Elcoteq Network Corporation

Interim Report
November 2, 2001, 9.00 am (EET)

INTERIM REPORT FOR JANUARY-SEPTEMBER 2001 (Unaudited)

July-September 2001

- Third-quarter net sales totaled MEUR 432 (MEUR 596 in same period last year)
- Operating profit excluding costs of adjustment program was MEUR -4.3 (MEUR 18.4)
- One-time restructuring costs of MEUR 11.8 from adjustment program were recorded
- MEUR 55 of cash was released from inventories during third quarter as inventories decreased to MEUR 199
- Pretax profit was MEUR -19.1 (MEUR 14.4)

January-September 2001

- Nine-month net sales totaled MEUR 1,354 (1-9/2000: MEUR 1,531)
- Operating profit excluding costs of adjustment program was MEUR -11.5 (MEUR 46.3)
- Pretax profit was MEUR -33.6 (MEUR 39.9), EPS EUR -1.09 (EUR 1.03)
- Net cash flow was MEUR 65.5 positive (MEUR -184.1)

Prospects

- Fourth-quarter net sales is forecast to exceed MEUR 500, and therefore full-year net sales is forecast to total approx. MEUR 1,850 (MEUR 2,200)
- Fourth-quarter operating profit expected to be positive
- Adjustment program is proceeding as planned and will take full effect from the beginning of 2002
- Elcoteq will start a significant plant investment in Beijing

General

Market conditions in the electronics industry sectors of primary importance to Elcoteq remained strained during July-September 2001. In such circumstances it has become even more important to have a solid base of strong customers, as Elcoteq has.

We take pride in reaching the net sales, profit and cash flow targets set for the third quarter. The adjustment program started in the summer is proceeding as planned, likewise. Elcoteq's personnel have shown commitment and worked diligently to achieve these targets.

Elcoteq's business and financial performance during the two final quarters of 2001 are crucial milestones as the company adjusts its operations to the current market conditions. In the third quarter we stabilized Elcoteq's performance; in the fourth quarter our target is to bring the company back into profit.

When formulating its adjustment program Elcoteq set four clear objectives for maintaining its position among the best global electronics manufacturing services (EMS) companies in the future. These objectives are:

- running the existing business in the best possible way to ensure continued customer satisfaction
- a continuous flow of new projects with existing and new customers
- an uncompromising commitment to putting the adjustment program into effect in order to safeguard Elcoteq's competitive efficiency
- investments in personnel resources and production equipment in selected areas.

Adjustment program

During the third quarter Elcoteq took decisive measures to adjust its operations to the reduced level of demand. The decline in demand has made it necessary to implement extensive streamlining measures throughout the EMS sector. It would appear that Elcoteq will be able to come through this period with lower readjustment costs than others on average. In recent years Elcoteq has systematically pursued a strategy of investing in the latest technology and building manufacturing plants in low-cost countries close to its customers' end markets. With market conditions now very difficult, this strategy is demonstrating its strength.

The target of the adjustment program started in the summer is to bring the company back into profit by the end of 2001. Among other things, this requires adjustments to capacity. The program has made planned progress and its aim is to achieve annual savings of MEUR 16. These savings will start to become visible in Elcoteq's profitability during the fourth quarter of this year but their full impact will be felt from the beginning of 2002. The program applies to all Elcoteq's units and operations.

Under this program Elcoteq decided to transfer the production operations of its plant in Poland to Hungary and to prepare for the sale of the Polish plant currently under construction. The production capacity of the plants in Germany and in Lohja, Finland, will be reduced and these plants will also be transformed into Engineering Services and New Product Introduction (NPI) Centers. Production capacity has also been reduced in Estonia, Hungary and Mexico.

The adjustment measures will create one-time restructuring costs for the company as capacity is scaled down or restructured and personnel is reduced. Elcoteq entered adjustment costs totaling MEUR 11.8 in its third-quarter accounts. The bulk of this was related to the plant in Poland.

The company had 9,016 (10,805) employees at the end of September, 1,048 of whom worked in Finland and 7,968 in other countries. The average number of employees between January and September 2001 was 10,423 (9,152).

Third-quarter performance

Although demand during the third quarter remained weak and business visibility was poor, there were fewer negative surprises than in the first two quarters of the year.

The third quarter turned out as predicted by the company in August. Third-quarter net sales totaled MEUR 432, almost the same level as the second quarter's figure of MEUR 441. Net sales in last year's third quarter amounted to MEUR 596. The operating profit before the restructuring costs was MEUR -4.3 compared to MEUR -10.8 in the second quarter. Third-quarter EPS was EUR -0.58 (3Q-2000: EUR 0.31).

The company's balance sheet was further lightened during the third quarter as inventories were reduced by approximately MEUR 55.

January-September performance

Net sales between January and September totaled MEUR 1,354 (MEUR 1,531). The operating profit before restructuring costs in the first nine months of the year was MEUR -11.5 (MEUR 46.3). The pretax profit was MEUR -33.6 (MEUR 39.9).

The nine-month loss depressed the rolling 12-month return on capital employed (ROCE), Elcoteq's most important measure of profitability, to 0.3 %.

Gross capital expenditure on fixed assets between January and September amounted to only 2.6 % of net sales, or MEUR 34.8 (MEUR 87.7) and depreciation was MEUR 35.7 (MEUR 22.6). The largest investments were made in China. Gross capital expenditure in the third quarter totaled MEUR 7.9 compared to MEUR 8.4 in the second quarter and MEUR 18.5 in the first.

The balance sheet totaled MEUR 649 on September 30, 2001, a clearly lower figure than one year earlier when the balance sheet stood at MEUR 871. A major factor in lightening the balance sheet was a reduction in inventories, which totaled MEUR 198.6 at the end of September (MEUR 335.9 one year earlier and MEUR 253.4 at the end of June 2001). Elcoteq's balance sheet remained strong and the solvency ratio was now 37 %. At the end of September interest-bearing net debt totaled MEUR 96 and unused credit limits amounted to MEUR 142, having been MEUR 131 at the end of the previous quarter.

Business area performance in the third quarter

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 84 % (92 %) of Elcoteq's third-quarter net sales. Terminal products represented 75 % of the company's net sales, communications network equipment 11 % and industrial electronics 14 %.

Sales of terminal products, mainly mobile phones and their modules, declined slightly compared to the second quarter. Elcoteq's largest customer in this business area is Nokia. Elcoteq began the manufacture of several new products during the third quarter, some of them GPRS products. The company's engineering and NPI services are fast becoming increasingly important to the start-up of new projects.

No significant recovery was seen in the communications network equipment markets, which continue to await the resumption of investment activity by operators. Despite this Elcoteq's delivery volumes in this business segment increased by more than a quarter between July and September. These deliveries also included parts for 3G mobile phone networks. No significant improvement is expected in these markets during the next few months. Elcoteq will maintain its expertise and capacity at several plants to ensure its ability to supply network products in particular the moment demand starts to pick up. Nokia and Ericsson are the largest customers of Elcoteq's Communications Network Equipment business area.

After the close of the third quarter Elcoteq and Nokia agreed on the take-over by Elcoteq of Nokia's Hardware Repair Centre in Espoo, Finland, from mid-November. The Centre is responsible for repairing Nokia's microwave radio links, modules for base station controllers and mobile switches, and broadband modems.

Demand for industrial electronics has remained steady and the uncertainty dogging electronics production in general is so far not evident in this business area. The third-quarter sales of Industrial Electronics remained at the previous quarter's level. Outsourcing continues to increase evidenced by a greater volume of inquiries. In Finland, production at the Helsinki plant was transferred to the Lohja plants during the third quarter as planned. Elcoteq's largest customers in its Industrial Electronics business are ABB, Kone and Philips.

Elcoteq to build new plant in Beijing

Elcoteq's Board of Directors decided at the beginning of November to build a new manufacturing plant in China's capital city, Beijing. The plant will be built in the Xingwang industrial park which, headed by

Nokia, is emerging as a large cluster for manufacturing communications electronics. The Elcoteq plant in Xingwang will have approximately 11,000 square meters of floor space and production ramp-up is due to start during the first quarter of 2003. The plant will manufacture mobile phone electronics for both Nokia and other customers.

The Chinese market has continued to grow this year and the country has emerged as the world's largest single market for mobile phones. China has also become the largest market for Elcoteq's Terminal Products business area alongside Europe. The Xingwang plant will reinforce Elcoteq's already solid position as a mobile phone manufacturer in China. Elcoteq has almost 2,000 employees in China, roughly 800 of whom work at the Beijing plants.

Board of Directors and President

Elcoteq's chairman, Mr Antti Piippo, took temporary leave of absence from the Board of Directors at the end of August owing to events in his personal life and his place has been taken during this period by the deputy chairman of the Board, Mr Juha Toivola.

Mr Hannu Bergholm MSc. (Econ.) has acted as President of Elcoteq since August 3, following the resignation of his predecessor in this position, Mr Tuomo Lähdesmäki.

Prospects

Global economic uncertainty has further increased in almost all business areas. This has affected demand for electronics manufacturing services in two ways: volume forecasts for products to be manufactured have been revised downwards temporarily, whereas outsourcing of production is increasingly seen as a means of achieving greater cost efficiency. At the same time many EMS providers are struggling with serious cost structure problems. In this environment Elcoteq's flexible strategy has enabled the company to adjust to the rapid changes in the marketplace.

Visibility to the markets continues to be poor and changes are taking place extremely rapidly, making it difficult to estimate volumes. Elcoteq forecasts that its fourth-quarter net sales will exceed MEUR 500, and therefore its net sales for the full year will total approximately MEUR 1,850 (MEUR 2,200). The company believes that its operating profit in the fourth quarter will become positive. The adjustment program is making planned progress and its impact on the company's profitability will take full effect from the beginning of 2002.

Helsinki November 1, 2001

Board of Directors

Further information:
Mr Hannu Bergholm, President, tel. +358 (0) 10 413 11
Mr Osmo Kammonen, Group Vice President, Communications and IR, tel. +358 (0) 10 413 1406, GSM +358 (0) 50 593 0770

Press Conference

Elcoteq will hold a press conference for media representatives in the Marski Room World Trade Center in Helsinki (Aleksanderinkatu 17), starting at 1.00 pm East European Time on Friday, November 2, 2001.

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 Marski Room of the World Trade Center in Helsinki starting at 2.30 pm Eastern European Time (12.30 pm UK time) on November 2, 2001. To participate by phone, please call +44 20 8240 8248, code Elcoteq. A taped recording of the teleconference will be available for three banking days after the call on +44 20 8288 4459, code 670 162.

Conversion rates:

The following average conversion rates are used in this interim report:
1 EUR = 5.94573 FIM
1 EUR = 0.91310 USD
1 USD = 6.511586 FIM

ENCLOSURES

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APPENDIX 1

INCOME STATEMENT, MEUR	1-9/2001	1-9/2000	Change-%	12/2000
Net sales	**1,353.9**	**1,531.1**	**-11.6**	**2,222.0**
Change in stock of work in				
progress and finished goods	4.4	24.4	-81.9	17.4
Operating expenses	-1,334.2	-1,486.6	-10.3	-2,138.3
Depreciation	-35.7	-22.6	58.1	-34.7
Operating profit before				
restructuring costs	**-11.5**	**46.3**	**-124.9**	**66.4**
% of net sales	-0.9	3.0		3.0
Restructuring costs	-11.8	0.0		0.0
Operating profit after				
restructuring costs	**-23.3**	**46.3**	**-150.3**	**66.4**
% of net sales	-1.7	3.0		3.0
Financial income and expenses	-10.3	-6.4	60.4	-12.1
Profit before extraordinary items				
and taxes	**-33.6**	**39.9**	**-184.1**	**54.4**
Income taxes *)	2.5	-12.6		-15.6
Minority interest	-1.0	-0.6	80.7	-1.7
Net result	**-32.1**	**26.8**	**-219.8**	**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	Sept.30,2001	Sept.30,2000	Change-%	Dec.31,2000
Fixed assets	179.7	157.5	14.1	182.2
Current assets				
Inventories	198.6	335.9	-40.9	300.5
Other current assets	270.8	377.4	-28.2	318.7
Total assets	**649.1**	**870.8**	**-25.5**	**801.4**
Share capital	11.8	9.9	19.5	9.9
Other shareholders' equity	222.2	257.0	-13.5	266.5
Minority interest	5.6	3.6	54.7	4.6
Provisions	7.2	0.0		0.0
Long-term liabilities	50.9	42.5	19.9	47.7
Short-term liabilities	351.4	557.8	-37.0	472.6
Total shareholders' equity				
and liabilities	**649.1**	**870.8**	**-25.5**	**801.4**

APPENDIX 3

CONSOLIDATED CASH FLOW STATEMENT, MEUR

	1-9/2001	1-9/2000	Change-%	12/2000
Cash flow before change in working capital	18.7	68.3	-72.7	97.9
Change in working capital	125.4	-164.7		-131.6
Financial items and taxes	-20.5	-13.8	47.9	-24.7
Cash generated from operations	123.6	-110.2		-58.5
Cash flow from investing activities	-58.1	-73.8	-21.3	-108.2
Cash flow before financing activities	65.5		-184.1	-166.7

Cash flow from investing activities includes a 20.3 MEUR investment in net working capital related to the acquisition of a business operation in Switzerland at the beginning of 2001.

APPENDIX 4

KEY FIGURES	1-9/2001	1-9/2000	Change-%	12/2000
Personnel on average during the period	10,423	9,152	13.9	9,630
Gross capital expenditure, MEUR	34.8	87.7	-60.3	125.7
Return on equity (ROE), %*)	-12.0	14.0		19.3
Return on investment (ROI), %*)	-4.6	14.1		20.4
From 12 preceding months:				
Return on equity (ROE), %	-7.7	16.7		19.3
Return on investment (ROI), %	0.3	17.5		20.4
Earnings per share (EPS), EUR	-1.09	1.03		1.38
Earnings per share EPS diluted, EUR	-1.00	0.98		1.33
Current ratio	1.3	1.3		1.3
Solvency ratio	36.9	31.1		35.1
Gearing	0.4	0.6		0.5
Equity per share, EUR	7.93	9.09	-12.8	9.37
Interest-bearing liabilities, MEUR	134.5	201.8	-33.4	182.3
Interest-bearing net debt, MEUR	96.5	169.8	-43.2	150.5
Non-interest-bearing liabilities, MEUR	267.8	398.5	-32.8	338.0

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

APPENDIX 5

ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR

	Sept.30,2001	Sept.30,2000	Change-%	Dec.31,2000
FOR OWN LIABILITIES				
Mortgages on real estate				
Loans from credit institutions	1.9	4.7	-59.1	3.6
Mortgages	9.3	11.0	-15.8	9.3
Mortgages on movable assets				
Loans from credit institutions	-	0.2	-	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	0.6	0.7	-20.9	0.7
LEASING COMMITMENTS				
Operating lease commitments	19.7	25.0	-21.0	27.4
DERIVATIVE CONTRACTS				
Foreign exchange derivative financial instruments				
Foreign exchange forward contracts				
- Notional value	170.5	276.3	-38.3	272.7
- Book value	-0.5	-0.9	-41.2	-3.4
- Market value	-0.4	-1.3	-67.1	-2.5
Currency options				
- Notional value	40.8	138.8	-70.6	20.5
- Book value	-0.1	0.3		0.1
- Market value	-1.0	0.7	-253.8	0.2
Interest rate derivatives				
- Notional value	147.2	-		-
- Book value	-	-		-
- Market value	-	-		-
Interest and currency swap contracts				
- Notional value	2.5	4.4	-42.5	3.3
- Book value	0.8	1.5	-48.9	1.0
- Market value	0.8	1.5	-48.9	1.0

APPENDIX 6

QUARTERLY FIGURES

INCOME STATEMENT, MEUR	Q3/ 2001	Q2/ 2001	Q1/ 2001	Q4/ 2000	Q3/ 2000	Q2/ 2000	Q1/ 2000
Net sales	**431.6**	**441.0**	**481.3**	**691.0**	**596.2**	**495.1**	**439.7**
Change in stock of work in progress and finished goods	1.4	-3.0	6.0	-7.0	1.2	12.6	10.6
Operating expenses	-424.3	-437.2	-472.5	-651.7	-570.7	-485.4	-430.5
Depreciation	-12.9	-11.6	-11.2	-12.1	-8.3	-7.6	-6.7
Operating profit before restructuring costs	**-4.3**	**-10.8**	**3.6**	**20.1**	**18.4**	**14.7**	**13.2**
% of net sales	-1.0	-2.5	0.7	2.9	3.1	3.0	3.0
Restructuring costs	-11.8	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit after restructuring costs	**-16.1**	**-10.8**	**3.6**	**20.1**	**18.4**	**14.7**	**13.2**
% of net sales	-3.7	-2.5	0.7	2.9	3.1	3.0	3.0
Financial income and expenses	-3.1	-2.9	-4.3	-5.7	-4.1	-1.6	-0.8
Profit before extraordinary items and taxes	**-19.1**	**-13.8**	**-0.7**	**14.5**	**14.4**	**13.1**	**12.4**
Income taxes	2.6	1.2	-1.3	-3.0	-5.1	-3.8	-3.7
Minority interest	-0.5	-0.5	0.0	-1.1	-0.3	-0.4	0.1
Net result	**-17.0**	**-13.0**	**-2.0**	**10.4**	**9.1**	**8.9**	**8.8**
BALANCE SHEET, MEUR							
Fixed assets	179.7	189.8	189.2	182.2	157.5	124.0	106.6
Current assets							
Inventories	198.6	253.4	275.1	300.5	335.9	277.6	227.6
Other current assets	270.8	249.9	366.8	318.7	377.4	318.8	257.0
Total assets	**649.1**	**693.1**	**831.1**	**801.4**	**870.8**	**720.4**	**591.3**
Share capital	11.8	11.8	9.9	9.9	9.9	9.7	8.3
Other shareholders’ equity	222.2	242.0	255.2	266.5	257.0	227.5	135.3
Minority interests	5.6	5.5	4.8	4.6	3.6	3.6	3.2
Provisions	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	50.9	50.8	52.0	47.7	42.5	28.7	25.8
Short-term liabilities	351.4	382.9	509.2	472.6	557.8	450.9	418.5
Total shareholders’ equity and liabilities	**649.1**	**693.1**	**831.1**	**801.4**	**870.8**	**720.4**	**591.3**
Personnel on average during the period	9,409	10,352	11,490	11,121	10,174	9,300	8,080
Gross capital expenditure, MEUR	7.9	8.4	18.5	38.0	41.9	25.2	20.6
ROCE / ROI from 12 preceding months, %	0.3	8.4	14.6	20.4	17.5	17.4	15.7
Earnings per share (EPS), EUR	-0.58	-0.44	-0.07	0.35	0.31	0.34	0.38
Solvency ratio	36.9	37.4	32.5	35.1	31.1	33.6	25.1