

Elcoteq Network Corporation

Interim Report
April 26, 2002, 9.00 am (EET)

ELCOTEQ'S INTERIM REPORT JANUARY – MARCH 2002 (Unaudited)

- Net sales decreased 14% compared to the first quarter last year and totaled MEUR 402.3 (MEUR 469.9 in Q1/2001)
- Operating loss was MEUR -6.5 (MEUR 3.6), pretax loss MEUR -8.1 (MEUR -0.7)
- EPS was EUR -0.26 (EUR -0.07)
- The Group has no interest-bearing net debt
- Cash flow after investments was MEUR 43.6 positive (MEUR -57.1)
- First quarter unfolded as predicted

Elcoteq a strong EMS company in wireless communications

New product ideas coupled with sharper segmenting of products to different groups of customers are increasing the number of products on the electronics market, particularly in the mobile phone sector. Simultaneously production runs are becoming smaller and also product lifecycles shorter. All in all, this emphasizes the need for speed and flexibility throughout the production chain. In such conditions Elcoteq, with its modern network of electronics manufacturing plants, expertise in mobile phone technologies and rapid-response business processes, offers its customers a competitive advantage.

Elcoteq holds a strong position in the global electronics manufacturing services (EMS) industry. The company is the sixth largest in this field and holds an even stronger position in wireless communications.

Elcoteq has competitive strengths that differentiate the company from other players in the market. These are strong expertise in wireless communications coupled with a network of modern, well sited manufacturing plants. Wireless communications accounts for approximately 85% of the company's total net sales. Elcoteq's modern plant network offers customers cost-efficient manufacturing capacity close to their end-markets in Europe, America and Asia. Of Elcoteq's total capacity, 80% is situated in the low-cost countries Estonia, Hungary, Russia, China and Mexico, which is considerably more than for any other EMS company. Through its strategy of systematic internationalization Elcoteq has achieved a structural cost advantage that benefits its customers.

First quarter

The first quarter unfolded as the company predicted. Elcoteq was aware that the weak economic conditions and seasonal fluctuations typical of the electronics sector would reduce business volume and push the Group's profits into the red. Capacity utilization was low during the period. Among the most welcome achievements was cash flow which continued to be very positive, MEUR 44, reducing the company's gearing to zero at the end of March. Another positive development was the start of co-operation with several new customers, albeit with small volumes.

Net sales in the first quarter were 14% lower than one year earlier and 24% down on the previous quarter. Net sales in the reporting period totaled MEUR 402.3 (MEUR 469.9 in Q1/2001). The operating loss was MEUR -6.5 (profit of MEUR 3.6). The pretax loss was MEUR -8.1 (MEUR -0.7). Earnings per share in the period were EUR -0.26 (EUR -0.07).

Gross capital expenditure on fixed assets between January and March amounted to 1.0% of net sales, or MEUR 3.9 (MEUR 18.5). Depreciation was considerably higher, MEUR 12.6 (MEUR 11.2) owing to the major investments undertaken in previous years.

The company's balance sheet remained strong. The solvency ratio was 39.6% and gearing was -0.0, i.e. the company no longer had interest-bearing net debt. Unused credit limits amounted to MEUR 156.7, having been MEUR 157.8 at the close of the previous quarter. During the reporting period Elcoteq concluded a master agreement enabling the sale of trade receivables through a securitization facility up to a limit of MEUR 130. This arrangement partially replaces Elcoteq's existing limits for the sale of receivables as well as giving the company closer control over working capital and reducing future funding needs. By the end of March the company had sold trade receivables totaling MEUR 106.8, compared to MEUR 81.2 at the end of 2001.

One of the aims of Elcoteq's adjustment program initiated in August 2001 was to reduce fixed costs by MEUR 16 annually. For the first quarter this aim was achieved since depreciation and fixed costs were more than MEUR 4 lower than in Q3/2001. No significant one-time costs were incurred by adjustment measures in the first quarter. The need for such measures is ongoing given the changing conditions in the business environment.

Further personnel reductions

Elcoteq's personnel was reduced by approximately 650 employees during the first quarter. The largest layoffs took place in China and Mexico. At the end of March the company had 7,711 (10,904) employees: 952 in Finland and 6,759 in other countries. Personnel averaged 8,020 (11,490) between January and March.

During the reporting period the company announced that it would lay off approximately 270 employees more in Estonia.

Business area performance

Elcoteq's largest customers are companies belonging to the ABB, Ericsson, Kone, Nokia and Philips groups. Customers within the Ericsson and Nokia groups accounted for altogether 85% (87%) of Elcoteq's first-quarter net sales. Terminal products represented 71% of the company's net sales, communications network equipment 14% and industrial electronics 15%.

Net sales for Elcoteq's Terminal Products business area fell by 25% compared to Q1/2001, and totaled MEUR 285.6 (MEUR 380.6). Demand in the mobile phone market remains difficult to forecast. The latest forecasts by analysts and manufacturers in this business suggest that the mobile phone market will not grow significantly during 2002 and the volume of mobile phone deliveries will remain at slightly over 400 million phones. In this situation Terminal Products' sales are not expected to exceed the level in 2001.

The volume of offers made by Terminal Products has increased and the value of new sales contracts concluded in the first quarter was clearly higher than the volume of deliveries in the same period. Most of these sales also include NPI services and apply to products scheduled for launching at the end of 2002 or during 2003.

Net sales by the Communications Network Equipment business area increased approximately 46% on Q1/2001 to MEUR 54.9 (MEUR 37.6). Underlying this growth was steady demand for 2G and 2.5G

communications network equipment and Elcoteq's increasing presence as an EMS supplier to this market sector. Despite the cautious start to investments in 3G communications network equipment and the difficulty of predicting the timing of major investments, Elcoteq believes that its Communications Network Equipment business area will grow compared to 2001. Elcoteq continues to have the expertise and capacity to respond to rapid changes in demand in all geographical areas, also after its capacity streamlining measures.

The Industrial Electronics business area is subject to smaller fluctuations in production volume than the communications sector. Net sales of Industrial Electronics grew by 19% on Q1/2001, and totaled MEUR 61.8 (MEUR 51.7). The uncertainty that has plagued the entire electronics industry was also visible in this business sector at the beginning of the first quarter with delivery volumes lower than normal but by the end of the reporting period demand for industrial electronics had returned to its expected level. Outsourcing continues to grow also in this sector as evidenced by an increase in requests for offers.

Strategy renewal continues

Elcoteq is reformulating its business strategy in order to sharpen the focus of its activities. It is already clear that, should the need arise, the new strategy will enable the Group to respond more actively in the event of consolidation measures that could benefit the company's operations and increase its shareholder value. The company is now better prepared for such eventualities since the Board has authorization from the AGM to issue shares and the company is free of interest-bearing net debt. Furthermore, Elcoteq's principal shareholders have announced their support for Elcoteq as the company takes an active and significant role in future consolidation measures in the industry.

Service portfolio expanded

Elcoteq continued to expand its service portfolio and to realign its cost and customer structure in line with foreseeable demand. In the former case top priority has been given to expanding the network of NPI (New Product Introduction) centers providing engineering and design-for-manufacturability services. During the first quarter Elcoteq decided to establish new NPI centers in Beijing, China, and in Monterrey, Mexico.

Sales efficiency enhanced

One of Elcoteq's primary challenges is to broaden its customer base. The ongoing strategy process includes a fundamental analysis of the opportunities offered by various customer segments but sales efficiency was already given substantially higher priority in all business areas during the first quarter. The number of contacts was increased, active contact with customers was emphasized and the results of sales efforts were more closely reported and monitored. Interest in the company's services rose as the number of inquiries and offers showed clear growth. Elcoteq announced the addition of new customers Ascom, Swissvoice and Guangzhou Thinker Technology.

The Imbera joint venture

After the close of the reporting period Elcoteq announced the establishment with Aspocomp of a joint venture in Finland called Imbera Electronics Oy concentrating on the development and commercialization of IMB (Integrated Module Board) technology. Imbera will develop a production process in which active components are integrated inside the structure of printed wiring boards. Participating in the development of new technologies will enable Elcoteq to maintain the competitive edge of its service portfolio in the future. IMB technology is expected to become commercially available within three years.

Resolutions of the Annual General Meeting

Elcoteq's Annual General Meeting took place in Helsinki, Finland on March 20, 2002. The meeting confirmed the consolidated and parent company's income statements and balance sheets for the financial year 2001 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year. The meeting also approved the Board's proposal not to distribute a dividend on the financial year January 1 - December 31, 2001.

The meeting elected six members to the Board of Directors. The following were re-elected: Mr Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Mr Henry Sjöman, Senior Vice President, Elcoteq Network Corporation; Mr Juha Toivola MSc; Mr Jorma Vanhanen, Senior Vice President, Elcoteq Network Corporation; President Martti Ahtisaari; and Mr Eero Kasanen, Rector of the Helsinki School of Economics and Business Administration. Their terms of office extend until the end of the following Annual General Meeting. Elcoteq's founder and principal shareholder Mr Antti Piippo had previously announced that he would not stand for re-election to the Board of Directors at Elcoteq's Annual General Meeting. The Board of Directors convened immediately after the meeting and elected Mr Juha Toivola (MSc) as its Chairman and President Martti Ahtisaari as Vice Chairman.

The Board members, excluding the two principal shareholders, will be paid an annual fee of EUR 25,000. Sixty percent of this fee will be paid in cash and forty percent in shares; with respect to the latter payment, each member of the Board will acquire Elcoteq shares between April 29 - May 10, 2002 within the limits set by the company's insider rules. The acquired shares may not be surrendered before the following Annual General Meeting unless the individual's membership of the Board ends earlier.

The Annual General Meeting authorized the Board of Directors for one year to float one or several convertible bond loans and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue.

Prospects

According to latest estimates the mobile phone markets are forecast to show only slight growth this year compared to 2001. For Elcoteq, with its heavy focus on wireless communications, a positive sign is the expected introduction of the first 3G mobile phone networks and terminal products in the latter half of the year. It is also positive that outsourcing of production continues to increase throughout the electronics industry. In this environment Elcoteq's competitive advantages – its special expertise and focus on wireless communications products along with a manufacturing plant network in low-cost countries – underwrite the company's competitive position, also in conditions of slow market growth. The Group is additionally positioned to develop in selected business areas through acquisitions.

Although the overall market has stabilized from 2001, Elcoteq's visibility to the markets is still poor. Elcoteq's net sales are expected to grow in the second quarter. For the full 2002 net sales are expected to reach the level in 2001. The Group's result in 2002 is forecast to be a clear improvement.

Helsinki, April 25, 2002

Lasse Kurkilahti
President and CEO

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Press conference

Elcoteq will hold a press conference for media representatives in the Mansku Cabinet of the Scandic Hotel Simonkenttä (1st floor), Simonkatu 9, Helsinki, starting at 1.00 pm East European Time on Friday, April 26, 2002.

Conference call for analysts and fund managers

A separate conference and conference call will be held in English for analysts and fund managers in the Mansku Cabinet of the Scandic Hotel Simonkenttä (1st floor), Simonkatu 9, Helsinki, starting at 2.30 pm Eastern European Time (12.30 pm UK time) on Friday, April 26, 2002.

To participate by phone, please call +44 20 8240 8246, code Elcoteq. A taped recording of the teleconference will be available for three banking days after the call on +44 20 8288 4459, code 649 732.

The following average conversion rate is used in this interim report:

1 EUR = 0.87240 USD

Enclosures:

- 1 Income Statement
- 2 Balance Sheet
- 3 Cash Flow Statement
- 4 Key Figures
- 5 Assets Pledged and Contingent Liabilities
- 6 Quarterly Figures

APPENDIX 1

INCOME STATEMENT, MEUR	1-3/2002	1-3/2001	Change-%	1-12/2001
NET SALES	402.3	469.9	-14.4	1,862.5
Change in stock of work in progress and finished goods	3.5	6.0	-41.7	-10.3
Other income from operations	1.1	11.4	-90.6	27.4
Operating expenses	-400.7	-472.5	-15.2	-1,837.8
Restructuring costs	-	-	-	-11.8
Depreciation and writedowns	-12.6	-11.2	12.8	-48.4
OPERATING PROFIT/LOSS	-6.5	3.6	-280.0	-18.4
% of net sales	-1.6	0.7	-	-1.0
Financial income and expenses	-1.6	-4.3	-62.3	-12.3
LOSS BEFORE EXTRAORDINARY ITEMS AND TAXES	-8.1	-0.7		-30.7
Income taxes	0.5	-1.3	-	0.1
Minority interests	0.0	0.0	-	-1.4
NET LOSS FOR THE PERIOD	-7.6	-2.0		-32.0

APPENDIX 2

BALANCE SHEET, MEUR	March 31, 2002	March 31, 2001	Change-%	Dec. 31, 2001
ASSETS				
Fixed assets				
Intangible assets	23.9	13.0	84.1	25.2
Tangible assets	145.6	175.7	-17.1	153.1
Investments	0.7	0.5	39.6	0.6
Fixed assets, total	170.3	189.2	-10.0	178.9
Current assets				
Inventories	169.2	275.1	-38.5	177.7
Long-term receivables	4.3	1.3	231.4	3.2
Short-term receivables	173.5	346.2	-49.9	214.4
Cash and cash equivalents	75.7	19.2	294.4	36.4
Current assets, total	422.8	641.8	-34.1	431.7

ASSETS, TOTAL	593.1	831.1	-28.6	610.7
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	11.8	9.9	19.2	11.8
Other shareholders' equity	216.5	255.2	-15.2	223.9
Shareholders' equity, total	228.3	265.1	-13.9	235.7
Minority interests	6.3	4.8	31.6	6.3
Provisions	2.6	0.0		3.1
Liabilities				
Long-term liabilities				
Long-term loans	35.4	49.9	-29.1	37.3
Other long-term debt	1.3	2.1	-38.6	1.3
	36.7	52.0	-29.5	38.6
Short-term liabilities				
Short-term loans	37.6	210.2	-82.1	39.1
Other short-term debt	281.7	299.0	-5.8	287.9
	319.2	509.2	-37.3	327.0
Liabilities, total	355.9	561.2	-36.6	365.6
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	593.1	831.1	-28.6	610.7

APPENDIX 3**CONSOLIDATED CASH FLOW STATEMENT, MEUR**

	1-3/2002	1-3/2001	Change-%	1-12/2001
Cash flow before change in working capital	5.5	13.5	-59.3	24.2
Change in working capital *)	45.4	-51.4		180.1
Financial items and taxes	-3.8	-4.1		-14.0
Cash flow from operating activities	47.1	-42.0		190.3
Cash flow from investing activities	-3.5	-15.1		-66.9
Cash flow before financing activities	43.6	-57.1		123.4

*) The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve cash flow by MEUR 25.6 during the reporting period 1-3/2002 and by MEUR 12.0 during 1-3/2001.

APPENDIX 4

KEY FIGURES	1-3/2002	1-3/2001	Change-%	12/2001
Personnel on average during the period	8,020	11,490	-30.2	9,960
Gross capital expenditure, MEUR	3.9	18.5	-78.9	45.1
Return on equity (ROE), % *)	-3.2	-0.7		-11.7
Return on investment (ROI/ROCE), % *)	-1.7	0.9		-3.5
From 12 preceding months:				
Return on equity (ROE), %	-14.4	13.5		-11.7
Return on investment (ROI/ROCE), %	-5.6	14.6		-3.5
Earnings per share (EPS), EUR	-0.26	-0.07		-1.08
Earnings per share EPS diluted, EUR	-0.23	-0.07		-0.99
Current ratio	1.3	1.3		1.3
Solvency ratio, %	39.6	32.5		39.6
Gearing	- 0.0	0.9		0.2
Equity per share, EUR	7.74	8.99	-13.9	7.99
Interest-bearing liabilities, MEUR	72.2	259.2	-72.1	75.8
Interest-bearing net debt, MEUR	-3.5	240.4		39.4
Non-interest-bearing liabilities, MEUR	283.6	302.0	-6.1	289.8

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

APPENDIX 5**ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR**

	March 31, 2002	March 31, 2001	Change-%	Dec. 31, 2001
FOR OWN LIABILITIES				
Mortgages on real estate				
Loans from credit institutions	1.2	3.7	-67.6	1.3
Mortgages	9.3	9.3	0.0	9.3
Mortgages on moveable assets				
Mortgages for other loans	4.5	6.7	-32.8	4.5

Other pledges given as collateral

Mortgages on moveable assets	0.3	2.0	-85.0	0.3
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ON BEHALF OF OTHERS

Guarantees	0.5	0.7	-28.6	0.5
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LEASING COMMITMENTS

Operating lease, machinery and equipment (excl. VAT)	14.4	25.5	-43.5	16.3
Rental commitments, real estates (excl. VAT)	25.1	24.3	3.3	27.0

March 31, 2002 March 31, 2001 Change-% Dec. 31, 2001

DERIVATIVE CONTRACTS

Foreign currency derivative instruments

Foreign currency forward contracts

Nominal value	128.1	232.6	-44.9	163.7
Book value	0.7	-1.0	-170.0	-1.5
Market value	0.7	-1.3	-153.8	-1.3

Foreign currency option contracts

Nominal value	8.8	138.8	-93.7	24.9
Book value	-	-0.1	0.0	-0.3
Market value	-	0.0	0.0	-0.3

Interest rate derivative instruments

Nominal value	145.9	100.0	45.9	145.4
Book value	-0.1	-	0.0	-0.1
Market value	-0.1	-	0.0	-0.2

Interest rate and foreign exchange swap contracts

Nominal value	1.8	3.5	-48.6	1.7
Book value	0.6	1.2	-50.0	0.6
Market value	0.6	1.2	-50.0	0.6

The market value shows the realizable amount at which the instrument could be exchanged in a current transaction between willing parties if these instruments were closed off at the balance sheet date. The realizable amount also includes accrued interest.

OTHER COMMITMENTS

In value-added taxation in China, the authorities approved the method adopted by Elcoteq in 2001. Where 2002 is concerned the approval process is still ongoing. Accordingly the company has estimated its VAT exposure for the first quarter and made provision for it.

APPENDIX 6

QUARTERLY FIGURES

INCOME STATEMENT, MEUR	Q1/2002	Q4/2001	Q3/2001	Q2/2001	Q1/2001
NET SALES	402.3	531.6	427.7	433.3	469.9
Change in stock of work in progress and finished goods	3.5	-14.7	1.4	-3.0	6.0
Other income from operations	1.1	4.4	3.9	7.7	11.4
Operating expenses	-400.7	-503.8	-424.3	-437.3	-472.5
Restructuring costs	-	-	-11.8	-	-
Depreciation and writedowns	-12.6	-12.7	-12.9	-11.6	-11.2
OPERATING PROFIT/LOSS	-6.5	4.9	-16.1	-10.8	3.6
% of net sales	-1.6	0.9	-3.8	-2.5	0.7
Financial income and expenses	-1.6	-2.0	-3.1	-2.9	-4.3
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAXES	-8.1	2.9	-19.1	-13.8	-0.7
Income taxes	0.5	-2.3	2.6	1.2	-1.3
Minority interests	0.0	-0.4	-0.5	-0.5	0.0
NET PROFIT/LOSS	-7.6	0.1	-17.0	-13.1	-2.0
BALANCE SHEET, MEUR	Q1/2002	Q4/2001	Q3/2001	Q2/2001	Q1/2001
ASSETS					
Fixed assets					
Intangible assets	23.9	25.2	24.8	24.3	13.0
Tangible assets	145.6	153.1	154.3	164.9	175.7
Investments	0.7	0.6	0.6	0.6	0.5
Fixed assets, total	170.3	178.9	179.7	189.8	189.2
Current assets					
Inventories	169.2	177.8	198.6	253.4	275.1
Long-term receivables	4.3	3.2	6.3	3.6	1.3
Short-term receivables	173.5	214.2	226.5	218.8	346.2
Cash and cash equivalents	75.7	36.4	38.0	27.5	19.2
Current assets, total	422.8	431.7	469.4	503.3	641.8

ASSETS, TOTAL	593.1	610.7	649.1	693.1	831.1
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SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity					
Share capital	11.8	11.8	11.8	11.8	9.9
Other shareholders' equity	216.5	223.9	222.2	242.0	255.2
Shareholders' equity total	228.3	235.7	234.0	253.8	265.1
Minority interests	6.3	6.3	5.6	5.5	4.8
Provisions	2.6	3.1	7.2	0.0	0.0
Liabilities					
Long-term liabilities					
Long-term loans	35.4	37.3	48.8	48.7	49.9
Other long-term debt	1.3	1.3	2.0	2.1	2.1
	36.7	38.6	50.9	50.8	52.0
Short-term liabilities					
Short-term loans	37.6	39.1	86.4	119.6	210.2
Other short-term debt	281.7	287.8	265.0	263.3	299.0
	319.2	327.0	351.4	382.9	509.2
Liabilities, total	355.9	365.6	402.3	433.8	561.2

SHAREHOLDERS' EQUITY

AND LIABILITIES, TOTAL	593.1	610.7	649.1	693.1	831.1
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Personnel on average during the period	8,020	8,699	9,409	10,352	11,360
Gross capital expenditure, MEUR	3.9	10.3	7.9	8.4	18.5
ROCE/ROI from 12 preceding months, %	-5.6	-3.5	0.3	8.4	14.6
Earnings per share (EPS), EUR	-0.26	0.00	-0.58	-0.44	-0.07
Solvency ratio	39.6	39.6	36.9	37.4	32.5