

ELCOTEQ NETWORK CORPORATION'S INTERIM REPORT FOR JANUARY-JUNE 2001  
(UNAUDITED)

- Net sales totaled 922.3 MEUR (934.8 MEUR one year earlier)
- The operating loss was -7.3 MEUR (+27.9 MEUR) and the loss before extraordinary items and taxes was -14.5 MEUR (+25.5 MEUR), EPS -0.51 EUR (0.72 EUR)
- Cash flow became positive, totaling 43.8 MEUR (-104.2 MEUR)
- The Group's full-year net sales will be lower than last year
- The performance continues to be burdened by the costs of unused capacity and is expected to remain a loss.
- Operations will be adjusted to match reduced demand.

Elcoteq Network Corporation's January-June net sales almost reached the same level as in the same period last year. For a company that has long experienced continuing rapid growth, however, this meant that Elcoteq fell well short of its targets. Two factors were responsible for the decline in demand during the first six months of the year, and in particular during the second quarter: on the one hand, the general deterioration in business conditions coupled with weakening demand especially for communications network products, and on the other the termination of the manufacture of Ericsson mobile phones in Europe. Manufacturing of Ericsson mobile phones at Elcoteq's plants in Estonia and Hungary was gradually discontinued during the first quarter, and during the second quarter it accounted for only a minor proportion of Elcoteq's net sales. Elcoteq continues to manufacture mobile phone products for Ericsson in China and Mexico.

Although manufacturing of Ericsson mobile phones ceased in Europe, and despite the discontinuation of computer monitor manufacturing in Hungary at the end of last year, Elcoteq nonetheless almost reached the same level of net sales as in the first six months of 2000, thanks to substitute production. New production was obtained both from among existing customers and from new customers. However, the company's performance continues to be burdened by the cost of the new capacity built to meet the growth previously forecast for 2001.

#### Business area performance

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 % (91 %) of Elcoteq's net sales. Terminal products represented 80 % of the company's net sales, communications network equipment 8 % and industrial electronics 12 %.

Sales of terminal products during the reporting period remained at last year's level. In this sector Elcoteq's largest customer is Nokia.

The communications network equipment market is waiting for operators to start making new investments. Demand was quiet during the first half of the year. Elcoteq's previous net sales forecasts assumed stronger growth in communications network equipment. The company's full-year sales will be heavily affected by the timing of both 2G and 3G mobile phone investments. In May Elcoteq began electronics manufacturing related to base station antennas for the American company Andrew

Corporation at its Tallinn plant. Nokia and Ericsson are the largest customers of Elcoteq's Communications Network Equipment business area.

The changes in demand are smaller in industrial electronics than in terminal products and communications network equipment. Integration of the unit in Switzerland acquired from ABB early in the year has proceeded as planned and has substantially boosted Elcoteq's net sales from industrial electronics production. Production at the Helsinki plant will be transferred to the Lohja plants during the third quarter according to plan.

#### Adjustment program

Elcoteq is implementing an adjustment program as a result of lower than expected demand. The aim is to streamline the Group's activities and costs to match current and evident business volumes. In implementing the measures the Group will take care to ensure that it maintains its ability to serve existing and future customers well and meet their needs also when demand begins to grow again.

The program calls for monitoring of and adjustments to Elcoteq's structure, capacity, costs, number of employees and other resources. Measures include more effective location of machine capacity within the plant network. Similarly, all capacity expansion projects will be re-evaluated in light of the changed market conditions.

The total number of employees was reduced by approximately 1,500 during the first six months of the year. The largest reductions were made in Hungary, Estonia and Mexico. The largest personnel increases were made as a result of organic growth in China and the acquisition in Switzerland. In Finland the company is currently engaged in personnel negotiations to streamline the operations of the Lohja plant in line with reduced demand.

At the end of June the company had altogether 9,877 (9,678) employees, comprising 1,358 in Finland and 8,519 in other countries. The average number of employees between January and June 2001 was 10,924 (8,643). The adjustment program is expected to result in a further reduction of approximately 1,500 employees.

#### Result of operations a loss

Elcoteq's second-quarter net sales totaled 441 MEUR, which was 8 % lower than in the first quarter of the year. The result of operations between April and June was a loss of -10.8 MEUR, compared with a profit of 3.6 MEUR between January and March. The result before extraordinary items and taxes in the second quarter was a loss of -13.8 MEUR, compared with a loss of -0.7 MEUR in the first quarter.

The rolling 12-month return on capital employed (ROCE), Elcoteq's most important measure of profitability, was 8.4 % after the second quarter.

Relatively speaking, profits weakened more than net sales, mainly because Elcoteq entered a single write-off of approximately 7 MEUR on non-current materials in the second-quarter accounts. This need arose because, owing to errors in supply chain, Elcoteq remained responsible for some of the material orders made for growth that failed to materialize. It remains the company's principle to purchase materials against customer orders and hence its customers bear the risk resulting from errors in forecasts. Profitability was weakened in particular by low capacity utilization.

Gross capital expenditure on fixed assets totaled 26.9 MEUR (45.8 MEUR) between January and June and depreciation amounted to 22.8 MEUR (14.3 MEUR). The largest investments were made in China.

Gross capital expenditure declined in the second quarter to 8.4 MEUR having been 18.5 MEUR in the first quarter.

The company's balance sheet totaled 693.1 MEUR. The balance sheet was lighter compared to the same time last year when it amounted to 720.4 MEUR, and in particular compared to the end of the first quarter, when the balance sheet totaled 831.1 MEUR. The main reason underlying the reduction in the balance sheet total was a decrease of over 100 MEUR in accounts receivable during the second quarter, coupled with a reduction in inventories. Inventories totaled 253.4 MEUR at the end of June (277.6 MEUR one year earlier and 275.1 MEUR at the end of March). The equity ratio improved by almost five percentage points from the end of March to the current figure of 37.4 %.

Cash flow from ongoing operations became positive during the reporting period, totaling 43.8 MEUR (-104.2 MEUR) before financing activities. Elcoteq concluded a 105 MEUR Revolving Credit arrangement with a syndicate of five banks in March. Unused credit limits at the end of June amounted to 131 MEUR, compared with 110 MEUR at the close of the previous period. The Group's liquidity remained good.

Elcoteq strengthens its customer and engineering services in Europe

At the end of April Elcoteq announced its intention to set up a new Customer Relations and Engineering Service Center in Sweden to improve the level of service to its Scandinavian customers and to respond to growing demand for design, engineering and new product introduction services. This unit, to be started up in the Stockholm area during the current year, will initially offer sales services and expand its scope of operations later to cover other services. Elcoteq's Customer Service Center in Denmark will be merged with the new unit in Sweden.

Elcoteq will enhance the customer and engineering service capabilities of its plant in Germany and tighten cooperation with the plant in Switzerland. These measures will enable Elcoteq to strengthen and broaden its range of services to the German market and to other customers in continental Europe.

In July, after the close of the reporting period, Elcoteq announced the opening of a new office in Shanghai, China. This office will improve Elcoteq's sales, purchasing and logistical services in the Shanghai-Nanjing area and strengthen contacts with local customers and suppliers.

## Prospects

Continuously weakening demand in the electronics industry, and especially in communications products, has now expanded to other sectors, while economic uncertainty has further increased. This has affected demand for electronics manufacturing services in two ways: volume forecasts for products being manufactured have temporarily declined, whereas on the other hand outsourced manufacturing is increasingly seen as a solution for achieving more favorable cost structures.

At the beginning of August 2001 visibility to the market is poor and market changes are taking place extremely rapidly, making it very difficult to assess the company's prospects to the end of the year. The company currently considers that its sales in the third quarter will probably be lower than sales in the second quarter. Sales are expected to increase in the final quarter as a result of seasonal variations. Elcoteq's full-year net sales in 2001 are expected to remain below the level in 2000. Growth in sales of communications network products, in particular, will remain clearly lower than expected. The result for the full year is expected to be a loss.

Helsinki August 2, 2001

Board of Directors

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Press conference

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 August 3, 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 August 3, 2001. To participate by phone, please call +44 20 8240 8244, code Elcoteq. A taped recording of the teleconference will be available for three days after the call on +44 20 8288 4459, code 628 962.

Conversion rates:

The following average conversion rates are used in this interim report:

1 EUR = 5.94573 FIM

1 EUR = 0.8480 USD

1 USD = 7.011474 FIM

ENCLOSURES

1 Income Statement

2 Balance Sheet

3 Cash Flow Statement

4 Key Figures

5 Contingent Liabilities

6 Quarterly Figures

## APPENDIX 1

INCOME STATEMENT, MEUR	1-6/2001	1-6/2000	Change-%	12/2000
<b>Net sales</b>	<b>922.3</b>	<b>934.8</b>	<b>-1.3</b>	<b>2,222.0</b>
Change in stock of work in progress and finished goods	3.0	23.3	-87.2	17.4
Operating expenses	-909.7	-915.9	-0.7	-2,138.3
Depreciation	-22.8	-14.3	59.4	-34.7
<b>Operating profit</b>	<b>-7.3</b>	<b>27.9</b>	<b>-126.1</b>	<b>66.4</b>
% of net sales	-0.8	3.0		3.0
Financial income and expenses	-7.2	-2.3	207.0	-12.1
<b>Profit before extraordinary items and taxes</b>	<b>-14.5</b>	<b>25.5</b>	<b>-156.6</b>	<b>54.4</b>
Income taxes *)	-0.1	-7.5		-15.6
Minority interest	-0.5	-0.3	67.7	-1.7
<b>Net income</b>	<b>-15.1</b>	<b>17.7</b>	<b>-185.0</b>	<b>37.2</b>

\*) 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	June 30, 2001	June 30, 2000	Change-%	Dec. 31, 2000
Fixed assets	189.8	124.0	53.0	182.2
Current assets				
Inventories	253.4	277.6	-8.7	300.5
Other current assets	249.9	318.8	-21.6	318.7
<b>Total assets</b>	<b>693.1</b>	<b>720.4</b>	<b>-3.8</b>	<b>801.4</b>
Share capital	11.8	9.7	21.7	9.9
Other shareholders' equity	242.0	227.5	6.4	266.5
Minority interest	5.5	3.6	52.4	4.6
Provisions	0.0	0.0	0.0	0.0
Long-term liabilities	50.8	28.7	77.2	47.7
Short-term liabilities	382.9	450.9	-15.1	472.6
<b>Total shareholders' equity and liabilities</b>	<b>693.1</b>	<b>720.4</b>	<b>-3.8</b>	<b>801.4</b>

### APPENDIX 3

#### CONSOLIDATED CASH FLOW STATEMENT, MEUR

	1-6/2001	1-6/2000	Change-%	12/2000
Cash flow before change in working capital	16.5	40.2	-58.8	97.9
Change in working capital	57.8	-96.0		-131.6
Financial items and taxes	-7.4	-5.8	27.0	-24.7
Cash generated from operations	66.9	-61.7		-58.5
Cash flow from investing activities	-23.2	-42.5		-108.2
Cash flow before financing activities	43.8	-104.2		-166.7

### APPENDIX 4

KEY FIGURES	1-6/2001	1-6/2000	Change-%	12/2000
Personnel on average during the period	10,924	8,643	26.4	9,630
Gross capital expenditure, MEUR	26.9	45.8	-41.3	125.7
Return on equity (ROE), %*)	-5.4	10.0		19.3
Return on investment (ROI), %*)	-1.0	10.8		20.4
From 12 preceding months:				
Return on equity (ROE), %	2.5	14.5		19.3
Return on investment (ROI), %	8.4	17.4		20.4
Earnings per share (EPS), EUR	-0.51	0.72		1.38
Earnings per share EPS diluted, EUR	-0.48	0.69		1.33
Current ratio	1.3	1.3		1.3
Solvency ratio	37.4	33.6		35.1
Gearing	0.5	0.4		0.5
Equity per share, EUR	8.61	8.23	4.5	9.37
Interest-bearing liabilities, MEUR	168.4	129.9	29.6	182.3
Interest-bearing net debt, MEUR	140.9	107.1	31.5	150.5
Non-interest-bearing liabilities, MEUR	265.4	349.7	-24.1	338.0

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

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## ASSETS PLEDGED AND CONTINGENT LIABILITIES, MEUR

	June 30, 2001	June 30, 2000	Change-%	Dec. 31, 2000
<b>FOR OWN LIABILITIES</b>				
Mortgages on real estate				
Loans from credit institutions	2.0	4.3	-54.9	3.6
Mortgages	9.3	11.1	-16.0	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
<b>ON BEHALF OF OTHERS</b>				
Guarantees	0.7	0.7	0.0	0.7
<b>LEASING COMMITMENTS</b>				
Operating lease commitments	21.9	21.0	4.1	27.4
<b>DERIVATIVE CONTRACTS</b>				
Foreign exchange derivative financial instruments				
Foreign exchange forward contracts				
- Notional value	192.1	188.3	2.0	272.7
- Book value	-0.6	0.7	-181.0	-3.4
- Market value	-0.6	-0.1	1,000.0	-2.5
Currency options				
- Notional value	80.3	62.7	28.1	20.5
- Book value	0.7	0.0		0.1
- Market value	0.7	0.1	1,366.7	0.2
Interest rate derivatives				
- Notional value	147.2	-		-
- Book value	-	-		-
- Market value	-	-		-
Interest and currency swap contracts				
- Notional value	2.7	4.0	-32.5	3.3
- Book value	1.0	1.1	-12.3	1.0
- Market value	1.0	1.1	-12.3	1.0

## APPENDIX 6

## QUARTERLY FIGURES

## INCOME STATEMENT, MEUR

	Q2/2001	Q1/2001	Q4/2000	Q3/2000	Q2/2000	Q1/2000
<b>Net sales</b>	<b>441.0</b>	<b>481.3</b>	<b>691.0</b>	<b>596.2</b>	<b>495.1</b>	<b>439.7</b>
Change in stock of work in progress and finished goods	-3.0	6.0	-7.0	1.2	12.6	10.6
Operating expenses	-437.2	-472.5	-651.7	-570.7	-485.4	-430.5
Depreciation	-11.6	-11.2	-12.1	-8.3	-7.6	-6.7
<b>Operating profit</b>	<b>-10.8</b>	<b>3.6</b>	<b>20.1</b>	<b>18.4</b>	<b>14.7</b>	<b>13.2</b>
% of net sales	-2.5	0.7	2.9	3.1	3.0	3.0
Financial income and expenses	-2.9	-4.3	-5.7	-4.1	-1.6	-0.8
<b>Profit before extraordinary items and taxes</b>	<b>-13.8</b>	<b>-0.7</b>	<b>14.5</b>	<b>14.4</b>	<b>13.1</b>	<b>12.4</b>
Income taxes	1.2	-1.3	-3.0	-5.1	-3.8	-3.7
Minority interest	-0.5	0.0	-1.1	-0.3	-0.4	0.1
<b>Net income</b>	<b>-13.0</b>	<b>-2.0</b>	<b>10.4</b>	<b>9.1</b>	<b>8.9</b>	<b>8.8</b>

## BALANCE SHEET, MEUR

Fixed assets	189.8	189.2	182.2	157.5	124.0	106.6
Current assets						
Inventories	253.4	275.1	300.5	335.9	277.6	227.6
Other current assets	249.9	366.8	318.7	377.4	318.8	257.0
<b>Total assets</b>	<b>693.1</b>	<b>831.1</b>	<b>801.4</b>	<b>870.8</b>	<b>720.4</b>	<b>591.3</b>
Share capital	11.8	9.9	9.9	9.9	9.7	8.3
Other shareholders' equity	240.0	255.2	266.5	257.0	227.5	135.3
Minority interests	5.5	4.8	4.6	3.6	3.6	3.2
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	50.8	52.0	47.7	42.5	28.7	25.8
Short-term liabilities	382.9	509.2	472.6	557.8	450.9	418.5
<b>Total shareholders' equity and liabilities</b>	<b>693.1</b>	<b>831.1</b>	<b>801.4</b>	<b>870.8</b>	<b>720.4</b>	<b>591.3</b>
Personnel on average during the period	10,352	11,490	11,121	10,174	9,300	8,080
Gross capital expenditure, MEUR	8.4	18.5	38.0	41.9	25.2	20.6
ROCE/ROI from 12 preceding months, %	8.4	14.6	20.4	17.5	17.4	15.7
Earnings per share (EPS), EUR	-0.44	-0.07	0.35	0.31	0.34	0.38
Solvency ratio	37.4	32.5	35.1	31.1	33.6	25.1