing to the SARS epidemic, which slowed economic growth in China, and to the weakening of the US dollar. The effects of the latter factor were felt most keenly in Elcoteq's net sales from China, where invoicing is US dollar-linked. Changes in the dollar exchange rate also affected the company's net sales in Europe, where dollar-priced components are used extensively. Calculated on Q2/2002 exchange rates, net sales in the second quarter of 2003 would have exceeded MEUR 550. Elcoteq's product pricing model and hedging policy take account of changes in exchange rates and therefore the change in the dollar exchange rate has had no significant impact on profits. Between April and June, the company reported an operating profit of MEUR 1.7 (MEUR 1.2) and a pretax loss of MEUR –0.3 (MEUR –1.3). These figures include MEUR 2.1 in one-time items which derive from provisions for non-current materials and from an additional writedown on a product development project taken over by the company following the acquisition of the Benefon R&D capacity in August 2002. Earnings per share were EUR –0.08 (EUR –0.08).

Cash flow after investing activities for the second quarter was MEUR 13.6 (MEUR 26.1) positive due mainly to improved management of working capital.

Elcoteq's largest customers are companies belonging to the Nokia and Ericsson groups and accounted for 77 % (83 %) of Elcoteq's second-quarter net sales.

January - June: net sales and result

Net sales for the first half of 2003 rose 23 % to MEUR 1,017.6 (MEUR 827.5). The impact of exchange rate changes on net sales compared with the same period last year amounted to approximately MEUR 100. The six-month operating profit was MEUR 7.0 (MEUR -5.3) and the pretax profit totaled MEUR 3.5 (MEUR -9.4). Earnings per share were EUR –0.01 (EUR -0.34). In line with its accounting principles, Elcoteq did not enter deferred tax assets on the losses in the US subsidiary for the first six months, and this raised the Group's tax rate in the reporting period. The parent company, similarly, has not entered deferred tax assets on writedowns of subsidiary shares that so far have not been approved as tax-deductible. These tax assets on writedowns will reduce the taxes payable by the parent company by MEUR 6.9 when the writedowns are confirmed as tax-deductible.

Gross capital expenditure on fixed assets between January and June totaled MEUR 23.9 (MEUR 9.6), or 2.3 % of net sales. Depreciation amounted to MEUR 28.3 (MEUR 24.5).

Cash flow after investing activities was MEUR –44.1 (MEUR 69.7) and included a MEUR 35.6 payment for the GKI acquisition. Unused credit limits totaled MEUR 167.6 (MEUR 167.0 at the end of March). Payments received by the Group after selling trade receivables totaled MEUR 101.3 at the end of June (MEUR 108.1 at the end of March). The solvency ratio remained strong, standing at 40.1 % (39.7 %). Gearing was at a good level, 0.1 (-0.1).

Personnel

The Group had 10,718 (7,765) employees at the end of June of whom 1,135 (1,090) worked in Finland and 9,583 (6,676) elsewhere. The geographical distribution of the personnel was as follows: Europe 6,498 (5,701), Asia-Pacific 3,456 (1,518) and Americas 764 (546). The average number of employees between January and June was 10,388 (7,899).

The personnel negotiations initiated on March 13, 2003 at the Lohja plant in Finland were completed in May. Consequently 86 employees in Terminal Products and Communications Network Equipment production at the Lohja plant were made redundant. This number was in the end considerably lower than the 160 redundancies originally estimated at the start of the process.

Business areas

The company’s main business areas are Terminal Products and Communications Network Equipment. Terminal Products represented 78 % (71 %) of second-quarter net sales and Communications Network Equipment 12 % (14 %). Industrial Electronics accounted for 10 % (15 %) of the Group’s net sales.

Net sales of the Terminal Products business area totaled MEUR 798.9 (MEUR 586.3) between January and June. Net sales between April and June were MEUR 388.9 (MEUR 300.7), an increase of approximately 29 % on last year’s second quarter but roughly 5 % lower than in the first quarter this year. Full-year sales for Terminal Products are expected to show clear growth compared to 2002 sales.

Net sales of the Communications Network Equipment business area between January and June amounted to MEUR 115.9 (MEUR 116.8). Net sales between April and June were MEUR 60.8 (MEUR 61.9), up 10 % on the first quarter. Business conditions continue to be challenging in this sector and no signs are visible of a general market recovery in the near future. Accordingly, Elcoteq believes that net sales of its Communications Network Equipment business area will increase compared to last year, but less substantially than the company estimated earlier this year.

Geographical areas (GAs)

Elcoteq divides its operations geographically into four areas. Europe comprises two organizations: one is responsible for Elcoteq's Terminal Products business in Europe while the other combines the European operations of Elcoteq's Communications Network Equipment and Industrial Electronics businesses. The other two areas are Asia-Pacific and Americas. Net sales for the second quarter of the year were split among these areas as follows: Terminal Products in Europe 44 % (44 %), Communications Network Equipment and Industrial Electronics in Europe 21 % (26 %), Asia-Pacific 32 % (25 %) and Americas 3% (5 %).

Europe

Aggregate second-quarter net sales in Europe totaled MEUR 322.0 (MEUR 299.4). This comprised MEUR 218.4 (MEUR 188.5) from Terminal Products and MEUR 103.6 (MEUR 110.9) from Communications Network Equipment and Industrial Electronics.

Asia-Pacific

Second-quarter net sales of GA Asia-Pacific were MEUR 161.7 (MEUR 104.5), roughly MEUR 75 was contributed by the GKI companies. The competitive environment in the Asia-Pacific EMS market, and especially in China, intensified further during the first half of the year. In China this resulted in clear pressure on prices.

The outbreak of the SARS epidemic in China depressed demand for mobile phones in China during the second quarter. Since Elcoteq has roughly 30 % of its capacity in China, the epidemic clearly affected the company’s operations. The threat posed by the epidemic now appears to have receded, however, and activities are returning to normal. No Elcoteq employees were noted to have contracted SARS.

Americas

Second-quarter net sales of GA Americas totaled MEUR 16.6 (MEUR 21.3). During the first six months of the year Elcoteq won new projects and gained new customers in this area, production for whom was being ramped up during the second quarter. The result is a decisive improvement in capacity utilization at the plant in Monterrey, Mexico. Capacity utilization at the plant is expected to rise further during the remainder of the year.

Prospects

Elcoteq maintains its full-year net sales estimate of approximately EUR 2.5 billion issued at the beginning of June. Net sales between July and December will accrue most strongly during the final quarter. The full-year result is expected to improve on 2002.

Tallinn, Estonia, August 6, 2003

Board of Directors

Further information:
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Press conference

Elcoteq will hold a press conference for media representatives and analysts in the Freda Cabinet of the Scandic Hotel Simonkenttä (1st floor), Simonkatu 9, Helsinki starting at 13.00 EET on Thursday, August 7, 2003.

Conference call for analysts and fund managers

A conference call in English will be held on Thursday, August 7, 2003 starting at 15.30 EET (13.30 UK time). To participate by phone, please call +44 20 7162 0184, code Elcoteq. A taped recording of the teleconference will be available for three banking days after the call on +44 20 8288 4459, code 950202.

The presentation material on Q2 results (pdf file) will be available from 11.00 am (EET) on August 7, 2003 on the company's website, www.elcoteq.com.

Elcoteq publishes its nine-month interim report on October 24, 2003.

The following average conversion rate is used in this interim report:
1 EUR = 1.1427 USD

Enclosures:

1 Income statement
2 Balance sheet
3 Cash flow statement
4 Key figures
5 Assets pledged, contingent liabilities and other commitments
6 Quarterly figures

APPENDIX 1

INCOME STATEMENT, MEUR	1-6/2003	1-6/2002	Change, %	1-12/2002
NET SALES	**1,017.6**	**827.5**	**23.0**	**1,840.2**
Change in stock of work in progress and finished goods	-11.5	-3.2	257.6	11.2
Other income from operations	1.3	1.6	-20.2	3.9
Operating expenses	-972.1	-806.6	20.5	-1,780.6
Depreciation and writedowns	-28.3	-24.5	15.7	-49.2
OPERATING PROFIT/LOSS	**7.0**	**-5.3**		**25.5**
% of net sales	0.7	-0.6		1.4
Financial income and expenses	-3.5	-4.1	-16.3	-7.0
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAXES	**3.5**	**-9.4**		**18.6**
Income taxes	-3.9	-0.2		-0.1
Minority interests	0.0	-0.4	-102.8	-2.5
NET PROFIT/LOSS FOR THE PERIOD	**-0.4**	**-10.0**		**16.1**

Reported taxes represent income tax for the period.

APPENDIX 2

BALANCE SHEET, MEUR	June 30, 2003	June 30, 2002	Change, %	Dec. 31, 2002
ASSETS				
Fixed assets				
Intangible assets	46.9	10.8	334.2	45.8
Tangible assets	130.5	144.6	-9.7	147.6
Investments	1.2	0.9	30.2	0.8
Fixed assets, total	**178.6**	**156.3**	**14.3**	**194.2**
Current assets				
Inventories	158.9	152.2	4.4	197.5
Long-term receivables	4.0	5.1	-20.5	6.9
Short-term receivables	222.6	161.2	38.0	235.2
Cash and cash equivalents	44.4	100.8	-56.0	76.1
Current assets, total	**429.9**	**419.3**	**2.5**	**515.7**
ASSETS, TOTAL	**608.5**	**575.6**	**5.7**	**709.8**

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity				
Share capital	11.8	11.8	0.0	11.8
Other shareholders' equity	222.0	210.7	5.4	235.8
Shareholders' equity, total	**233.8**	**222.5**	**5.1**	**247.6**
Minority interests	10.2	6.0	71.5	12.2
Provisions	0.7	2.0	-64.0	1.4
Liabilities				
Long-term liabilities				
Long-term loans	22.1	37.5	-41.1	22.6
Other long-term debt	3.5	1.3	164.7	2.9
	25.6	38.8	-34.1	25.5
Short-term liabilities				
Short-term loans	46.2	31.5	46.9	20.5
Other short-term debt	292.0	274.8	6.2	402.6
	338.2	306.3	10.4	423.1
Liabilities, total	**363.8**	**345.1**	**5.4**	**448.6**
SHAREHOLDERS' EQUITY AND LIABILITIES. TOTAL	**608.5**	**575.6**	**5.7**	**709.8**

APPENDIX 3

CONSOLIDATED CASH FLOW STATEMENT, MEUR

	1-6/2003	1-6/2002	Change, %	1-12/2002
Cash flow before change in working capital	16.6	19.0	-12.6	71.0
Change in working capital *)	-0.7	69.2	-101.0	45.1
Financial items and taxes	-3.0	-9.1	-66.9	-10.9
Cash flow from operating activities	12.9	79.1	-83.7	105.2
Cash flow from investing activities **)	-57.0	-9.4	506.4	-27.8
Cash flow before financing activities	**-44.1**	**69.7**	**-163.3**	**77.3**
Change in short-term debt	25.9	-1.0		-15.0
Change in long-term debt	1.0	-2.7		-16.8
Dividends paid	-11.8	0.0		-2.1
Cash flow from financing activities	**15.1**	**-3.7**		**-33.9**
Change in cash and cash equivalents	**-29.1**	**66.0**	**-144.1**	**43.4**
Cash and cash equivalents on January 1	**76.1**	**36.4**	**108.8**	**36.4**
Effect of exchange rate fluctuations on cash held	**-2.6**	**-1.6**	**61.7**	**-3.8**
Cash and cash equivalents at the end of period	**44,4**	**100.8**	**-56.0**	**76.1**

*) The change in working capital includes the change in sold accounts receivable. The impact of this change is to weaken cash flow by MEUR 20.1 during the reporting period 1-6/2003 and to improve cash flow by MEUR 21.7 during 1-6/2002.

**) Cash flow from investing activities 1-6/2003 includes the payment of MEUR 35.6 on the acquisition of the GKI companies on December 31, 2002.

APPENDIX 4

KEY FIGURES	1-6/2003	1-6/2002	Change, %	12/2002
Personnel on average during the period	10,388	7,899	31.5	8,127
Gross capital expenditure, MEUR	23.9	9.6	148.7	78.0
Return on equity (ROE), %	-0.2	-4.1		7.4
Return on investment (ROI/ROCE), %	2.6	-1.0		9.2
From 12 preceding months:				
Return on equity (ROE), %	11.7	-10.6		7.4
Return on investment (ROI/ROCE), %	13.0	-3.4		9.2
Earnings per share (EPS), EUR	-0.01	-0.34		0.54
Diluted earnings per share (EPS), EUR		-		0.48
Current ratio	1.3	1.4		1.2
Solvency ratio, %	40.1	39.7		36.6
Gearing	0.1	-0.1		-0.1
Equity per share, EUR	7.93	7.55	5.0	8.40
Interest-bearing liabilities, MEUR	68.6	68.4	0.3	42.6
Interest-bearing net debt, MEUR	24.2	-32.4		-33.4
Non-interest-bearing liabilities, MEUR	295.2	276.8	6.6	406.3

APPENDIX 5

ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR

	June 30, 2003	June 30, 2002	Change, %	Dec. 31, 2002
FOR OWN LIABILITIES				
Mortgages on real estate				
Loans from credit institutions	-	0.6	-100.0	-
Mortgages	-	9.3	-100.0	9.0
Mortgages on moveable assets				
Mortgages for other loans	-	4.5	-100.0	4.5
Other pledges given as collateral				
Mortgages on moveable assets	-	0.3	-100.0	0.3
ON BEHALF OF OTHERS				
Guarantees	0.2	0.4	-50.0	0.5
LEASING COMMITMENTS				
Operating lease, machinery and equipment (excl. VAT)	5.0	12.4	-59.7	8.8
Rental commitments, real estates (excl. VAT)	22.5	19.7	14.2	17.4

	June 30, 2003	June 30, 2002	Change, %	Dec. 31, 2002
DERIVATIVE CONTRACTS				
Foreign currency derivative instruments				
Foreign currency forward contracts				
Nominal value	180.0	107.3	67.8	168.1
Book value	-2.6	-0.9	188.9	-1.5
Market value	-2.4	-1.1	118.2	-1.5
Foreign currency option contracts				
Nominal value, bought	-	5.0	-100.0	11.3
Nominal value, sold	-	-		2.9
Book value, bought	-	0.0		0.0
Book value, sold	-	-		0.0
Market value, bought	-	0.0		0.0
Market value, sold	-	-		0.0
Interest rate and foreign exchange swap contracts				
Nominal value	-	0.8	-100.0	-
Book value	-	0.2	-100.0	-
Market value	-	0.2	-100.0	-

APPENDIX 6

QUARTERLY FIGURES

INCOME STATEMENT, MEUR	Q2/2003	Q1/2003	Q4/2002	Q3/2002	Q2/2002	Q1/2002
NET SALES	**500.4**	**517.3**	**556.4**	**456.1**	**425.2**	**402.3**
Change in stock of work in progress and finished goods	3.8	-15.3	5.7	8.7	-6.7	3.5
Other income from operations	0.7	0.6	1.5	0.8	0.5	1.1
Operating expenses	-488.7	-483.4	-532.9	-441.1	-405.9	-400.7
Depreciation and writedowns	-14.5	-13.8	-12.6	-11.9	-11.9	-12.6
OPERATING PROFIT/LOSS	**1.7**	**5.3**	**18.1**	**12.7**	**1.2**	**-6.5**
% of net sales	0.3	1.0	3.3	2.8	0.3	-1.6
Financial income and expenses	-2.0	-1.5	-0.8	-2.0	-2.5	-1.6
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAXES	**-0.3**	**3.8**	**17.3**	**10.7**	**-1.3**	**-8.1**
Income taxes	-1.9	-2.0	3.0	-2.9	-0.7	0.5
Minority interests	0.0	0.1	-0.7	-1.4	-0.4	0.0
NET PROFIT/LOSS	**-2.3**	**1.8**	**19.6**	**6.4**	**-2.4**	**-7.6**

BALANCE SHEET, MEUR	Q2/2003	Q1/2003	Q4/2002	Q3/2002	Q2/2002	Q1/2002
ASSETS						
Fixed assets						
Intangible assets	46.9	48.1	45.8	20.9	10.8	11.8
Tangible assets	130.5	139.6	147.6	139.5	144.6	157.8
Investments	1.2	0.8	0.8	0.8	0.9	0.7
Fixed assets, total	**178.6**	**188.6**	**194.2**	**161.2**	**156.3**	**170.3**
Current assets						
Inventories	158.9	176.5	197.5	180.4	152.2	169.2
Long-term receivables	4.0	4.8	6.9	1.7	5.1	4.3
Short-term receivables	222.6	222.8	235.2	176.9	161.2	173.5
Cash and cash equivalents	44.4	41.3	76.1	101.7	100.8	75.7
Current assets, total	**429.9**	**445.4**	**515.7**	**460.7**	**419.3**	**422.8**
ASSETS, TOTAL	**608.5**	**634.0**	**709.8**	**621.9**	**575.6**	**593.1**

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity						
Share capital	11.8	11.8	11.8	11.8	11.8	11.8
Other shareholders' equity	222.0	225.3	235.8	217.7	210.7	216.5
Shareholders' equity, total	**233.8**	**237.1**	**247.6**	**229.5**	222.5	228.3
Minority interests	10.2	11.7	12.2	5.5	6.0	6.3
Provisions	0.7	0.9	1.4	3.3	2.0	2.6
Liabilities						
Long-term liabilities						
Long-term loans	22.1	22.4	22.7	36.5	37.5	35.4
Other long-term debt	3.5	3.0	2.9	1.2	1.3	1.3
	25.6	25.4	25.5	37.7	38.8	36.7
Short-term liabilities						
Short-term loans	46.2	44.4	20.5	34.8	31.4	37.6
Other short-term debt	292.0	314.4	402.6	311.1	274.8	281.7
	338.2	358.9	423.1	345.9	306.3	319.2
Liabilities, total	**363.8**	**384.3**	**448.6**	**383.6**	**345.1**	**355.9**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**608.5**	**634.0**	**709.8**	**621.9**	**575.6**	**593.1**
Personnel on average during the period	10,566	10,210	8,734	7,781	7,731	8,020
Gross capital expenditure, MEUR	10.3	13.6	51.7	16.7	5.7	3.9
ROCE/ROI from 12 preceding months, %	13.0	12.7	9.2	4.4	-3.4	-5.6
Earnings per share (EPS), EUR	-0.08	0.06	0.66	0.22	-0.08	-0.26
Solvency ratio, %	40.1	39.3	36.6	37.8	39.7	39.6

NET SALES BY GEOGRAPHICAL AREA

	Q2/2003	Q1/2003	Q4/2002	Q3/2002	Q2/2002	Q1/2002
TP Europe*	218.4	203.7	289.6	225.0	188.5	156.6
CNE/IE Europe **	103.6	102.3	117.3	100.4	110.9	98.4
Asia-Pacific	161.7	199.2	129.5	115.3	104.5	121.3
Americas	16.6	12.1	20.1	15.5	21.3	26.0

* Terminal Products Europe
** Communications Network Equipment/Industrial Electronics Europe

NET SALES BY BUSINESS AREA

Terminal Products	388.9	410.0	423.3	339.3	300.7	285.6
Communications Network Equipment	60.8	55.1	67.6	59.5	61.9	54.9