

## INTERIM REPORT JANUARY – MARCH 1998 (Unaudited)

Elcoteq's net sales between January and March totaled FIM 452.7 million (same period in 1997: FIM 299.0 million), an increase of 51.4 %. The operating profit was FIM 12.0 (14.7) million and the profit before extraordinary items was FIM 10.6 (11.3) million. Earnings per share were FIM 0.22 (FIM 0.30 calculated on the current number of shares). The net profit for the period was FIM 5.0 (6.8) million.

The increase in net sales matched the company's target of 50 % growth. Several decisions were made during the first quarter and thereafter which will expand Elcoteq's service offering and geographical coverage.

The company's growth led to an increase in fixed costs, compared to the same period in 1997. These costs, as well as costs arising from development programs and extraordinary expenses, affected the result adversely. However, the result for January-March was better than the company predicted in January when slack demand after the Christmas boom was especially evident. At that time market recovery was not forecast to occur until after the first quarter. Demand in fact recovered rapidly and Elcoteq's shipments to its customers increased in February and March although strong seasonal fluctuations are still in evidence.

The balance sheet totaled FIM 1,120.3 million, remaining essentially unchanged from the end of the 1997 financial year. The company's financial position remained strong. The solvency ratio, including the capital notes treated as equity, was 65.9 % (41.6 %). The Group's cash reserves at the balance sheet date were FIM 449.2 million and unused credit limits totaled FIM 292.8 million.

Extraordinary expenses include the result of operations of the printed circuit board manufacturing operation transferred to Chemitalic A/S and the one-time costs of this divestment, altogether FIM 3.4 million. The company hedged its profits against exchange rate fluctuations through forward contracts. These were charged to sales income or raw material purchases and not to financial items as in previous financial statements. The adoption of new accounting legislation also created other small changes in the calculation of net sales. The comparative figures have been adjusted for these changes to correspond to the new accounting principles.

Open contracts were valued from the beginning of the period at the exchange rates on the balance sheet date. Since the start of the period inventories have also included a proportion of production overhead and for this reason a valuation item of FIM 1.1 million was charged to extraordinary income.

#### Markets and competition

In terms of net sales Elcoteq ranks among the world's top 20 electronics manufacturing services (EMS) companies, according to a recent survey (Manufacturing Market Insider, March 1998). The company's rapid growth is

primarily the result of organic expansion based on loyal, long-term customer relations. ABB, Ericsson and Nokia continued to be Elcoteq's largest customers during the first quarter of 1998. Ericsson and Nokia together accounted for 79 % (70 %) of Elcoteq's net sales; 73 % (62 %) was derived from mobile phones and their accessories.

The EMS industry continued to grow and gain recognition as a separate business sector in its own right. Market growth has also increased the number of players and competition. Nevertheless, only the largest and most international EMS companies are in practice capable of competing for the biggest manufacturing outsourcing projects.

The situation in the component markets eased compared to last year and no significant component availability problems have been experienced during 1998.

#### Services improved

Elcoteq founded a Technology and Product Development Services unit in February. This unit increases Elcoteq's services, especially at the beginning of the product value chain, by offering customers additional development resources and by accelerating the time it takes their products to reach the market. The unit employs some 30 people, based in Lohja (Finland) and Tallinn (Estonia). These services will eventually be available at Elcoteq's other factories as well.

A purchasing office was set up in Tokyo, also in February, enabling Elcoteq to negotiate more favorable prices directly with local Japanese component manufacturers. This office will also enhance Elcoteq's speed of response in the component markets and reduce the length of its materials chain.

A regional office was set up in Oulu, north Finland, at the beginning of April to raise the standard of customer service in that area.

Elcoteq's electronics manufacturing services are now comprehensive in scope including technology and product development services, materials management, manufacturing, assembly, testing, customer packaging, logistics, and aftermarketing services.

In April Elcoteq received the award of Most Successful Developer of Estonian Production Quality and Technology during 1997. Among other things this was due to the successful box build production of GSM mobile phones at its Tallinn factory, the first EMS factory in the world to be responsible for such a project. In 1997 AS Elcoteq Tallinn was also once again Estonia's largest exporter.

Printed circuit board operation divested -  
industrial electronics in Vaasa acquired

At the beginning of March Elcoteq withdrew from printed circuit board manufacture when it sold Printeq-Piirilevyt Oy to the Danish company Chemitalic A/S. At the

same time Elcoteq and Chemitalic agreed on cooperation in technology development.

In January Elcoteq and ABB Transmit Oy agreed on the transfer to Elcoteq of the printed circuit board assembly and module manufacturing operation of ABB's Relays and Network Control Division in Vaasa. This acquisition took place in April. The new Vaasa unit strengthens Elcoteq's industrial electronics manufacturing capabilities.

#### Rapid internationalization continues

Elcoteq's services are also being expanded geographically. This year will be of central importance to the Group's internationalization strategy. Construction of a new 11,000 square meter electronics factory in Pécs, Hungary, is proceeding as planned and is due for completion and start-up in November 1998.

The pilot factory started up in St. Petersburg, Russia, in December 1997 is operating as expected, paving the way for possible expansion in St. Petersburg during 1998.

The customer service unit set up in Dallas, USA, in 1997 became fully operational in March. In the early May Elcoteq's Board of Directors decided to set up a factory in Monterrey, Mexico, which will enable Elcoteq to serve its customers operating on the US market. The Monterrey factory will have an initial size of 8,000 square meters and its start-up is scheduled to take place around year end.

In summer 1998 Elcoteq will start up an aftermarketing services unit in Johor Baharu, Malaysia. This unit will offer customers the possibility to outsource their service and spare parts operations. The unit's location will utilize the strong electronics expertise in the Johor area, Malaysia's cost level, and the international materials management and logistics services available in Singapore.

#### New ERP system

Elcoteq's rapid internationalization and growth require a corporate information system that is fast, accurate and expandable. To meet this need the company ordered a Enterprise Resource and Planning System from the Baan Company of the Netherlands. The system will be started up during the second quarter and cover the entire Elcoteq Group in 1999.

#### Changes in organization

At the beginning of February Mr Ari Hartikainen MSc (Eng.) was appointed Group Vice President, Quality and Internal Development, and a member of the company's Executive Committee.

Mr Jukka Jäämaa Lic. Tech. was appointed Group Vice President and General Manager, Europe, and also a member of the Executive Committee at the beginning of April.

Ms Anja Rouhiainen MSc, General Manager of Elcoteq Lohja Oy, was appointed Plant Manager in Hungary with effect from August 1, 1998. Mr Reijo Itkonen continues as the president of the company in Hungary.

#### Annual General Meeting

Elcoteq Network Corporation's Annual General Meeting, held on March 17 in Helsinki, carried the Board's proposal to pay a dividend of FIM 0.20 per share. The composition of the Board of Directors remained unchanged as Antti Piippo, Henry Sjöman, Jorma Vanhanen, Heikki Horstia and Juha Toivola were re-elected until the following AGM. The Board elected Antti Piippo as its chairman and Juha Toivola as its deputy chairman.

KPMG Wideri Oy Ab were re-appointed as the company's auditors and Birger Haglund was appointed as the supervising auditor.

#### Prospects

The electronics manufacturing services markets are expanding further, which puts Elcoteq's continued growth during 1998 on a solid foundation. However, stronger and more rapid seasonal fluctuations are making forecasting progressively more difficult. Elcoteq's growth is expected to slacken during the second quarter and the result for this period will probably not reach the level of the same period last year. Growth is expected to gain in pace during the latter half of the year, driven by several significant customer projects.

The result of the full year is forecast to improve on the result in 1997 although this will be a challenge owing to the costs arising from Elcoteq's geographical expansion and development projects.

Helsinki, May 6, 1998

#### Board of Directors

Further information: Mr Tuomo Lähdesmäki, President, +358 – 19 – 313 1700  
Mr Mikko Hietanen, CFO, +358 – 19 – 313 1248

Elcoteq's Interim Report on January-June will be published on August 6, 1998.

#### INCOME STATEMENT,

FIM Million	Q1 1998	Q1 1997	Change %	Fiscal 1997
Net sales	452.7	299.0	51.4	1,678.6
Other income from operations	1.0	1.8	-41.5	2.7
Operation expences	-431.3	-280.2	53.9	-1,565.1
Depreciation	-10.4	-5.8	78.4	-34.8
Operating profit	12.0	14.7	-18.5	81.3

% of net sales	2.7	4.9	-46.2	4.8
Financial income and expenses	-1.4	-3.5	-59.3	-24.3
Profit before Extraordinary items	10.6	11.3	-5.9	57.0
Extraordinary items	-2.3			
Profit before taxation	8.3	11.3	-26.2	57.0
Income taxes	-3.3	-3.9	-16.0	-13.3
Minority interests		-0.6	-100.0	-0.1
Net income	5.0	6.8	-25.8	43.7

BALANCE SHEET,  
FIM Million

	Mar. 31,1998	Mar.31,1997	Change %	Dec.31,1997
Fixed assets	213.6	172.2	24.1	226.9
Current assets				
Inventories	212.4	131.6	61.4	227.0
Other current assets	694.3	186.5	272.3	737.6
Assets	1,120.3	490.3	128.5	1,191.5
Restricted equity	532.5	5.5		532.3
Convertible cap. notes	110.0	110.0	0.0	110.0
Non-restricted equity	95.8	85.1	12.6	95.6
Minority interests		3.5	-100.0	0.5
Provisions	1.1	0.4	200.0	0.3
Long-term liabilities	64.9	100.0	-35.1	77.9
Short-term liabilities	316.0	185.9	70.0	374.8
Shareholders' equity and liabilities	1,120.3	490.3	128.5	1,191.5

KEY FIGURES

	Mar.31,1998	Mar.31,1997	Change %	Dec.31,1997
Personnel, average	2,590	2,334	11.0	2,593
Gross capital expenditure				
FIM million	14.7	36.6	-59.9	132.0
- of which leasing	0	4.5	-100.0	4.6
Return on equity (ROE), %	0.8	7.7	-89.6	12.1
Return on investment (ROI), %	1.8	4.6	-60.6	13.2
Current ratio	2.9	1.7	68.0	2.6
Solvency 1)*	56.1	19.2	192.5	52.7
Solvency 2)**	65.9	41.6	58.4	62.0
Net gearing 1)*	-0.4	2.2	-117.2	-0.4
Net gearing 2)**	-0.5	0.5	-196.8	-0.5
Earnings/share(EPS), FIM	0.22	0.43	-49.5	2.64
Equity/share, FIM	26.95	5.71	372.3	26.93
Interest-bearing Liabilities, FIM million	97.2	126.5	-23.2	159.1

-(incl. Convertible capital notes)	207.2	236.5	-12.4	269.1
Non-interest-bearing Liabilities, FIM million	283.7	159.4	78.0	293.6

\* Convertible capital notes are included in interest-bearing liabilities

\*\* Convertible capital notes are included in shareholder's 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, FIM Million	Mar.31,1998	Mar.31,1997	Change %	Dec.31,1997
For own liabilities				
Guarantees	7.6	8.1	-6.6	7.7
Mortgages on movable assets	66.5	77.7	-14.4	69.5
Pledged account receivables	0.0	18.6	-100.0	7.6
Mortgages on real estate	86.2	31.5	173.8	86.1
For others				
Guarantees	8.2	10.4	-21.1	8.5
Other own liabilities				
Leasing liabilities	47.2	67.4	-30.0	52.6
Nominal values of other own commitments				
Interest and currency Swap agreements	43.2	35.8	20.7	41.7
Forward exchange contracts	138.6	0.0		177.6

If the currency and interest agreements outstanding at March 31, 1998 had been sold at the market price, the positive effect would have been FIM 8.5 million.