Elcoteq Network Corporation | Stock Exchange Release
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# INTERIM REPORT JANUARY – MARCH 2001 (Unaudited)

## ELCOTEQ'S FIRST-QUARTER OPERATING PROFIT 3.6 MEUR

- Net sales up 9.5% to 481.3 MEUR (439.7 MEUR)
- Operating profit 3.6 MEUR (13.2 MEUR)
- Return on capital employed 14.6 % (15.7 %)
- Elcoteq becomes preferred supplier for selected Ericsson communications network products
- Full-year net sales at year 2000 level, result clearly positive

Demand for communications products declined clearly during the first quarter of 2001, compared to the end of last year, as general economic uncertainty increased. Similarly, demand for electronics manufacturing services was down on the final quarter of 2000 although clearly higher than in the first quarter of 2000.

The general change in demand for communications products has affected Elcoteq in two ways. During the first quarter Ericsson, a major Elcoteq customer, announced decisions concerning the restructuring of its mobile phone production; the result was to reduce Elcoteq's net sales the first quarter, compared to Q4 2000, and the same effect will be felt throughout the remainder of 2001. Furthermore, Elcoteq's operations during 2001 will be indirectly affected by the scheduling of investments in wireless communications networks and of volume manufacture of the terminal equipment to be deployed in these networks. Generally speaking, it is safe to say that all Elcoteq's main customers are continuously increasing the outsourcing of their production functions.

### Change in business relationship with Ericsson

Elcoteq and Ericsson renegotiated their business relationship after Ericsson's decision in January to outsource the manufacture of its mobile phones with other EMS companies. Elcoteq and Ericsson have agreed that Elcoteq's role as a supplier of equipment for communications network systems will grow substantially and that Elcoteq will become Ericsson's preferred global supplier for selected communications network products.

Ericsson's decision in January meant that the agreement concluded by the two companies in October 2000 to substantially increase production of mobile phones at Elcoteq's plants in Hungary and Estonia will not be implemented after all. Consequently, streamlining measures were undertaken at the mobile phone plants in Estonia and Hungary which will make altogether 1,400 people at these plants redundant during the first half of 2001. Manufacture of Ericsson mobile phones at the Estonian plant terminated for the present in March and is due to end at the plant in Hungary in June 2001.

The key figures published in this interim report are weakened by the considerable working capital items related to the rapid run-down of Ericsson mobile phone production. These items are reflected in, among other things, a temporary slowdown in inventory turnover and a temporary increase in accounts receivable, as well as higher financing costs resulting from these two items. The company expects these key figures to return to normal once production of Ericsson mobile phones in Europe comes to an end.

As a consequence of the changes caused in the company's relationship with Ericsson, Elcoteq also decided, in addition to the redundancies mentioned above, to postpone the expansion of the second plant in Estonia by half a year and the start-up of the new plant under construction in Poland by three months. The changes in Ericsson's production strategy affected Elcoteq's plants in Finland by reducing the volume of mobile phone subassembly manufacturing and releasing substantial capacity at the Lohja plants. In order to raise capacity utilization, improve customer service and capitalize on its expertise in industrial electronics at one and the same time, Elcoteq decided to transfer the manufacture and jobs related to industrial electronics at its Helsinki plant to Lohja. These transfers will take place mainly during the third quarter.

Following the Ericsson decision in January, Elcoteq's share price fell 55 % in one day and the trading volumes were exceptionally large. For this reason the company commissioned the Finnish Financial Supervision Authority to investigate if share price manipulation could have been a factor in the fall in share price. This investigation is still in progress.

## Market trends

Elcoteq's largest customers included companies belonging to the ABB, Ericsson, Kone, Nokia and Philips groups. Customers within the Ericsson and Nokia groups accounted for altogether 87 % (92 %) of Elcoteq's net sales. Terminal products represented 81 % of the company's net sales, communications network equipment 8 % and industrial electronics 11 %.

Demand in Elcoteq's Terminal Products business area remained strong among all Elcoteq's customers except Ericsson. Elcoteq is an EMS partner to Nokia manufacturing Nokia mobile phones on three continents. Elcoteq also continues to manufacture Ericsson mobile phones in China.

In Communications Network Equipment demand is rising noticeably and Elcoteq expects this business area's net sales to double during 2001. Elcoteq manufactures electronics for communications networks for both Nokia and Ericsson and well as for several other customers. One of its newest customers is the American company Andrew Corporation, for which Elcoteq has started producing communications network equipment in Tallinn, Estonia.

Elcoteq's Industrial Electronics business grew and Elcoteq's service portfolio in this sector was substantially strengthened with the acquisition of ABB's unit in Switzerland which was subsequently strengthened by the R&D unit acquired from Adtranz Schweiz.

Customers in all three business areas are increasingly asking Elcoteq to provide product design and design-for-manufacturability services. Elcoteq has boosted the number of employees engaged in producing these services and has also established an Engineering Services unit in the USA. In April Elcoteq announced its decision to establish an NPI (New Product Introduction) unit in Sweden. Elcoteq already provides engineering services in Finland, Estonia, Switzerland and Germany.

## Highlights

At the beginning of February Elcoteq and ABB reached agreement on the transfer of ABB's electronics manufacturing unit in Baden, Switzerland, to Elcoteq retroactively from January 1, 2001. This unit, with annual sales of some 70 MEUR will almost double Elcoteq's industrial electronics manufacturing volume during 2001 and more than double the volume of business between Elcoteq and ABB. The company believes that the acquired unit will have a positive impact on Elcoteq's profits and performance in 2001.

Besides ABB, the Baden unit, with 300 employees, also manufactures electronics for other European industrial electronics customers. In conjunction with the deal, ABB chose Elcoteq as the preferred supplier to its Automation Technology Products division. The companies also concluded a multi-year manufacturing and service agreement whereby Elcoteq will supply various technology, manufacturing, industrialization and after-sales services to ABB.

In March Elcoteq signed a multi-year agreement with the American company Cellport Systems to manufacture Cellport's in-vehicle hands-free mobile phone system. These products will be manufactured at Elcoteq's plant in Monterrey, Mexico.

The first stage of the new Tallinn plant was brought into production in February. With 6,300 square meters of manufacturing space, this plant will concentrate on communications network products. The expansion of the Mexico plant, which now has a total floor area of over 18,000 square meters, was taken into production at the beginning of the first quarter.

## Net sales and performance

Elcoteq's consolidated net sales between January and March increased 9.5 % on the same period last year to 481.3 MEUR (439.7 MEUR). Net sales in the final quarter of 2000 totaled 691.0 MEUR. Sales declined on the previous quarter owing to the change in Ericsson's and Elcoteq's business relationship as well as to market conditions and weaker demand for terminal products caused by seasonal fluctuations.

The consolidated operating profit between January and March was 3.6 MEUR (13.2 MEUR), i.e. 0.7 % (3.0 %) of net sales. Earnings per share were –0.07 euros (0.38 euros). The operating profit margin was weakened by the changes in mobile phone manufacture for Ericsson, which was reflected in a temporary increase in working capital. Consequently, return on capital employed decreased as well. The rolling 12-month return on capital employed (ROCE) was 14.6 % (15.7 %).

The consolidated result before extraordinary items and taxes was–0.7 MEUR (12.4 MEUR). Net financial expenses amounted to 4.3 MEUR (0.8 MEUR), reflecting the temporary exceptionally high amount of working capital.

The result after taxes and minority interest was –2.0 MEUR (8.8 MEUR). Income taxes on the result for the period totaled 1.3 MEUR (3.7 MEUR).

Gross capital expenditure on fixed assets totaled 18.5 MEUR (20.6 MEUR) and depreciation amounted to 11.2 MEUR (6.7 MEUR). The bulk of capital expenditure took place in China and Hungary.

The balance sheet increased 40 % on the first quarter of 2000 to 831.1 MEUR (591.3 MEUR), whereas the increase compared to the end of 2000 was 29.7 MEUR, or 3.7 %. Inventories at the end of March totaled 275.1 MEUR (227.6 MEUR). Receivables included mobile phone components sold to Ericsson.

Personnel decreased 4 % compared to the start of the year and at March 31, 2001 totaled 10,904 (8,344) employees: 1,366 in Finland and 9,538 outside Finland. The number of employees was approximately 30 % higher than at the same time last year. The average number of employees between January and March 2001 totaled 11,490 (8,080).

## Financial position

In March Elcoteq concluded a 105 MEUR Revolving Credit arrangement with a syndicate of five banks. Unused credit limits at the end of March totaled 110 MEUR. The company's liquidity remained good. Elcoteq's financial position will become lighter during the second quarter as working capital committed to the manufacture of Ericsson mobile phones is released.

## Decisions of the Annual General Meeting

Elcoteq Network Corporation's Annual General Meeting was held in Helsinki on March 14, 2001. The Meeting approved the financial statements for 2000 and decided to pay a dividend of 2.25 FIM (approx. 0.38 EUR) per share.

President Martti Ahtisaari; Mr Heikki Horstia, Vice President, Treasurer of Wärtsilä Corporation; Mr Antti Piippo, Chairman of the Board of Elcoteq Network Corporation; Mr Henry Sjöman, Group Vice President, Elcoteq Network Corporation; Mr Juha Toivola, MSc; and Mr Jorma Vanhanen, Group Vice President, Elcoteq Network Corporation were re-elected to the Board. Mr Eero Kasanen, Rector of the Helsinki School of Economics and Business Administration, was elected to the Board as a new member. Antti Piippo continues as the full-time chairman of the Board of Directors.

The Meeting approved the Board's proposal to amend articles 3, 4, 14, 15 and 17 of the Articles of Association. These amendments relate to restating of the share capital in euros, an increase in the share capital, and new deadlines for invitations to general meetings.

The Meeting decided to raise the share capital by making the nominal value of the shares 0.4 euros. The increase in share capital was EUR 1,876,381.20 and after the increase the company's share capital totaled EUR 11,796,660.80. The increase was carried out by a transfer of funds in April.

The Meeting authorized the Board for one year to float one or several convertible bond loans and/or to issue stock options and/or to decide on raising the share capital in one or more installments through a rights issue.

The Meeting also granted the Board's request for authorization to purchase at most 1,474,582 of the company's own Series A shares in one or more installments. At the same time the Board was authorized to dispose of the same number of shares on specific terms.

The Meeting approved the Board's proposal to issue new stock options to key employees in Elcoteq Network Group and to a wholly owned subsidiary of Elcoteq Network Corporation. The Board decided on the allocation of these stock options at the beginning of May when it determined the total number to be allocated to members of the Management Team and the total number to be allocated later to other key employees. The share subscription price for all year 2001 warrants is based on the trade volume weighted average quotation of the Elcoteq Network Corporation A share on the Helsinki Exchanges between March 1 and March 31, 2001. This average share price was 9.52 euros.

## New operating model introduced

Elcoteq launched a new operating model at the start of the year aimed at providing better service to all customers of its three business areas. The company's operations were divided into three business areas: Terminal Products, Communications Network Equipment and Industrial Electronics. The operating model supports the global consistency of Elcoteq's processes, capacity and systems. It also emphasizes decentralized decision-making at product line and plant levels to ensure continued responsiveness in customer service, high quality and flexibility.

## Prospects

The electronics industry, and particularly the communications sector, are experiencing much greater uncertainty than for a long time. This has affected demand for electronics manufacturing services in two ways: volume forecasts for products being manufactured have temporarily declined, but on the other hand outsourced manufacturing is now seen increasingly as a solution for achieving more favorable cost structures.

Elcoteq's net sales for the full year are forecast to remain at the same level as in 2000. The result for 2001 is expected to be clearly positive despite the fact that the costs of unused capacity built in response to rapid growth will burden profitability. This capacity, however, will enable Elcoteq to respond rapidly also to very substantial growth in demand.

Helsinki May 3, 2001

Board of Directors

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## Press conference for media representatives

Elcoteq will hold a press conference for media representatives in the Marski Room of the World Trade Center (Aleksanterinkatu 17) in Helsinki starting at 1.00 pm Eastern European Time on May 4, 2001.

## Invitation to analysts and fund managers

A separate conference and conference call will be held in English for analysts and fund managers in the Marski Room of the World Trade Center in Helsinki starting at 2.30 pm Eastern European Time (12.30 pm UK time) on May 4, 2001. To participate by phone, please call +44 20 8401 1043, code Elcoteq. A taped recording of the teleconference will be available for three days after the call on +44 20 8288 4459, code 636322.

Conversion rates:

The following average conversion rates are used in this interim report:
1 EUR = 5.94573 FIM
1 EUR = 0.8832 USD
1 USD = 6.732031 FIM

ENCLOSURES

1 Income Statement
2 Balance Sheet
3 Key Figures
4 Contingent Liabilities
5 Quarterly Figures

APPENDIX 1

| INCOME STATEMENT, MEUR | 1-3/2001 | 1-3/2000 | Change-% | 1-12/2000 |
|---|---|---|---|---|
| **Net sales** | **481.3** | **439.7** | **9.5** | **2,222.0** |
| Change in stock of work in progress and finished goods | 6.0 | 10.6 | -43.8 | 17.4 |
| Operating expenses | -472.5 | -430.5 | 9.8 | -2,138.3 |
| Depreciation | -11.2 | -6.7 | 67.6 | -34.7 |
| **Operating profit** | **3.6** | **13.2** | **-72.9** | **66.4** |
| % of net sales | 0.7 | 3.0 | | 3.0 |
| Financial income and expenses | -4.3 | -0.8 | 456.5 | -12.1 |
| **Profit before extraordinary items and taxes** | **-0.7** | **12.4** | | **54.4** |
| Income taxes *) | -1.3 | -3.7 | -63.8 | -15.6 |
| Minority interest | 0.0 | 0.1 | | -1.7 |
| **Net income** | **-2.0** | **8.8** | | **37.2** |

*) Taxes for the period are calculated as a proportion of estimated taxes for the full year. Income taxes includes the change in deferred tax liability.

APPENDIX 2

| BALANCE SHEET, MEUR | March 31, 2001 | March 31, 2000 | Change-% | Dec. 31, 2000 |
|---|---|---|---|---|
| Fixed assets | 189.2 | 106.6 | 77.4 | 182.2 |
| Current assets | | | | |
| Inventories | 275.1 | 227.6 | 20.9 | 300.5 |
| Other current assets | 366.8 | 257.0 | 42.7 | 318.7 |
| **Total assets** | **831.1** | **591.3** | **40.6** | **801.4** |
| Share capital | 9.9 | 8.3 | 19.5 | 9.9 |
| Other shareholders' equity | 255.2 | 135.3 | 88.6 | 266.5 |
| Minority interest | 4.8 | 3.2 | 48.1 | 4.6 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-term liabilities | 52.0 | 25.8 | 101.3 | 47.7 |
| Short-term liabilities | 509.2 | 418.5 | 21.7 | 472.6 |
| **Total shareholders' equity and liabilities** | **831.1** | **591.3** | **40.6** | **801.4** |

APPENDIX 3

| KEY FIGURES | 1-3/2001 | 1-3/2000 | Change-% | 1-12/2000 |
|---|---|---|---|---|
| Personnel on average during the period | 11,490 | 8,080 | 42.2 | 9,630 |
| Gross capital expenditure, MEUR | 18.5 | 20.6 | -10.3 | 125.7 |
| Return on equity (ROE), %*) | -0.7 | 6.5 | | 19.3 |
| Return on investment (ROI/ROCE), %*) | 0.9 | 6.6 | | 20.4 |
| From 12 preceding months: | | | | |
| Return on equity (ROE), % | 13.5 | 13.4 | | 19.3 |
| Return on investment (ROI/ROCE), % | 14.6 | 15.7 | | 20.4 |
| Earnings per share (EPS), EUR | -0.07 | 0.38 | | 1.38 |
| Earnings per share (EPS) diluted, EUR | -0.07 | | | 1.33 |
| Current ratio | 1.3 | 1.2 | | 1.3 |
| Solvency ratio | 32.5 | 25.1 | | 35.1 |
| Gearing | 0.9 | 0.7 | | 0.5 |
| Equity per share, EUR | 8.99 | 5.82 | 54.5 | 9.37 |
| Interest-bearing liabilities, MEUR | 259.2 | 122.8 | 111.1 | 182.3 |
| Interest-bearing net debt, MEUR | 240.0 | 104.9 | 128.7 | 150.5 |
| Non-interest-bearing liabilities, MEUR | 302.0 | 321.6 | -6.1 | 338.0 |

*) The key figures have been calculated using figures specific to each accounting period.

APPENDIX 4

ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR

| | March 31, 2001 | March 31, 2000 | Change-% | Dec. 31, 2000 |
|---|---|---|---|---|
| FOR OWN LIABILITIES | | | | |
| Mortgages on real estate | | | | |
| Loans from credit institutions | 3.7 | 5.2 | -28.6 | 3.6 |
| Mortgages | 9.3 | 11.1 | -16.0 | 9.3 |
| Mortgages on movable assets | | | | |
| Loans from credit institutions | - | 0.3 | - | 0.1 |
| Mortgages for other loans | 6.7 | 6.7 | 0.0 | 6.7 |
| Other assets pledged as collateral | | | | |
| Mortgages on movable assets | 2.0 | 2.0 | 0.0 | 2.0 |
| ON BEHALF OF OTHERS | | | | |
| Guarantees | 0.7 | 0.8 | -10.4 | 0.7 |
| LEASING COMMITMENTS | | | | |
| Operating lease commitments | 25.5 | 3.7 | 591.3 | 27.4 |
| DERIVATIVE CONTRACTS | | | | |
| Foreign exchange derivative financial instruments | | | | |
| Foreign exchange forward contracts | | | | |
| - Notional value | 232.6 | 114.3 | 103.6 | 272.7 |
| - Book value | -1.0 | 1.0 | -203.4 | -3.4 |
| - Market value | -1.3 | 1.6 | -183.0 | -2.5 |
| Currency options | | | | |
| - Notional value | 138.8 | 96.8 | 43.4 | 20.5 |
| - Book value | -0.1 | -0.1 | 14.3 | 0.1 |
| - Market value | 0.0 | 0.1 | -133.3 | 0.2 |
| Interest rate derivatives | | | | |
| - Notional value | 100.0 | - | | - |
| - Book value | - | - | | - |
| - Market value | - | - | | - |
| Interest and currency swap contracts | | | | |
| - Notional value | 3.5 | 4.8 | -27.9 | 3.3 |
| - Book value | 1.2 | 1.4 | -13.6 | 1.0 |
| - Market value | 1.2 | 1.4 | -13.6 | 1.0 |

APPENDIX 5

QUARTERLY FIGURES

INCOME STATEMENT, MEUR

| | Q1/2001 | Q4/2000 | Q3/2000 | Q2/2000 | Q1/2000 |
|---|---|---|---|---|---|
| **Net sales** | **481.3** | **691.0** | **596.2** | **495.1** | **439.7** |
| Change in stock of work in progress and finished goods | 6.0 | -7.0 | 1.2 | 12.6 | 10.6 |
| Operating expenses | -472.5 | -651.7 | -570.7 | -485.4 | -430.5 |
| Depreciation | -11.2 | -12.1 | -8.3 | -7.6 | -6.7 |
| **Operating profit** | **3.6** | **20.1** | **18.4** | **14.7** | **13.2** |
| % of net sales | 0.7 | 2.9 | 3.1 | 3.0 | 3.0 |
| Financial income and expenses | -4.3 | -5.7 | -4.1 | -1.6 | -0.8 |
| **Profit before extraordinary items and taxes** | **-0.7** | **14.5** | **14.4** | **13.1** | **12.4** |
| Income taxes | -1.3 | -3.0 | -5.1 | -3.8 | -3.7 |
| Minority interest | 0.0 | -1.1 | -0.3 | -0.4 | 0.1 |
| **Net income** | **-2.0** | **10.4** | **9.1** | **8.9** | **8.8** |

BALANCE SHEET, MEUR

| | Q1/2001 | Q4/2000 | Q3/2000 | Q2/2000 | Q1/2000 |
|---|---|---|---|---|---|
| Fixed assets | 189.2 | 182.2 | 157.5 | 124.0 | 106.6 |
| Current assets | | | | | |
| Inventories | 275.1 | 300.5 | 335.9 | 277.6 | 227.6 |
| Other current assets | 366.8 | 318.7 | 377.4 | 318.8 | 257.0 |
| **Total assets** | **831.1** | **801.4** | **870.8** | **720.4** | **591.3** |
| Share capital | 9.9 | 9.9 | 9.9 | 9.7 | 8.3 |
| Other shareholders' equity | 255.2 | 266.5 | 257.0 | 227.5 | 135.3 |
| Minority interests | 4.8 | 4.6 | 3.6 | 3.6 | 3.2 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-term liabilities | 52.0 | 47.7 | 42.5 | 28.7 | 25.8 |
| Short-term liabilities | 509.2 | 472.6 | 557.8 | 450.9 | 418.5 |
| **Total shareholders' equity and liabilities** | **831.1** | **801.4** | **870.8** | **720.4** | **591.3** |
| Personnel on average during the period | 11,490 | 11,121 | 10,174 | 9,300 | 8,080 |
| Gross capital expenditure, MEUR | 18.5 | 38.0 | 41.9 | 25.2 | 20.6 |
| ROCE/ROI from 12 preceding months, % | 14.6 | 20.4 | 17.5 | 17.4 | 15.7 |
| Earnings per share (EPS), EUR | -0.07 | 0.35 | 0.31 | 0.34 | 0.38 |
| Solvency ratio | 32.5 | 35.1 | 31.1 | 33.6 | 25.1 |