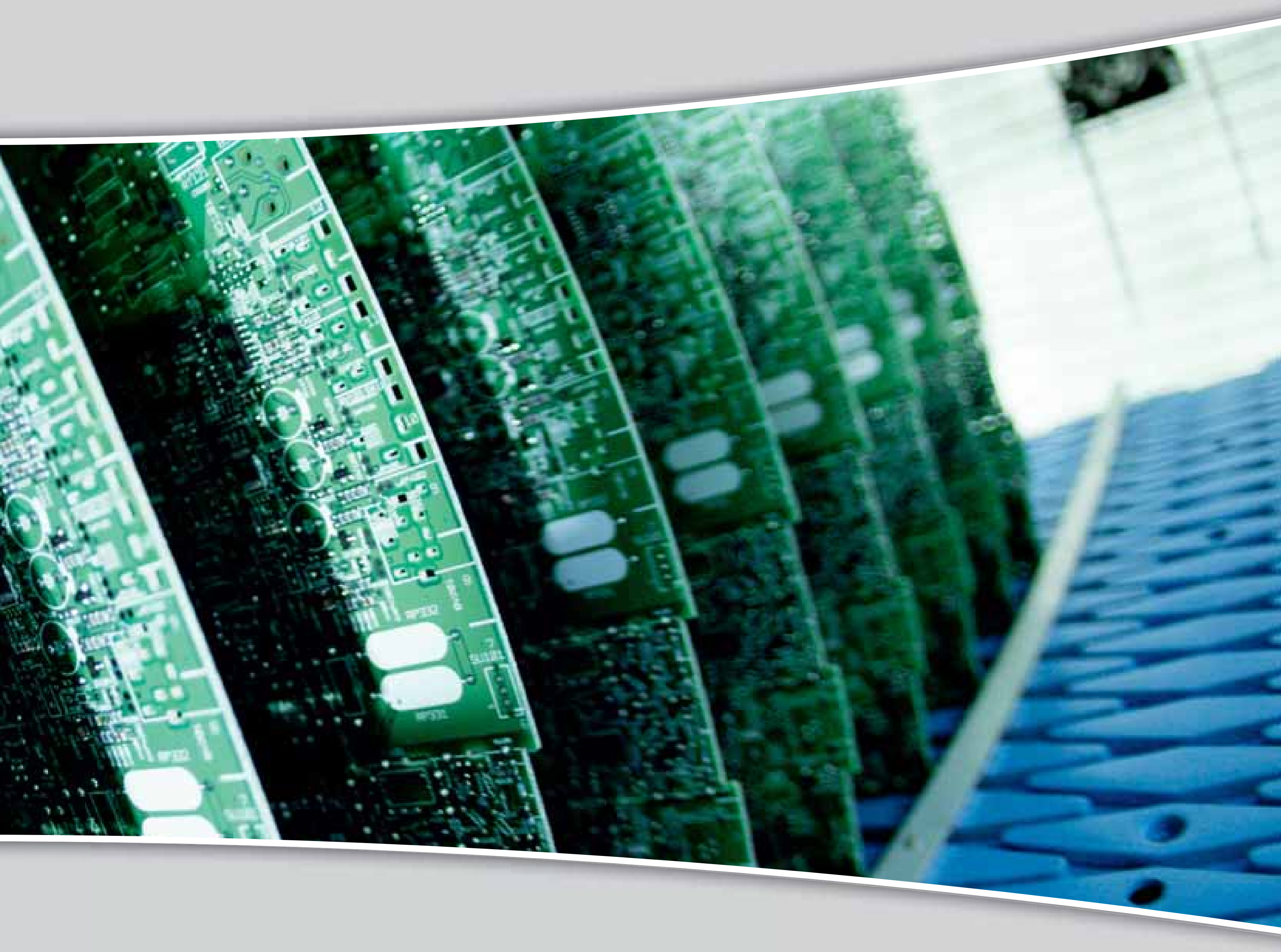
ELCOTEQ

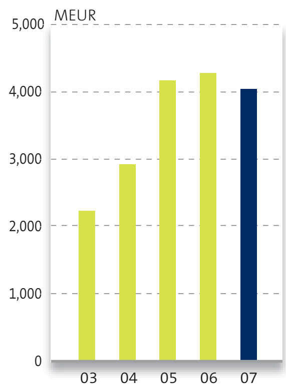


Annual Report 2007

Elcoteq SE is a Global Electronics Manufacturing Services Company Focusing on Communications Technology

Elcoteq SE is a leading electronics manufacturing services (EMS) company that focuses on communications technology customers and products. The service offering covers the entire lifecycle of customers' products globally – from product development to after-market services. Elcoteq manufactures, for example, mobile phones and their parts, set-top boxes, electronics for flatscreen TVs, base stations, tower-top amplifiers and microwave systems.

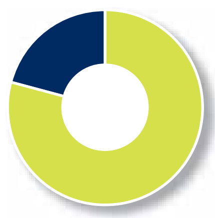
Net Sales 2003–2007



Net Sales by Business Area 2007

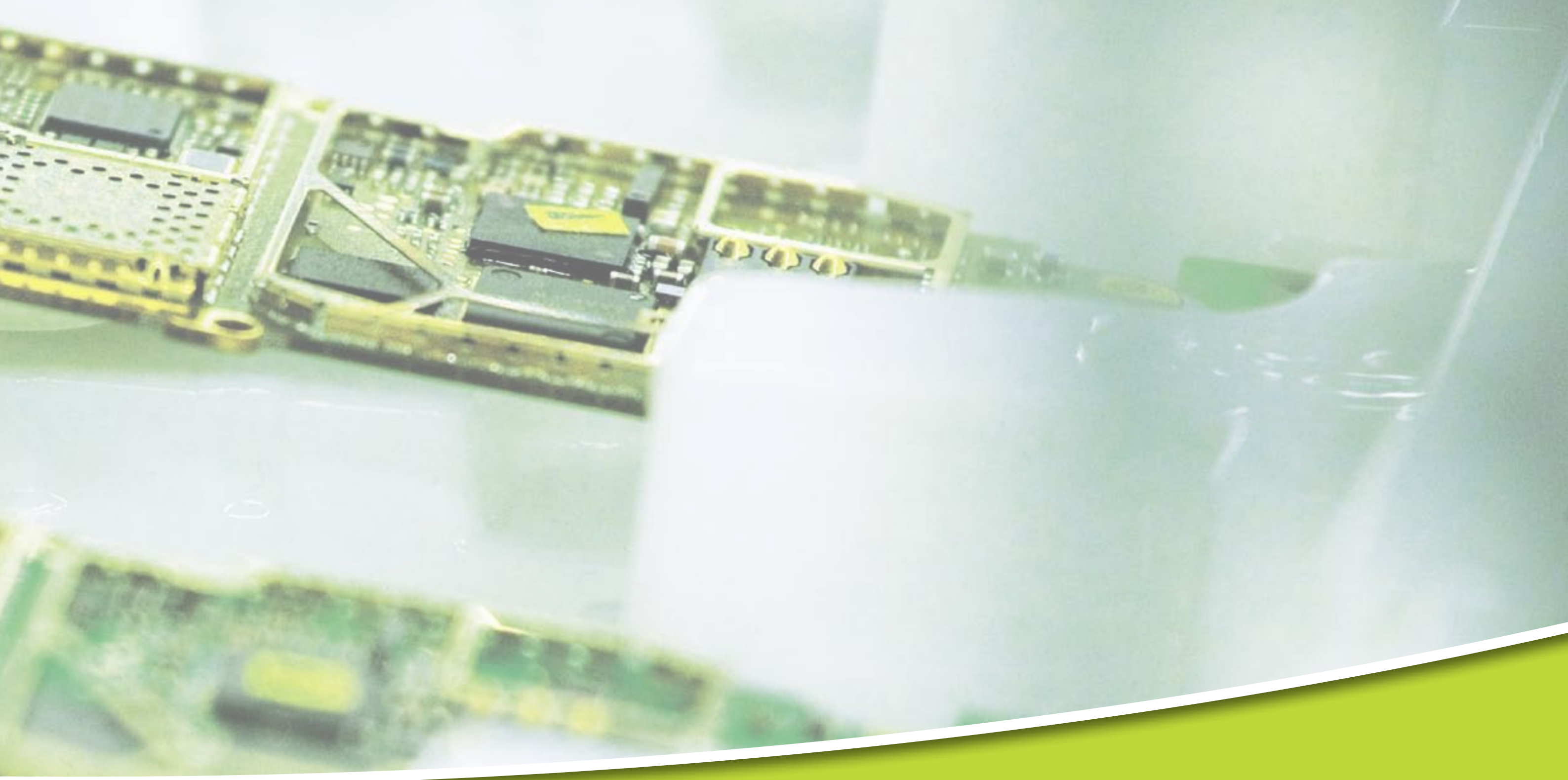
Terminal Products 79% (Personal Communications and Home Communications)

Communications Networks 21%



Net Sales by Geographical Area 2007

Europe 52%
Asia-Pacific 27%
Americas 21%



- EMS provider since 1984
- Independent company since 1991
- Listed on the OMX Nordic Exchange Helsinki since 1997
- European company (SE, Societas Europaea) since 2005
- Largest European company in its field and the third largest in the world
- Net sales 4,043 million euros in 2007
- 24,000 employees
- Operations in 15 countries on four continents

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Elcoteq in Brief

Elcoteq SE is an electronics manufacturing services (EMS) company that focuses on communications technology. The company's service offering covers the whole lifecycle of its customers' products. Elcoteq is the largest European company in its field and the third largest in the world.

SERVING GLOBAL OEMS

Elcoteq's customers are globally operating original equipment manufacturers (OEMs) of communications technology products. Elcoteq's focus on communications technology enables the company to provide customized solutions for its customers' needs and sets the company clearly apart from its competitors.

Until the end of 2007, Elcoteq's operations were organized in two business areas: Terminal Products and Communications Networks. In 2007, Terminal Products contributed 79% and Communications Networks 21% to the Group's net sales. The organization was changed at the beginning of 2008 and Terminal Products was divided into two business areas: Personal Communications and Home Communications.

The main product group for Personal Communications is mobile phones, their parts, modules and accessories. The company's Home Communications products include set-top boxes, electronics for flatscreen televisions, and other home communications devices.

Communications Networks' customers are manufacturers of wireless and wireline infrastructure, as well as enterprise networks. In this business area Elcoteq manufactures, for example, base stations and microwave systems for mobile phone networks, as well as products for broadband and data networks.

GLOBAL SERVICE NETWORK

Elcoteq's service network covers altogether 15 countries in Europe, Asia-Pacific and the Americas. It includes high-volume manufacturing plants, units specializing in smaller series, as well as product development units and new product introduction (NPI) centers.

All of the company's high-volume plants are located close to the main end-markets of customers' products and in regions with good availability of trained labor. These countries – Hungary, Estonia, China, Mexico, Russia, India, Romania and Brazil – are also competitive in terms of cost.

The plant network is consistent and each plant is compatible with Elcoteq's global service offering. For customers this translates into uniform quality, outstanding flexibility and ease of doing business.

The Year 2007

Elcoteq continued to balance its customer base and is committed to further expand its service offering. Nevertheless, the year fell significantly short of financial objectives. Net sales amounted to 4,042.9 million euros (4,284.3). Operating income was –96.3 million euros (43.9) and –46.1 million euros excluding restructuring expenses. Elcoteq launched action plans to improve its competitiveness.

Key Figures

	2007	2006	Change, %
Net sales, MEUR	4,042.9	4,284.3	–6
Operating income, MEUR	–96.3	43.9	-
% of net sales	–2.4	1.0	
Income before taxes, MEUR	–122.8	19.2	-
Net profit, MEUR*	–108.4	12.1	-
Capital employed, MEUR	435.1	513.6	–15
Return on capital employed (ROI/ROCE), %	–19.6	9.1	
Cash flow, MEUR	–11.1	–20.8	
Interest-bearing net debt, MEUR	144.5	128.0	13
Gearing	0.7	0.4	
Solvency ratio, %	18.1	26.1	
Earnings per share, EUR	–3.37	0.38	-
Gross capital expenditures, MEUR	67.2	116.9	–42

* Net income for the equity holders of the parent company.

BALANCING THE CUSTOMER BASE CONTINUED

Elcoteq continued to balance its customer base in line with the strategy in 2007. No single customer accounted for more than 40% of consolidated net sales. In 2007, the company's largest customers (in alphabetical order) were Ericsson, Nokia Mobile Phones, Nokia Siemens Networks, Philips, Research in Motion (RIM), Sony Ericsson and Thomson.

EXPANDING THE SERVICE OFFERING

Elcoteq is committed to further expand its service offering in response to the rapidly changing outsourcing needs of its customers. The company is determined to become the leading provider of integrated electronics manufacturing services (IEMS) that can serve selected customer segments in all major market areas. As an IEMS company Elcoteq adds expertise in mechanics-related technologies to its electronics manufacturing and product development services.

2007 BELOW EXPECTATIONS

Elcoteq had prepared itself for a substantial rise in production volumes with many customers for 2007. The decline in the Group's net sales was due to an unanticipated change in the ordering procedures of its biggest customer – the orders that came in during the year were significantly lower than the customer's forecasts. Sales to other customers grew by almost 30% on the previous year.

Significantly lower-than-expected delivery volumes burdened the company's profitability, as both pricing and capacity had been dimensioned on the basis of customer's forecasts. In addition, profitability was weakened by production problems in Mexico. Also due to mergers and acquisitions that took place in the communications networks market in 2006, production volumes at Elcoteq's Offenburg plant in Germany suddenly fell in the second half of the year, driving its operations into unprofitability.

STREAMLINING OPERATIONS AND A NEW ORGANIZATION

Elcoteq launched several actions in 2007 to support the realization of the company's strategy and financial objectives. The company reported that it will concentrate on three focus areas in the action plans: adoption of a new organization model as from the beginning of 2008, stepping up operational efficiency, and turning around loss-making operations into profit or downsizing them.

The new, more customer-centric organization came into effect on January 1, 2008. Following this Terminal Products was divided into two business areas: Personal Communications and Home Communications.

Continuous and Concrete Actions Lay a Foundation for an Even More Competitive Elcoteq

CEO's Review

Elcoteq encountered many setbacks and went through changes in 2007. As a result, the company suffered substantial losses, and faced the need to change and evolve. During last year, we did a great deal to adapt our company and accelerate our development into a provider of integrated electronics manufacturing services (IEMS).

PROGRESS IN IMPROVING COMPETITIVENESS

We are guided by our customers' continuously growing need for the services we offer. Business does not hinge on our competitive prices alone – service quality, the reliability and speed of deliveries, and technological expertise are just as important. It is not even enough to have a broad service offering. One must provide services consistently all around the world. This has always been Elcoteq's strength.

Elcoteq has taken many steps to improve its competitiveness in 2007. The action plan launched early in the year remained on track. As part of this plan, production was closed down at both the Lohja plant in Finland and the Juárez plant in Mexico and transferred to our other plants. In October, we announced a new action plan with three focus areas: adoption of a new customer-centric organization model, turning around loss-making operations into profit or downsizing them, and achieving additional operational savings. We have already made progress in all these areas. We announced the sale of our German subsidiary in December 2007 and the new organizational model came into effect in the beginning of 2008.

We will continue to improve our operational effiency in 2008 through greater flexibility and efficiency in the use of our production resources and especially upgrading materials management. Measures to boost our operational efficiency will continue as part of our ongoing and continuous development programs in our entire service network.

NEW CUSTOMER-CENTRIC ORGANIZATION

We realigned our organization with a greater focus on customers in order to cater to their changing needs faster and more consistently. The new, more customer-centric organization came into effect from the beginning of 2008. Terminal Products was split into two business areas, Personal Communications and Home Communications, which we will report on as separate segments from now on. The third business area is Communications Networks.

These three business areas attend to their own customer accounts and related production and supply chain management independently and develop their own service offering and business. Group functions will ensure the consistency of operating models in each business area and maximize the harnessing of their synergies to ensure economies of scale.

In March, we celebrated our tenth year on the Helsinki Stock Exchange. The listing of the company provided momentum for Elcoteq's drive to go global. During the past decade, Elcoteq has grown from a small firm with 170 employees to the world's third largest EMS company focusing on communications technology.

As part of our globalization strategy, Elcoteq was redomiciled to Luxembourg in January 2008. However, trading in our shares continues on the Helsinki Stock Exchange. Elcoteq's strategic decisions will now be made in Luxembourg, where the company's Board of Directors will mainly convene. The members of the Management Team are stationed in the company's key locations in Europe, Asia-Pacific and the Americas.

READY FOR THE NEXT MOVE

I know that development efforts are needed continuously and demand a great deal of hard work. This is particularly true for companies operating in the tight international arena. We wish to continuously take concrete steps to lay a foundation that will make Elcoteq even more competitive. We see the future with full of opportunities. Customers have a growing need to focus on their core businesses, which increases outsourcing.

As competition tightens and product lifecycles shorten, customers expect partners to take on an ever larger role in the management of their complex product structures. Elcoteq is determined to bolster its position and become the leading provider of integrated electronics manufacturing services, an IEMS company, by further expanding its already extensive and global service offering during 2008.

I would like to thank our customers, shareholders and partners for 2007. Above all I thank our excellent employees for their decisiveness and courage in tough situations and for carrying through our development efforts during last year.

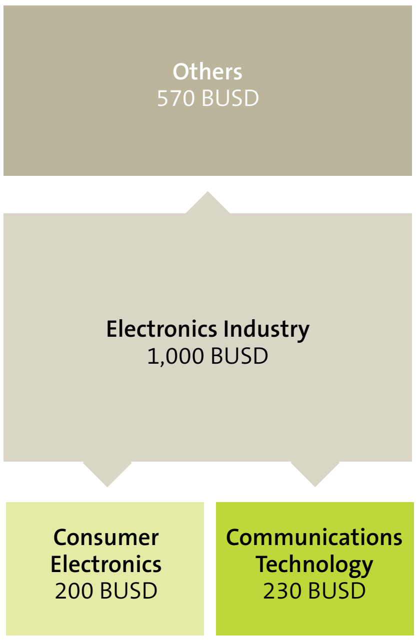
Zug, Switzerland, February 2008

Jouni Hartikainen
President and CEO

Market Review

The market for electronics manufacturing services grew by about 15% in 2007. The favorable trend was driven by the surging general electronics market and greater outsourcing in communications, computer and consumer electronics. Growth is expected to remain robust in the years to come.

Assembly Value of the Electronics Market in 2007



Source: ETP

END MARKETS STAY ON A STRONG GROWTH TRACK

The assembly value of the global electronics market amounted to roughly 1,000 billion US dollars in 2007. The communications technology segment represented some 230 billion US dollars of this total.

The value of the electronics manufacturing services (EMS) and original design manufacturing (ODM) market in 2007 was around 270 billion US dollars, according to market research institutes Electronic Trend Publications (ETP), IDC and Technology Forecasters (TFI). This figure includes all the electronics segments, not only communications technology. The consensus view of the research institutes is that growth in this market amounted to about 15% in 2007. Further annual growth of more than 10% is forecast for both the EMS and ODM markets during the forecast period until 2011.

The EMS market grew by about 15% in 2007 and is valued at roughly 177 billion US dollars on average. The largest product segments outsourced were, as in previous years, communications, computers and consumer electronics. Research institutes state that the ODM market amounted to over 90 billion US dollars on average in 2007, representing growth of about 14% on the previous year. The largest product segments in the ODM sector are computers and communications technology.

ELCOTEQ'S MARKET POSITION IS ROBUST

According to ETP, communications technology accounted for around a third of the EMS market in 2007. At 87 billion US dollars, it was up more than 15% on the previous year.

Elcoteq holds a strong position in the communications technology segment of the EMS market. With a market share of around 7%, the company is the world's third largest EMS provider to communications technology companies and the largest European EMS company. Other global EMS companies include (in alphabetical order): Celestica, Flextronics, Foxconn, Jabil Circuit and Sanmina-SCI.

Elcoteq's role is particularly strong in mobile phone manufacturing, where the company is the world's third largest EMS provider with a market share of 9%.

RIM POSTS FURTHER STRONG GROWTH IN THE SMARTPHONE MARKET

The research institute Oppenheimer estimates that the mobile phone market saw growth of 15% in 2007. Global sales of mobile phones amounted to about 1,140 million units. Nokia bolstered its market share, which stood at around 40% at year's end. Samsung also consolidated its position, taking second place from Motorola.

Research in Motion (RIM) substantially improved its market standing in smartphones, becoming the second-largest player in this segment in terms of unit sales after Nokia. Although new players, such as Apple, ventured into the smartphone market, the ranks of the largest companies held firm. As was the case last year, the top five (Nokia, Samsung, Motorola, Sony Ericsson and LG) had about 84% of the market.

Unit sales of mobile phones in developing markets are beginning to slacken as the markets reach maturity. Research institutes predict that growth in unit sales of mobile phones will amount to about 11% in 2008. However, net sales growth in the market will remain at around 7% due to the decline in the average prices of handsets.

FLATSCREEN TV PRODUCTION ON THE RISE IN HOME COMMUNICATIONS MARKETS

In home communications electronics, growth was particularly buoyant in flatscreen TVs. Market intelligence corporation iSuppli reports that unit sales of LCD TVs grew by about 80%, amounting to around 75 million in 2007. Europe remains the largest market, but vigorous growth was also seen in the United States and China. Samsung, Sharp, Sony, Philips and LG Electronics are the global market leaders, holding a combined market share of roughly 60%. Demand for larger panel sizes has increased due to a rapid decline in flatscreen TV prices. Growth in the market for flatscreen TVs is expected to be about 20% in 2008.

The leading set-top box companies – Thomson, Motorola, Cisco, Pace and Humax – have a combined market share of over 60%. Analysts state that about 100 million set-top boxes were sold in 2007. Annual sales growth of about 10% is forecast during the forecast period until 2011. Further market consolidation is expected on the heels of technological development and heated competition.

FURTHER GROWTH IN THE MARKET FOR COMMUNICATIONS NETWORKS

According to UBS Warburg, sales of communications network equipment amounted to about 170 billion US dollars in 2007, representing an increase of approximately 8% on the previous year. Wireless networks accounted for about 70 billion US dollars. UBS Warburg forecasts growth of roughly 7% in communications network equipment in 2008.

Growth in the market for wireless networks has slowed down and is expected to amount to about 4% in 2007 and 2008. Growth is generated mainly by developing markets and the building of 3G networks.

WiMAX is one of the fastest-growing wireless broadband technologies. WiMAX investments by operators are expected to rise, especially in developing markets. Cisco Systems also ventured into the WiMAX market towards the end of 2007 by acquiring Navini Networks. As in previous years, a major factor driving growth in the market for wireline networks was demand for broadband services.

In the market for communications network equipment, Cisco Systems and Ericsson held on to their market leadership in their segments. Huawei also saw very strong growth. Alcatel-Lucent and Nokia Siemens Networks had to focus on the integration of merged or acquired businesses in the early part of the year.

MERGERS AND ACQUISITIONS TRANSFORM THE EMS BUSINESS

In 2007, consolidation was seen not only among the OEM companies but also among the EMS companies. Flextronics acquired its competitor Solectron, a move that served to help reduce overcapacity in manufacturing services.

Tighter competition is expected to lead to further consolidation, although M&As of this scale are not foreseen in the near future.

Competition in terminal products EMS and also in certain home communications segments has driven service providers towards vertical integration. This means that an EMS company itself manufactures most of the modules or parts of the end-product rather than purchasing them from specialized partners. In 2007, vertically integrated companies acquired their own suppliers or other technology companies in greater numbers.

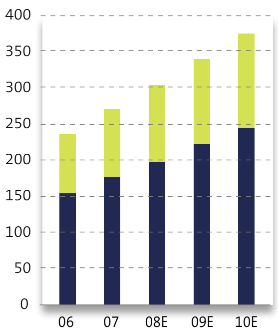
ASIA'S LEAD REMAINS FIRM

The trend for EMS companies to concentrate their volume manufacturing in low-cost countries is still going strong. China is firmly established as the leading country for manufacturing thanks to its massive home market, low prices and developed infrastructure. About a half of the slightly over one billion mobile phones produced worldwide in 2007 were made in China. India has rapidly become more prominent as an important manufacturing country alongside China. Vietnam has also started to attract investments, as especially the Asian companies are searching for alternatives for China.

In addition to Hungary, the Czech Republic, Poland and Romania, also other Eastern European countries, such as Slovakia and Ukraine, have become appealing alternatives as countries for manufacturing. Large EMS companies have in a short period of time closed down plants in high-cost Western European countries.

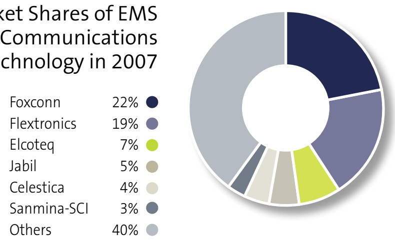
Mexico competes with China for the North American market, especially with lower transport costs and shorter delivery times. In South America, Brazil remains a key manufacturing country thanks to its growing home market and customs practices.

EMS and ODM Market Growth 2006–2010



Source: Consensus estimate (ETP, IDC and TFI)

Market Shares of EMS Providers in Communications Technology in 2007



Source: Information from the companies' publications and analyst estimates compiled by Elcoteq.

Vision, Strategy and Values

Elcoteq's vision is to be the world's leading provider of integrated electronics manufacturing services to communications technology companies. The cornerstones for the implementation of the strategy are a service offering that meets the needs of the global customer base, profitable growth in selected market areas and continuous improvement of operational efficiency.

VISION

For Elcoteq, being the world's leading electronics manufacturing company means that customers consider it to be a top-ranking and reliable company; one that is capable of providing them with the best global service offering in the business from product development to after-market services.

Elcoteq's vision to be the leading provider of integrated electronics manufacturing services to communications technology companies includes the addition of expertise in mechanics-related technologies into the service offering. Elcoteq is valued as a service provider that is able to anticipate customers' future needs, providing new and innovative solutions for their ever-changing requirements.

Two main goals are linked to the vision: creating superior value to communications technology customers and driving shareholder value on par with competition and beyond.

STRATEGY

Elcoteq has three core strategic themes: expanding the service offering, focused growth and operational excellence.

Expanding the service offering plays a key role in the IEMS strategy (IEMS = Integrated Electronics Manufacturing Services). Customers expect their partners to take on a larger role in the management of complex product structures through the entire supply chain. As competition tightens and product lifecycles shorten especially in the Personal Communications business area in, Elcoteq targets to offer its customers broader service offering globally.

Elcoteq targets to bolster the company's ability to generate added value with top-quality service offering that optimizes the total costs of customers' supply chains. The company is negotiating with various parties on the collaboration or M&A arrangements required to implement the IEMS strategy.

Focused growth aims to balance the company's customer base and at the same time optimize the use of plants and service units.

Operational excellence and its continuous improvement are key priorities for Elcoteq's success. To establish a firm foundation personnel expertise, organizational structures and processes must be tailormade and properly dimensioned to business needs.

CONTINUOUS MONITORING OF RESULTS

A great deal of concerted effort and continuous monitoring of results are necessary to make the vision a reality. In the strategic management process, the Group's objectives have been divided into subtargets for the areas and functions. The targets will be updated to match the new organization model that came into effect at the beginning of 2008. Selected benchmarks are used to keep track of the realization of objectives.

KEY FINANCIAL TARGETS

Elcoteq has long-term financial goals relating to its profit growth, profitability and balance sheet structure.

Key Financial Targets

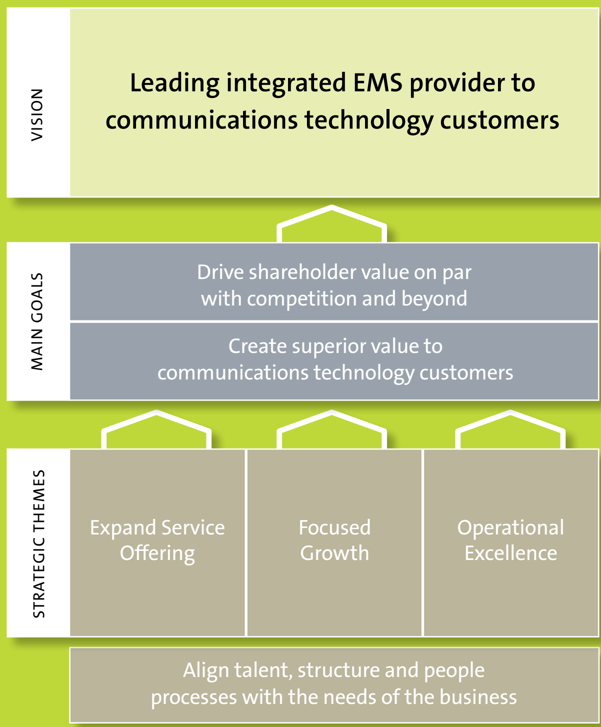
	2007	2006	2005	2004	2003
Increasing earnings per share (EPS), EUR	**–3.37**	0.38	1.34	1.01	0.70
Return on investment (ROI/ROCE), trailing 12 months > 20%	**–19.6**	9.1	17.6	19.5	10.2
Positive cash flow, MEUR	**–11.1**	–20.8	24.4	–80.3	–18.1
Gearing < 1	**0.7**	0.4	0.3	0.4	–0.0

Elcoteq's Vision and Strategy

EXPAND SERVICE OFFERING
- Service offering from product development to after-market covering the whole lifecycle of the products
- Strengthening the service offering through a partnership network by means of collaboration or M&A arrangements

FOCUSED GROWTH
- Organic growth and selected acquisitions
- Balancing of the customer base by gaining new customers, especially from among the globally operating companies
- Profitable growth and spreading of risks
- New product segments within communications technology

OPERATIONAL EXCELLENCE
- Cost-efficiency: optimal resource allocation, volume manufacturing in cost-competitive countries, efficient sourcing and purchasing operations
- Globally consistent service network with uniform procedures, machinery, systems and processes



Competitive Advantages

CONCENTRATION
- Communications technology

COMPETENCE
- Expertise, especially in wireless communication
- Skilled personnel, high-technology competence

CO-EVOLUTION
- Superb customer service
- Confidentiality and close cooperation

CONSISTENCY
- Globally consistent service network, standardized machinery, uniform systems and processes
- Transferability of skills, technologies, products, assets and human resources on a global basis

COST-EFFICIENCY
- 100% of volume manufacturing capacity in low-cost countries
- Purchasing power

COVERAGE
- Global operations
- Full service range from product development to after-market services

CONTINUOUS DEVELOPMENT
- Continuously competitive and unique service offering

Values

CUSTOMER SATISFACTION

We know our customers' needs and respond to them quickly. We consistently deliver the best possible service, expertise, quality, delivery times and cost-efficiency. We keep our promises. Our customer relationships are based on commitment, mutual trust, openness and co-evolution.

COMMITTED PERSONNEL

We respect our colleagues. Initiative, sharing of ideas, and the give and take of responsibility form the basis for the entrepreneurial spirit that is valued at Elcoteq. We strive for rewarding good performance.

ETHICAL CONDUCT OF BUSINESS

Conducting business with integrity means that we take care of the environment under our influence and always consider and encourage positive developments in our social locality.

CONTINUOUS IMPROVEMENT

Our aim is to be a world-class electronics manufacturer. Recognizing the need for change and development makes us continually focus on developing our personnel and discovering new methods of improving operations and then implementing them rapidly and with full commitment.

RESULT ORIENTATION

We are committed to our goals and to increasing the value of the company through profitable and successful business practices.

Elcoteq's Service Offering Covers the Entire Lifecycle of Its Customers' Products

Service Offering

Elcoteq provides its global customers in Personal Communications, Home Communications and Communications Networks with services that cover the entire lifecycle of products, from product development to after-market services. Elcoteq continuously aims to further expand and add new compatible elements into its already extensive service offering.

EMS IS THE CORE BUSINESS

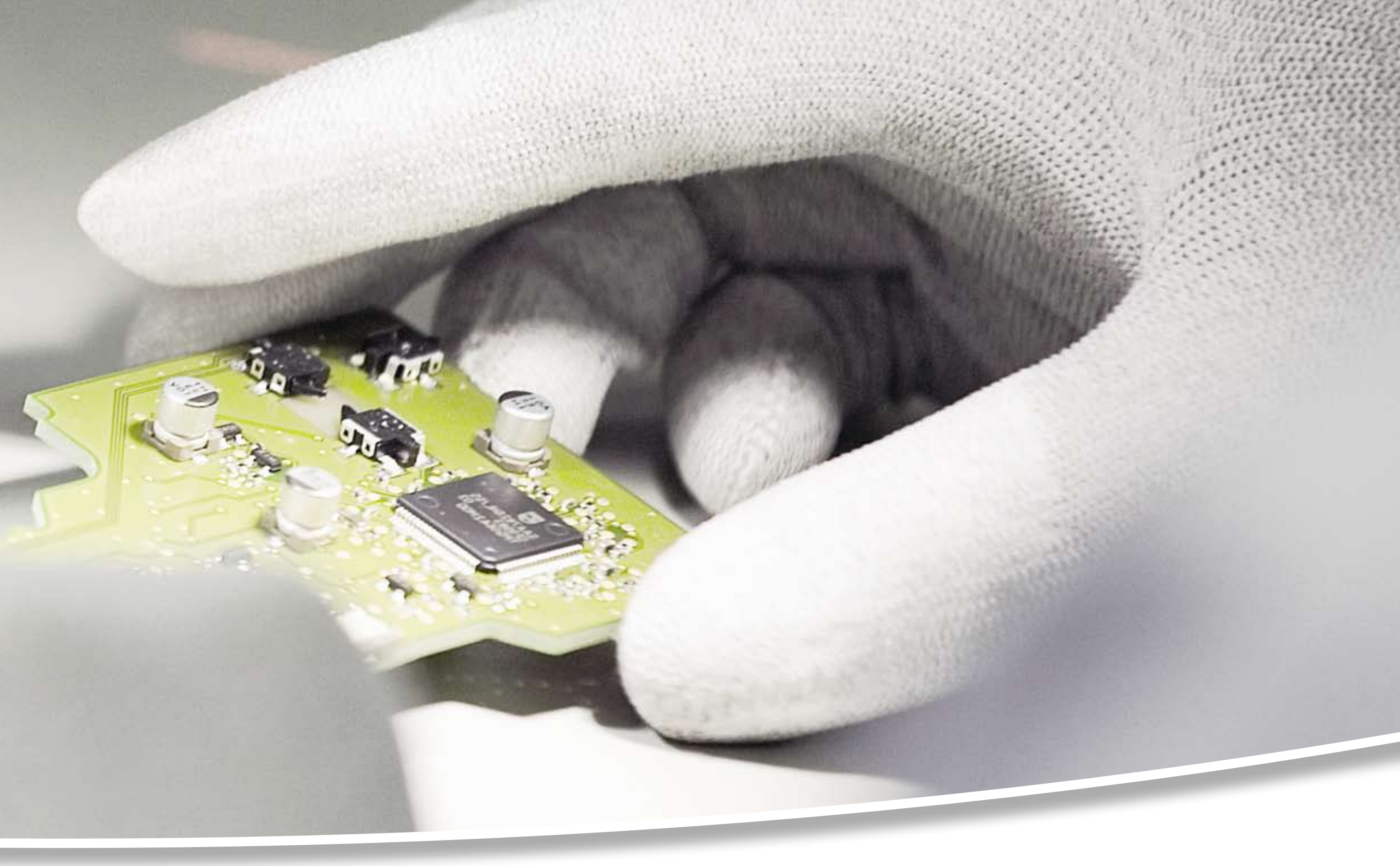
The core of Elcoteq's business is electronics manufacturing services – the volume manufacturing of terminal products (Personal Communications and Home Communications) and communications network equipment (Communications Networks). The service offering is extensive, covering product development and manufacturing, as well as sourcing, NPI, logistics and after-market services.

FURTHER EXPANDING THE SERVICE OFFERING WITH EXPERTISE IN MECHANICS

Elcoteq targets to further expand its current service offering with integrated electronics manufacturing services (IEMS) – that is, by adding to its electronics manufacturing and product development services especially expertise in mechanics-related technologies.

As products become increasingly complex and their lifecycles shorten, manufacturers expect their EMS partners to provide even more comprehensive services. There are a limited number of EMS companies both understanding the customers' business and offering such extensive service portfolios. The expanded service offering will be launched primarily to serve customers in the Personal Communications business area. It is essential that an EMS partner provides end-to-end services in order for the customer to manage its increasingly complex product structure and to achieve cost savings, flexibility and faster time-to-market.

Elcoteq's aim is to offer its customers a wide range of integrated services tailored to their needs throughout the product lifecycle.



INCREASING COOPERATION WITH CUSTOMERS

Characteristic of the communications technology business is its rapid pace, along with intense competition and large fluctuations in business volumes, all of which makes forecasting challenging in this sector.

When customers outsource part of their product's value chain to Elcoteq, they can concentrate on their core business, such as customer relations, brand management, and developing more sophisticated and innovative products. By outsourcing part of its operations, the customer no longer needs to invest in building and maintaining a design and manufacturing network or recruit more personnel. Elcoteq and its customers engage in proactive and close cooperation to ensure faster time-to-market also for new products.

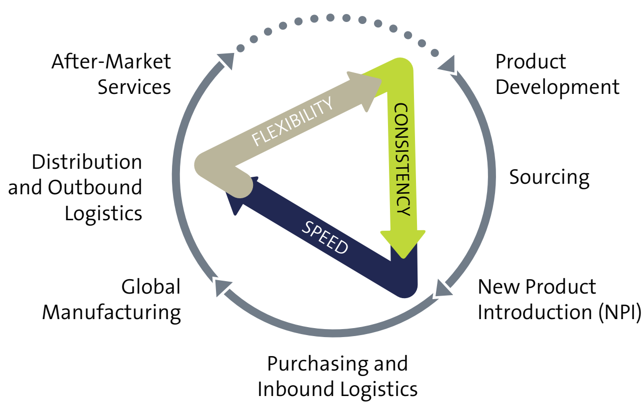
COMPETITIVE ADVANTAGE FROM A CONSISTENT SERVICE NETWORK

Elcoteq maintains a comprehensive and consistent global service network close to customers' end-markets. The consistency is a result of the fact that most of the plants have been either built by Elcoteq or customized for the company. All the high-volume manufacturing plants are in low-cost countries.

Elcoteq aims to improve the competitiveness of its customers and continuously exceed their expectations. This requires the company to develop its operational and financial performance over the long term. For this reason, operational excellence is a cornerstone of Elcoteq's strategy.

All of Elcoteq's global operating procedures and business processes are ISO 9001:2000 and ISO 14001 certified.

Elcoteq's Service Offering



PRODUCT DEVELOPMENT

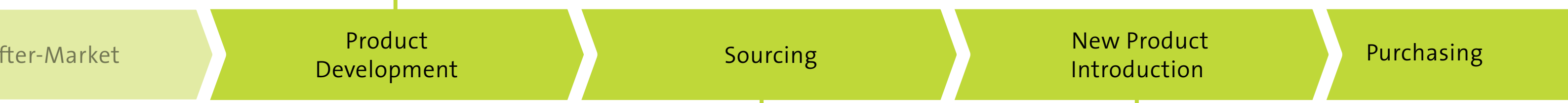
In the product development of terminal products, Elcoteq's target customers are large global manufacturers of mobile phones and home communications products. The advantages of outsourcing are best achieved through long-term customer relationships focusing on the product development of complete product families and on joint business process development. Elcoteq concentrates on certain product groups and technologies while supplementing its services in collaboration with partners.

Elcoteq has its own product development in China, Finland and Russia.

The Communications Networks business area is also moving to broader service portfolios. Elcoteq offers complete communications network elements. Early involvement in the process enables Elcoteq to help optimize costs at the very beginning of a product's lifecycle.

IEMS means that Elcoteq can carry out joint development with its customers and provide expertise in mechanics. Under this business model, Elcoteq is more closely involved already in the product development process with the customer.

The integrated service offering includes not only electronics manufacturing and product development, but also expertise in mechanics-related technologies. Supply chain management plays a key role. Many customers are in need of integrated services to deal with growing product volumes and faster-paced product development and to optimize total costs.



SOURCING

The sourcing function forms the basis for the purchasing activity that follows the NPI stage. Its key priorities are recognition of customer needs and efficient materials management. Sourcing includes:

- selecting suitable technologies in cooperation with the product development function
- selecting components and suppliers
- customizing the supply chain, including the design of logistics models
- price and contract negotiations, and
- creating the platform for quality management and logistics.

Right at the very start of the product development and NPI Elcoteq works closely with selected key suppliers to ensure that its services are as cost-efficient and technically sound as possible.

Elcoteq continuously enhances its sourcing and purchasing operations in order to take more responsibility for all the tasks involved.

NEW PRODUCT INTRODUCTION (NPI)

The industrialization of products and product concepts, called New Product Introduction (NPI), is a key element in Elcoteq's overall offering. NPI services include the following:

- preparation for manufacture, including the design, sourcing, assembly and testing for product lines, production tools and testing systems
- prototype manufacturing, including the sourcing of the required materials
- design for manufacturing, which ensures the quality of processes during product ramp-up and volume production
- design of test systems, and
- project management allowing for simultaneous product ramp-ups in various locations and continents.

The purpose of the NPI is to ensure cost-efficient manufacturing, rapid product launch and consistent quality. The NPI centers work closely with Elcoteq's product development engineers and plants.

PURCHASING, DISTRIBUTION AND LOGISTICS

Purchasing is based on the principles and operating models formulated at the sourcing stage. The purchasing and logistics functions include the following:

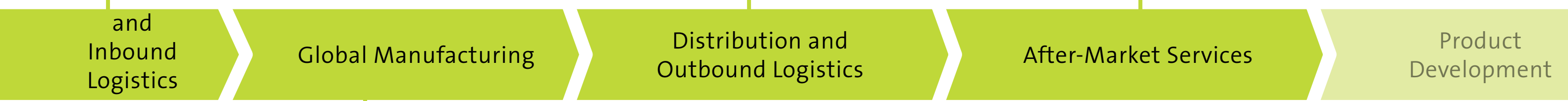
- continuous planning and optimization with manufacturing based on needs
- supply chain planning
- component ordering
- managing inbound and outbound logistics, and
- inventory management.

A typical feature of purchasing is rapid response to changing needs. It is critical at this stage to maintain a balance between customer needs, capacity utilization and materials management.

AFTER-MARKET SERVICES

Elcoteq offers after-market services for OEMs of both terminal products and communications network equipment. After-market services are offered for all products, not just those manufactured by Elcoteq. In addition to repair services, after-market services include product upgrades, as well as spare parts and logistics services.

Repair services consist mainly of demanding electrical repair and upgrade services for products that have been returned from the market. Elcoteq offers after-market services in Hungary, Mexico, the USA, Estonia and India, for example.



MANUFACTURING

Most of Elcoteq's operations relate to manufacturing services. These include:

- high-volume manufacturing
- box build & system integration production, i.e. Elcoteq delivers complete terminal products in consumer packages to the customers' distribution channels or manufactures all kinds of complete communications network elements with different levels of integration
- assembly of electronic and electromechanical components
- manufacture of low-volume series and prototypes, and
- testing of products.

Elcoteq has high-volume manufacturing capacity in Europe, Asia and the Americas – close to the main end-markets of customers' products. The company's largest plants are in Hungary, Estonia, China, Mexico and India. Elcoteq also has manufacturing plants in Russia, Romania and Brazil. The aggregate floor space of all Elcoteq's plants totals 211,300 square meters.

WHAT IS OUTSOURCING?

In the communications technology business, outsourcing refers to a situation where an OEM purchases services from an EMS company – from product development to after-market services.

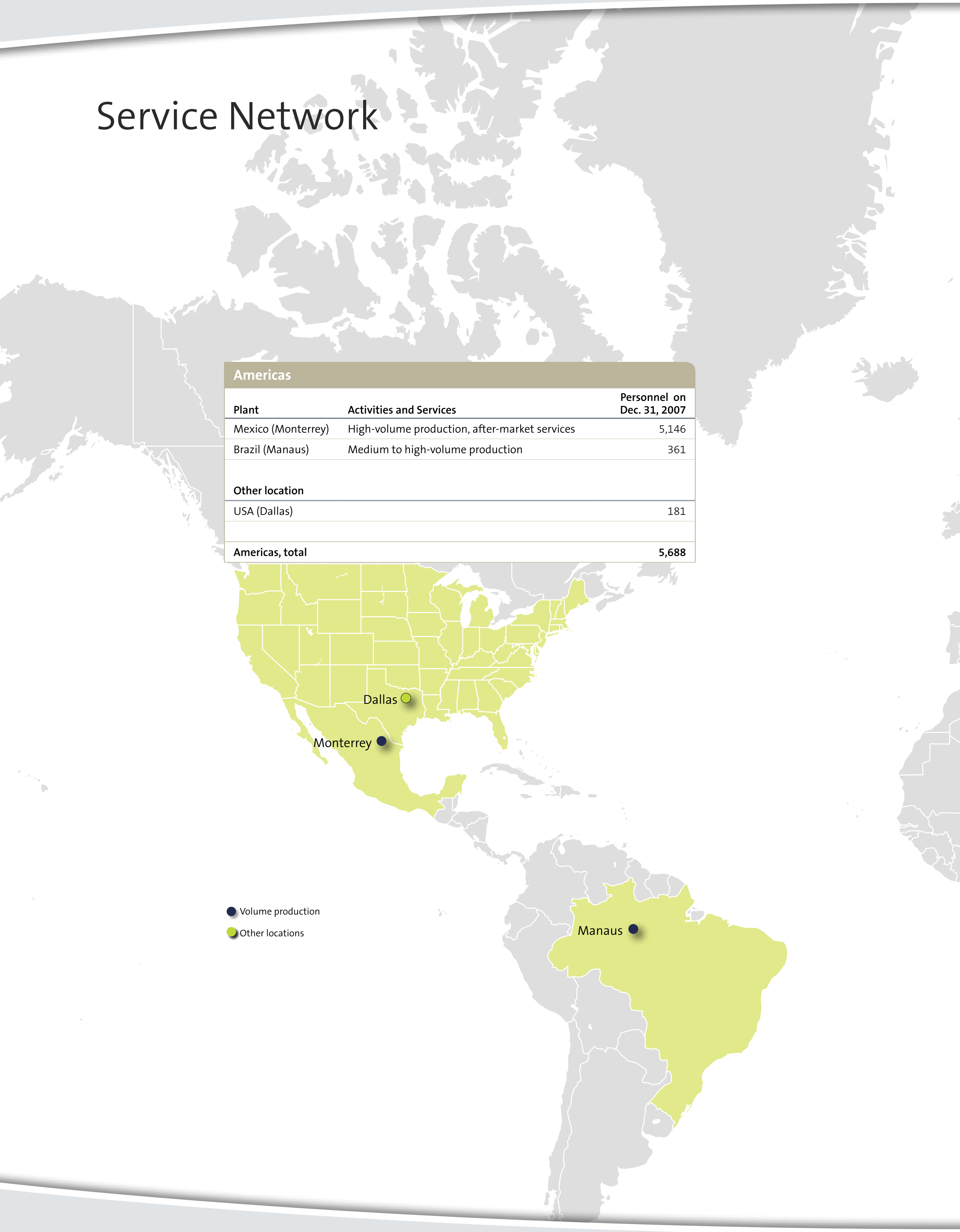
OEMs can purchase a single service, a selection of services, or a complete service offering. For example, Elcoteq can design and manufacture parts and accessories for mobile phones, or complete phones that can be delivered directly into the customer's distribution channel. Correspondingly, Elcoteq can also supply its customers with complete communications network elements. The products are always sold under the customer's brand, even when delivered in consumer packages.

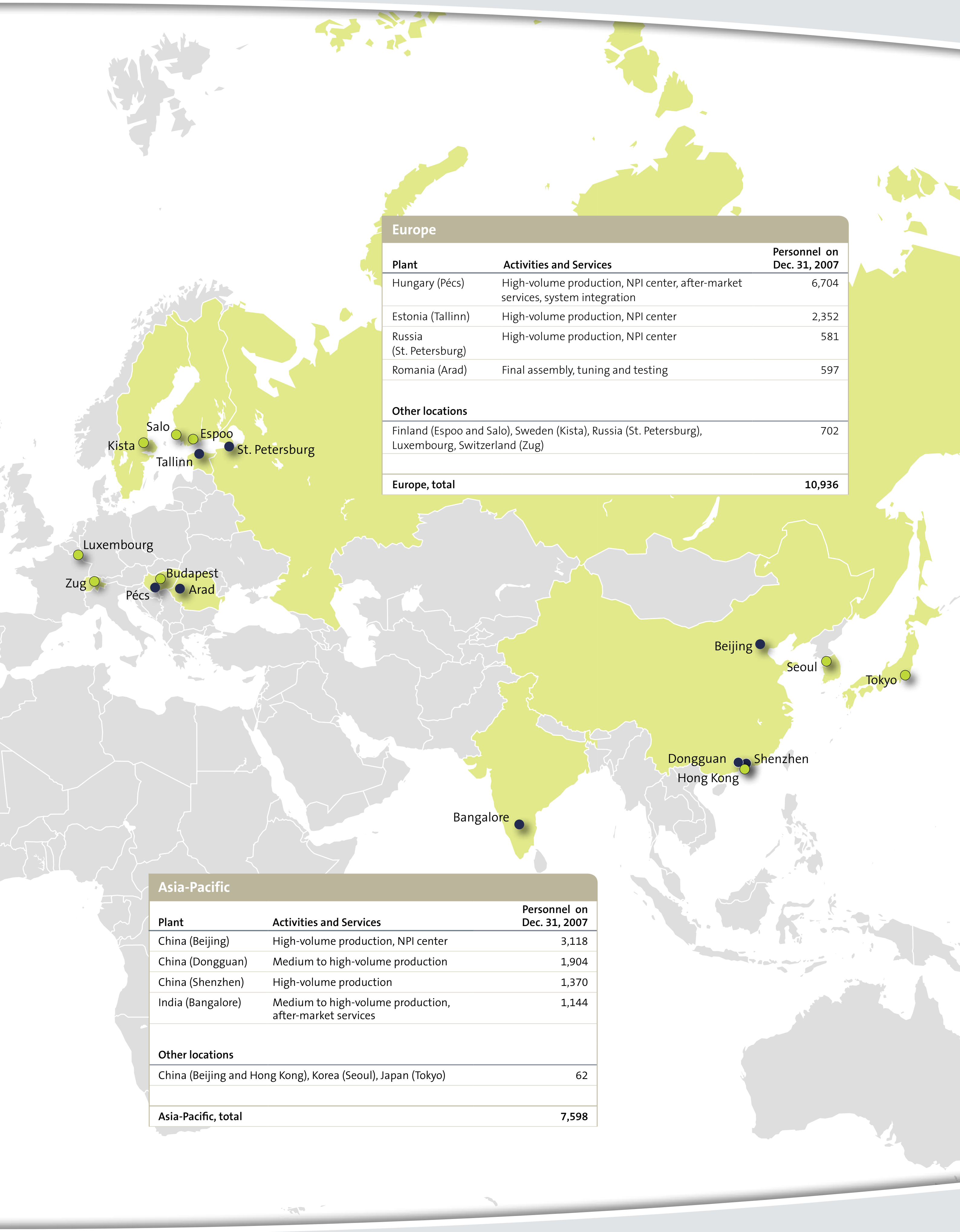
BENEFITS FOR THE CUSTOMERS:

- Fast response to changes in demand, flexibility
- Savings in costs and resources
- Concentration on core business
- Simplifying the supply chain
- EMS company's experience of services covering the product's entire lifecycle
- EMS company's global service network
- Shorter time-to-market

Service Network

Americas		
Plant	**Activities and Services**	**Personnel on Dec. 31, 2007**
Mexico (Monterrey)	High-volume production, after-market services	5,146
Brazil (Manaus)	Medium to high-volume production	361
Other location		
USA (Dallas)		181
Americas, total		**5,688**



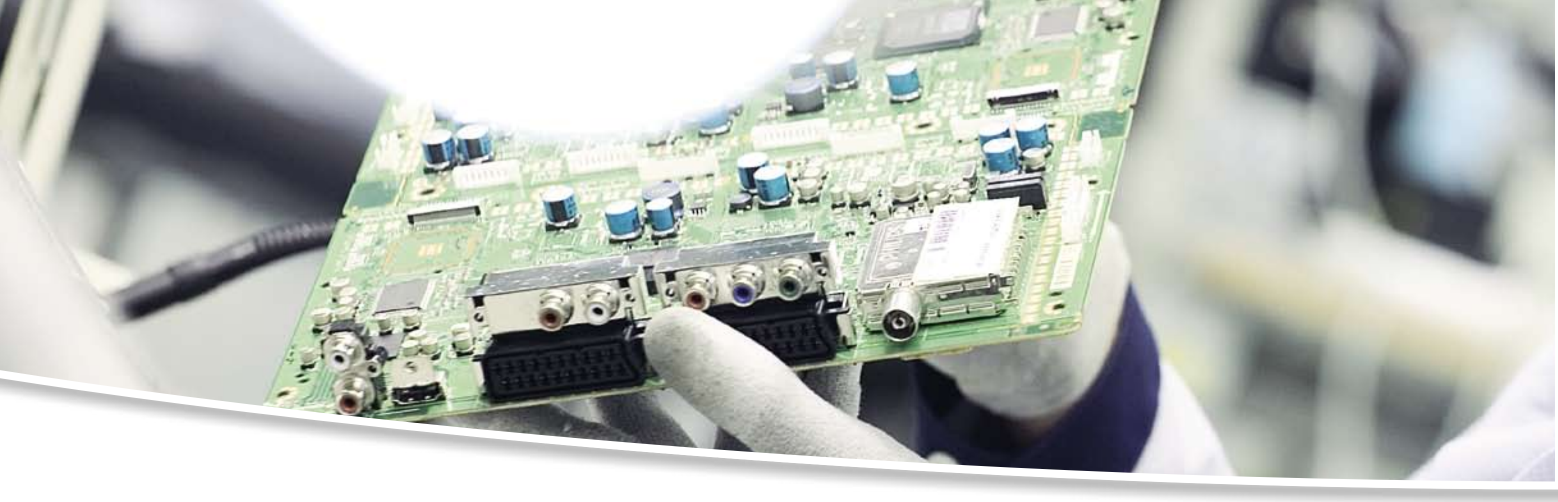


Europe

Plant	Activities and Services	Personnel on Dec. 31, 2007
Hungary (Pécs)	High-volume production, NPI center, after-market services, system integration	6,704
Estonia (Tallinn)	High-volume production, NPI center	2,352
Russia (St. Petersburg)	High-volume production, NPI center	581
Romania (Arad)	Final assembly, tuning and testing	597
Other locations		
Finland (Espoo and Salo), Sweden (Kista), Russia (St. Petersburg), Luxembourg, Switzerland (Zug)		702
Europe, total		**10,936**

Asia-Pacific

Plant	Activities and Services	Personnel on Dec. 31, 2007
China (Beijing)	High-volume production, NPI center	3,118
China (Dongguan)	Medium to high-volume production	1,904
China (Shenzhen)	High-volume production	1,370
India (Bangalore)	Medium to high-volume production, after-market services	1,144
Other locations		
China (Beijing and Hong Kong), Korea (Seoul), Japan (Tokyo)		62
Asia-Pacific, total		**7,598**



Terminal Products

Elcoteq's Terminal Products business area serves Personal Communications and Home Communications customers worldwide with an extensive portfolio ranging from product development and manufacturing to after-market services. In 2007, Terminal Products accounted for 79% (82%) of Elcoteq's consolidated net sales.

- 79% of the Group's net sales
- Net sales 3,212.0 million euros in 2007
- The world's third largest EMS company in mobile phone manufacturing
- Service offering covers the entire value chain of customers' products
- Personal Communications:
  - Mobile phones and their parts and accessories, wireless modules and wireless phones
  - Customers include Aastra, Nokia, RIM, Sony Ericsson and Sumitomo
- Home Communications:
  - Home communications, such as set-top boxes, electronics for flat-screen televisions and other home communications devices
  - Customers include Philips and Thomson

2007 IN REVIEW

Net sales of the Terminal Products business area was 3,212.0 million euros (3,512.1). The segment's operating income was –41.0 million euros; excluding restructuring expenses, it was –5.1 million euros.

PRODUCTS AND CUSTOMERS

Terminal Products consists of two business areas: Personal Communications and Home Communications. Under the new organization model, Personal Communications and Home Communications are managed and reported as separate business areas as from the beginning of 2008.

Personal Communications covers mobile phones and their parts and accessories, as well as wireless modules and wireless phones. Personal Communications customers include Aastra, Nokia, Research in Motion (RIM), Sony Ericsson and Sumitomo.

Home Communications handles home communications products such as set-top boxes and electronics for flatscreen televisions. Home Communications manufactures set-top boxes for Thomson and electronics for flatscreen televisions for Philips, for example.

Elcoteq's box build deliveries, i.e. deliveries directly into the customer's distribution channel, were on the rise in 2007. The sales of after-market services increased, as well.

Balancing the customer base continued in 2007. Business with RIM and Philips in particular saw growth. At the same time, mobile phone deliveries to the biggest customer underperformed forecasts.

SERVICES

Terminal Products offers its customers services covering the entire value chain of their products, from product development to after-market services.

Elcoteq has its own product development organization. The focus is being shifted to joint development projects with customers. Elcoteq has design resources for product development services especially in China and Finland.

Elcoteq's aim is to become the leading integrated electronics manufacturing services company in communications technology. This means further developing and expanding the service offering, initially with a key focus on Personal Communications. The main focus is to further upgrade the company's electronics manufacturing and product development services, by adding especially expertise in mechanics-related technologies. Customers gain increased service and value from the wider service offering. This will help them to manage the increasing complexity of their products. As competition tightens and product lifecycles shorten, end-to-end supply chain management will become even more important.

Elcoteq manufactures terminal products at its high-volume plants in Europe, Asia-Pacific and the Americas. The products are made either box build or as subassemblies. In the latter case, Elcoteq supplies the finished parts and modules for example to its customers' plants for further processing.

Enhancing product development, sourcing operations and product lifecycle management as well as deepening cooperation in the entire value chain will remain a priority. The company develops its service offering on the basis of feedback from its customers and continuously holds discussions with them to proactively gauge upcoming development needs. Also the new, more customer-centric organization supports the development of the service offering to better match customers' needs.

PROSPECTS IN 2008

Market research institutes estimate that unit sales of mobile phones will see growth of about 11% in 2008, but that net sales growth in the market will remain at 7% due to the decline in average handset prices. Growth of about 9% is forecast for the EMS market in the Home Communications business area. The EMS market in key segments of this business – such as flatscreen TVs – is forecast to see annual growth of about 20%.

It is expected that the outsourcing decisions of customers will still be driven and increased by intensifying competition, shorter product lifecycles, and the greater variety of products and their features. This means that OEMs seeking to manage product lifecycle complexity will have a growing need to turn to manufacturing partners that can handle the design, manufacture and managing the entire lifecycles of their products.

TERMINAL PRODUCTS IS DIVIDED INTO TWO BUSINESS AREAS: PERSONAL COMMUNICATIONS AND HOME COMMUNICATIONS

Terminal Products was split into two separately reportable business areas on January 1, 2008: Personal Communications and Home Communications. The key target behind the realignment is to improve global service consistency and provide better and faster response to customer needs.

BENEFITS:

- More customized and targeted service for customers
- Business areas have profit responsibility
- Higher effectiveness in the implementation of Elcoteq's strategy

The main objective of the Personal Communications business area for 2008 is to ensure profitability by stepping up the efficiency of its operating procedures. Personal Communications is not expected to increase its net sales, although profitable growth is foreseen with numerous customers.

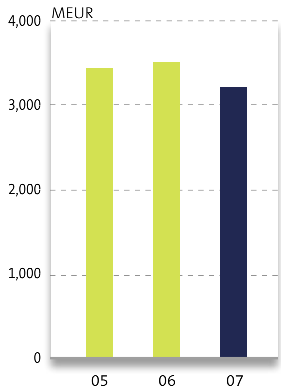
The focuses of the Home Communications business area in 2008 are to improve profitability and enlarge the customer base. Elcoteq expects growth in the net sales of Home Communications in 2008 to outpace that of the business area's EMS market.

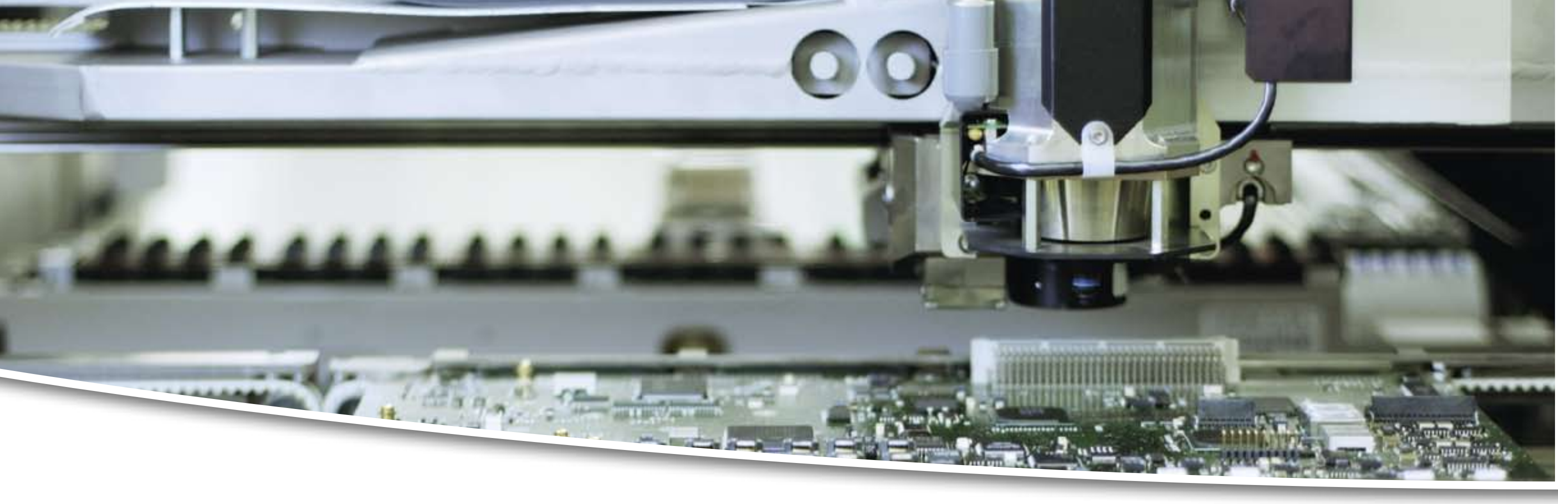
Key Indicators, MEUR

	2007	2006	Change, %
Net sales	3,212	3,512.1	–9
Segment's operating income	–41.0	68.4	-
% of net sales	–1.3	1.9	
Assets	610.2	710.8	–14
Liabilities	467.1	470.6	–1
Capital expenditures	41.3	85.4	–52

More information on key indicators can be found in the Notes to the consolidated financial statements on page 46.

Net Sales 2005–2007





Communications Networks

Elcoteq's Communications Networks business area serves global manufacturers of wireless and wireline infrastructure and enterprise networks. In 2007, the business area accounted for 21% (18%) of Elcoteq's consolidated net sales.

- 21% of the Group's net sales
- Net sales 831.0 million euros in 2007
- Among the top six EMS companies in manufacturing of communications networks equipment
- Products:
  - Wireless infrastructure: cellular base stations, microwave systems, plug-in units for mobile base stations and antennas
  - Wireline infrastructure: ADSL multiplexers and other broadband network products
  - Enterprise networks: switches for data networks
- Customers include American Power Conversion (APC), Andrew Corporation, Avocent, Ericsson, Huawei, Motorola, NEC, Nokia Siemens Networks, Radio Frequency Systems (RFS) and Telsima

2007 IN REVIEW

Net sales of the Communications Networks business area grew by about 8% to 831.0 million euros (772.3). The segment's operating income was –17.3 million euros; excluding restructuring expenses, it was –3.3 million euros.

PRODUCTS AND CUSTOMERS

The Communications Networks business area manufactures wireless and wireline infrastructure products and equipment for enterprise networks. For wireless infrastructure, the range includes cellular base stations, microwave systems, plug-in units for mobile base stations and antennas, and for wireline infrastructure ADSL multiplexers and other broadband network products. Typical enterprise network products are switches for data networks.

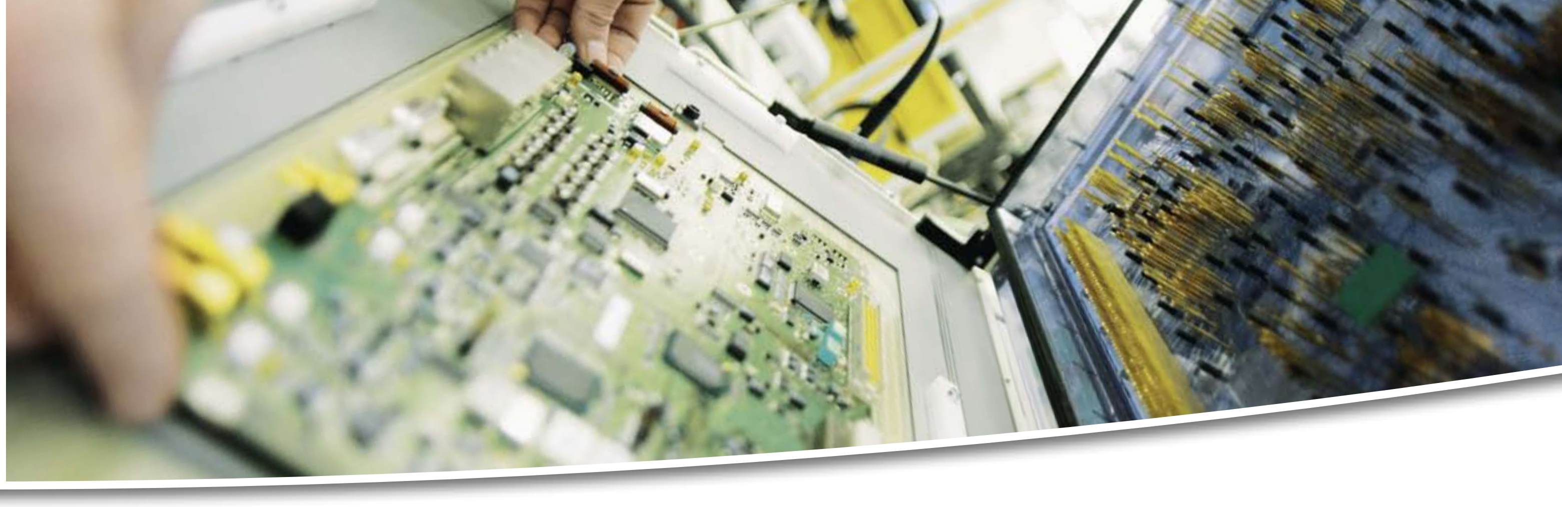
Communications Networks' customers include manufacturers of complete systems, as well as suppliers of subsystems. Its customers include American Power Conversion (APC), Andrew Corporation, Avocent, Ericsson, Huawei, Motorola, NEC, Nokia Siemens Networks and Radio Frequency Systems (RFS).

In 2007, Elcoteq strengthened its position as a supplier to the WiMAX wireless broadband market. WiMAX is one of the fastest growing technologies. Elcoteq started business with WiMAX-based product suppliers such as Axis, Navini, Redline and Telsima. The WiMAX product mix manufactured by Elcoteq ranges from CPEs (customer premises equipment) to RRHs (remote radio heads) and complete WiMAX base stations. As there is global demand for WiMAX equipment, Elcoteq is building up its WiMAX manufacturing competences in India, Europe and the Americas.

India has increased its importance as a new market for the Communications Networks business area. Most of the long-term customers as well as new customers require manufacturing and localization in India. Elcoteq has thus, for example, ramped up volume manufacturing of plug-in units for mobile base stations and broadened supply chain management in India.

In Romania, Elcoteq moved into new premises. The company continued with the development of its competencies to establish a solid base for future businesses. In the future, Romania will be a very attractive and cost competitive manufacturing location for communications networks clients, and there Elcoteq can offer a wide range of services.

In 2007, the Communications Networks business area saw strong growth in Asia-Pacific and moderate growth in the Americas.



SERVICES

Elcoteq has expanded its service offering to system integration, box build, logistics and supply chain management. In addition, geographical coverage has been increased. In 2007, the company expanded its system integration services by adding antenna manufacturing competences. As a result, a higher share of Communications Networks' operations in 2007 was accounted for by system integration services and final configuration. This trend is expected to continue. It clearly shows that customers are simplifying their supply chain and require a higher level of integration from their manufacturing partners.

The company is moving increasingly from producing individual modules and plug-in units to providing entire network elements such as complete base stations, transmission systems, remote radio heads, switches and customer premises equipment. Alongside manufacturing, Elcoteq is also closely involved in product development, new product introduction, sourcing of components and mechanical parts, and supply chain management. Elcoteq thus offers its customers a wide range of services tailored to their needs throughout the product's lifecycle.

Elcoteq continues targeting to forge even closer cooperation with its customers and key suppliers, especially in providing turnkey manufacturing, system integration and logistics services. This will enable customers to focus even more on their core areas such as marketing, end-customers, services and new technologies while trusting Elcoteq to manage the daily deliveries of their products.

PROSPECTS IN 2008

Growth of about 7% is forecast for Communications Networks' end-markets in 2008, largely due to the construction of new networks in India and China.

The business area seeks to expand business volumes with its existing customers and to further broaden its customer base. Elcoteq's target is to continuously improve customer satisfaction and this business area's profitability.

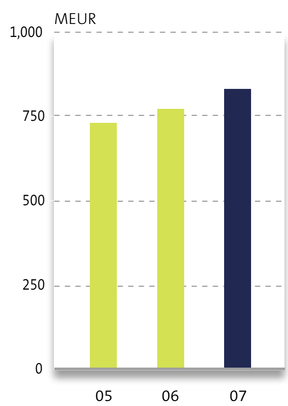
Elcoteq anticipates net sales of the Communications Networks business area to grow and its market position to strengthen in 2008.

Key Indicators, MEUR

	2007	2006	Change, %
Net sales	831.0	772.3	8
Segment's operating income	–17.3	22.4	-
% of net sales	–2.1	2.9	
Assets	335.0	322.3	4
Liabilities	162.2	145.4	23
Capital expenditures	21.9	23.5	–7

More information on key indicators can be found in the Notes to the consolidated financial statements on page 46.

Net Sales 2005–2007



Customer-Centric Organization

Elcoteq has introduced a new customer-centric organization model in order to harmonize and increase the efficiency of its service network. Business areas now play the key role. This enables better and more flexible customer service. The Group functions will ensure the consistency of common key processes and thus economies of scale.

THREE BUSINESS AREAS

Elcoteq renewed its organization on January 1, 2008. The primary profit and loss responsibility was shifted from geographical areas to business areas. At the same time the number of business areas was increased from two to three as Terminal Products was divided into two separate business areas: Personal Communications and Home Communications. Communications Networks continues as the third business area.

The reorganization is part of the action plan launched in October 2007 whereby the Group seeks to ensure a competitive cost structure without limiting growth opportunities.

TARGET

There are both internal and external reasons behind the organizational change. It targets to streamline and clarify decision-making processes and boost the efficiency of resource allocation to the business areas. Furthermore, as the customer base expands, it is increasingly important to have a customer-centric approach.

Also the focus of Elcoteq's customers has shifted from a geographical level to an even more global level. Reorganization is necessary to enable Elcoteq to ensure seamless cooperation with its customers, as well as a consistent and competitive global service offering.

Ted Gardham, Director, After-Market Services: "Success in the After-Market Services also Helps Us to Win New Business"

"I joined Elcoteq in October 2006 and I'm responsible for Elcoteq's after-market services for our Personal Communications customers.

After-market services are part of the complete lifecycle support we provide for our customers. These services include a wide portfolio of repair services, product customization and upgrades, as well as inventory services and time-critical order dispatch. Providing flexible, active feedback allows our customers to optimize their designs throughout the product lifecycle facilitating reductions in overall returns.

Looking to the future, after-market services will become more important in the value chain as our customers seek to reduce the total cost of ownership. Also environmental pressures, more complex devices and shorter product lifecycles increase the need for innovative and comprehensive after-market services.

We're developing expanded service offerings for our customers to drive growth and improve their competitive advantage in ever-tightening markets. We provide these services also for products we don't manufacture. Success in the after-market services also helps us to win new business".

ORGANIZATIONAL STRUCTURE

In the new organization, the business areas are profit centers. They attend to their own customer accounts and related supply chain management independently and develop their service offering in their own area.

One of Elcoteq's key competitive advantages – a consistent service network – also plays a key role in the new organization. The centralized Group functions are responsible for the consistency of operating models and their development and thus bringing economies of scale. These jointly agreed processes and tools are at the disposal of the business areas.

At the plant level, product lines will focus more tightly on serving the business areas' customers. The product lines attend to day-to-day business operations and the allocation of production resources and work in close cooperation with the customer teams that are responsible for customer relationship management.

The global customer teams of each business area are responsible for customer relationship management, cooperation requirements and business development.

Petra Soidinsalo, Product Line Manager: "Cooperating with Both Sales and Other Elcoteq Plants Results in Globally Consistent Service for the Customer"

"I work as a Product Line Manager at the Tallinn plant. I'm responsible for operations on an entire product line – which is much like a factory in miniature. About 500 people work on the line and it features all customer-specific functions, such as production, customer service, materials management, technology and overseeing of quality.

During the past year, we ramped up one especially large new project on our product line. My experienced team performed admirably. Cooperation went smoothly with both the customer and our plant in China.

I've worked at Elcoteq for over 11 years. As Product Line Manager, my key role is to ensure that the customer's needs are met and that we too rack up results. Customers get high-quality products that are manufactured cost-effectively and to schedule. In addition to manufacture and material services, we continuously work with the customer to develop the entire value chain. Cooperation with both sales and our other plants is seamless – and this means we can offer customers the best solutions, globally".

Responsible Business Practices Form a Basis for Customer Satisfaction and Profitability in the Long Run

Corporate Responsibility

Corporate responsibility at Elcoteq means a proactive approach in global compliance with the principles of sustainable development. The company knows the requirements set by its stakeholders and legislation, and takes into account the environmental, social and economic impacts of its operations.

REPORTING

Elcoteq provides its stakeholders with information on corporate responsibility issues through its Annual Report, the annual Corporate Responsibility Report and its website. The Annual Report provides a summary of the corporate responsibility issues of most importance to the company's strategy and operations. The Corporate Responsibility Report addressing these issues in greater detail will be published on the company's website in the summer of 2008.

As Elcoteq's operations have expanded and the number of communities affected by them has increased, so have the demands on corporate responsibility reporting risen. Elcoteq develops its corporate responsibility reporting by applying the reporting guidelines of the international Global Reporting Initiative (GRI). The GRI's new G3 guidelines are applied in the Corporate Responsibility Report published in the summer of 2007. The new guidelines have increased the number of indicators to be reported on and clarified the definitions. Elcoteq's Corporate Responsibility Reports focus on the management systems and indicators for environmental and social responsibility.

Elcoteq collects information on corporate responsibility from all its units with a reporting system built on the GRI standard. Among other benefits, the system enables the company to perform comparisons of locations and time series, forge ahead with the continuous improvement of operations and disseminate best practices. The reporting system also supports GRI guideline-based external reporting and facilitates setting objectives and keeping track of progress towards them.

MEMBERSHIPS

Elcoteq has been a member of the Kempen/SNS Smallcap SRI (Socially Responsible Investment) Europe index since 2003. The companies accepted to the index must fulfill its criteria on business ethics, HR management and environmental protection. Elcoteq is also a member of the European Alliance for Corporate Social Responsibility, the purpose of which is to promote corporate responsibility through the exchange of information and innovative working processes, and by initiating joint projects involving the network's member companies and their stakeholders.

Elcoteq engages in local cooperation with universities and other institutions of higher education in various countries. In addition, the company has been a member of the CEMS network (Community of European Management Schools and International Companies) since 2005.

TARGETS FOR 2008

One of the corporate responsibility targets for 2008 is to compile ethical guidelines for Elcoteq with the intention of adopting them globally. In addition, the company will develop the management of customer requirements, upgrade the efficiency of internal audits, plan measures to keep reducing the carbon footprint of production and ensure compliance with the REACH regulation throughout the organization.

Elcoteq's Values and
Corporate Responsibility Policy

Social Responsibility

Socially responsible operations are geared towards ensuring the wellbeing of personnel and respecting human rights and local cultures. Elcoteq's guidelines for social responsibility are based on the international SA8000 standard. All Elcoteq units are required to comply with this standard.

SA8000 AS A GUIDELINE

Elcoteq uses Social Accountability International's SA8000 standard as a guideline in its operations. The main aspects of SA8000 relate to preventing child and forced labor, working hours and remuneration, occupational health and safety, freedom of association and the right to collective bargaining. The standard is based on the conventions of the International Labour Organization (ILO), and on the United Nations' Declaration of Human Rights and the convention on the rights of the child, among others.

In 2007, Elcoteq drafted guidelines on working conditions and workplace practices. They are based on both Elcoteq's corporate responsibility policy and the SA8000 standard. The guidelines are intended to increase global awareness of the standard's requirements among HR staff and those interfacing with suppliers.

Elcoteq uses a Group-wide procedure for reporting occupational accidents and the resulting absenteeism. The comparability and coverage of reporting were improved in 2007, as the reporting practices of different plants vary due to local official requirements. The company's plants in Estonia and Hungary have OHSAS 18001 certified occupational health and safety systems. A new version of the standard was released in July 2007 and system updates were then kicked off.

SUPPLY CHAIN MANAGEMENT

In 2007, Elcoteq continued to update its supplier requirements and their assessment methods. Furthermore, internal training was organized in Asia-Pacific for experts working with suppliers in order to improve their knowledge of social responsibility requirements.

CHANGES IN THE ORGANIZATION

The task of Elcoteq's Human Resources (HR) function is to align the number of employees, their availability, competencies and motivation with the company's business needs. Elcoteq launched a new customer-centric organization as of January 1, 2008. In addition to Group functions, the new organization consists of three business areas that operate as profit centers: Personal Communications, Home Communications and Communications Networks.

Changes took place in the HR organization in 2007. CEO Hartikainen took on HR over and above his other duties. Under Hartikainen's lead, the Group's HR will be adapted to better match the requirements of the organization and the business environment.

EMPLOYEE MOTIVATION AND DEVELOPMENT

From the business point of view, it is vital for Elcoteq to be able to recruit and retain professionally skilled and motivated employees. The company thus seeks to ensure that its pay levels are commensurate to the responsibilities of each position. It strives to provide continuous personnel training and job rotation opportunities inside the Group.

In 2007, HR initiated a job assessment project geared towards streamlining and standardizing tasks and compensation practices globally. Key employee assessments continued in Europe and the Americas, and new leadership training programs were launched in Europe to provide support for staff work capabilities and development of skills in a business environment that is in constant flux. These projects will continue in 2008.

EMPLOYEE SATISFACTION SURVEY PINPOINTS STRENGTHS AND DEVELOPMENT AREAS

Elcoteq carried out a Group-wide employee satisfaction survey in the fall of 2007. The survey measured the organizational climate at Elcoteq and changes that have taken place in it since the previous survey in 2004. The response rate was 74%, on a par with the previous survey.

Elcoteq's strengths were perceived to be the organization's ability to change and training for the jobs. Compared to the previous survey, improvements were noted in supervisors' ability to tap the expertise of their subordinates, the efficiency of decision-making and the flow of information. The most important focus areas for development were deemed to be improving the company's corporate image and supervisory skills and stepping up efficiency in the internal division of tasks within the organizations.

Elcoteq's Management Team has discussed the results. The company will carry on with development measures on the basis of the results. Significant variation was seen in the results of different business units and functions. For this reason, the action plans will be drafted locally at Elcoteq units in the spring of 2008.

EMPLOYEE INVOLVEMENT

Employee involvement in Elcoteq is organized through both national systems and at the European level. As a European Company, Elcoteq is obligated to have a European Representative Body (RB). This body comprises 13 members from all of Elcoteq's European units in the EEA countries. The number of representatives from each of the countries is balanced to be in proportion with the total number of employees.

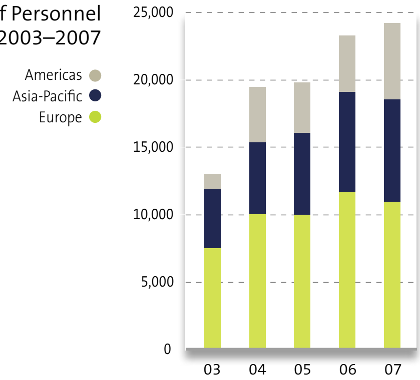
The RB convened twice in 2007 with the company's management to discuss the company's outlook along with other current issues set for the agenda. The key themes were corporate responsibility and the redomiciling of the company to Luxembourg on January 1, 2008.

NUMBER OF PERSONNEL

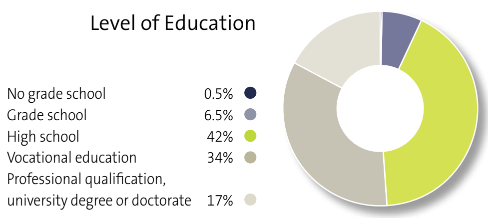
At the end of 2007, Elcoteq had a total of 24,222 (23,298) employees in 15 countries. The largest growth in personnel was seen in Mexico, Hungary, India and Romania, while personnel declined the most in Finland and Estonia.

As part of its global action plan, Elcoteq closed two plants on production and financial grounds in 2007. Production at the Lohja plant ended in June and at the Juárez plant in Mexico at the end of the third quarter.

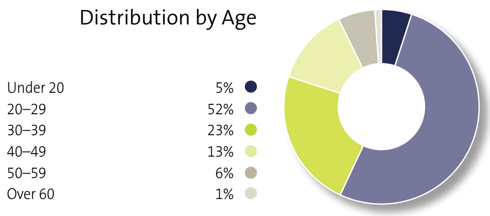
Number of Personnel in 2003–2007



Level of Education



Distribution by Age



Environmental Responsibility

The EU's integrated product policy has emphasized the management of the environmental impacts of products over their lifecycles. Elcoteq's broader service offering, along with new legislative obligations and customer requirements, calls for continuous development of environmental management by the company.

MANAGEMENT OF ENVIRONMENTAL ASPECTS

The company's environmental management system corresponds with the requirements of the ISO 14001:2004 standard. All Elcoteq units operate within a multisite certificate for quality and environmental management. The company intends to link its newest plant in Romania to the certificate in 2008.

Under its global environmental management system, Elcoteq sets annual environmental targets for specific operations. The business units remain responsible for the continuous improvement of their own environmental management, thereby ensuring that local conditions are taken into account in the development of operations.

The environmental compliance, consumption of natural resources, energy efficiency and waste management of the units are measured and evaluated using annually monitored environmental indicators. A drive to improve the energy efficiency of the plants was kicked off in 2007 and it will remain on track in 2008. The identification of the major environmental considerations – as required under the environmental system – will also be re-evaluated in 2008. Further details on these indicators and environmental management at Elcoteq will be presented in the company's Corporate Responsibility Report to be published on the company's website in the summer of 2008.

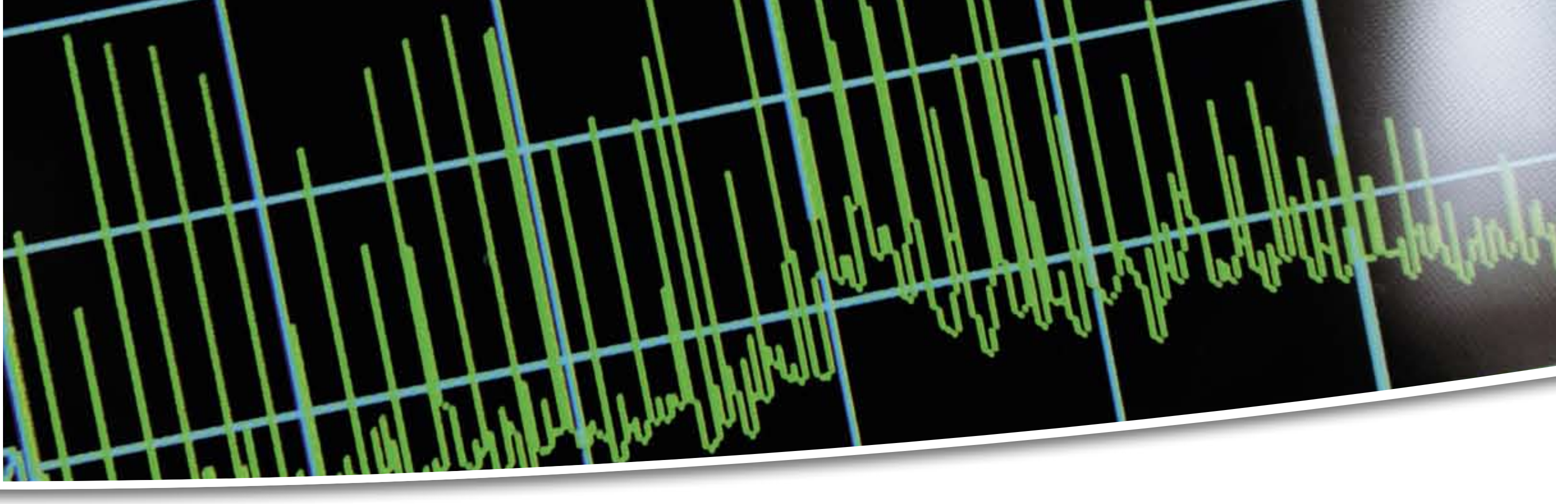
Elcoteq must continuously upgrade its environmental performance in order to measure up to the new demands of both its customers and legislation throughout its entire service network. In 2007, experts working in Asia-Pacific were given training on the requirements of the ISO 14001:2004 standard and their auditing as well as on issues in the management of forbidden and restricted substances.

NEW CHEMICALS MANAGEMENT REQUIREMENTS

The European Union's chemicals legislation was reformed at the beginning of June when the new REACH regulation came into force. REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) aims to gather research data on chemical substances and ascertain how they can be used safely, both in terms of human health and the environment. Now that the regulation has come into force, any substance that is imported to or produced in the European Union in quantities of one ton or more annually must be registered.

Elcoteq has actively followed the drafting of the regulation for numerous years and has prepared itself for the new requirements it ushers in. A Chemicals Review has been carried out at the European plants to determine the chemical substances, their intended uses and amounts.

Elcoteq also constantly monitors similar legislation being prepared in market areas outside the EU. In 2007, the company focused on assessing the impact of China's Restriction of use of Certain Hazardous Substances (RoHS) legislation and on developing the required capabilities. China's RoHS legislation covers the same hazardous substances as the EU's RoHS directive, but differs from the EU directive in matters such as labeling, product categories as well as disclosure and testing obligations. China's RoHS will be enforced gradually from March 1, 2007 onwards.



Economic Responsibility

Economically responsible, profitable and competitive operations generate added value for the company's shareholders, personnel and business environment. Elcoteq seeks to measure up to economic responsibility expectations with good corporate governance, risk management and compliance with ethical business principles.

FINANCIAL TARGETS

Financial success is essential in creating added value for the company's stakeholders and managing their welfare effectively. Elcoteq's main stakeholders are its shareholders, customers, employees, partners, authorities, the media and local communities.

Elcoteq has short and long-term financial targets. The company continuously monitors fulfillment of these targets, which also form a component in Elcoteq's target-based bonus scheme. The financial targets are presented on page 8 and the company's risk management is described on page 78.

In early 2007, Elcoteq initiated an action plan to improve cost-effectiveness, profitability and competitiveness. The plan was continued in October. The main focus in these action plans is on improving operational efficiency in the whole service network.

REMUNERATION

It is important for Elcoteq's wages and salaries to be competitive, commensurate to the competence requirements and internally fair. The company upholds the same principle at all its locations around the world. Elcoteq has several incentive schemes such as production and target-based bonuses, and also share-based schemes. The latter are described under Shares and Shareholders on page 74.

In the Group's target-based bonus scheme, each employee's personal targets are tied to the company's financial development. These targets are set and monitored during the appraisal discussions held twice a year. The scheme covers the company's white-collar employees, i.e. roughly 20% of the people employed directly by the company. The maximum target bonus is 50% of the employee's basic annual salary according to the competence requirements of the job. Elcoteq paid a total of 206.2 million euros (205.9) in wages, salaries and personnel expenses in 2007.

In October 2007, Elcoteq announced a new share incentive plan for the Group's key employees. The potential reward from the plan is based on reaching the targets set by the Board of Directors for the Group's consolidated income before taxes for the full year 2008.

DONATIONS

Elcoteq chooses to give financial support to good causes that are consistent with the company's values. Elcoteq's units in different countries decide independently on local supports.

The largest recipient of Elcoteq's support in 2007 was the International Youth Foundation (IYF), whose projects Elcoteq supported in India and Russia. The funds were channeled to these projects via the Finnish Children and Youth Foundation.

Key Figures

	2007	2006	2005	2004	2003
Net sales, MEUR	4,042.9	4,284.3	4,169.0	2,921.8	2,235.7
Personnel at year end	17,992	17,705	15,751	16,149	13,013
Personnel on average	19,131	16,651	15,242	13,065	11,044
Net sales/employee, tEUR*	211.3	257.3	273.5	223.6	202.4
Wages, salaries and personnel costs, MEUR**	206.2	205.9	202.6	163.9	153.5

* Net sales/employee = net sales/employees on average
Personnel = people on Elcoteq's direct payroll
** More information on wages, salaries and other personnel expenses is available in the Notes to the consolidated financial statements on page 47.

Vision – to be the Leading Integrated EMS Provider in Communications Technology

Report by the Board of Directors and Financial Statements

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Report by the Board of Directors January 1– December 31, 2007

Elcoteq SE's net sales in 2007 declined about 6% on the previous year and amounted to 4,042.9 million euros (4,284.3 million euros in 2006). Operating income was –96.3 million euros (43.9); excluding restructuring expenses, it was –46.1 million euros. Full-year cash flow after investing activities was –11.1 million euros (–20.8).

Elcoteq SE's consolidated financial statements for 2007 have been prepared using IFRS recognition and measurement principles. The comparative figures are the figures for the corresponding period of the previous year, unless stated otherwise.

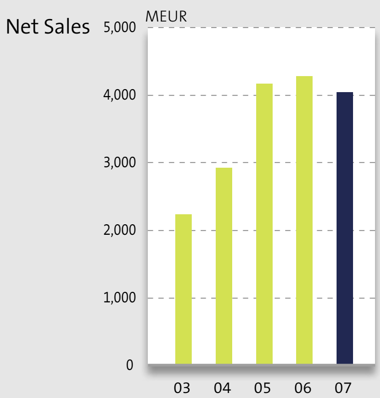
MARKET REVIEW

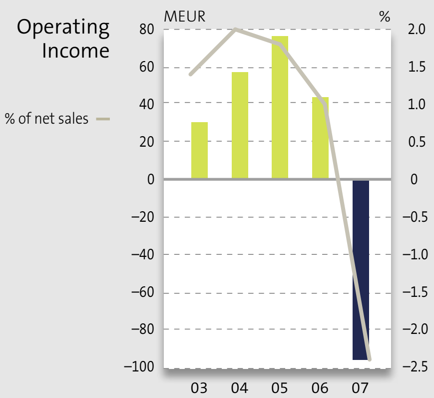
Assembly value in the global electronics market amounted to roughly 1,000 billion US dollars in 2007. Communications technology represented some 230 billion US dollars of this total. Market research institutes report that the electronics manufacturing services (EMS) and original design manufacturing (ODM) market grew approximately 15% in 2007. Global sales of mobile phones amounted to about 1,140 million units, up around 15% on the previous year. In home communications, sales growth was particularly strong in flatscreen TVs. The value of the market for communications network equipment rose by about 8% compared with the previous year.

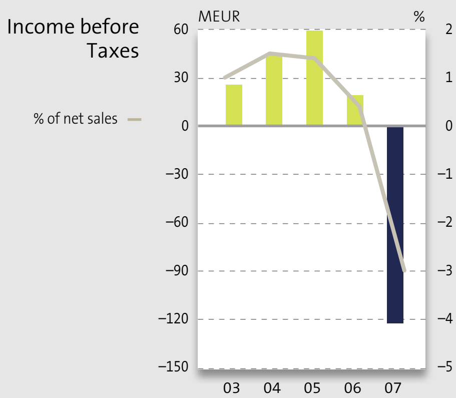
In 2007, the consolidation trend made itself felt among EMS players as well. In terms of market share, Elcoteq was the world's third largest EMS provider to communications technology companies and the leading European player in the business. The company held a market share of around 7%.

FINANCIAL YEAR 2007

Elcoteq's 2007 net sales declined slightly on the previous year and amounted to 4,042.9 million euros (4,284.3). Operating income was –96.3 million euros (43.9), representing –2.4% of net sales. Income before taxes was –122.8 million euros (19.2) and net profit was –108.4 million euros (12.1) after the recognition of deferred tax assets. Earnings per share (EPS) amounted to –3.37







euros (0.38). Earnings include 50.2 million euros in restructuring expenses.

The decline in the Group's net sales was due to an unanticipated change in the ordering procedures of the biggest customer, as a result of which incoming orders fell significantly short of the customer's forecasts during the review year. Sales to other customers grew by almost 30% on the previous year.

Operating income for 2007 was a loss. The company's profitability was burdened especially by the aforementioned significantly lower-than-expected volumes, pricing based on expected volume growth as well as surplus capacity that had been reserved on the basis of customer's forecasts. Furthermore, production volumes at Elcoteq's German plant fell in the second half of 2007 due to mergers and acquisitions that took place in the communications networks market in 2006, driving the plant's operations into unprofitability. Capacity utilization at the St. Petersburg plant was low. In addition, earnings were weakened by production problems, particularly in Mexico.

The company launched two action plans during the review year with a view to ensuring cost-effectiveness and improving profitability and competitiveness globally.

The Group's net financial expenses amounted to 26.1 million euros (23.7). The rise in the interest level was the major reason behind the growth in financial expenses.

FOURTH-QUARTER NET SALES AND EARNINGS

Fourth-quarter net sales in 2007 grew only slightly on the third quarter and amounted to 1,062.4 million euros (1,104.6 in the fourth quarter of 2006 and 1,059.7 in the third quarter of 2007). The primary reason underlying the modest quarter-on-quarter development of net sales was that demand in Communications Networks underperformed expectations.

Operating income in the fourth quarter was –24.9 million euros (6.9 in the fourth quarter of 2006 and –0.1 in the third quarter of 2007) and income before taxes was –31.2 million euros (–0.8). Operating income exclusive of restructuring expenses was also negative in the fourth quarter at –9.6 million euros. This was primarily due to the significant weakening of the profitability of Communications Networks on the heels of a strong decline in production volumes compared with the previous quarter, particularly in Europe, and the production problems in Mexico.

FINANCING AND CASH FLOW

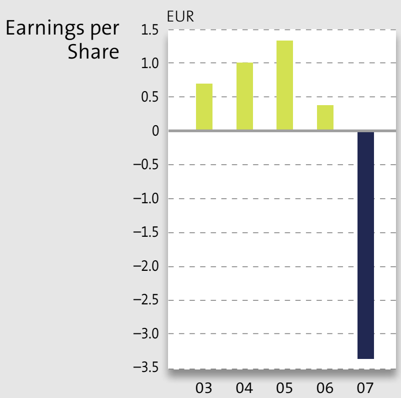
Liquidity was good throughout the review period. At the end of December 2007, Elcoteq had unused but immediately available credit limits totaling 296.5 million euros (296.1 million euros in the third quarter of 2007 and 293.8 million euros at the end of 2006). Of this total, the 230 million euro syndicated loan is a committed credit limit from a bank syndicate. Commercial papers issued by the company from its 200 million euro commercial paper program had a total par value of 24.0 million euros on December 31, 2007.

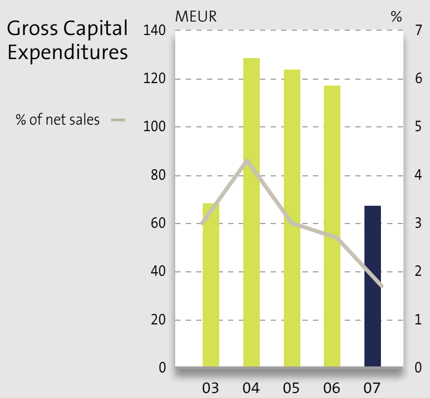
At the end of December, the Group's interest-bearing net debt amounted to 144.5 million euros (128.0) and gearing was 0.7 (0.4). The solvency ratio was 18.1% (26.1%). Cash flow from sold accounts receivable amounted to 226.5 million euros (187.7 at the end of 2006 and 207.4 at the end of the third quarter of 2007). Return on capital employed (ROCE) was –19.6% (9.1%).

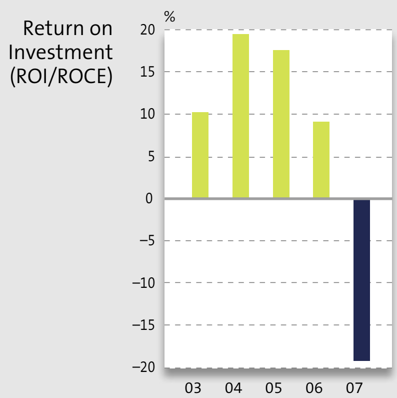
Cash flow after investing activities in 2007 was –11.1 million euros (–20.8), while it was 21.9 million euros positive in the fourth quarter (41.2). In spite of good working capital management and lower than usual investments, cash flow in 2007 remained negative due to the unsatisfactory earnings trend.

CAPITAL EXPENDITURES

The Group's gross capital expenditures on fixed assets in 2007 amounted to 67.2 million euros (116.9), or 1.7% of net sales. Depreciation was 79.8 million euros (82.7), representing 2.0% of net sales. Investments were primarily earmarked for production machinery. In the fourth quarter, investments amounted to 27.8 million euros (32.3). In addition, operating leases of machinery totaled about 3.4 million euros (26.8) in 2007.







PERSONNEL

At the end of December, the Group employed 24,222 (23,298) people: 260 (705) in Finland and 23,962 (22,593) elsewhere. The geographical distribution of the workforce was as follows: Europe 10,936 (11,682), Asia-Pacific 7,598 (7,409) and the Americas 5,688 (4,207). The average number of Elcoteq employees on the company's direct payroll in 2007 was 19,131 (16,651). The expansion of the service offering to more labor-intensive box build and after-market services in Hungary and Mexico contributed to the rise in the personnel count. Box build means that products are delivered directly into the customer's distribution channel in consumer packages.

Wages, salaries and other personnel expenses in 2007 amounted to 206.2 million euros (205.9).

ENVIRONMENT

Elcoteq's environmental management system corresponds with the requirements of the ISO 14001:2004 standard. All Elcoteq units operate within a multisite certificate for quality and environmental management. The company intends to link its plant in Romania to the certificate in 2008. The key environmental development projects having a bearing on the company's business operations in 2007 concerned meeting the requirements of the European Union's REACH Regulation and developing the environmental competence of experts in the supply chain. Further details on Elcoteq's environmental issues will be presented in the electronic corporate responsibility report that will be published in the summer of 2008.

RESEARCH AND DEVELOPMENT

Elcoteq's research and development costs in 2007 totaled approximately 4.6 million euros (6.8), or 0.1% of net sales. In addition, the company had some 8 million euros of other development costs. The company's R&D activities and expenditures cover, among other things, equipment and process development for production and production testing needs, research and development related to the platforms, software, electronics, mechanics and testing and verification environments for mobile phones, and the development of radio modules and technologies for mobile phones.

TRENDS OF THE BUSINESS AREAS

Elcoteq's reporting on 2007 covers two business areas: Terminal Products and Communications Networks. In 2007, Terminal Products contributed 79% (82%) and Communications Networks 21% (18%) of the Group's net sales.

Elcoteq has continued to balance its customer portfolio in line with its key strategic focus. In 2007, Elcoteq's largest customers (in alphabetical order) were Ericsson, Nokia Mobile Phones, Nokia Siemens Networks, Philips, Research in Motion (RIM), Sony Ericsson and Thomson. No single customer accounted for over 40% of consolidated net sales.

Terminal Products

Net sales of the Terminal Products business area in 2007 were down about 8.5% on the previous year and amounted to 3,212.0 million euros (3,512.1). The segment's operating income was –41.0 million euros (68.4); excluding restructuring expenses, it was –5.1 million euros. Fourth-quarter net sales came in at 849.9 million euros (898.6) and the segment's operating income was 1.3 million euros (13.2).

Most of the customers of the Terminal Products business area posted substantial net sales growth compared with the previous year. Elcoteq continued to balance its customer base in 2007. Business with RIM and Philips in particular saw growth.

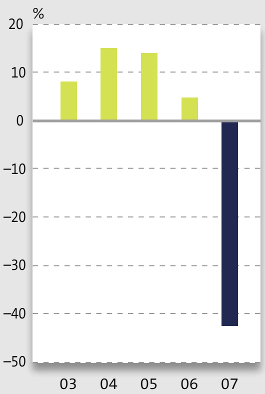
Box build deliveries saw growth in 2007 and sales of after-market services also increased.

In October 2007, the company announced its plan to launch a new, more customer-centric organization. The new organization was adopted on January 1, 2008. As from the beginning of 2008, Terminal Products will be reported on as two separate business areas: Personal Communications (including mobile phones and their components) and Home Communications (including set-top boxes and electronics for flatscreen TVs).

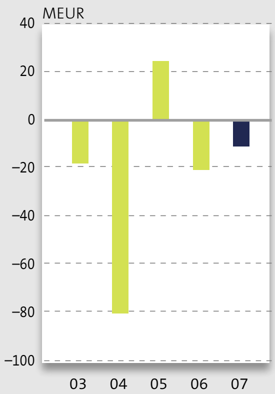
Communications Networks

Net sales of Communications Networks in 2007 rose by about 7.6% on the previous year and amounted to 831.0 million euros (772.3). The segment's operating income was –17.3 million euros (22.4); excluding restructuring expenses, it was –3.3 million

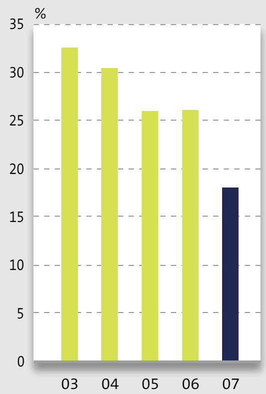
Return on Equity (ROE)



Cash Flow after Investing Activities



Solvency Ratio



euros. Fourth-quarter net sales in 2007 amounted to 212.5 million euros (206.0) and the segment's operating income to –17.2 million euros (5.7).

The business operations of Communications Networks have seen strong growth in Asia. Elcoteq has also expanded its service portfolio to box build, logistics and supply chain management services, as customers are expecting their manufacturing partners to provide broader service packages.

During the review year, Elcoteq announced two new customer accounts in the manufacture of WiMAX products. In March, Elcoteq and Redline Communications Inc. signed a cooperation agreement focusing on the Americas, and in October, an agreement was made with Telsima Corporation for the box build manufacture of products at the Bangalore plant in India.

Following the organizational change that came into effect as from the beginning of 2008, the Communications Networks business area will still be reported on separately.

GEOGRAPHICAL AREAS

Elcoteq has three geographical areas: Europe, Asia-Pacific and the Americas. Elcoteq's net sales in 2007 were derived from these areas as follows: Europe 52% (57%), Asia-Pacific 27% (25%) and the Americas 21% (18%).

Europe

Europe's net sales amounted to 2,076.3 million euros (2,425.4). Of Elcoteq's plant floor space, 54% is located in Europe (about 114,700 square meters). The largest volume plants are located in Pécs, Hungary, and in Tallinn, Estonia.

Personnel negotiations were held in the spring of 2007 in Finland. These negotiations resulted in 326 redundancies on financial and production grounds at the Lohja plant, the NPI organization in Finland, the Group's office in Espoo, Finland and the product development organization in Salo, Finland. As part of the global streamlining of operations, production at the Lohja plant ceased at the end of June. The Lohja manufacturing facility was sold to Sponda Kiinteistörahasto in October.

As part of the drive to streamline operations for higher cost-effectiveness, the company agreed on the sale of its subsidiary in Offenburg, Germany, in December 2007. The German competition authorities approved the deal in January 2008. In addition, the company has announced that it seeks to scale down or divest its St. Petersburg unit in Russia.

Elcoteq reduced its holding in Imbera Electronics Oy to 15%. Imbera Electronics Oy is a joint venture established by Elcoteq and the Aspocomp Group in 2002 on a 50–50 basis.

Asia-Pacific

Asia-Pacific's net sales amounted to 1,110.9 million euros (1,094.1). Of Elcoteq's plant floor space, 34% is located in Asia (about 70,800 square meters). The largest volume plants are located in Beijing, Dongguan and Shenzhen in China as well as Bangalore, India.

The Chinese plants generated higher sales for Communications Networks in 2007. Efficiency-boosting measures have been initiated at the Chinese plants as part of the global action plan.

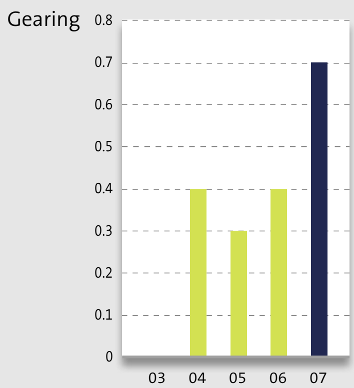
Americas

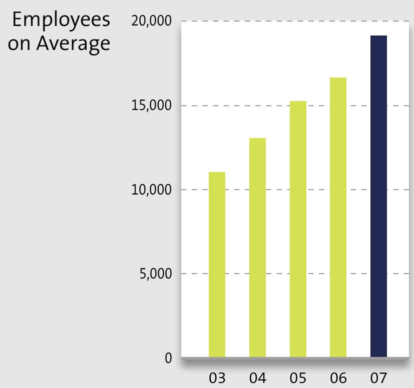
Net sales in the Americas amounted to 855.7 million euros (764.8). Of Elcoteq's plant floor space, 12% is located in the Americas (about 25,800 square meters). The largest volume plant is located in Monterrey, Mexico.

As part of the drive to boost capacity utilization, a decision was made to close down production at the Juárez plant in Mexico and move operations primarily to the company's plants in China and the Monterrey plant in Mexico. Production at the Juárez plant ceased at the end of the third quarter. Production problems continued at the Monterrey plant during the review period due to the rapid expansion of operations. Specific measures have been implemented to rectify the problems.

DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Elcoteq SE, held on March 22, 2007, elected seven members to the Board of Directors. The composition of the Board remained unchanged. The following persons were re-elected: President Martti Ahtisaari; Mr. Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Dr. Eero Kasanen, Rector of the Helsinki School of Economics; Mr. Antti Piippo, principal owner and founder-shareholder of Elcoteq SE; Mr. Henry Sjöman, founder-shareholder of Elcoteq SE; Mr. Juha Toivola, Master of





Arts, and Mr. Jorma Vanhanen, founder-shareholder of Elcoteq SE. The terms of office of the Board members extend until the end of the following Annual General Meeting. Mr. Ahtisaari, Mr. Horstia, Mr. Kasanen and Mr. Toivola are independent Board members, and they represent more than half of the Board's members.

Convening after the Annual General Meeting, the Board of Directors elected Mr. Piippo as its chairman and Mr. Toivola as the deputy chairman. Mr. Piippo was elected chairman of the Nomination Committee and Working Committee and Mr. Sjöman, Mr. Toivola and Mr. Vanhanen as the other members of these committees. Mr. Toivola was elected chairman of the Compensation Committee and Audit Committee and Mr. Ahtisaari, Mr. Horstia and Mr. Kasanen as the other members of these committees.

The Meeting appointed the firm of authorized public accountants KPMG Oy Ab under the supervision of principal auditor Mr. Mauri Palvi (APA) as Elcoteq SE's auditor and after January 1, 2008 the auditor will be KPMG Audit S.à.r.l.

The Meeting approved the transfer of the company's domicile from the city of Lohja in Finland to the Grand Duchy of Luxembourg.

The Annual General Meeting authorized the Board of Directors to issue, in one or several installments, Series A shares and/or to issue specific rights entitling to shares pursuant to Chapter 10 §1 of the Finnish Companies Act, in the total amount of 15,527,573 Series A shares. Based on the authorization to issue shares, the Board may issue either new shares or those in the company's possession.

Furthermore, the Meeting authorized the Board of Directors to purchase at most 1,576,994 of the company's own Series A shares in public trading in order to develop the company's capital structure, to use as consideration in corporate acquisitions or when the company acquires assets related to its business, and as part of the company's personnel incentive scheme, in the manner and scope determined by the Board, and otherwise to dispose of or nullify these shares. The purchase price of the shares to be purchased shall be based on the share price in public trading such that the subscription price corresponds to the fair value of the shares formed in public trading at the time of purchase. The holders of the company's Series K shares have given their approval to the effect that the decision will not be used to purchase the Series K shares in their possession. The purchase of own shares will reduce the company's distributable funds.

The authorizations were not exercised and they became void when the company was redomiciled on January 1, 2008.

SHARES AND SHAREHOLDERS

At the end of 2007, the company's share capital totaled 13,041,167.60 euros and there were altogether 32,602,919 shares comprising 22,025,919 Series A shares and 10,577,000 Series K shares. All the K shares are held by the company's three principal owners. During 2007, altogether 1,063,592 new A shares were subscribed under the 2001 stock options scheme.

Elcoteq had 10,098 registered shareholders on December 31, 2007. There were 7,697,179 nominee-registered and foreign-registered shares, which represented about 23.6% of the total number of shares and 6.0% of the votes outstanding.

When the company was redomiciled on January 1, 2008, the Series K shares were converted to K Founders' shares. The number of K Founders' shares is tenfold that of the former Series K shares, but their par value is one-tenth of the Series A shares. According to the new Articles of Association, Elcoteq shares confer financial rights in proportion to their par value. The differences in the voting and financial rights conferred by the different share series thus remain unchanged after the transfer of domicile.

ACTIONS TO IMPROVE COST-EFFECTIVENESS, PROFITABILITY AND COMPETITIVENESS

One-time restructuring expenses under the action plan announced in December 2006 amounted to about 35 million euros, which were for the most part recognized in the first-quarter result for 2007. In addition to previously estimated expenses, which were primarily related to the product development organization and the closure of the Lohja and Juárez plants, the company wrote down its design-related Cellon holding. Of the expenses, about 8 million euros affected cash flow. The measures taken are described in the Geographical Areas section above.

In October, Elcoteq announced that it will continue the action plan that was started at the beginning of 2007 by launching further actions. The new streamlining plan had three major focuses: downsizing unprofitable operations, achieving additional operational savings, especially through stepping up efficiency in materials management, and adopting a new customer-centric organization model. Elcoteq announced in December that it will divest its subsidiary in Offenburg, Germany, and seek to scale down or divest its St. Petersburg unit. The company estimates that this new streamlining program, combined with measures to boost production efficiency, will result in one-time expenses of about 15 million euros. The expenses were recognized in the fourth-quarter result of 2007. The one-time expenses do not have a significant cash-out effect.

The company expects these action plans to yield annual savings totaling about 90-100 million euros. The measures that have already been implemented – such as closing down production at the Lohja plant in Finland at the end of June 2007 and at the Juárez plant in Mexico at the end of the third quarter of 2007 as well as the agreement to sell the Offenburg subsidiary in Germany in December 2007 – result in savings that will have a full effect on the Group's result after the end of the first quarter of 2008. Savings from other measures such as the scaling down or divestment of the St. Petersburg plant as well as measures to boost operational efficiency will come into effect on a gradual basis during 2008.

The actions are carried out in areas that will not limit the company's service offering or its possibilities for growth. In addition, the company will continue to boost operational efficiency, especially in materials management and the use of production machinery.

The new organization model came into effect on January 1, 2008. Elcoteq will from now on report on three separate business areas: Personal Communications, Home Communications and Communications Networks. Group functions will support the business areas by focusing on improving company-level profitability, bolstering synergy benefits and business development.

NEW INCENTIVE SCHEME

In October, Elcoteq's Board of Directors decided on a share subscription plan for the motivation and commitment of the Group's key personnel. Rewards from the plan are based on reaching the targets set by the Board of Directors for the consolidated income before taxes for the full year 2008. Based on the achieved targets the company would issue a maximum of 1,500,000 new Series A shares, of which 50% would be issued in March 2009 and the remaining 50% in November 2009. The shares have not as yet been allocated.

EVENTS AFTER THE END OF THE REVIEW PERIOD – CHANGE OF DOMICILE

Elcoteq SE was redomiciled to the city of Luxembourg in the Grand Duchy of Luxembourg on January 1, 2008, in accordance with the decision of the Annual General Meeting on March 22, 2007. The company's domicile until December 31, 2007 was Lohja, Finland.

Now that the company has been redomiciled, Elcoteq's new Articles of Association have entered into force. Annual General Meetings will be held on March 23 in the city of Luxembourg. If said date is a national holiday or bank holiday in Luxembourg or Finland, the Annual General Meeting will be held on the next day. Shareholders can participate in the meeting via remote access at an event held in Helsinki. The 2008 Annual General Meeting will be held on Tuesday, March 25, 2008.

The transfer of domicile will not affect trading in the company's Series A shares, which will continue as usual on the OMX Nordic Exchange Helsinki.

EXPANDING THE IEMS OFFERING

Elcoteq fine-tuned its service offering in 2007 in response to the rapidly changing outsourcing needs of its customers. The company seeks to be able to cater to selected customer segments in all major market areas, initially with a key focus on Personal Communications.

Elcoteq aims to become the leading provider of integrated electronics manufacturing services (IEMS). As an IEMS company, Elcoteq's main concept is to refine its electronics manufacturing and product development services, especially by adding technical expertise in mechanics into the mix.

Negotiations on IEMS implementation have been ongoing with different parties. The company's aim is to carry out the necessary measures to expand the service offering by the end of 2008.

SHORT-TERM RISKS AND UNCERTAINTIES

The most important short-term challenges for Elcoteq's business operations concern the company's ability to further improve its cost structure and profitability. To rise to these challenges, the company must develop its service offering in line with the changing needs of customers and improve its agility in reacting to changes in customer demand.

PROSPECTS

Market research agencies estimate annual growth of over 10% in the EMS and ODM markets in the future as well. Research agencies estimate that unit sales of mobile phones will see growth of about 11% in 2008, but that net sales growth in the market will remain at approximately 7% due to the decline in average handset prices. Growth of about 9% is forecast for the EMS market in the Home Communications business area. Key segments in this business – such as the market for flatscreen TVs – are forecast to see annual growth of about 20%. The communications network equipment market is expected to grow by about 7% in 2008.

Elcoteq aims to become the leading provider of integrated electronics manufacturing services (IEMS) catering to selected customer segments in all major market areas. The company has three main strategic themes: expand service offering, focused growth and operational excellence.

The company seeks to improve its operating income substantially in 2008. The company believes that the cost-savings and higher operational efficiency from the action plans will enable it to reach an operating income level of about two percent in 2008.

The main objective of the Personal Communications business area for 2008 is to ensure profitability by stepping up the efficiency of its operating procedures. Personal Communications is not expected to increase its net sales, although profitable growth is foreseen with numerous customers.

The focuses of the Home Communications business area in 2008 are to improve profitability and enlarge the customer base. Elcoteq expects growth in the net sales of Home Communications in 2008 to outpace that of the business area's EMS market.

Elcoteq anticipates that the Communications Networks business area will post net sales growth and bolster its market position in 2008. Elcoteq seeks to improve the profitability of Communications Networks.

BOARD'S DIVIDEND PROPOSAL

The Board of Directors proposes to the Annual General Meeting to be held on March 25, 2008, that no dividend will be paid for the 2007 financial year.

ANNUAL GENERAL MEETING 2008

Elcoteq's Annual General Meeting will be held in Luxembourg on March 25, 2008. Shareholders can participate in the meeting via remote access at an event held in Helsinki.

The Board's Nomination Committee proposes to the Annual General Meeting that the Board's current members be re-elected. All have given their consent to re-election.

Luxembourg, February 5, 2008

Board of Directors

Consolidated Income Statement (IFRS)

EUR 1,000	Note	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
NET SALES	1	**4,042,932**	**4,284,333**
Change in work in progress and finished goods		18,499	17,339
Other operating income	2	8,176	6,970
Production materials and services	3	–3,635,868	–3,787,467
Personnel expenses	5	–206,230	–205,871
Depreciation	7	–78,699	–82,701
Writedowns	7	–1,093	-
Depreciation and writedowns, total		–79,792	–82,701
Restructuring expenses	8	–50,231	-
Other operating expenses	9	–193,830	–188,700
OPERATING INCOME		**–96,344**	**43,902**
Financial income, total	10	3,601	3,165
Financial expenses, total	10	–29,658	–26,847
Share of the losses of associated companies		–432	–985
INCOME BEFORE TAXES		**–122,833**	**19,237**
Income taxes	11	16,322	–4,651
NET INCOME		**–106,511**	**14,586**
ATTRIBUTABLE TO:			
Equity holders of the parent company *		–108,381	12,065
Minority interests		1,870	2,521
		–106,511	**14,586**
Earnings per share calculated on profit attributable to equity holders of the parent company	12		
Earnings per share (EPS), EUR		–3.37	0.38
Earnings per share (EPS), diluted, EUR		–3.37	0.37

* Net profit reported by the company.

Consolidated Cash Flow Statement (IFRS)

EUR 1,000	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxes	–122,833	19,237
Adjustments:		
Scheduled depreciation and amortization	79,792	82,701
Unrealized foreign exchange gains and losses	–12,405	–11,427
Other non-payment-related income and expenses	141	1,275
Financial income and expenses	28,352	26,703
Other adjustments	38,646	–4,266
Cash flow before change in working capital	11,693	114,223
Change in working capital *:		
Change in non-interest bearing current receivables	37,782	3,807
Change in inventories	–26,870	–39,558
Change in non-interest bearing current liabilities	32,287	19,690
Cash flow from operating activities before financial items and taxes	54,891	98,162
Interest and other financial expenses	–24,385	–21,443
Operations-related interest income	1,699	2,055
Income taxes paid	3,026	–13,813
Cash flow from operating activities	**35,232**	**64,961**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	–67,114	–101,279
Proceeds from disposal of tangible and intangible assets	18,503	17,173
Acquisitions	-	–7,619
Disposals	2,306	6,001
Repayment of loans receivable	5	1
Cash flow from investing activities	**–46,300**	**–85,724**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issues	6,733	2,890
Redemption of parent company shares	–51	-
Change in current debt	30,358	–7,459
Issuance of long-term debt	-	29,839
Repayment of long-term debt	–582	–466
Dividends paid	–8,902	–20,573
Cash flow from financing activities	**27,558**	**4,231**
CHANGE IN CASH AND EQUIVALENTS	16,490	–16,532
Cash and equivalents on January 1	82,298	101,351
Cash and equivalents classified as held for sale	–3,154	-
Effect of exchange rate changes on cash held	–2,942	–2,521
Cash and equivalents on December 31	**92,691**	**82,298**

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve cash flow by 38.8 million euros during the reporting period 1–12/2007 and by 38.9 million euros during 1–12/2006.

Consolidated Balance Sheet (IFRS)

EUR 1,000	Note	Dec. 31, 2007	Dec. 31, 2006
ASSETS			
Non-current assets	14		
Intangible assets			
Intangible rights		5,407	7,625
Product development costs		206	4,199
ADP software		4,136	7,182
Advance payments and construction in progress		1,178	682
Goodwill		6,648	10,578
Goodwill on consolidation		15,098	15,098
		32,672	45,365
Tangible assets			
Land and water areas		2,252	2,611
Investment properties		-	1,846
Buildings		59,715	71,252
Machinery and equipment		135,862	164,307
Advance payments and construction in progress		2,225	5,005
		200,054	245,021
Investments			
Shares and equity interests in associated companies		1,656	2,261
Receivables from associated companies		87	87
Available-for-sale financial assets		502	11,379
		2,246	13,728
Long-term receivables			
Deferred tax assets	17	33,530	15,218
Other loans receivable		271	99
		33,800	15,317
Non-current assets, total		**268,773**	**319,431**
Current assets			
Inventories			
Raw materials		274,045	286,646
Work in progress		22,329	32,727
Finished goods		59,377	39,031
Advance payments		5	620
		355,756	359,025
Current receivables			
Accounts receivable	19	297,594	348,305
Loans receivables		-	2,188
Other receivables		22,585	26,242
Prepaid expenses and accruals	20	15,313	18,784
Tax assets based on taxable income in year		86	7,346
		335,578	402,865
Cash and equivalents		92,691	82,298
Current assets, total		**784,025**	**844,187**
Assets classified as held for sale	21	39,453	-
ASSETS, TOTAL		**1,092,251**	**1,163,618**

Consolidated Balance Sheet (IFRS)

EUR 1,000	Note	Dec. 31, 2007	Dec. 31, 2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company	22		
Share capital		13,041	12,616
Additional paid-in capital		225,011	218,704
Other reserves		7,323	8,369
Translation differences		–7	–1,864
Retained earnings		49,597	43,767
Net income for the year		–108,381	12,065
Equity attributable to equity holders of the parent company, total		**186,584**	**293,656**
Minority interests		11,307	9,647
Total equity		**197,891**	**303,303**
Liabilities	23		
Long-term liabilities			
Subordinated notes		139,297	139,087
Medium-term notes		39,973	39,966
Loans from pension plans		631	1,213
Other debt		406	64
Deferred tax liability	17	4,479	5,111
		184,785	185,440
Payments due within one year		–20,581	–605
Long-term liabilities, total		164,204	184,835
Current liabilities			
Medium-term notes		19,991	-
Loans from financial institutions		33,139	30,096
Commercial paper program		23,951	-
Loans from pension plans		420	462
Advances received		1,053	518
Accounts payable		565,231	578,774
Other current liabilities		15,583	12,444
Accrued expenses	25	43,106	49,193
Tax liabilities based on taxable income in year		633	2,179
Provisions	23	6,521	1,816
Current liabilities, total		709,630	675,480
Liabilities classified as held for sale	21	20,526	-
Liabilities, total		**894,360**	**860,315**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**1,092,251**	**1,163,618**

Calculation of Changes in Shareholders' Equity (IFRS)

EUR 1,000	Share capital	Additional paid-in capital	Other reserves	Translation differences	Retained earnings	Total	Minority interests	Total equity
	Attributable to equity holders of the parent							
BALANCE AT JAN. 1, 2007	**12,616**	**218,704**	**8,369**	**–1,864**	**55,831**	**293,656**	**9,647**	**303,303**
Issue of share capital	425	6,308				6,733	2,822	9,555
Equity hedge of subsidiaries				2,256		2,256		2,256
Cash flow hedge *			–1,047			–1,047		–1,047
Translation differences				–399		–399	–528	–927
Share-based payments					141	141		141
Redemption of parent company shares					–68	–68		–68
Dividends					–6,308	–6,308	–2,504	–8,812
Net income					–108,381	–108,381	1,870	–106,511
BALANCE AT DEC. 31, 2007	**13,041**	**225,011**	**7,323**	**–7**	**–58,784**	**186,584**	**11,307**	**197,891**
BALANCE AT JAN. 1, 2006	**12,441**	**215,988**	**8,369**	**–2,883**	**63,065**	**296,980**	**6,885**	**303,865**
Issue of share capital	174	2,716				2,890		2,890
Equity hedge of subsidiaries				1,935		1,935		1,935
Translation differences				–915		–915	240	–675
Share-based payments					1,275	1,275		1,275
Dividends					–20,573	–20,573		–20,573
Net income					12,065	12,065	2,521	14,586
BALANCE AT DEC. 31, 2006	**12,616**	**218,704**	**8,369**	**–1,864**	**55,831**	**293,656**	**9,647**	**303,303**

* The Group has applied hedge accounting to derivative instruments related to purchases from June 30, 2007.

Accounting Principles Used in the Consolidated Financial Statements

GENERAL ACCOUNTING PRINCIPLES

Elcoteq SE is a European Company that, as from January 1, 2008, is domiciled in the city of Luxembourg in the Grand Duchy of Luxembourg (domiciled in Lohja, Finland, until December 31, 2007). Elcoteq's consolidated financial statements have been prepared using the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as well as their SIC and IFRIC interpretations. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it.

In its financial statements for 2007 and the comparison figures for 2006, Elcoteq has applied the standards in force at December 31, 2007.

The financial statements are based on original acquisition cost unless otherwise stated in the accounting principles.

Standards and Interpretations Applied as from January 1, 2007

On January 1, 2007 the Group adopted IFRS 7 (Financial Instruments: Disclosures) and the changes to IAS 1 (Presentation of Financial Statements) concerning capital and capital management that were issued by the IASB in August 2005. IFRS 7 introduces certain new requirements for presenting financial instruments and puts all the presentation requirements for financial instruments into one standard. This standard mainly affects the Notes to the financial statements. The changes to IAS 1 that are linked to the company's capital management targets affect only the Notes to the financial statements.

On January 1, 2007 the Group adopted IFRIC 10 (Interim Financial Reporting and Impairment), issued by the IASB in July 2006. IFRIC 10 contains guidelines on the recognition of asset impairments. Its adoption had no impact on the Group.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company, Elcoteq SE, and of each company in which the parent company exercises, directly or indirectly, over 50% voting rights or in which the Group otherwise exercises right of control. Right of control means the right to control the company's business and financial principles in order to extract benefit from its operations. Subsidiaries acquired and established during the period are consolidated from the date on which Elcoteq gained the right of control. Subsidiaries are consolidated using the purchase method of accounting. When evaluating the conditions under which the right of control may arise, the existence of potential voting right is also taken into account in cases where instruments that entitle the company to potential voting right can feasibly be exercised at the time of evaluation.

All intra-Group transactions, receivables, payables, unrealized gains and internal margins are eliminated. Intra-group losses are not eliminated when the loss is due to an impairment. Business combinations for which the agreement date was before the adoption of IFRS are not adjusted for IFRS but instead are valued according to Finnish Accounting Standards (FAS) principles, applying the exemption permitted by IFRS 1 (First-Time Adoption). In business combinations for which the agreement date was after January 1, 2004 all separable assets and liabilities that could be itemized are recorded at fair value at the time of acquisition. The excess of acquisition cost over fair value is recorded as goodwill. Minority interests in the results of subsidiaries and shareholders' equity are shown as separate items in the consolidated income statement and consolidated balance sheet. Minority interests in accumulated losses are recognized only up to the total value of the investment.

Associated companies are entities in which the Group holds substantial influence (20–50% ownership and voting right) and are accounted for using the equity method. This involves recognizing Elcoteq's share of the associated company's profit or loss for the year in the Group's income statement. Elcoteq's share of the associated company's retained earnings post-acquisition is reported under investments in associated companies in the consolidated balance sheet. If the Group's share of the associated company's losses exceeds the carrying value of the investment, the investment is entered at zero value in the balance sheet and the losses in excess of the carrying value are not recognized unless the Group is committed to fulfilling obligations with respect to the associated company.

Further details on the companies consolidated in the Group's financial statements are given in the Note Shares and Equity Interests.

TRANSLATION OF ITEMS IN FOREIGN CURRENCIES

The figures describing the results and financial position of the Group's units are measured using the currency that is the currency of the main business environment of the unit ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items in foreign currency are translated into functional currency using the rates prevailing at the balance sheet date. Monetary items are cash as well as assets and liabilities that are received or paid for using a fixed or definable amount of cash units. Non-monetary items in foreign currency are valued at the rates prevailing at the transaction date. Gains and losses resulting from foreign exchange transactions and from the translation of monetary items denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses arising from operating activities are entered above operating income. The derivative instruments used to hedge foreign exchange items are recognized at fair value. Foreign exchange gains and losses arising from loans, and their hedges, denominated in foreign currencies are included in financial income and expenses.

The income statements of foreign subsidiaries are translated into euros each month at the average monthly exchange rates published by the European Central Bank, and their balance sheets are translated at the applicable exchange rates in effect at the balance sheet date. The translation of income statement items at these different exchange rates in the income statement and balance sheet gives rise to a translation difference, which is entered under shareholders' equity. Translation differences resulting from the elimination of the acquisition cost in foreign subsidiaries and post-acquisition items in shareholders' equity are entered under shareholders' equity. Since hedge accounting is applied in the valuation of the foreign exchange derivatives used to hedge these net investments, the change in their fair value is also entered under shareholders' equity. The ineffective portion of the hedge, if any, is entered under financial items. When a subsidiary is sold, either partially or totally, accumulated translation differences are recognized in the income statement as part of the gain or loss on the sale.

Cash flow hedge accounting has been applied to derivative instruments related to purchases and sales as from June 30, 2007. Hedge accounting can be applied when the derivative instruments are allocated to the hedging of foreign currency denominated items for future periods, typically the subsequent quarter. The change in the fair value of the hedges is entered into shareholders' equity in the financial statements. The ineffective portion of the hedge, if any, is entered under financial items. Otherwise fair value changes in derivative instruments related to sales and purchases are recognized in the income statement as adjustments to purchases/sales.

Hedge accounting is not applied to forward contracts used to hedge financial items. The change in the spot value of these forward contracts is entered in the income statement as an exchange rate difference under financial items and the impact of the interest rate differential is recognized as interest.

Goodwill arising on the acquisition of foreign units, and the fair value adjustments to the assets and liabilities of these units at the time of acquisition, are treated as the assets and liabilities of the units concerned and translated into euros at the exchange rates prevailing at the balance sheet date. Goodwill and fair value adjustments made before January 1, 2005 are entered in euros.

BUSINESS SEGMENTS

Elcoteq has organized its operations into two business areas: Terminal Products and Communications Networks. Elcoteq reports these business areas as its primary segments applying IAS 14 (Segment Reporting). As from the beginning of 2008, Terminal Products has been divided into two separate business areas, Home Communications and Personal Communications.

Elcoteq reports its geographical areas – Europe, Asia-Pacific and the Americas – as its secondary segments.

REVENUE RECOGNITION

Revenue from the sale of goods and services is recognized when all material risks and benefits associated with the goods or services sold are transferred to the customer and no material uncertainties remain as to the receipt of payment for them, associated costs, or the possible return of the goods by the customer. Net sales are reported after sales-related foreign exchange gains and losses, and cash discounts.

TANGIBLE ASSETS

Tangible assets are stated at their acquisition cost less accumulated depreciation and any impairment losses. In this case the costs arising from renewal of the part are capitalized. Other costs are treated as assets only when the economical benefits relating to these assets are probable and when the acquisition cost can be defined reliably. Other repair and maintenance expenses are entered as an expense in the income statement as they arise. Straight-line depreciation is entered on the assets over their estimated economic lives. In the event that the economic life of the asset relates substantially to a single product or project, the asset is depreciated in relation to actual production volumes. Depreciation is not entered on land. The estimated economic lives are:

Asset Class	Years
Buildings	25
Building components	15
Machinery and equipment of the building	10
Other machinery and equipment	3–5

The residual value of the assets and their economic lives are reviewed at each balance sheet date and, if necessary, adjusted to reflect changes in their expected economic lives. Depreciation on tangible assets is discontinued when the asset is classified as available for sale according to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). Gains and losses resulting from derecognition of the assets are entered under other operating income or expenses respectively.

INTANGIBLE ASSETS

In the case of companies acquired after January 1, 2004 goodwill arising on an acquisition represents the excess of the acquisition cost over the fair value of the identifiable net assets. Goodwill arising from business combinations for which the agreement date was before this date corresponds to the carrying value calculated in accordance with previously applied accounting principles, i.e. the estimated acquisition cost. The classification of these acquisitions and their accounting treatment were not adjusted when preparing the Group's IFRS opening balance sheet.

Goodwill is not amortized but tested annually for impairment. For this purpose goodwill is allocated to cash-generating units or, in the case of associated companies, goodwill is included in the acquisition cost of the company in question. Goodwill is valued at acquisition cost less any impairment losses.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed in the income statement. Development costs arising from the design of new or significantly improved products are recognized in the balance sheet as intangible assets from the moment when the product is technically and commercially feasible, and the product is expected to generate future economic benefit. Development costs previously recognized as expenses are not capitalized later. The assets are depreciated from the time when they are ready for use. Assets that are not ready for use are tested annually for impairment.

The economic lives of capitalized development costs are 2–5 years, during which time the capitalized assets are amortized on a straight-line basis as an expense. An intangible asset is recognized in the balance sheet only if its acquisition cost can be reliably determined and it is probable that the asset is expected to generate economic benefit to the company. Patents, trademarks and licenses with a finite economic life are recognized in the balance sheet at acquisition cost and expensed on a straight-line depreciation basis in the income statement over their known or estimated economic lives.

With the exception of goodwill, the Group does not have intangible assets with indefinite economic lives. Intangible assets are amortized over the following periods:

Asset Class	Years
Development costs	2 – 5
Computer software	3 – 5
Other intangible assets	5 – 10

IMPAIRMENTS

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Furthermore, the recoverable amount is estimated annually for goodwill and intangible assets not ready for use, whether indications of impairment exist or not.

For the purposes of assessing impairment, assets are divided into the smallest possible cash-generating units that are mainly independent of any other assets of the Group and for which there are separately identifiable, mainly independent, cash flows. The recoverable amount is the higher of the fair value of the asset less disposal costs or the value in use. The value in use is the estimated future cash flow of the asset or cash-generating unit discounted to its net present value. The recoverable amount of financial assets is either their fair value or the present value of expected future cash flows discounted at the original effective interest rate.

An impairment is recognized when the carrying amount of the asset is higher than its recoverable amount. Impairment losses are entered in the income statement immediately. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying value of goodwill allocated to the cash-generating unit in question and then to reduce the carrying amount of other assets in the cash-generating unit on a pro rata basis. Impairment losses are reversed if there has been a change in circumstances and the recoverable amount of the asset has changed after the date when the impairment loss was recognized. An impairment is not reversed, however, to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized. Impairment losses recognized for goodwill are never reversed. Nor are reversals made on impairment losses on equity-based investments classified as financial assets available for sale.

INVENTORIES

Inventories are valued at their purchase and manufacturing cost or their probable net realizable value, if lower. Elcoteq uses an average cost approach, which is almost equivalent to the FIFO principle due to the rapid turnover of the products.

The cost of finished goods and work in progress consists of materials, wages and salaries, employee benefits, subcontracting expenses, other variable expenses, and allocated production overhead. Inventories are shown net of deductions for obsolete and slow-moving items.

FINANCIAL ASSETS

The Group's financial assets are classified into the following categories in accordance with IAS 39 (Financial Instruments: Recognition and Measurement): financial assets designated at fair value through profit or loss, available-for-sale financial assets, and loans and other receivables. The assets are classified and recognized on the basis of their purpose on the settlement date.

Financial Assets Designated at Fair Value through Profit or Loss

Derivative instruments that do not meet the conditions for hedge accounting set out in IAS 39 are entered at their fair value in the income statement. Profits and losses, both realized and unrealized, that arise from changes to the fair values of these derivative instruments are recognized in the income statement for the period during which they arose.

The accounting principles applied to derivative instruments that meet the conditions for hedge accounting set out in IAS 39 are described above under Translation of Items in Foreign Currencies.

Available-for-Sale Financial Assets

Available-for-sale financial assets consist of shares and are included in non-current assets. Under IAS 39 non-current assets available for sale are measured at fair value. If the fair value cannot be reliably determined, the assets are measured at acquisition cost.

Loans and Other Receivables

Loans and other receivables are assets with fixed or determinable payments and are recognized in the balance sheet under either current or non-current assets as appropriate, and in the latter case if they mature after more than 12 months.

Under current receivables, accounts receivable are valued at their acquisition cost less any writedowns. The Group recognizes an impairment loss on accounts receivable when there is objective evidence that the Group will not be able to collect the total amounts due. A debtor's significant financial difficulties, the probability of bankruptcy, payment negligence, or significant delays in payments constitute evidence of an impairment loss to accounts receivable. If the amount of impairment loss decreases in a later accounting period, the recognized loss is reversed in the income statement.

The Group's accounts receivable do not contain realized cash flow from sold accounts receivable. The credit risk related to sold accounts receivable is transferred at the time of sale. The costs arising from the sale of accounts receivable are entered under financial expenses.

CASH AND EQUIVALENTS

Cash and equivalents consist of cash in hand, bank accounts, and other liquid investments. Items classified as cash and equivalents have a maximum maturity of three months. Liquid investments are measured at fair value and the change in fair value is entered in the income statement.

FINANCIAL LIABILITIES

The Group's short-term financial liabilities are recognized at the settlement amount received, i.e. the original book value.

The Group's long-term financial liabilities are recognized at the settlement amount received less transaction costs. These liabilities are valued at amortized cost over their term to maturity using the effective interest rate method.

LEASE CONTRACTS

Lease contracts are divided into operating and finance leases in accordance with IAS 17 (Leases).

Machinery acquired with operating leases is not included in the Group's non-current assets. Operating leases are entered as rental expenses under other operating expenses and the rental commitments are shown in the Notes Leasing Contracts.

When a leasing contract transfers substantially all the risks and rewards incident to ownership to the Group, the contract is treated as a finance lease. The Group had no production equipment under finance leases on December 31, 2007, nor any other significant finance leases.

On January 1, 2006 the Group adopted IFRIC 4 (Determining Whether an Arrangement Contains a Lease), issued by the IASB in December 2004. IFRIC 4 contains guidelines on how to determine if an arrangement that does not take the legal form of a lease in fact contains a lease that should be treated in accordance with IAS 17 (Leases). Adoption of the IFRIC 4 interpretation had no significant impact on the Group.

EMPLOYEE BENEFITS

Pension Obligations

Pension plans are classified as either defined benefit plans or defined contribution plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined for each plan separately using the projected unit credit method. The pension costs are recognized as an expense over the expected service lives of the employees based on calculations made by qualified actuaries. When calculating the present value of the pension obligation, the discount rate used is the market yield of high-quality corporate bonds or the interest rates of government securities.

Actuarial gains and losses are recognized as an expense over the expected average remaining service lives of the employees to the extent that they exceed the higher of the following: 10% of the pension obligation or 10% of the fair value of the plan assets.

Share-Based Payments

The Group has applied IFRS 2 (Share-Based Payments) to all option schemes in which option rights have been granted after November 7, 2002, but on which the rights were not vested until January 1, 2005 (the vesting period). Option scheme expenses predating this period are not recognized in the income statement.

Option rights are measured at their fair value on the date they were granted and are expensed in the income statement on a straight-line basis during the vesting period. The expense determined on the granting date is based on the Group's estimate of the number of options expected to generate a right at the end of the vesting period. The fair value is determined using the Black-Scholes option pricing model. The Group updates its estimate of the final number of options at each balance sheet date. Changes in these estimates are recognized in the income statement. When option rights are exercised, cash payments received as a result of share subscriptions (adjusted for any transaction costs) are entered under share capital (par value) and additional paid-in capital.

The Group has also applied IFRS 2 (Share-Based Payments) to the company's share ownership plan and to the reward plan, which is based on the company's share price. In both cases fair value is determined based on the share price at the balance sheet date. Costs related to the share ownership plan are expensed in the periods during which the plan's targets apply. Costs related to the reward plan are expensed in the periods during which the plan is in force.

GRANTS

Various public agencies provide financial assistance in many countries, primarily for certain types of research and development costs. This type of financial assistance is recognized under other operating income.

In some countries, financial assistance is available for investments. Such assistance is allocated to the related non-current assets and the assistance received reduces the value of non-current assets in the balance sheet.

PROVISIONS

A provision is entered when the Group has a present legal or factual obligation as a result of past events and when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Restructuring provisions are recognized when the related factual obligation has arisen. The obligation is deemed to have arisen when a detailed restructuring plan has been drafted. In addition, the restructuring measures have been initiated or the key points of the restructuring arrangement have been announced to those affected by it. Direct restructuring costs are included in the restructuring provision.

TAXES

Income taxes are based on the earnings of the consolidated entities and are calculated in accordance with the local tax regulations of each country. Income taxes consist of taxes paid during the reporting period and tax adjustments for prior periods. Other direct taxes consist of e.g. various types of profit-based local taxes. Income taxes also include any net changes in deferred tax liabilities and assets.

Deferred tax liabilities or assets are recognized for all temporary differences between the tax basis of the consolidated entities' assets and liabilities and their carrying amounts for financial reporting purposes, and for differences arising from consolidation. Deferred tax assets and liabilities have been computed using each country's statutory tax rate for the following fiscal period. The most important differences arise from tax losses, long-term assets, appropriations, and from tax liabilities related to non-distributed retained earnings in Elcoteq's Estonian subsidiary.

A deferred tax asset is recorded on the basis of losses only if it is probable that the loss in question can be used to offset taxable income in future fiscal years. Deferred tax liabilities are reported in full.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets are classified as held for sale if an amount corresponding to their book value will accrue mainly from their sale. Non-current assets held for sale are valued at the lower of their book value or their fair value less costs arising from their sale. Assets and liabilities classified as held for sale at the balance sheet date are shown separately in the balance sheet in compliance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations).

DIVIDENDS

Dividends proposed by the Board of Directors are recognized in the financial statements for the year in which they are approved by Elcoteq's Annual General Meeting.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with IAS and IFRS principles requires management to make certain estimates and assumptions affecting the reported values of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date, and the amounts of revenue and expenses recognized during the reporting year. Although these estimates are based on the latest available information, actual results may differ from them.

Management estimates are especially necessary in the case of impairment tests, the estimation of the restructuring expenses of action plans, the valuation of equity interests, and the recognition of deferred tax assets.

Testing for impairment requires estimating the recoverable amount of the asset in question. Changes in these estimates may significantly affect the fair values of assets in the present and future review periods. Further information on the estimates and their principles used to test for impairment of goodwill and goodwill on consolidation are given in the Note Depreciation and Amortization.

During 2007, the Group has decided on action plans to streamline operations. The implementation of these plans is partially scheduled for 2008. It is not as yet known what the exact restructuring expenses will amount to in 2008; rather, these expenses have been entered on the basis of estimates and the information available at the time of preparing the financial statements.

The company's equity-based investments are valued at acquisition cost since no market price for them is available from the securities markets and their fair value cannot be reliably determined in any other way. Deferred tax assets are recorded only up to the amount that they can probably be used to offset taxes to be paid in future fiscal years.

FIGURES IN THOUSANDS OF EUROS

Unless otherwise specified, all euro-denominated figures in the Notes to the financial statements are given in thousands of euros (EUR 1,000).

STANDARDS AND INTERPRETATIONS TO BE APPLIED AFTER 2007

On January 1, 2008, the Group adopted IFRIC 14 IAS 19 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction), an interpretation issued by the IASB in July 2007. The adoption of the interpretation does not have a significant impact on the Group.

In November 2006, the IASB replaced IAS 14 (Segment Reporting) with a new standard, IFRS 8 (Operating Segments). Adoption of this standard will affect the amount of information given on the Group's segments in the Notes to the financial statements. The Group will adopt IFRS 8 on January 1, 2009.

In March 2007, the IASB approved amendments to IAS 23 (Borrowing Costs). The amendments concern the treatment of borrowing costs related to the acquisition, construction or manufacture of assets. The Group will adopt the standard on January 1, 2009.

In September 2007, the IASB approved amendments to IAS 1, affecting the presentation of financial statements. The revisions primarily concern the presentation of the income statement, balance sheet and statement of changes in equity. The Group will adopt the amendments to the standard on January 1, 2009.

The IASB has also issued the interpretations IFRIC 11 (Group and Treasury Share Transactions) in November 2006, IFRIC 12 (Service Concession Arrangements) in November 2006 and IFRIC 13 (Customer Loyalty Programs) in June 2007. These interpretations have no effect on the Group's reporting.

Notes to the Consolidated Financial Statements

1. Segment Reporting

Elcoteq has organized its business operations into two business areas: Terminal Products and Communications Networks. Elcoteq reports these as its primary segments applying the principles defined in IAS 14 (Segment Reporting).

As its secondary segments Elcoteq reports its three geographical areas: Europe, Asia-Pacific and the Americas.

Segment reporting is based on the company's internal reporting system.

ACCOUNTING PRINCIPLES

There are no intersegment sales between the primary segments.

The net sales of the secondary segments are based on where the segment's assets are located. Net sales according to customer location are shown under "Breakdown of net sales by market".

The items shown for the segments are those that are either directly attributable to the segments or that can be reasonably allocated to them.

The segment's assets comprise intangible and tangible assets, investments in associated companies, inventories, accounts receivable and allocatable prepaid expenses and accruals.

The segment's liabilities are its accounts payable and allocatable accrued expenses.

NON-ALLOCATED ITEMS

Non-allocated expenses in the income statement consist of the expenses of the Group office.

Non-allocated assets consist mainly of cash and bank receivables as well as prepaid expenses and accruals not allocated to the segments.

Non-allocated liabilities are mainly interest-bearing liabilities, deferred tax liabilities and accrued expenses not allocated to the segments.

Investments in associated companies that cannot be allocated to the segments are entered under non-allocated assets.

BUSINESS AREAS

The Terminal Products business area designs and manufactures terminal devices based on the most advanced wireless communications technology. Its products include mobile phones and their accessories, cordless phones and set-top boxes.

The Communications Networks business area serves customers operating in the areas of mobile phone networks, wireless local area networks, and broadband networks. The business area's products include base station equipment such as plug-in units and routers for mobile phone networks, and broadband network products.

BUSINESS AREAS IN 2007, MEUR	Terminal Products	Communications Networks	Non-Allocated	Total
Net sales	3,212.0	831.0	-	4,042.9
Depreciation	55.8	19.9	4.2	79.8
Operating income	–41.0	–17.3	–38.0	–96.3
Restructuring expenses*	–35.9	–14.0	–0.3	50.2
Share of associated companies' results	-	–0.1	–0.3	–0.4
Assets**	610.2	335.0	147.0	1,092.3
Investments in associated companies	-	1.6	0.0	1.7
Liabilities	467.1	162.2	265.1	894.4
Capital expenditures	41.3	21.9	4.1	67.2
Sold accounts receivable***	161.7	64.8	-	226.5

* A total of 31.5 million euros in restructuring expenses with no cash flow effect on non-current assets have been recognized, of which 18.5 million euros are included in restructuring expenses of the Terminal Products business area and 13 million euros are included in the restructuring expenses of the Communications Networks business area.

** The assets of the segments include a total of 39.5 million euros in available-for-sale assets, of which 3.2 million are allocated to the Terminal Products business area, 34.5 million to the Communications Networks business area and 1.7 million to non-allocated assets.

*** Not included in the segment's assets.

BUSINESS AREAS IN 2006, MEUR	Terminal Products	Communications Networks	Non-Allocated	Total
Net sales	3,512.1	772.3	-	4,284.3
Depreciation	56.0	22.1	4.6	82.7
Operating income	68.4	22.4	–46.8	43.9
Share of associated companies' results	0.0	0.0	–1.0	–1.0
Assets	710.8	322.3	130.5	1,163.6
Investments in associated companies	0.2	1.7	0.3	2.3
Liabilities	470.6	145.4	244.3	860.3
Capital expenditures	85.4	23.5	7.9	116.9
Sold accounts receivable*	131.7	56.0	-	187.7

* Not included in the segment's assets

Geographical Areas

Elcoteq's geographical areas are Europe, Asia-Pacific and the Americas.

GEOGRAPHICAL AREAS IN 2007, MEUR	Europe	Asia-Pacific	Americas	Non-Allocated	Total
Net sales	2,076.3	1,110.9	855.7	-	4,042.9
Assets	489.3	291.8	172.5	138.7	1,092.3
Capital expenditures	24.7	20.7	17.7	4.1	67.2
Sold accounts receivable*	178.9	47.7	-	-	226.5

GEOGRAPHICAL AREAS IN 2006, MEUR	Europe	Asia-Pacific	Americas	Non-Allo-cated	Total
Net sales	2,425.4	1,094.1	764.8	-	4,284.3
Assets	618.3	263.1	164.0	118.1	1,163.6
Capital expenditures	49.4	40.5	19.0	7.9	116.9
Sold accounts receivable*	152.7	29.3	5.7	-	187.7

* Not included in the segment's assets

BREAKDOWN OF NET SALES BY MARKET, MEUR	2007	2006
Europe	2,030.2	2,342.5
Americas	999.2	905.7
Asia-Pacific	1,013.5	1,036.2
	4,042.9	4,284.3

2. Other Operating Income

The bulk of Elcoteq's other operating income of 8.2 million euros (7.0) was made up of various types of service charges, gains on the disposal of fixed assets and subsidies granted.

3. Production Materials and Services

EUR 1,000	2007	2006
Materials and supplies	−3,632,554	−3,784,585
External services	−3,314	−2,882
Production materials and services, total	−3,635,868	−3,787,467

4. Personnel

The Group had on average 19,131 (16,651) employees during the year.

	At Dec. 31	At Jan. 1	Change	Average
Finland	252	668	−416	473
Brazil	361	176	185	314
Hong Kong	57	60	−3	58
India	1,144	777	367	1,018
Japan	3	4	−1	3
China	6,392	5,323	1,069	6,639
Luxembourg	4	1	3	3
Mexico	2,999	3,138	−139	3,413
Romania	327	201	126	252
Sweden	8	7	1	8
Germany	410	453	−43	456
Switzerland	7	9	−2	8
Hungary	2,937	3,311	−374	3,170
USA	163	157	6	160
Russia	576	483	93	554
Estonia	2,352	2,937	−585	2,602
Total	17,992	17,705	287	19,131

On December 31, 2007 the Group employed 24,222 people, of whom 17,992 were on Elcoteq's payroll.

5. Wages, Salaries and Other Personnel Expenses

EUR 1,000	2007	2006
Personnel expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits, total	164,286	167,555
Fringe benefits	−778	−1,696
	163,508	165,858
Indirect personnel expenses		
Other pension expenses	9,253	8,844
Defined benefit pensions	−177	−169
Other indirect personnel expenses	33,646	31,338
Total	42,722	40,013
Personnel expenses in the income statement	206,230	205,871

Salaries and bonuses paid to key management personnel are shown under Related Party Disclosures.

6. Incentive Plans

IFRS 2 (Share-Based Payments) has been applied to the stock option plan, share ownership plan and the reward plan (which is based on the share price) for the Group's key employees.

Under the terms of the 2001 stock option plan, options A-E may be exercised to subsribe for shares until April 30, 2007. The share subscription price following the payment of dividend in 2006 has been 6.33 euros per share. A total of 1,063,592 new A shares were subscribed under these options in 2007.

Under the 2004 stock option plan, stock options 2004A may be exercised to subscribe for shares until March 31, 2007 and options 2004B until March 31, 2008. However, the share subscription period may not commence with the stock options 2004A unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros and, in the case of stock options 2004B, at least 27 euros. No new shares could thus be subscribed for with these shares. Stock options 2004C have not been issued to personnel.

The company did not issue new option rights to key employees of Elcoteq Group during 2007.

The option plans are measured at their fair values at the grant date and expensed in equal installments during the vesting period. The costs related to the share ownership plan are expensed in the period for which the plan's targets have been set. The costs related to the reward plan are expensed in the periods in which the plan is in force.

The share ownership plan 2007 did not actualize, and thus no related costs were booked.

The share-based plans generated costs in 2007 totaling 0.1 million euros (1.1). Of this amount, 0.0 million euros (0.0) is shown as debt in the balance sheet at December 31, 2007.

Share subscription prices for options in 2007:

Option right	Ratio	Subscription price per share	Subscription period
2001A	1:1	6.33 *	1.4.2002–30.4.2007
2001B	1:1	6.33 *	1.4.2003–30.4.2007
2001C	1:1	6.33 *	1.4.2004–30.4.2007
2001D	1:1	6.33 *	1.4.2005–30.4.2007
2001E	1:1	6.33 *	1.4.2006–30.4.2007
2004A	1:1	13.79 *	1.3.2005–31.3.2007**
2004B	1:1	13.79 *	1.3.2006–31.3.2008**

* Subscription price after deduction of dividends distributed from 2006.

** The share subscription period may not, however, commence with the stock options 2004A, unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros and, in the case of stock options 2004B, at least 27 euros.

Changes in option rights in 2007 and 2006:

Number	2007	2006
Jan.1	2,354,100	2,917,850
Exercised	1,063,592	435,750
Unsubscribed at the end of subscription period	894,508	-
Returned by employees	134,000	128,000
Dec.31	262,000	2,354,100

7. Depreciation and Amortization

Scheduled depreciation and writedowns consist of the following:

EUR 1,000	2007	2006
Intangible rights	2,179	1,529
ADP software	3,906	4,822
Product development costs	3,237	3,890
Buildings	8,619	7,140
Machinery and equipment	61,852	65,320
Total	79,792	82,701

GOODWILL AND GOODWILL ON CONSOLIDATION

Goodwill and goodwill on consolidation are not amortized on a straight-line basis but are tested for impairment using the recoverable cash flow method.

The cash generating units on which an impairment tests are made are the company's Geographical Areas. Impairment tests have also been made on the company's design operations.

Recoverable cash flow is the cash flow forecast for the following eight years. For the first five years cash flow is estimated annually and for the next three years using five-year figures for each year. After the eight-year period, capital employed is released at its estimated balance sheet value at the time, except for goodwill and goodwill on consolidation.

Annual sales growth percentages of 0–20% are used for the Geographical Areas depending on the area. Market research institutes forecast annual growth of 10–15% for the EMS and ODM businesses. Elcoteq expects its operating income and operating margin to remain at their current level in Asia-Pacific and to improve slightly in Europe, and to show a clear improvement in the Americas. Turnover of net capital employed is expected to remain at its present level in all areas.

The internal interest rate is the weighted average cost of capital before taxes (WACC) specific to each area, which in 2007 was 12–14%.

In 2007, goodwill impairment losses were recognized on both design operations and Geographical Area Europe in connection with streamlining measures carried out in the Group. The impairment of 3.4 million euros in goodwill on design operations was related to the reorganization and downscaling of resources. Goodwill amortization of 0.5 million euros in Europe was connected to the sale of Elcoteq's subsidiary in Germany to the German company BAVARIA Industriekapital AG in January 2008. Goodwill impairment losses are presented in the income statement as part of restructuring expenses.

Significant changes, for example an 0–2 percentage point change in the interest rates used for testing or a 0–20% lower recoverable cash flow in the Geographical Areas, would not require impairment losses. In the case of Design Operations, however, further estimates are necessary owing to the nature of this business, especially with respect to the volume and profitability of future projects and the success of the company's own product platforms. For this reason the results of impairment tests on the Design Operations are less reliable and more sensitive to the outcome of single projects than in the case of the Geographical Areas, and smaller changes in these estimates can make it necessary to recognize an impairment loss.

Tests for impairment of goodwill and goodwill on consolidation in 2006 did not reveal any impairment losses.

Amount of goodwill and goodwill on consolidation in cash-generating units:

EUR 1,000	2007	2006
Europe	-	452
Design operations	2,981	6,381
Asia-Pacific	18,529	18,531
Americas	235	313
Total	21,745	25,676

8. Restructuring Expenses

In December 2006, Elcoteq announced that it would initiate an action plan aimed at accelerating measures consistent with its strategy to improve its competitiveness, profitability and cost-effectiveness. The action plan concerned operations in Europe and the Americas in particular. As part of the action plan, Lohja Plant in Finland and Juárez Plant in Mexico were closed down in 2007. In addition, as set out in the action plan announced in October 2007, Elcoteq agreed on the sale of its German subsidiary, the scaling down of the St. Petersburg unit and measures to boost operational efficiency at other units. The Group will report the one-time expenses of both action plans in 2007 as restructuring expenses.

The Group's restructuring expenses, 50,231 thousand euros, comprise the following items:

EUR 1, 000	2007
Personnel expenses	6,486
Impairments of non-current assets	24,607
Other operating expenses	19,138
Restructuring expenses, total	50,231

Impairments of non-current assets:

EUR 1, 000	2007
Intangible rights	757
Goodwill	3,852
Buildings	1,570
Machinery and equipment	7,359
ADP software	121
Other financial assets	10,949
Impairments, total	24,607

Impairments of goodwill are related to impairment losses on design operations and German operations. For more information on goodwill impairment, see the section entitled Depreciation and Amortization in the notes.

Impairments of buildings as well as machinery and equipment are primarily due to plant closures and the sale of machinery.

Impairments of other financial assets are connected with the write-off of holdings in Cellon.

9. Other Operating Expenses

Other operating expenses for the Group consist of the following items:

EUR 1,000	2007	2006
Other personnel expenses	10,913	11,705
Rental expenses	49,763	45,047
Transportation	19,440	14,969
Energy expenses	12,284	12,725
Office expenses	6,634	9,017
Travel, marketing and representation expenses	11,104	13,287
Insurance expenses	3,165	2,879
External services	63,206	59,862
Other operating expenses	17,321	19,209
Total	193,830	188,700

10. Financial Income and Expenses

EUR 1,000	2007	2006
Financial income		
Foreign exchange gains, designated at fair value through profit or loss	1,691	1,086
Interest income, cash and equivalents	1,749	1,721
Other financial income	161	358
Financial income, total	3,601	3,165
Financial expenses		
Foreign exchange losses, designated at fair value through profit or loss	–655	–1,646
Interest expenses, valued at amortized cost	–17,167	–15,445
Expenses related to sale of receivables	–10,387	–8,273
Other financial expenses	–1,448	–1,482
Financial expenses, total	–29,658	–26,847
Financial income and expenses, total	–26,056	–23,681

Hedge accounting can be applied to derivative instruments related to sales and purchases when the derivative instruments are allocated to the hedging of foreign currency-denominated items in future financial periods. Such hedges have no impact on financial income or expenses, because the criteria for effective hedge accounting have been met and the hedge has been effective.

Hedge accounting is applied when hedging the foreign exchange risks of equity-based net investments made in foreign subsidiaries. The ineffective portion of the hedge, 0.0 million euros (0.1), is entered under financial income and expenses.

11. Income Taxes

EUR 1,000	2007	2006
Income taxes for the current period	−2,211	−7,195
Income taxes for prior periods	1,410	759
Other direct taxes	−2,467	−1,696
Change in deferred tax assets/ liabilities	19,590	3,481
Income taxes, total	16,322	−4,651

Group tax expenses, EUR 1,000	2007	2006
Income before taxes	−122,833	19,237
Taxes at parent company's tax rate 26%	−31,936	5,002
Impact of foreign subsidiaries' tax rates that differ from the parent company's tax rate	−9,010	−6,969
Change in tax rate	−632	808
Impact of non-tax-deductible expenses	12,773	1,524
Impact of deferred tax assets left unrecorded	15,940	3,955
Adjustments to taxes in earlier years	−749	289
Impact of consolidation	−1,693	881
Impact of deferred tax assets from previous periods left unrecorded	−1,015	−839
Group's tax expenses, total	−16,322	4,651

The Group's unrecognized tax assets totalled 31.0 million euros (22.0) and they related mainly to tax assets accrued from losses in subsidiaries.

12. Earnings Per Share

Formula for calculating earnings per share:

$$\frac{\text{Net income attributable to the equity holders of the parent}}{\text{Adjusted average number of shares outstanding during the period}}$$

	2007	2006
Net income attributable to the equity holders of the parent, EUR 1,000	−108,381	12,065
Average number of shares	32,178,081	31,338,611
Dilution effect of options	-	1,006,142
Average diluted number of shares	32,178,081	32,344,753
Earnings per share (EPS), EUR	−3.37	0.38
Earnings per share (EPS), diluted, EUR	−3.37	0.37

13. Cash Flow Statement

Acquired and divested business operations:

EUR 1,000	2007	2006
Acquired business operations	-	−7,619
Divested business operations	2,306	6,001

No new business operations were aquired in 2007. Cash flow from divested business operations in 2007 relates to business transactions with Enics AG in earlier years.

The total aquisition price of business operations acquired in 2006 was 8.0 million euros. Acquired assets and liabilities are shown by balance sheet groups in Impact of Business Combinations on the consolidated financial statements. Cash flow from divested business operations in 2006 relates to business transactions with Enics AG in earlier years.

14. Non-Current Assets

EUR 1,000	2007	2006
Intangible assets		
Intangible rights		
Cost basis, Jan. 1	11,944	9,287
Additions, Jan. 1–Dec. 31	267	964
Transfers between items Jan. 1–Dec. 31	-	2,189
Disposals, Jan. 1–Dec. 31	−854	−8
Translation difference	−480	−488
Cost basis, Dec. 31	10,877	11,944
Accum. scheduled amortization, Jan. 1	−4,318	−2,848
Accum. scheduled amortization on disposals	761	-
Translation difference	266	59
Amortization	−300	-
Scheduled amortization, Jan. 1–Dec. 31	−1,879	−1,529
Book value, Dec. 31	5,407	7,625
Product development costs		
Cost basis, Jan. 1	9,231	3,031
Additions, Jan. 1–Dec. 31	-	6,200
Book value, Dec. 31	9,231	9,231
Accum. scheduled amortization, Jan. 1	−5,032	−1,142
Amortization, transfer to restructuring expenses	−757	-
Scheduled amortization, Jan. 1–Dec. 31	−3,237	−3,890
Book value, Dec. 31	206	4,199

The Group's research and development costs amounted to 4.6 million euros (6.8). Of this total 4.2 million euros (6.5) were entered as expenses and 0.4 million euros (0.3) were capitalized in the balance sheet under construction in progress. No projects were completed in 2007. Altogether 0.8 million euros of product development costs have been booked in restructuring expenses during the accounting period. The amount of development expenses included under advance payments and construction in progress in the balance sheet is 0.7 million euros (0.3).

EUR 1,000	2007	2006
ADP software		
Cost basis, Jan. 1	40,174	36,246
Additions, Jan. 1–Dec. 31	975	5,147
Disposals, Jan. 1–Dec. 31	–582	–638
Transfers between items Jan. 1–Dec. 31	161	–344
Transfer to restructuring expenses	–322	-
Translation difference	–194	–237
Cost basis, Dec. 31	40,212	40,174
Accum. scheduled amortization, Jan. 1	–32,993	–28,617
Accum. scheduled amortization on disposals	464	304
Accum. scheduled amortization on transfers (restructuring expenses)	200	-
Translation difference	159	142
Amortization	–77	-
Scheduled amortization, Jan. 1–Dec. 31	–3,829	–4,822
Book value, Dec. 31	4,136	7,182
Advance payments and construction in progress		
Advance payments, Jan. 1	682	5,731
Additions, Jan. 1–Dec. 31	922	3,745
Disposals, Jan. 1–Dec. 31	–288	–8,794
Transfers between items Jan. 1–Dec. 31	–138	-
Advance payments, Dec. 31	1,178	682
Goodwill		
Cost basis, Jan. 1	10,578	10,615
Translation difference	–78	–37
Amortization, transfer to restructuring expenses	–3,852	-
Book value, Dec. 31	6,648	10,578

The writedowns made in year 2007 are reported as restructuring expenses.

EUR 1,000	2007	2006
Goodwill on consolidation		
Cost basis, Jan. 1	15,098	15,098
Book value, Dec. 31	15,098	15,098

EUR 1,000	2007	2006
Tangible assets		
Land and water areas		
Cost basis, Jan. 1	2,611	3,952
Disposals, Jan. 1–Dec.31	–137	–1,307
Transfer to assets classified as held for sale	–163	
Translation difference	–59	–33
Book value, Dec. 31	2,252	2,611
Investment properties		
Cost basis, Jan. 1	3,264	3,264
Transfer to assets classified as held for sale	–3,264	-
Cost basis, Dec. 31	-	3,264
Accum. scheduled a mortization, Jan. 1	–1,418	–1,222
Accum. scheduled amortization on transfers (assets classified as held for sale)	1,418	-
Scheduled amortization, Jan. 1–Dec. 31	-	–196
Book value, Dec. 31	-	1,846

The property reported as an investment property in 2006 was transferred to assets classified as held for sale in 2007.

EUR 1,000	2007	2006
Buildings		
Cost basis, Jan. 1	94,429	100,204
Additions, Jan. 1–Dec. 31	5,413	10,480
Transfers between items Jan. 1-31. Dec.	53	–1,709
Disposals, Jan. 1–Dec. 31	–3,587	–12,846
Transfer to assets classified as held for sale	–5,305	-
Transfer to restructuring expenses	–1,579	-
Translation difference	–1,872	–1,700
Cost basis, Dec. 31	87,553	94,429
Accum. scheduled amortization, Jan. 1	–23,177	–21,171
Accum. scheduled amortization on disposals	773	4,420
Accum. scheduled amortization on transfers (assets classified as held for sale)	2,404	-
Accum. scheduled amortization on transfers (restructuring expenses)	9	-
Translation difference	772	521
Scheduled amortization, Jan. 1–Dec. 31	–8,619	–6,947
Book value, Dec. 31	59,715	71,252
Machinery and equipment		
Cost basis, Jan. 1	442,255	391,835
Additions, Jan. 1–Dec. 31	60,387	92,993
Transfers between items Jan. 1–Dec. 31	331	–136
Transfer to restructuring expenses	–10,920	-
Disposals, Jan. 1–Dec. 31	–50,853	–26,387
Translation difference	–13,623	–16,050
Cost basis, Dec. 31	427,577	442,255

EUR 1,000	2007	2006
Accum. scheduled amortization, Jan. 1	–277,947	–242,213
Accum. scheduled amortization on disposals	35,707	18,745
Accum. scheduled amortization on transfers (restructuring expenses)	6,815	-
Translation difference	9,321	10,838
Transfer to other operating expenses	–505	-
Transfer to restructuring expenses	–3,254	-
Amortization	–716	-
Scheduled amortization, Jan. 1–Dec. 31	–61,136	–65,317
Book value, Dec. 31	135,862	164,307
Advance payments and construction in progress		
Advance payments and construction in progress, Jan. 1	5,005	10,085
Additions, Jan. 1–Dec. 31	6,682	6,821
Disposals, Jan. 1–Dec. 31	–9,039	–10,633
Transfers between items Jan. 1–Dec. 31	–407	–1,230
Translation difference	–16	–38
Advance payments, Dec. 31	2,225	5,005
Investments		
Equity in associated companies		
Shares, Jan. 1	2,261	2,426
Additions, Jan. 1–Dec. 31	125	1,045
Share of the losses of associated companies, Jan. 1–Dec. 31	–432	–985
Transfer to financial assets	–98	-
Translation difference	–200	–225
Book Value, Dec. 31	1,656	2,261

The Group's information on its associated companies is not complete. However, the associated companies belonging to the Group have no significant impact on its result.

EUR 1,000	2007	2006
Receivables from associated companies		
Receivables, Jan. 1	87	262
Additions, Jan.1–Dec. 31	-	870
Disposals, Jan. 1–Dec. 31	-	–1,045
Book Value, Dec. 31	87	87
Other shares and equity interests		
Available-for-sale financial assets		
Shares, Jan. 1	11,379	11,399
Additions, Jan. 1–Dec. 31	38	21
Disposals, Jan. 1–Dec. 31	–63	–34
Transfer to subsidiary shares Jan.1–Dec. 31	98	-
Amortization, transfer to restructuring expenses	–10,949	-
Translation difference	–1	–6
Book Value, Dec. 31	502	11,379

In the absence of a market price for the above equity investments, their fair value cannot be reliably determined and for this reason they are valued at acquisition cost.

In 2007, amortization of 10.9 million euros has been booked from available-for-sale financial assets to restructuring expenses.

EUR 1,000	2007	2006
Long-term receivables		
Deferred tax assets		
Deferred tax assets, Jan. 1	15,218	10,010
Additions, Jan. 1–Dec. 31	19,013	7,289
Disposals, Jan. 1–Dec. 31	–702	–2,081
	33,530	15,218
Other loans receivable		
Other loans receivable, Jan. 1	99	4
Additions, Jan. 1–Dec. 31	177	96
Disposals, Jan. 1–Dec. 31	–5	–1
	271	99
Summary of non-current assets		
Cost basis, Jan. 1	643,226	587,357
Additions, Jan. 1–Dec. 31	67,205	116,850
Disposals, Jan. 1–Dec. 31	–55,963	–42,205
Transfer to assets classified as held for sale	–8,732	-
Transfer to restructuring expenses	–12,821	-
Translation difference	–16,508	–18,776
Cost basis, Dec. 31	616,407	643,226
Accum. scheduled amortization, Jan. 1	–344,886	–297,213
Accum. scheduled amortization on disposals	37,705	23,469
Accum. scheduled amortization on transfers (assets classified as held for sale)	3,822	-
Accum. scheduled amortization on transfers (restructuring expenses)	7,024	-
Transfer to other operating expenses	–505	-
Transfer to restructuring expenses	–18,811	–
Scheduled amortization, Jan. 1–Dec. 31	–78,699	–82,701
Amortization	–1,093	–
Translation difference	10,517	11,559
Book Value, Dec. 31	231,483	298,340
Advance payments and construction in progress	3,403	5,687
Loans receivable	87	87
Long-term receivables	33,800	15,317
Book Value, Dec. 31	268,773	319,431

15. Shares and Equity Interests

	Share Capital	Consolidated ownership, %	Parent company ownership, %	Parent company book value, EUR 1,000
Group companies				
Elcoteq Arvopaperit Oy, Lohja, Finland	EUR 168,000	100	100	168
Elcoteq Lohja Oy, Lohja, Finland	EUR 50,000	100	100	2,113
Elcoteq Finland Oy, Lohja, Finland	EUR 50,000	100	100	3,795
AS Elcoteq Tallinn, Tallinn, Estonia	EEK 20,500,000	100	100	1,776
Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China	CNY 213,041,100	70	70	10,280
Elcoteq Asia Ltd, Hong Kong, China	HKD 8,600,000	100	100	994
Elcoteq Inc., Dallas, USA	USD 121,781,000	100	-	-
Elcoteq Holding Inc., Dallas, USA	USD 15,701,480	100	100	48,423
Elcoteq JSC, St. Petersburg, Russia	RUB 165,409,426.50	100	100	4,895
Elcoteq Communications Technology GmbH, Offenburg, Germany	EUR 700,000	100	-	-
Elcoteq Deutschland GmbH, Offenburg, Germany	EUR 6,442,277.70	100	100	150
Elcoteq Hungary Ltd., Pécs, Hungary	EUR 6,000,000	100	100	9,846
Elcoteq Japan Co. Ltd, Tokyo, Japan	JPY 10,000,000	100	100	73
Elcoteq S.A. de C.V., Monterrey, Mexico	USD 50,000	100	-	-
Elcoteq Sweden Ab, Stockholm, Sweden	SEK 200,000	100	100	22
Elcoteq Design Center Oy, Salo, Finland	EUR 3,008,000	100	100	3,008
Immolease Kereskedelmi Kft., Pécs, Hungary	HUF 790,000,000	100	100	2,997
Beijing Elcoteq Electronics Co. Ltd., Beijing, China	CNY 286,050,300	90	90	39,173
Shenzhen Elcoteq Electronics Co, Ltd., Shenzhen, China	CNY 99,609,465	70	70	12,624
Elcoteq Electronics India Pvt. Ltd, Bangalore, India	INR 643,071,000	100	100	11,202
Elcoteq Network S.A, Luxembourg	EUR 531,000	100	100	531
Elcoteq Juárez SA de CV, Juárez, Mexico	USD 4,374.35	100	-	-
Elcoteq da Amazonia Ltda, Manaus, Brazil	0	100	100	-
Andrew Romania Srl, Arad, Romania	RON 4,145,443.20	100	100	505
Kiinteistö Oy Piiharju, Lohja, Finland	EUR 168,187.93	100	-	-
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	EUR 201,000	100	100	1,016
				153,588

				Consolidated book value, EUR 1,000
Associated companies				
Nilistit Oy, Helsinki, Finland	EUR 161,460.41	33	-	12
ISIS Surface Mounting, Inc., California, USA	USD 120,000.00	20	-	1,644
				1,656
Other shares and equity interests held by the parent company				**98**
Other shares and equity interests held by subsidiaries				**405**
Other shares and equity interests, total				**502**

16. Impact of Business Combinations on the Consolidated Financial Statements

Elcoteq did not acquire new businesses in 2007.

Elcoteq signed a manufacturing supply agreement with Andrew Corporation in September 2006 under which Elcoteq took over Andrew's subsidiary in Arad, Romania, as well as the machinery, equipment and inventories related to the acquired operations. The assets and liabilities were acquired at fair value and will be used in the manufacture of products to be supplied to Andrew Corporation. The impact of this supply agreement on the company's result in 2006, assuming that the agreement had been signed at the beginning of 2006, cannot be reliably determined because the pricing method for the production operation transferred to Elcoteq as a result of the agreement was not the same as before the agreement took effect.

The assets and liabilities acquired in business combinations are valued at their fair values.

Assets and liabilities acquired in business combinations in 2007 and 2006:

EUR 1,000	2007 Fair Value	2007 Book Value	2006 Fair Value	2006 Book Value
Non-current assets				
Intangible assets	-	-	1	1
Tangible assets	-	-	2,831	2,831
Current assets				
Inventories	-	-	5,122	4,864
Current receivables	-	-	824	824
Cash and equivalents	-	-	406	406
Assets, total	-	-	9,184	8,926
Liabilities				
Current liabilities	-	-	1,159	1,159
Acquisition cost	-	-	8,025	7,767
Acquisition price paid in cash	-	-	8,025	-
Cash and equivalents of acquired subsidiary	-	-	–406	-
Impact on cash flow	-	-	7,619	-

Elcoteq did not sell any operations in 2007 and 2006.

17. Deferred Tax Assets and Liabilities, EUR 1,000

2007	Jan. 1	Items entered in income statement	Translation differences	Acquisitions/ divestments of subsidiaries	Dec. 31
Deferred tax assets					
Confirmed losses	8,909	16,957	–9	-	25,857
Depreciation differences	3,872	957	–82	–510	4,237
Other appropriations	258	724	–3	-	979
Pension obligations	-	-	-	-	-
Impacts of Group merger and eliminations	75	–18	-	-	57
Other taxable temporary differences	2,105	375	–80	-	2,400
	15,218	18,995	–174	–510	33,530
Deferred tax liabilities					
Depreciation differences	1,661	–47	–1	-	1,613
Pension receivable	25	46	-	-	71
Other taxable temporary differences	3,425	–594	–37	-	2,794
	5,111	–595	–38	-	4,479
2006					
Deferred tax assets					
Confirmed losses	1,698	7,219	–8	-	8,909
Depreciation differences	3,858	–57	70	-	3,872
Other appropriations	1,018	–757	–3	-	258
Pension obligations	19	–19	-	-	-
Impacts of Group merger and eliminations	134	–60	-	-	75
Other taxable temporary differences	3,283	–788	–390	-	2,105
	10,010	5,539	–331	-	15,218
Deferred tax liabilities					
Depreciation differences	1,309	360	–8	-	1,661
Pension receivable	-	25	-	-	25
Other taxable temporary differences	1,753	1,674	–1	-	3,425
	3,062	2,059	–9	-	5,111

18. Inventories

Impairment losses on inventories amounted to about 12.0 million euros in 2007, of which amount 10.6 million euros increase production materials and services in the income statement and 1.4 million euros are included in restructuring expenses in the income statement.

19. Accounts Receivable

Elcoteq's 2007 consolidated accounts receivable of 297.6 million euros (348.3) exclude cash received from sold accounts receivable totaling 226.5 million euros (187.7). Receivables are sold within the limits of Elcoteq's sale of receivables and securitization facilities. The credit risk related to sold accounts receivable is transferred to the buyer at the time of sale without recourse to Elcoteq. Under the securitization facility a purchase price payable in two installments is established at the time receivables are sold. The second installment is carried in the company's accounts receivable until related payment is received. This installment is not subject to any credit risk either. In addition to the original purchase price Elcoteq may also receive an additional payment, the magnitude of which depends on the payment history of its customers. This additional payment is estimated monthly and recorded in the balance sheet under prepaid expenses and accruals. The company retains the credit risk related to the additional payment, but the amount of said payment is minor compared to the actual purchase price. Expenses related to the sale of receivables have been recognized under financial expenses.

Accounts receivable

EUR 1,000	2007	2006
Not due	244,022	313,773
1–30 days	42,641	20,677
31–90 days	8,951	6,723
91–180 days	2,120	1,864
over 180 days	–140	5,267
Total	297,594	348,305

No impairment losses are expected on receivables that have not fallen due. No accounts receivable have been renegotiated.

EUR 1,000	2007	2006
Impairment	6,454	905

Impairment losses are recognized when there is objective evidence that the accounts receivable due cannot be collected in full.

20. Prepaid Expenses and Accruals

Prepaid expenses and accruals of the Group company consist of the following items:

EUR 1,000	2007	2006
Prepaid rent	2,623	2,870
Periodized exchange rate differences of forwards	2,180	1,232
Withholding taxes	90	488
Prepaid tax receivable	-	250
Estimated additional purchase price/ securitization	2,275	2,331
Other items	8,145	11,614
Total	15,313	18,784

21. Assets and Liabilities Classified as Held for Sale

Assets and liabilities classified as held for sale relate to real estates on sale and to the sale of Elcoteq Communications Technology GmbH to Bavaria Industriekapital AG on January 2008.

Assets classified as held for sale:

EUR 1,000	2007
Non-current assets	4,910
Current assets	34,543
Total	39,453

Liabilities classified as held for sale:

Long-term liabilities	-
Current liabilities	20,526
Total	20,526

Assets classified as held for sale include a 10.6 million euro writedown, which is a part of restructuring expenses in the income statement.

22. Shareholders' Equity

DISTRIBUTABLE FUNDS IN SHAREHOLDERS' EQUITY ON DEC. 31

EUR 1,000	2007	2006
Retained earnings	49,597	43,767
Net income for the year	–108,381	12,065
Share issue costs recognized under additional paid-in-capital	–2,433	–2,433
Accumulated depreciation and amortization difference recorded in shareholders' equity	-	–35
Distributable funds in shareholders' equity	–61,218	53,363

THE PARENT COMPANY´S SHARE CAPITAL CONSISTS OF THE FOLLOWING CLASSES OF SHARES

	2007	
	Number	EUR 1,000
Series A (1 vote per share)	22,025,919	8,810
Series K (10 votes per share)	10,577,000	4,231
Total	32,602,919	13,041

The company redeemed a total of 8,100 of its Series A shares in 2007. Of these, 2,050 were unpaid on December 31,2007, as the share redemption price was under arbitration.

RECONCILIATION OF NUMBERS OF SHARES

	Dec. 31, 2006	Subscription under 2001 options	Dec. 31, 2007	Redemption of parent company shares	Number of shares outstanding Dec. 31, 2007
Number of shares	31,539,327	1,063,592	32,602,919	–8,100	32,594,819
Share capital (EUR 1,000)	12,616	425	13,041		
Additional paid-in capital (EUR 1,000)	218,704	6,307	225,011		
Total (EUR 1,000)	231,320	6,733	238,053		

	Dec. 31, 2005	Subscription under 2001 options	Dec. 31, 2006	Redemption of parent company shares	Number of shares outstanding Dec. 31, 2006
Number of shares	31,103,577	435,750	31,539,327	-	31,539,327
Share capital (EUR 1,000)	12,441	174	12,616		
Additional paid-in capital (EUR 1,000)	215,988	2,716	218,704		
Total (EUR 1,000)	228,429	2,890	231,320		

23. Liabilities

EUR 1,000	2007	2006
Long-Term Liabilities		
Interest-bearing		
Medium-term notes	39,973	39,966
Subordinated notes	139,297	139,087
Loans from pension plans	631	1,213
Other long-term liabilities	406	64
Total	180,307	180,329
Payments due within one year	–20,581	–605
Interest-bearing, total	159,725	179,724
Non-interest-bearing		
Deferred tax liability	4,479	5,111
Non-interest-bearing, total	4,479	5,111
Long-term liabilities, total	164,204	184,835

As far as the company is aware, the bonds and subordinated notes listed above have not been used for any significant after-market transactions and therefore their fair values cannot be reliably determined. The bonds and subordinated notes have been valued at amortized cost using the effective interest rate method.

EUR 1,000	2007	2006
Current liabilities		
Interest-bearing		
Loans from financial institutions	33,139	30,096
Medium-term notes	19,991	-
Commercial papers	23,951	-
Loan from pension plans	420	462
Interest-bearing, total	77,502	30,557
Non-interest-bearing		
Accounts payable	565,231	578,774
Accrued expenses	43,106	49,193
Advances received	1,053	518
Other current liabilities	16,216	14,623
Provisions	6,521	1,816
Non-interest-bearing, total	632,128	644,923
Current liabilities, total	709,630	675,480
Liabilities classified as held for sale	20,526	-
Interest-bearing liabilities	237,228	210,281
Non-interest-bearing liabilities	657,133	650,034
Liabilities, total	894,360	860,315

EUR 1,000	2007	2006
Provisions		
Restructuring provisions		
Provisions on Jan. 1	296	624
Additions	11,085	25
Disposals	–6,159	–353
Provisions on Dec. 31	5,223	296
Warranty provisions		
Provisions on Jan. 1	1,026	2,156
Additions	742	482
Disposals	–470	–1,612
Provisions on Dec. 31	1,297	1,026
Cost provisions		
Provisions on Jan. 1	494	-
Additions	-	494
Disposals	–494	-
Provisions on Dec. 31	-	494
Provisions, total		
Provisions on Jan. 1	1,816	2,780
Additions	11,827	1,001
Disposals	–7,123	–1,965
Provisions on Dec. 31	6,521	1,816

Restructuring provisions are primarily related to streamlining measures carried out by the Elcoteq Group in 2007.

Warranty provisions relate to the Group's product warranties, and cost provisions to cost items that the company had not yet been invoiced for at December 31.

Bonds

In November 2003 Elcoteq SE issued 20 million euros in private placement notes. These notes run from November 18, 2003 to November 18, 2008 and carry a fixed coupon of 5.125%. The notes are unsecured. The bond has been valued at amortized cost using the effective interest rate method.

In May 2005 Elcoteq SE issued 20 million euros in private placement notes. These notes run from May 25, 2005 to May 25, 2012 and carry a coupon of six-month Euribor with 0.83% margin. The notes are unsecured. The bond has been valued at amortized cost using the effective interest rate method.

Subordinated Notes

In December 2004 Elcoteq SE issued 50 million euros and in May 2005 10 million euros in subordinated notes. These notes run until December 22, 2011. The notes carry a fixed coupon of 5.00% until December 22, 2009, after which the company has the right to redeem the notes prematurely. After this, the interest rate will be the three-month Euribor with a 3.5% margin and the company has the right to redeem the notes prematurely at six-month intervals. The loan is unsecured. The loan has been valued at amortized cost using the effective interest rate method.

In September 2005 Elcoteq SE issued 50 million euros in subordinated notes. These notes run until September 28, 2010 and carry a coupon of three-month Euribor with a 2.4% margin. The loan is unsecured. The loan has been valued at amortized cost using the effective interest rate method.

In March 2006 Elcoteq SE issued 30 million euros in subordinated notes. These notes run until March 7, 2011 and carry a fixed coupon of 5.55%. The loan is unsecured. The loan has been valued at amortized cost using the effective interest rate method.

Loans from Pension Plans

The company drew TEL (Employees' Pensions Act) pension plan loan in 1999 that is repayable in equal instalments. The loan runs until June 1, 2009 and has a fixed interest rate of 3.85%. The principal of the loan was 0.6 million euros at the closing date.

Loans from Financial Institutions

The company has bilateral uncommitted loan limits from Financial Institutions. The withdrawals from these limits are short-term and the interest rates are tied to short market rates.

Commercial Paper Program

Elcoteq SE operates a 200 million euros commercial paper program in Finland, which was used during the period to issue notes with a maximum maturity of four months. On the balance sheet date outstanding issues from the program had a par value of 24 million euros with a remaining maturity of under one month.

Revolving Lines of Credit

The company has a 5-year revolving credit facility of 230 million euros that was signed with a bank syndicate in November 2004. Loans under this facility are unsecured and committed. The interest margin on loans under the facility varies between 0.70% and 1.60%. This facility had no balance outstanding at year-end.

Gearing

The Group aims to ensure the availability of a broad range of sufficient and cost-effective funding alternatives under various market conditions. The Group monitors its capital structure by examining the ratio of interest-bearing net debt to total shareholders' equity (gearing). Interest-bearing net debt is calculated as the difference between interest-bearing debt and cash and equivalents.

The Group aims to keep the ratio below 1. Gearing was:

EUR 1,000	Dec. 31, 2007	Dec. 31, 2006
Interest-bearing debt	237,228	210,281
Cash and equivalents	92,691	82,298
Interest-bearing net debt	144,537	127,983
Shareholders' equity	197,891	303,303
Gearing	0.7	0.4

Liquidity risk, December 31, 2007

EUR 1,000	2008	2009	2010	2011	2012
Loans from pension plans and interest expenses	–441	–214	-	-	-
Medium-term notes, nominal value and interest expenses					
Fixed coupon	–21,025	-	-	-	-
Floating rate	–1,115	–1,112	–1,112	–1,112	–20,554
Subordinated notes, nominal value and interest expenses					
Fixed coupon	–4,666	–4,666	–4,666	–94,666	-
Floating rate	–3,647	–3,637	–52,730	-	-
Short-term loans from financial institutions and interest expenses	–34,005	-	-	-	-
Commercial papers and interests expenses	–24,000	-	-	-	-
Derivative contracts					
Transaction risk					
Inflow	412,514	-	-	-	-
Outflow	–420,630	-	-	-	-
Translation risk					
Inflow	40,541	-	-	-	-
Outflow	–39,439	-	-	-	-
Financial risk					
Inflow	126,536	-	-	-	-
Outflow	–126,286	-	-	-	-
Derivative contracts, interest rate and foreign exchange swap					
Nominal value and interest income	2,668	1,538	-	-	-
Nominal value and interest expense	–2,696	–1,561	-	-	-
Accounts payable	–565,231	-	-	-	-

Liquidity risk, December 31, 2006

EUR 1,000	2007	2008	2009	2010	2011	2012–
Loans from pension plans and interest expenses	–510	–457	–229	–14	–12	–153
Medium-term notes, nominal value and interest expenses						
Fixed coupon	–1,025	–21,025	-	-	-	-
Floating rate	–920	–923	–920	–920	–920	–20,454
Subordinated notes, nominal value and interest expenses						
Fixed coupon	–4,666	–4,666	–4,666	–4,666	–94,666	-
Floating rate	–3,100	–3,109	–3,100	–52,327	-	-
Short-term loans from financial institutions and interests expenses	–30,860	-	-	-	-	-
Commercial papers and interest expenses	-	-	-	-	-	-
Derivative contracts						
Transaction risk						
Inflow	270,760	-	-	-	-	-
Outflow	–275,861	-	-	-	-	-
Translation risk						
Inflow	35,533	-	-	-	-	-
Outflow	–35,248	-	-	-	-	-
Financial risk						
Inflow	131,086	-	-	-	-	-
Outflow	–131,132	-	-	-	-	-
Derivative contracts, interest rate and foreign exchange swap						
Nominal value and interest income	196	2,653	1,534	-	-	-
Nominal value and interest expense	–318	–2,679	–1,551	-	-	-
Accounts payable	–578,774	-	-	-	-	-

The book value of the medium-term notes was about 40.0 million euros and of the subordinated notes about 139.3 million euros at December 31, 2007. The company has the right to redeem the subordinated notes maturing 2011 prematurely at six-month intervals from December 22, 2009 onwards.

24. Book Values of Financial Assets and Liabilities by Categories

EUR 1,000	Hedge accounting	Financial income and expenses designated at fair value	Loans and other receiv-ables	Available-for-sale financial assets	Financial expenses valued at amortized cost	Book value	Fair value
Dec. 31, 2007 Balance sheet							
Long-term financial assets							
Derivative contracts	-	-	-	-	-	-	-
Other financial assets	-	-	-	502	-	502	502
Short-term financial assets							
Accounts receivable and other receivables	-	-	300,369	-	-	300,369	300,369
Cash and equivalents	-	92,691	-	-	-	92,691	92,691
Derivative contracts	1,522	750	-	-	-	2,272	2,272
Book value by categories	**1,522**	**93,441**	**300,369**	**502**	**-**	**395,835**	**395,835**
Long-term financial liabilities							
Interest-bearing debts	-	-	-	-	–159,725	–159,725	–159,725
Derivative contracts	-	–44	-	-	-	–44	–44
Short-term financial liabilities							
Interest-bearing debts	-	-	-	-	–77,502	–77,502	–77,502
Derivative contracts	–1,467	–7,507	-	-	-	–8,974	–8,974
Accounts payable and other financial liabilities	-	-	-	-	–566,999	–566,999	–566,999
Book value by categories	**–1,467**	**–7,551**	**-**	**-**	**–804,226**	**–813,244**	**–813,244**

EUR 1,000	Hedge accounting	Financial income and expenses designated at fair value	Loans and other receiv-ables	Available-for-sale financial assets	Financial expenses valued at amortized cost	Book value	Fair value
Dec. 31, 2006 Balance sheet							
Long-term financial assets							
Derivative contracts	-	117	-	-	-	117	117
Other financial assets	-	-	-	11,379	-	11,379	11,379
Short-term financial assets							
Accounts receivable and other receivables	-	-	352,824	-	-	352,824	352,824
Cash and equivalents	-	82,298	-	-	-	82,298	82,298
Derivative contracts	287	512	-	-	-	798	798
Book value by categories	**287**	**82,926**	**352,824**	**11,379**	**-**	**447,416**	**447,416**
Long-term financial liabilities							
Interest-bearing debts	-	-	-	-	–179,724	–179,724	–179,724
Derivative contracts	-	-	-	-	-	-	-
Short-term financial liabilities							
Interest-bearing debts	-	-	-	-	–30,557	–30,557	–30,557
Derivative contracts	–1	–5,659	-	-	-	–5,661	–5,661
Accounts payable and other financial liabilities	-	-	-	-	–580,480	–580,480	–580,480
Book value by categories	**–1**	**–5,659**	**-**	**-**	**–790,761**	**–796,422**	**–796,422**

25. Accrued Expenses

The Group's accrued expenses consist of the following items:

EUR 1,000	2007	2006
Wages and salaries	13,120	12,695
Vacation pay	3,574	5,617
Other indirect personnel expenses	5,935	11,004
Interest	1,768	1,706
Income taxes	-	559
Exchange rate accruals on forward contracts	8,290	5,299
Transportation expenses	3,058	2,426
Other items	7,361	9,887
Total	43,106	49,193

26. Employee Benefits

The pension coverage of most employees in the Group's companies is arranged through defined contribution pensions. The most important defined benefit pension plan relates to the supplementary pensions payable to senior executives in the parent company. The supplementary pension benefits for top management apply to the President and CEO, Deputy CEO and to certain members of the Board of Directors, who are entitled to retire on reaching 60 years of age instead of the usual age of 65 years.

Actuarial estimates used to calculate pension liabilities:

%	2007	2006
Discount rate on Dec. 31	4.90	4.00
Expected yield	4.00	4.00
Increase in wages and salaries	4.00	4.00
Estimated inflation rate	2.00	2.00
Terminated employment contracts	0.00	0.00

Expenses from defined benefit pension plans in the income statement (minus indicates a decrease in costs):

EUR 1,000	2007	2006
Service cost	310	327
Interest cost	131	122
Payments to mutual funds	–574	–582
Income from mutual funds	–103	–82
Actuarial gains (+) / losses (–)	59	46
Total	–177	–169

Pension liabilities in the balance sheet:

EUR 1,000	2007	2006	2005	2004
Present value of obligations	3,267	2,964	2,731	3,780
Fair value of plan assets	–2,629	–2,290	–1,971	–1,069
Unrecognized actuarial gains(+)/losses(–)	–911	–770	–687	758
Reduction of the obligation	-	-	-	–2,876
Net liability(+)/asset(–) in the balance sheet	–273	–96	73	593

Change in fair value of plan assets:

EUR 1,000	2007	2006
Fair values of plan assets Jan. 1	2,290	1,971
Expected return on plan assets	103	82
Payment to pension fund	574	582
Actuarial gains(+)/losses(–)	–338	–345
Fair value of plan assets Dec. 31	2,629	2,290

The fair value of the plan assets cannot be specified because the assets are the responsibility of an insurance company and belong to the insurance company's assets.

Change in balance sheet:

EUR 1,000	2007	2006
Obligation Jan. 1	–96	73
Net costs of fund	397	413
Payments to fund	–574	–582
Obligation Dec. 31	–273	–96

27. Lease Contracts

The Group has leased production equipment under operating leases. In 2007 new operating lease contracts were made with an equipment purchase value of approximately 3.4 million euros. The lease payments are fixed for the duration of the leasing period.

The future annual lease payments under operating leases for production equipment are as follows:

EUR 1,000	Dec. 31, 2007	Dec. 31, 2006
2007	-	22,552
2008	16,098	16,339
2009	8,833	7,957
2010	1,308	1,307
Total	26,239	48,155

Rental expenses on operating leases for machinery amounted to 25.8 million euros for the year ended December 31, 2007 and 23.7 million euros for the year ended December 31, 2006.

The Group had no significant finance leases at the end of 2007.

28. Related Party Disclosures

Salaries and share-based payments to management*:

EUR 1,000	2007	2006
To parent company President and CEO Jouni Hartikainen		
Salaries and other short-term benefits	652	935
Share-based payments	84	197
To parent company Deputy CEO Jukka Jäämaa		
Salaries and other short-term benefits	374	571
Share-based payments	63	151
To other Elcoteq Management Team members		
Salaries and other short-term benefits	1,065	1,131
Share-based payments	68	346

* Includes costs of stock options and share incentive plans.

Fees paid for work for the Board of Directors:

EUR 1,000	2007	2006
Antti Piippo, Chairman of the Board	661	597
Juha Toivola, Deputy Chairman of the Board	180	174
Martti Ahtisaari, member of the Board	60	60
Heikki Horstia, member of the Board	60	60
Eero Kasanen, member of the Board	60	60
Henry Sjöman, member of the Board	60	60
Jorma Vanhanen, member of the Board	60	60
Salaries to management and share-based payments, total	3,447	4,402

In addition to statutory pension cover, the President and CEO, the Deputy CEO and some members of the Board of Directors are entitled to retire on reaching 60 years of age by virtue of supplementary pension plans. Expenses arising from these supplementary pension plans totaled 0.6 million euros (0.4) in the income statement.

Management holdings in the company are shown under Shares and Shareholders.

Disclosures related to associated companies:

EUR 1,000	2007	2006
Goods and services sold to associated companies	-	93
Accounts receivable on Dec. 31	-	10

The pricing of goods and services with associated companies is based on market prices.

The Group's subsidiaries are listed under Shares and Equity Interests.

29. Assets Pledged and Contingent Liabilities

EUR 1,000	2007	2006
ON BEHALF OF OTHERS		
Guarantees	8	8
LEASING COMMITMENTS		
Operating leases, production machinery (excl. VAT)	26,239	48,155
Rental commitments, real-estate (excl. VAT)	19,334	27,612
DERIVATIVE CONTRACTS		
Currency forward contracts, transaction risk, hedge accounting not applied		
Nominal value	223,305	275,444
Fair value	–7,069	–5,101
Currency forward contracts, transaction risk, hedge accounting applied		
Nominal value	182,754	-
Fair value	–1,047	-
Currency forward contracts, translation risk		
Nominal value	40,541	35,533
Fair value	1,102	285
Currency forward contracts, financial risk		
Nominal value	126,534	131,085
Fair value	250	–46
Interest rate and foreign exchange swap contracts		
Nominal value	4,000	4,000
Fair value	18	117

The derivative contracts have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The figures also include the closed positions.

OTHER COMMITMENTS

In calculating value-added tax for China in 2007, Elcoteq has applied a method that has so far not received the written approval of the tax authorities. Should this approval not be forthcoming, the effect would be to reduce Elcoteq's result substantially. During previous years Elcoteq has been granted the approval afterwards and therefore the company has estimated the risk to be small and has made no provision.

30. Events after the Close of the Period

In December 2007, Elcoteq announced that it will rationalize production capacity and divest Elcoteq Communications Technology GmbH, its subsidiary in Offenburg, Germany, to BAVARIA Industriekapital AG as part of its action plan. The approval of the German competition authorities was required for the consummation of the transaction. Approval was granted in January 2008 and the transaction was then closed on January 14, 2008.

Parent Company Income Statement

EUR 1,000	Note	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
NET SALES	1	**662,607**	**2,327,097**
Change in stock of work in progress and finished goods		–32,710	8,509
Other operating income	2	179,334	43,231
Production materials and services	3	–749,776	–2,233,747
Personnel expenses	5	–3,506	–24,156
Depreciation and writedowns	6	–39,439	–6,502
Other operating expenses	7	–86,146	–75,310
OPERATING INCOME		**–69,635**	**39,122**
Financial income, total	8	36,087	20,177
Financial expenses, total	8	–18,442	–21,959
INCOME BEFORE EXTRAORDINARY ITEMS		**–51,990**	**37,341**
Extraordinary items	9	4,800	–17,690
INCOME BEFORE APPROPRIATIONS AND TAXES		–47,190	19,651
Income taxes	10	6,884	–6,880
NET INCOME		**–40,306**	**12,771**

The income statement does not correspond to the official format for FAS (Finnish Accounting Standards) income statements.

Parent Company Cash Flow Statement

EUR 1,000	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
CASH FLOW FROM OPERATING ACTIVITIES		
Income before extraordinary items	–51,990	37,341
Adjustments:		
Scheduled depreciation and amortization	39,439	6,502
Unrealized foreign exchange gains and losses	–11,630	–11,297
Financial income and expenses	–15,487	19,504
Other adjustments	4,032	–2,672
Cash flow before change in working capital	–35,636	49,377
Change in working capital *:		
Change in non-interest-bearing current receivables	208,243	–4,893
Change in inventories	173,999	–26,705
Change in non-interest-bearing current liabilities	–346,537	22,019
Cash flow from operating activities before financial items and taxes	70	39,798
Interest and other financial expenses	–13,825	–19,731
Operations-related dividend income	16,044	10,769
Operations-related interest income	13,485	9,918
Income taxes paid	5,515	–11,930
Cash flow from operating activities	**21,288**	**28,825**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	–49,692	–23,827
Proceeds from disposal of tangible and intangible assets	1,413	2,950
Acquisition of subsidiary	-	–505
Disposals	2,306	6,001
Loans made	–31,706	–41,697
Repayment of loans receivable	-	10,791
Cash flow from investing activities	**–77,678**	**–46,287**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	6,733	2,890
Group contributioins gained	4,800	-
Group contributions paid	-	–17,690
Redemption of parent company shares	–51	-
Change in current debt	26,486	–5,581
Issuance of long-term debt	-	29,839
Repayment of long-term debt	–582	–466
Dividends paid	–6,308	–20,573
Cash flow from financing activities	**31,079**	**–11,581**
CHANGE IN CASH AND EQUIVALENTS	**–25,312**	**–29,043**
Cash and equivalents on January 1	**39,191**	**68,234**
Cash and equivalents on December 31	**13,879**	**39,191**

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve the cash flow by 26.2 million euros during reporting period 1–12/2007 and to improve by 20.8 million euros during reporting period 1–12/2006.

Parent Company Balance Sheet

ASSETS, EUR 1,000	Note	Dec. 31, 2007	Dec. 31, 2006
Non-current assets	11		
Intangible assets			
Intangible rights		192	1,206
Other long-term expenditures		364	358
Advance payments and construction in progress		-	31
Goodwill		1,908	2,289
		2,464	3,883
Tangible assets			
Land and water areas		198	198
Buildings		1,467	1,633
Machinery and equipment		1,046	1,881
Advance payments and construction in progress		170	1,087
		2,881	4,799
Investments	12		
Shares and equity interests in Group companies		153,588	125,923
Receivables from Group companies		4,755	5,315
Shares in associated companies		-	3,128
Other shares and holdings		98	10,949
		158,441	145,315
Non-current assets, total		**163,786**	**153,996**
Current assets			
Inventories			
Raw materials		-	141,014
Work in progress		-	11,647
Finished goods		-	21,338
		-	173,999
Long-term receivables			
Deferred tax assets		7,033	590
Loans receivable from Group companies		94,584	94,263
		101,617	94,853
Current receivables			
Accounts receivable		–21	186,877
Receivables from Group companies			
Accounts receivable		15,425	21,166
Loans receivables		177,914	146,529
Accrued income	14	2,955	1,190
Other receivables	13	3,373	-
Other loan receivables		-	2,188
Prepaid expenses and accruals	14	3,849	16,149
		203,496	374,100
Cash and equivalents		13,879	39,191
Current assets, total		**318,992**	**682,142**
ASSETS, TOTAL		**482,777**	**836,138**

Parent Company Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec. 31, 2007	Dec. 31, 2006
Shareholders' equity	15		
Share capital		13,041	12,616
Additional paid-in capital		225,011	218,704
Retained earnings		58,962	52,567
Net income for the year		–40,306	12,771
Total shareholders' equity		**256,709**	**296,657**
Provisions	16	**2,765**	**779**
Liabilities	17		
Long-term liabilities			
Subordinated notes		139,297	139,087
Medium-term notes		39,973	39,966
Loans from pension plans		631	1,213
		179,901	180,265
Payments due within one year		–20,412	–462
Long-term liabilities, total		159,489	179,803
Current liabilities			
Medium-term notes		19,991	-
Commercial paper program		23,951	-
Loans from pension plans		420	462
Accounts payable		3,894	312,602
Debt to Group companies			
Accounts payable		8,986	33,385
Other current liabilities	18	4,242	1,708
Accrued expenses	19	26	10
Other current liabilities	18	66	2,982
Accrued expenses	19	2,237	7,749
Current liabilities, total		63,814	358,899
Liabilities, total		**223,303**	**538,702**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**482,777**	**836,138**

Notes to the Parent Company's Financial Statements

ACCOUNTING PRINCIPLES OF THE PARENT COMPANY

The financial statements of Elcoteq SE have been prepared in accordance with the requirements of the Finnish Accounting Act and other Finnish regulations ("Finnish GAAP"). The consolidated financial statements have been prepared in accordance with the IFRS standards. Also the financial statements of the parent company have been prepared in accordance with the IFRS-standards, whenever possible. However, the accounting principles of the parent company differ from the accounting principles of the consolidated financial statements in the following issues.

DEFINED BENEFIT PENSION COMMITMENTS

Defined benefit pension commitments as described in IFRS are not reported as liabilities under Finnish accounting legislation.

PARENT COMPANY GOODWILL

Parent company goodwill is amortized an a straight-line basis over the expected useful life of the asset. The amortization period is 5–10 years.

OTHER LONG-TERM EXPENSES

Other long-term expenses in intangible fixed assets include the refurbishment costs of leased properties. In the consolidated financial statements, these costs are entered under non-current assets as required by IFRS.

In 2007, a new contract and invoicing model was adopted in the Group's European operations, as a result of which the parent company's net sales declined compared with 2006. In the fall of 2006, Elcoteq SE incorporated part of its Finnish operations into two wholly owned subsidiaries, Elcoteq Finland Oy and Elcoteq Lohja Oy. Due to these changes, the figures for 2006, the comparison year, are not fully comparable with the figures for 2007.

Notes to the Parent Company Financial Statements

1. Breakdown of Net Sales

Breakdown of net sales by market:

MEUR	2007	2006
Finland	57.8	409.7
Rest of Europe	502.4	1,528.2
Americas	30.6	113.5
Asia-Pacific	71.8	275.6
	662.6	2,327.1

2. Other Operating Income

The bulk of other operating income of 179.3 million euros (43.2) was made up of sales of materials to subsidiaries, service charges to subsidiaries and leasing charges.

3. Production Materials and Services

EUR 1,000	2007	2006
Materials and supplies		
Purchases during the year	526,385	2,051,841
Change in raw materials	141,289	−18,591
Total	667,674	2,033,250
External services	82,102	200,497
Production materials and services, total	749,776	2,233,747

4. Personnel

The parent company had an average of 16 (467) employees during the year.

5. Wages, Salaries and Other Personnel Expenses

EUR 1,000	2007	2006
Personnel expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits	2,360	20,575
Fringe benefits	−87	−341
Total	2,273	20,234
Indirect personnel expenses		
Pension expenses	495	2,946
Other indirect personnel expenses	738	976
Total	1,233	3,922
Personnel expenses in the income statement	3,506	24,156

Salaries and bonuses paid to key management personnel are shown under Related Party Disclosures in the Notes to the Consolidated Financial Statements.

6. Depreciation and Amortization

Scheduled depreciation and amortization consists of the following:

EUR 1,000	2007	2006
Intangible rights	1,013	738
Goodwill	381	381
Other long-term expenditures	164	2,551
Buildings	165	208
Machinery and equipment	364	2,624
Scheduled depreciation, total	2,088	6,502
Amortization, associated companies	23,246	-
Amortization, shares and equity interests in Group companies	3,155	-
Amortization, other shares and equity interests	10,949	-
Amortization, total	37,350	-
Depreciation and amortization, total	39,439	6,502

7. Other Operating Expenses

Other operating expenses of the parent company consist of the following items:

EUR 1,000	2007	2006
Other personnel expenses	82	1,047
Rental expenses	24,275	25,984
Transportation	1,561	5,922
Energy expenses	27	529
Office expenses	687	3,190
Travel, marketing and representation expenses	722	3,296
Insurance expenses	12	557
External services	10,885	11,096
Other operating expenses	47,897	23,688
Total	86,146	75,310

8. Financial Income and Expenses

EUR 1,000	2007	2006
Financial income		
Interest income from long-term investments		
From Group companies	4,965	4,346
Other interest and financial income		
From Group companies	27,689	12,796
Foreign exchange gains	2,902	1,991
Other interest and financial income	531	1,045
Total	36,087	20,177
Financial expenses		
Interest and financial expenses to Group companies	–127	–89
Interest expenses	–13,990	–13,016
Foreign exchange losses	–686	–618
Other financial expenses	–3,638	–8,236
Total	–18,442	–21,959
Financial income and expenses, total	17,645	–1,781

9. Extraordinary Items

EUR 1,000	2007	2006
Extraordinary income		
Group contributions gained	4,800	-
Extraordinary income, total	4,800	-
Extraordinary expenses		
Group contributions paid	-	–17,690
Extraordinary expenses, total	-	–17,690
Extraordinary items, total	4,800	–17,690

10. Income Taxes

EUR 1,000	2007	2006
Income taxes for the year	-	4,924
Income taxes for prior years	–441	–28
Change in deferred taxes	–6,443	1,984
Total	–6,884	6,880

11. Fixed Assets

EUR 1,000	2007	2006
Intangible assets		
Intangible rights		
Cost basis, Jan. 1	4,128	4,139
Disposals, Jan. 1–Dec. 31	–396	-
Transfer/Incorporation Oct. 1 2006	-	–11
Cost basis, Dec. 31	3,732	4,128
Accum. scheduled amortization, Jan. 1	–2,921	–2,191
Accum. scheduled amortization on disposals	396	-
Transfer/Incorporation Oct. 1 2006 accum.scheduled amortization	-	8
Scheduled amortization Jan. 1–Dec. 31	–1,013	–738
Book value, Dec. 31	192	1,206
Other long-term expenditures		
Cost basis, Jan. 1	17,872	24,101
Additions, Jan. 1–Dec. 31	170	2,542
Disposals, Jan. 1–Dec. 31	-	–6
Transfer/Incorporation Oct. 1 2006	-	–8,765
Cost basis, Dec. 31	18,041	17,872
Accum. scheduled amortization, Jan. 1	–17,516	–20,069
Accum. scheduled amortization on disposals	-	1
Transfer/Incorporation Oct. 1 2006 accum.scheduled amortization	-	5,103
Scheduled amortization Jan. 1–Dec. 31	–164	–2,551
Book value, Dec. 31	364	358
Advance payments and construction in progress		
Cost basis, Jan. 1	31	1,896
Additions, Jan. 1–Dec. 31	18	1,990
Disposals, Jan. 1–Dec. 31	–48	–1,942
Transfer/Incorporation Oct. 1 2006	-	–1,913
Advance payments, Dec.31	-	31
Goodwill		
Cost basis, Jan. 1	4,814	4,814
Accum. scheduled amortization, Jan. 1	–2,524	–2,143
Scheduled amortization Jan. 1–Dec. 31	–381	–381
Book value, Dec. 31	1,908	2,289

EUR 1,000	2007	2006
Tangible Assets		
Land and water areas		
Cost basis, Jan. 1	198	1,108
Disposals, Jan. 1–Dec. 31	-	–910
Book value, Dec. 31	198	198
Buildings		
Cost basis, Jan. 1	3,299	3,813
Disposals, Jan. 1–Dec. 31	-	–494
Transfer/Incorporation Oct. 1 2006	-	–20
Cost basis, Dec. 31	3,299	3,299
Accum. scheduled amortization, Jan. 1	–1,666	–1,690
Accum. scheduled amortization on disposals	-	221
Transfer/Incorporation Oct. 1 2006 accum.scheduled amortization	-	10
Scheduled amortization Jan. 1–Dec. 31	–165	–208
Book value, Dec. 31	1,467	1,633
Machinery and equipment		
Cost basis, Jan. 1	14,016	38,702
Additions, Jan. 1–Dec. 31	18	4,704
Disposals, Jan. 1–Dec. 31	–1,209	–1,432
Transfer/Incorporation Oct. 1 2006	-	–27,958
Cost basis, Dec. 31	12,824	14,016
Accum. scheduled amortization, Jan. 1	–12,136	–34,456
Accum. scheduled amortization on disposals	720	633
Transfer/Incorporation Oct. 1 2006 accum.scheduled amortization	-	24,311
Scheduled amortization Jan. 1–Dec. 31	–364	–2,624
Book value, Dec. 31	1,046	1,881
Advance payments and construction in progress		
Advance payments and construction in progress, Jan.1	1,087	3,830
Additions, Jan. 1–Dec. 31	161	2,667
Disposals, Jan. 1–Dec. 31	–1,078	–4,958
Transfer/Incorporation Oct. 1	-	–452
Advance payments, Dec. 31	170	1,087

EUR 1,000	2007	2006
Investments		
Shares and equity interests in the Group companies		
Shares, Jan. 1	130,041	101,040
Additions, Jan. 1–Dec. 31	50,912	29,169
Transfer/Incorporation Oct. 1 2006	-	–168
Cost basis, Dec. 31	180,953	130,041
Accumulated writedowns, Jan.1	–4,118	–4,118
Writedowns, Jan. 1–Dec. 31	–23,246	-
Book value, Dec. 31	153,588	125,923
Receivables from the Group companies		
Receivables, Jan. 1	12,430	13,049
Disposals, Jan. 1–Dec. 31	–560	–619
Cost basis, Dec. 31	11,870	12,430
Accumulated writedowns, Jan.1	–7,115	–7,115
Book value, Dec. 31	4,755	5,315
Equity in associated companies		
Shares, Jan.1	3,128	2,147
Additions, Jan. 1–Dec. 31	125	1,045
Disposals, Jan. 1–Dec. 31	–98	-
Transfer/Incorporation Oct. 1 2006	-	–64
Cost basis, Dec. 31	3,155	3,128
Writedowns, Jan.1–Dec. 31	–3,155	-
Book value, Dec. 31	-	3,128
Receivables from associated companies		
Receivables, Jan. 1	-	262
Additions, Jan. 1–Dec. 31	-	870
Disposals, Jan. 1–Dec. 31	-	–1,045
Transfer/Incorporation Oct. 1 2006	-	–87
Book value, Dec. 31	-	-
Other shares and equity interests		
Shares, Jan.1	10,949	11,291
Transfer to different group	98	-
Transfer/Incorporation Oct. 1 2006	-	–342
Cost basis, Dec. 31	11,047	10,949
Writedowns, Jan.1–Dec. 31	–10,949	-
Book value, Dec. 31	98	10,949

EUR 1,000	2007	2006
Summary of fixed assets		
Cost basis, Jan. 1	188,445	191,155
Additions, Jan. 1–Dec. 31	51,224	37,460
Disposals, Jan. 1–Dec. 31	–1,605	–2,842
Transfer/Incorporation Oct. 1 2006	-	–37,328
Cost basis, Dec. 31	238,064	188,445
Accum. scheduled depr. and amort. Jan.1	–40,883	–64,668
Accum. scheduled depr. and amort. on disposals	1,116	855
Transfer/Incorporation Oct. 1 2006 accum.scheduled amortization	-	29,432
Scheduled depr. amort. and writedowns, Jan.1–Dec.31	–39,439	–6,502
Book value, Dec. 31	158,858	147,562
Advance payments and construction in progress	170	1,118
Loans receivable	4,755	5,315
Book value, Dec. 31	163,786	153,996

12. Shares and Equity Interests

Subsidiaries are listed in the consolidated financial statements under the note “Shares and equity interests”.

13. Other Receivables

EUR 1,000	2007	2006
Current receivables		
Non-interest-bearing		
Value-added taxes	3,373	-
Total	3,373	-

14. Prepaid Expenses and Accruals

Prepaid expenses and accruals of the company consist of the following items:

EUR 1,000	2007	2006
Prepaid rent	2,324	2,754
Periodized exchange rate differences of forwards	1,362	1,232
Withholding taxes	-	477
Income taxes	-	7,006
Estimated additional purchase price/securitization	-	2,331
Other items	3,118	3,538
Total	6,804	17,339

15. Shareholders’ Equity

EUR 1,000	2007	2006
Share capital		
Share capital, Jan.1	12,616	12,441
Shares subscribed with 2001 stock options	425	174
Share capital, Dec. 31	13,041	12,616
Additional paid-in capital		
Additional paid-in capital, Jan.1	218,704	215,988
Additional paid-in capital	6,308	2,716
Additional paid-in capital, Dec. 31	225,011	218,704
Retained earnings		
Retained earnings, Jan.1	65,338	73,140
Dividend payment	–6,308	–20,573
Redemption of parent company shares	–68	-
Retained earnings, Dec.31	58,962	52,567

At December 31, 2007, the company held a total of 8,100 of its own Series A shares, which have a total par value of 3,240 euros.

Net income for the year	–40,306	12,771
Shareholders’ equity, total	256,709	296,657

DISTRIBUTABLE FUNDS IN SHAREHOLDERS’ EQUITY ON DEC. 31

EUR 1,000	2007	2006
Retained earnings	58,962	52,567
Net income for the year	–40,306	12,771
Share issue costs recognized under additional paid-in capital	–2,433	–2,433
Distributable funds in shareholders’ equity	16,223	62,904

THE PARENT COMPANY’S SHARE CAPITAL CONSISTS OF THE FOLLOWING CLASSES OF SHARES

	Shares	2007 EUR 1,000
Series A (1 vote per share)	22,025,919	8,810
Series K (10 votes per share)	10,577,000	4,231
Total	32,602,919	13,041

16. Provisions

Provisions are due to warranty provisions, restructuring measures carried out in the Group in 2007, and personnel cuts made in 2001 and 2003.

17. Liabilities

EUR 1,000	2007	2006
Long-term liabilities		
Interest-bearing		
Subordinated notes	139,297	139,087
Medium-term notes	39,973	39,966
Loans from pension plans	631	1,213
Total	179,901	180,265
Payments due within one year	–20,412	–462
Interest-bearing, total	159,489	179,803
Long-term liabilities, total	**159,489**	**179,803**
Current liabilities		
Interest-bearing		
Liabilities to Group companies	4,242	1,708
Medium-term notes	19,991	-
Commercial paper program	23,951	-
Loans from pension plans	420	462
Interest-bearing, total	48,605	2,170
Non-interest-bearing		
Accounts payable	3,894	312,602
Accrued expenses	2,237	7,749
Liabilities to Group companies	9,012	33,396
Other current liabilities	66	2,982
Non-interest-bearing, total	15,209	356,730
Current liabilities, total	**63,814**	**358,899**
Interest-bearing liabilities	208,094	181,973
Non-interest bearing liabilities	15,209	356,730
Liabilities, total	223,303	538,702

More detailed information on loans can be found in the consolidated financial statements, under the note “Liabilities”.

18. Other Current Liabilities

The company´s other current liabilities include the following principal items:

EUR 1,000	2007	2006
Payroll tax on wages and salaries, and social security dues	66	77
Value-added taxes	-	2,905
Group internal liabilities	4,242	1,708
Total	4,308	4,690

19. Accrued Expenses

The parent company´s accrued expenses consist of the following items:

EUR 1,000	2007	2006
Vacation pay	183	196
Other indirect personnel expenses	130	57
Interest	1,694	1,683
Exchange rate accruals on forward contracts	17	5,299
Other items	238	523
Total	2,263	7,759

20. Lease Contracts

The company has leased equipment under operating leases. The lease payments are fixed for the duration of the leasing period. No new operating lease contracts were made in 2007.

The future annual lease payments under operating leases for machinery are as follows:

EUR 1,000	Dec. 31, 2007	Dec. 31, 2006
2007	-	22,552
2008	15,910	16,339
2009	7,167	7,957
2010	1,234	1,307
Total	24,311	48,155

Rental expenses on operating leases for machinery amounted to 24.3 million euros for the year ended December 31, 2007 and 22.9 million euros for the year ended December 31, 2006.

The parent company did not have any significant finance lease contracts at the end of 2007.

21. Assets Pledged and Contingent Liabilities

EUR 1,000	2007	2006
ON BEHALF OF GROUP COMPANIES		
Guarantees	198,194	103,787
ON BEHALF OF OTHERS		
Guarantees	8	8
LEASING COMMITMENTS		
Operating leases, machinery and equipment (excl. VAT)	24,311	48,155
Rental commitments, real estate (excl. VAT)	7	2,725
DERIVATIVES CONTRACTS		
Currency forward contracts, transaction risk		
Nominal value	650	246,612
Market value	–1	–4,672
Currency forward contracts, translation risk		
Nominal value	40,541	35,533
Market value	1,102	285
Currency forward contracts, financial risk		
Nominal value	126,534	131,085
Market value	250	–46

The derivative contracts have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The figures also include the closed positions.

Shares and Shareholders

SHARE SERIES AND SHARE CAPITAL

Elcoteq SE has two classes of shares, Series A and Series K. Series A shares (ticker symbol ELQAV) are quoted on the OMX Nordic Exchange Helsinki and are included in the book-entry system maintained by the Finnish Central Securities Depository Ltd. All the K shares are held by Mr. Antti Piippo, Mr. Henry Sjöman and Mr. Jorma Vanhanen, who were the sole owners of the company before its initial public offering and whose holdings of the K shares have not changed since. Elcoteq's Articles of Association stipulate that the number of K shares cannot be increased. Each Elcoteq A share carries one vote and each K share ten votes at general shareholders' meetings. Both classes of shares carry the same dividend rights.

At the end of 2007, Elcoteq's share capital consisted of altogether 32,602,919 shares divided into 22,025,919 A shares and 10,577,000 K shares. The par value of each share is 0.40 euros. The company's registered share capital on December 31, 2007 totaled 13,041,167.60 euros. Elcoteq SE held 8,100 of its own shares at the end of 2007.

Share Information, December 31, 2007

- Number of A shares 22,025,919
- Ticker symbol ELQAV
- Number of K shares 10,577,000

K shares were converted into K founders' shares after the transfer of domicile on January 1, 2008. The number of K founders' shares increased ten-fold compared to the previous series K shares. However, their par value is one-tenth compared to the par value of the series A shares. According to the new Articles of Association the economic rights conferred by the Elcoteq shares are determined in proportion to the par value of the shares. Thus this means that the differences in voting power conferred by the two share series, and their economic rights, have remained unchanged after the domicile transfer.

BOARD AUTHORIZATIONS

Elcoteq's Annual General Meeting held on March 22, 2007, authorized the Board of Directors to issue, in one or several installments, Series A shares and/or to issue specific rights entitling to shares pursuant to Chapter 10 §1 of the Finnish Companies Act, in the total amount of 15,527,573 Series A shares. Based on the authorization to issue shares, the Board may issue either new shares or those in the company's possession.

Furthermore, the Meeting authorized the Board of Directors to purchase at most 1,576,994 of the company's own Series A shares in public trading in order to develop the company's capital structure, to use as consideration in corporate acquisitions or when the company acquires assets related to its business, and as part of the company's personnel incentive scheme, in the manner and scope determined by the Board, and otherwise to dispose of or nullify these shares. The purchase price of the shares to be purchased shall be based on the share price in public trading such that the subscription price corresponds to the fair value of the shares formed in public trading at the time of purchase. The holders of the company's Series K shares have given their approval to the effect that the decision will not be used to purchase the Series K shares in their possession. The purchase of own shares will reduce the company's distributable funds.

The authorizations have not been used and they have become void as a result of the transfer of the company's domicile as of January 1, 2008.

SHAREHOLDER AGREEMENTS

The Board of Directors is unaware of any shareholder agreements concerning the ownership of the company shares or the use of voting rights.

STOCK OPTION PLAN 2001

A total of 1,063,592 options were exercised under this stock option plan in 2007 to subcribe for new series A shares.

Options issued under the 2001 stock option plan were traded on the OMX Nordic Exchange Helsinki. Trading ended on April 30, 2007 in accordance with the terms and conditions of the stock option plan.

INCENTIVE PLANS 2004

In 2004, Elcoteq's Board of Directors agreed on the motivation and commitment of the management and key personnel by means of a stock option plan and a reward plan.

Stock Option Plan 2004

The Board of Directors decided to issue stock options to the Group's key personnel and to Elcoteq Arvopaperit Oy. At most 1,350,000 options were issued and they entitle to subscription of 1,350,000 new A shares. The stock options are divided into 2004A, 2004B and 2004C stock options with 450,000 stock options in each stock option class. This stock option plan covers all members of the Management Conference and the aggregate number of 2004A and 2004B options held by them was 262,000 on December 31, 2007. The 2004C options have not yet been allocated.

The share subscription price for all options after the dividend payment in 2007 has been 13.79 euros. The share subscription price of the stock options shall be reduced by the amount of any dividend decided after August 3, 2004 and paid before the share subscription, as per the record date for each dividend payment.

The share subscription period for stock options 2004A was March 1, 2005–March 31, 2007. No share subscriptions were made with the A shares. The subscription period for stock options 2004B is March 1, 2006–March 31, 2008 and for stock options 2004C March 1, 2007– March 31, 2009. The share subscription period shall not, however, commence with the stock options 2004B unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of the year has been at least 27 euros, and with stock options 2004C at least 33 euros.

The members of the company's Board of Directors are not included in the stock option plan.

Reward Plan 2004

The reward plan is directed at the Group's key personnel not covered by the stock option plan 2004. The potential reward from the plan will be based on the growth of the market value of the company's shares. A person belonging to the plan has a possibility to earn a maximum reward equivalent to nine-month gross salary. The Board of Directors can require that 40% of the earned gross reward will be used to acquire Elcoteq A shares. The share quotation criteria are the same as in the 2004 stock option plan.

Share Subscription Plan 2007

The Board of Directors of Elcoteq decided in 2007 to approve an incentive plan for the motivation and commitment of the company's key personnel by means of a share subscription plan. The potential reward from the plan is based on reaching the targets set by the Board of Directors for the Group's consolidated income before taxes for the full year 2008. Based on the achieved targets the company would issue a maximum of 1,500,000 new series A shares of which 50% would be issued during March 2009 and the remaining 50% during November 2009.

The possible issue of new series A shares due to the share subscription plan in 2009 will be carried out under Luxembourg law and in accordance with the new Articles of Association of Elcoteq SE as approved at the Annual General Meeting of March 22, 2007. The shares have not yet been allocated.

The terms and conditions of all Elcoteq's incentive plans are provided on the company's website at www.elcoteq.com.

SHAREHOLDINGS OF THE CEO, DEPUTY CEO AND THE BOARD MEMBERS

At the end of 2007, the members of the company's Board of Directors owned a total of 2,853,125 A shares and 10,577,000 K shares, which represented 41.2% of the total number of shares registered on December 31, 2007, and 85.0% of the votes outstanding.

At December 31, 2007, Mr. Jouni Hartikainen, Elcoteq's President and CEO, held 38,132 Elcoteq A shares and Mr. Jukka Jäämaa, COO and Deputy CEO, altogether 5,596 Elcoteq A shares. These 43,728 shares represent 0.13% of the registered shares and 0.03% of the votes outstanding.

At December 31, 2007, Mr. Jouni Hartikainen, President and CEO, held 60,000 options issued under the 2004 option program, and Mr. Jukka Jäämaa, COO and Deputy CEO, held 45,000 options issued under the 2004 option program. The CEO and the Deputy CEO could exercise these options to subscribe for a maximum of 105,000 new A shares. If all the remaining unexercised options on December 31, 2007 were also exercised, the CEO, Deputy CEO and the members of the Board of Directors would collectively hold 40.5% of the total share capital and 84.5% of the total votes outstanding.

The share and option holdings of Elcoteq's Board of Directors and Elcoteq Management Team are presented on pages 95 and 97.

A listing of Elcoteq insiders' share and option holdings is available on the company's website at www.elcoteq.com> Investors.

SHAREHOLDERS

Elcoteq had 10,098 registered shareholders at the end of 2007. There were a total of 7,697,179 nominee-registered or foreign-registered A shares, representing some 23.6% of the total number of shares and 6.0% of the votes outstanding.

FREE FLOAT

At December 31, 2007, Elcoteq's free float (the number of A shares not held by its three principal owners) totaled 19,231,134 shares, or 87.3% of all A shares and 59.0% of the total share capital. Nominee-registered and foreign-registered shares accounted for 40% of the free float.

DIVIDEND POLICY

The principle underlying Elcoteq's dividend policy is to distribute a dividend corresponding to approximately half of its net profit for the year, taking into account the Group's profitability, financial structure and growth prospects.

The following tables describing the company's shareholders by type and size of holdings treat all shareholder register entries as independent holdings. Holdings belonging to the same control group or sphere of influence have not been combined.

Distribution of Shares, December 31, 2007

Number of Shares	Number of Holders	% of Total Shares	% of Total Votes
1–100	3,189	0.67	0.17
101–1,000	5,404	7.02	1.79
1,001–10,000	1,377	12.15	3.10
10,001–100,000	117	9.91	2.53
100,001–	11	70.25	92.41

Figures include nominee-registered shareholders.
Each nominee is treated as one shareholder.

% of Total Shares

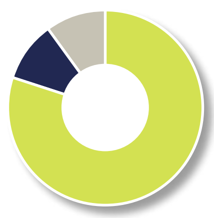
* Includes nominee-registered shares.

Shareholders by Type, December 31, 2007

	Number of Shares	% of Total Shares	% of Total Votes
Households	21,540,183	66.08	91.35
Foreign*	7,697,179	23.61	6.02
Companies	1,689,585	5.18	1.32
Public entities	884,498	2.71	0.69
Financial and insurance institutions	536,533	1.65	0.42
Non-profit organizations	246,841	0.76	0.19

* includes nominee-registered shareholders.

% of Total Votes



* Includes nominee-registered shares.

Performance and Trading of the Series A Shares

	2007	2006
Highest price, EUR	9.98	21.30
Lowest price, EUR	3.58	9.40
Average price, EUR	6.31	14.75
Closing price, EUR	4.06	9.78
Trading volume, MEUR	213.5	585.3
Trading volume, shares	34,015,445	39,779,437

Market Capitalization, MEUR

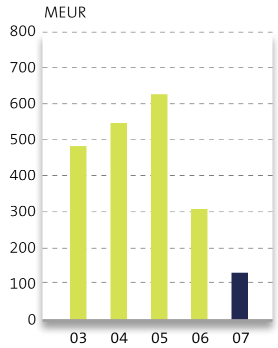
	2007	2006
Series A Shares	89.4	205.0
Series K Shares	43.0	103.4
Total	132.4	308.4

Market capitalization is calculated by multiplying all Elcoteq´s A and K shares by the closing quotation of each year.

Performance and Trading of the 2001 Options

	1–4/2007	2006
Highest price, EUR	3.50	14.00
Lowest price, EUR	0.08	2.86
Average price, EUR	1.76	8.25
Closing price, EUR	0.11	3.23
Trading volume, MEUR	3.7	15.5
Trading volume, shares	2,059,934	1,891,348

Market Capitalization 2003–2007



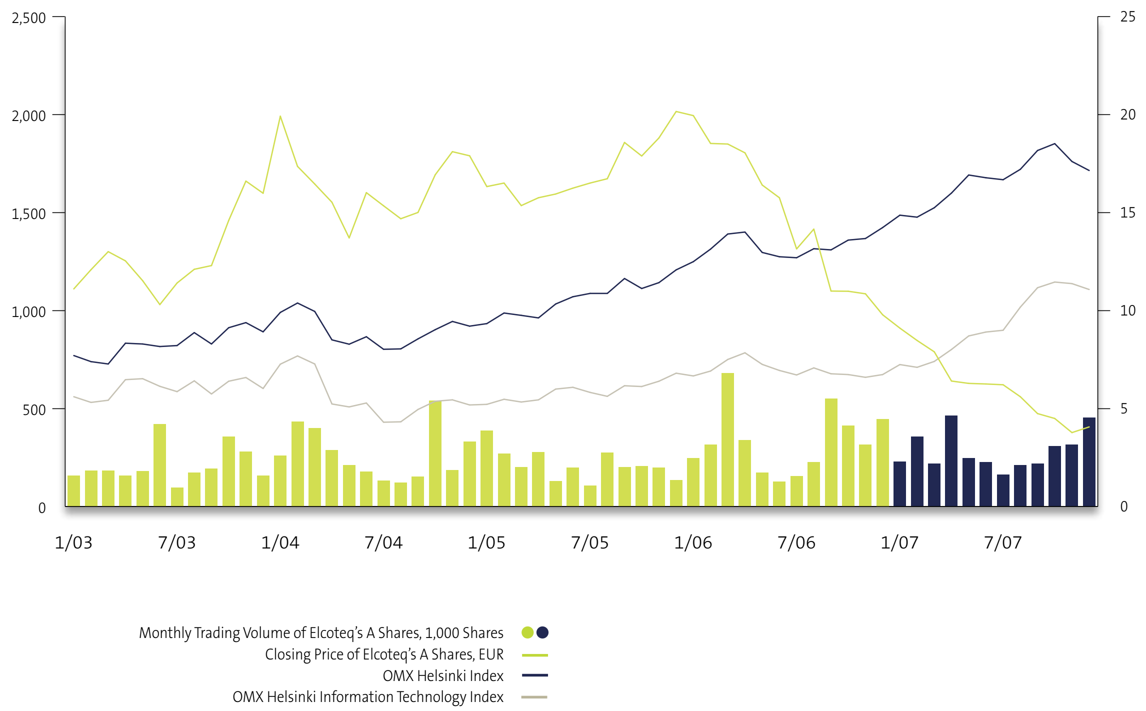
Major Shareholders, December 31, 2007	A Shares	K Shares	% of Shares	% of Votes
1. Antti Piippo	1,594,065	5,411,000	21.49	43.59
2. Jorma Vanhanen	607,860	2,583,000	9.79	20.69
3. Henry Sjöman	592,860	2,583,000	9.74	20.68
4. Simo-Pekka Inkinen	462,669	-	1.42	0.36
5. Turun Kaupungin Vahinkorahasto	448,848	-	1.38	0.35
6. Abn Amro Finland Sijoitusrahasto	257,682	-	0.79	0.20
7. Mutual Insurance Company Eläke Fennia	200,000	-	0.61	0.16
8. Sijoitusrahasto Abn Amro Small Cap Finland	169,916	-	0.52	0.13
9. Erkki Etola	150,000	-	0.46	0.12
10. Matti Eestilä	123,570	-	0.38	0.10
Total	4,607,470	10,577,000	46.58	86.37

A monthly updated list of Elcoteq's 100 largest shareholders is available on the company's website at www.elcoteq.com.

Possible Impact of Unexercised Option Rights on Elcoteq's Share Capital on December 31, 2007	Number of Shares	% of Shares	Share Capital, EUR	% of Votes
Option scheme 2004	+900,000	+2.8	+360,000	+0.7

If all the above mentioned and hitherto unexercised subscription rights were exercised,
Elcoteq would have altogether 33,502,919 shares and a total of 128,695,919 voting rights.

Trading Prices and Volumes of Elcoteq's A Shares in 2003–2007



Risk Management

As a global company, Elcoteq is exposed to a variety of business risks. The company takes such risks if they are deemed to support the company's strategy and they can be reasonably managed. Risk management is based on the risk management policy endorsed by Elcoteq's Board of Directors and comprises an integral part of the planning and implementation of the company's strategy.

TARGETS OF RISK MANAGEMENT

Elcoteq defines a risk as an external or internal uncertainty factor that could hinder implementation of the company's strategy, its business activities and achievement of its goals. A risk can also be considered to be a factor that endangers the company's property or employees. Risks are classified as strategic, operational, casualty, and financial risks.

The purpose of risk management is to support the Group's strategy and goals, and to ensure the continuity of its business operations. The main tasks of risk management are to identify the most significant risks to Elcoteq's business activities, to assess the likelihood and importance of these risks, to prepare appropriate action plans to limit risks, and to report on the level of risk management, the measures it requires and its development projects.

RISK MANAGEMENT PRINCIPLES

Elcoteq's risk management policy requires risk management to be an integral part of the business processes of all Elcoteq units and all levels of the organization. Risk management responsibilities coincide with normal business responsibilities. Under this risk management policy, Elcoteq's business units regularly identify and assess the risks associated with their own activities, draw up appropriate development and action plans, and provide reports on them in accordance with Elcoteq's organizational structure.

The purpose of Elcoteq's risk management function is to support and evaluate the risk management work of the company's different units, and to report key risks to the company's top management. Elcoteq's risk management function reports to the CFO.

The Audit Committee of the Board of Directors oversees the quality, adequacy and effectiveness of risk management, and reports to the Board on risk management.

Elcoteq has also prepared separate risk management guidelines for certain areas that supplement its overall risk management policies. These areas include treasury operations, insurance, corporate security, and environmental management.

RISK ASSESSMENT AND MONITORING RISK MANAGEMENT

Elcoteq's manufacturing plants, business areas and Group functions assess the risks in their areas annually following the guidelines provided by the risk management function. Previously made risk assessments are reviewed and revised. Development plans focus in particular on the risks of most importance to Elcoteq's strategy and its implementation.

The risk assessments and their updates are usually carried out by the management teams of Elcoteq's units. The objective of the work is to identify the risks as broadly as possible in the various areas of the company's business operations. For each identified risk the units assess the probability of the identified risk occurring, its impact on the unit's activities, and the level of risk management required. The risk classification is used in risk management to prioritize those issues that need the most attention.

The Group's risk management function has an internal audit system to measure and monitor the level of risk management in its various units. During 2007 internal audits were performed at Elcoteq's manufacturing plants in Mexico, Tallinn and St. Petersburg.

BUSINESS CONTINUITY PLANNING

The Group's risk management is supplemented and supported by a business continuity planning system.

Elcoteq's manufacturing plants and the organizations in its business areas jointly identify areas of critical importance to business continuity, assess the risks associated with these areas, and draw up action plans to be adopted in the event of incidents causing major damage, catastrophes and other significant risks.

During 2007, the company reviewed the most important threats to the operational continuity of its largest manufacturing plants, mainly from the perspective of risks associated with information systems, property and business interruption. These threats have also been assessed in the risk assessments performed by the insurance companies.

Risk management and continuity planning tools will be developed in 2008 to boost the efficiency of the assessment of the Group's strategic risks and the performance of the related continuity planning.

STRATEGIC AND OPERATIONAL RISKS

Elcoteq's key strategic and operational risks are listed below. The risks and measures taken to prepare for them are described using examples.

Customer Dependency: loss of a significant customer or a sudden decrease in business volumes by one or several significant customers could substantially reduce net sales and weaken the company's profits and financial position.

Expanding and balancing the customer base comprises a key element of Elcoteq's strategy. Actions taken to achieve this include strengthening the sales organization, concentrating sales efforts on obtaining new customers, and acquisitions.

New Services and Business Models: failure to develop the new services or business models required to meet demand, or failure to offer these profitably, could hamper implementation of the strategy and weaken profits.

Having identified its customers' needs, Elcoteq has set expansion of its service offering as one of its main strategic themes. The most significant examples of this have been investments in product development services, especially in the Terminal Products business area and the offering of box build and after-market services.

Competitive Situation: the company's business operations and its profits could suffer if the company were unable to counter the challenges posed by intensifying competition or respond successfully to changes in the competitive environment or in demand. Examples of such changes are the entry of new competitors, and changes in legislation or customers' strategies.

Elcoteq is preparing for this risk by emphasizing operational excellence. This will help the company in safeguarding its competitiveness and flexibility in all areas of its operations. Operational excellence is supported by a scorecard system, in which targets are set for financial, customer, process and personnel development aspects at all organization levels.

Materials Management: material costs are the largest items in the company's cost structure, and therefore efficient order and supply chain management is vitally important for the profitability of the company's business operations.

Elcoteq manages the risks associated with materials using sophisticated information systems, supplier and supply chain management (including inventories), and also through agreement structures with component suppliers and customers. Effective management of working capital is vital for the Group's cash flow.

Retaining Key Employees: the company's business capabilities could be considerably jeopardized if the company is not able to recruit, develop and retain competent employees.

Elcoteq has various incentive and commitment schemes, with which it wants to improve the motivation of its employees and safeguard the company's position as a competitive employer.

Credit Risks: credit loss resulting from accounts receivable or the materials for which the customer is responsible could significantly weaken the company's profits.

The company seeks to limit credit risks associated with its commercial activities through short payment terms as well as collaterals that protect Elcoteq's position, should the creditworthiness of a customer make this necessary. Significant credit limits are decided either by Elcoteq's Management Team or the credit committee which reports to it, in accordance with the credit policy and sales process.

Conducting Business in Emerging Markets: legislative, political or financial developments in the economies of emerging markets could have a negative impact on the company's assets and

Elcoteq establishes operations in developing countries only after careful consideration and continuously monitors economic and political developments in these countries.

Acquisitions and Divestments: unsuccessful valuation of an acquisition, or unsuccessful integration of an acquired company into Elcoteq, could result in financial losses or hinder implementation of the company's strategy.

Elcoteq reduces the potential risk associated with acquisitions by performing a thorough due diligence analysis before the acquisition takes place, using the services of outside experts when needed. One of the risks involved in acquisitions is the successful integration of the acquired functions into the Group's business operations. The company seeks to reduce this risk with integration working groups set for each project.

CASUALTY RISKS

In anticipation of possible unforeseen casualty risks, Elcoteq has continuous global insurance programs covering aspects of its operations including personnel, property, business interruption, third-party liability, criminal action and transportation. The adequacy of the company's insurance cover is reviewed and maintained continuously according to changing needs.

FINANCIAL RISKS

The objectives of Elcoteq's treasury function are to ensure the availability of a broad range of sufficient and cost-effective funding alternatives under various market conditions, to help the company's business units identify and manage the credit and foreign exchange risks related to the company's business, and to hedge against significant financial exposures in line with Elcoteq's treasury policy. Financial market operations and loan arrangements are mainly handled centrally through the Group's treasury function. The funding needs of Group companies are generally met through internal loan limits that are decided by the company's Board of Directors.

Foreign Exchange Risks

A significant portion of the company's current assets and liabilities are denominated in currencies other than the euro. Therefore foreign exchange fluctuations can have a major impact on Elcoteq's financial performance. This transaction risk is hedged through product pricing that incorporates exchange rates and through derivative contracts that cover the company's net foreign exchange exposure.

Transaction risk mainly relates to the US dollar (USD) and Japanese yen (JPY). In addition to component and manufactur-

Foreign Exchange Exposure, Transaction Risk

	Dec 31, 2007				Dec 31, 2006			
EUR million	Net flow in balance sheet	Forecasted net flow	Hedging	Total net risk	Net flow in balance sheet	Forecasted net flow	Hedging	Total net risk
USD	–124.6	–170.9	198.7	–96.7	–78.6	–57.7	69.2	–67.2
EUR	–0.5	1.3	2.0	2.8	13.2	–6.9	7.8	14.1
JPY	–58.3	–69.6	122.3	–5.6	–66.9	–25.8	86.2	–6.5
Other	–4.1	–13.5	16.3	–1.3	–22.0	–10.7	17.7	–15.0

Net foreign exchange risks have been taken into account in the Group-level figures in the table presented here when the currency used is not the unit's reporting currency. The USD/CNY risk in China is not hedged. If the USD/CNY risk was hedged, the USD net risk would be –1.4 million euros (–15.0).

Sensitivity Analysis, Transaction Risk

	Weakening of the currency, 10%				Strengthening of the currency, 10%			
	Dec 31, 2007		Dec 31, 2006		Dec 31, 2007		Dec 31, 2006	
Effect EUR million	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement
USD	1.4	7.4	-	6.1	–1.7	–9.1	-	–7.5
EUR	-	–0.3	-	–1.3	-	0.3	-	1.6
JPY	0.4	0.1	-	0.6	–0.5	–0.1	-	–0.7
Other	-	–0.0	-	1.4	-	–0.1	-	–1.7

The effect has been calculated from the net risk of each currency with the assumption that there will be no changes in the underlying volume forecasts.

ing costs, Elcoteq's pricing model also considers the foreign exchange rates prevailing at the time of pricing, which forms the basis for hedges in line with forecasted production volumes. Prices are usually agreed for the upcoming three months and therefore no long-term items are included in the company's transaction exposure. Approximately 90-95% of Elcoteq's net foreign exchange position, which is based on volume forecasts, is hedged at the time prices are agreed, using forward contracts or currency options with a maximum term of six months. The level of hedges is monitored and updated throughout the pricing period. Foreign exchange regulations may hinder hedging activities in certain countries, in Brazil for example.

The foreign exchange risk associated with Group companies' equity-linked net investments denominated in currencies other than the euro, i.e. the translation risk, arises from fluctuations in the calculated euro values of these amounts. The translation risk at the end of 2007 related mainly to the Chinese yuan (CNY) and the Russian ruble (RUB). These risks are partly hedged using exchange rate derivative contracts. Approximately 80% of the Group's ownership holdings in these companies are targeted to be hedged and this hedging level is updated during every subsequent month after the financial statements of the subsidiaries for the previous month are completed. On December 31, 2007 approximately 73% of the equity-linked net investments at the end of the previous month denominated mainly in CNY and RUB was hedged.

Sensitivity Analysis, Translation Risk

Effect, EUR million	Dec 31, 2007	Dec 31, 2006
Strengthening of the euro, 10%	0.8	2.2
Weakening of the euro, 10 %	–0.6	–1.8

The effect of changes in foreign exchange rates on shareholders' equity has been calculated from the net exposure. When the hedges are effective, changes in exchange rates do not have an impact on profits.

Internal funding of Group companies is primarily handled in their home currency. The parent company hedges the foreign exchange risk with derivative contracts. The level of hedging is nearly 100% and thus these financial items do not involve a significant foreign exchange risk for the Group.

Liquidity and Refinancing Risks

Liquidity risk is measured through reports based on the Group's cash flow forecasts. The company endeavors to safeguard its good liquidity position under varying market conditions through sufficient cash reserves and credit limit arrangements. On December 31, 2007 the Group's interest-bearing net debt totaled 144.5 million euros. The Group's cash reserves totaled 92.7 million euros and interest-bearing debt 237.2 million euros. Of the interest-bearing debt, the nominal value of subordinated notes amounted to 140 million euros at the end of 2007.

The company's financing reserves consisted of unused credit limits that on December 31, 2007 totaled 296.5 million euros. Altogether 230 million euros of the total is a syndicated and committed credit facility. The company also has a domestic commercial paper program of 200 million euros, of which the par value of open issues amounted to 24.0 million euros as at December 31, 2007. In addition, the company has a securitization facility worth 250 million euros as well as other smaller limits available for the sale of receivables. The company targets to continue to make use of accounts receivable sales when cost-effective.

Interest Rate Risk

The Group follows its interest exposure by monitoring in particular the interest payment flow risk. On December 31, 2007 the average interest rate of the loan portfolio was 6.1% with the average interest rate re-fixing time of approximately 19 months. Altogether 86.1%, or 204.6 million euros, of the loan portfolio was denominated in euros. Of this amount 126.1 million euros was converted through foreign exchange swap contracts, mainly into US dollars.

No derivative contracts were used to hedge the interest rate risk during the period. Rental payments on the company's operating leases for production equipment are based likewise on long-term market interest rates. Approximately 110 million euros of the Group's total interest-bearing debt, which at December 31, 2007 amounted to 237.2 million euros, has been agreed to carry a long-term fixed coupon. The remaining 127.2 million euros are floating rate short- or long-term loans, to which a market interest rate change of one percentage point would have an approximately 1.3 million euro effect on annual interest expenses.

Short-term interest rates affect the price that is received from sold accounts receivable. The interest rate risk related to this off-balance sheet item has not been hedged. At year-end cash flow from sold accounts receivable totaled 226.5 million euros, to which a market interest rate change of one percentage point would have an approximately 2.3 million euro effect on annual financial expenses. The costs arising from sold accounts receivable are entered under financial expenses.

Credit and Counterparty Risks

Primary responsibility for credit risks associated with the company's commercial activities lies with the business areas. Customers are given internal credit ratings. The credit committee, which operates under the Group's Management Team, decides on significant credit limits. In order to minimize credit risk, the company seeks to obtain adequate collateral, if the need for it is indicated by the creditworthiness of a customer. The maximum amount of the credit risk is the book value of accounts receivable. The credit risk related to sold accounts receivable is transferred at the time of sale.

In order to minimize counterparty risks in funding operations, Elcoteq enters into derivative contracts only with creditworthy banks. Liquid funds are invested in bank certificates of deposit, but also to commercial papers within the counterparty limits approved by the parent company's Board of Directors.

Risk Management

Risk Area	Risk Management Tool	Main Responsibility (Support)
Strategic risks, such as	Strategy, business plans	Group management (business areas)
• Customer dependency		
• New services and business models		
• Acquisitions and divestments		
• Competition		
• Market development		
Operational risks, such as		
• Political risks	Risk management policy	Business areas (risk management function)
• Product liability and R&D risks	Risk management policy	Business areas (legal affairs)
• Technology risks	Risk management policy	Group operations
• Personnel risks	HR policy	HR function (business areas)
• Environmental risks	Environmental policy and systems	Group operations (environmental management function)
• Materials management	Sourcing policy	Group sourcing
• Credit risks	Treasury policy	Business areas (treasury function)
Casualty risks, such as	Risk management policy and guidelines, insurance policies	Risk management function
• Data security risks	Security and data security policy	Information management (security function)
• Product liability and security	Risk management policy	Business areas (risk management function)
• Occupational health and safety	HR policy, safety guidelines	HR function (Group operations)
• Property damage risks	Risk management policy	Risk management function (Group operations)
Financial risks, such as	Treasury policy	Treasury function (business areas)
• Foreign exchange risks		
• Credit risks		
• Liquidity risks		

Formulas for the Calculation of Key Figures

$$\text{Return on equity (ROE)} = \frac{\text{Net income x 100}}{\text{Total equity, average of opening and closing balances}}$$

$$\text{Return on investment (ROI/ROCE)} = \frac{\text{(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) x 100}}{\text{Total assets – non-interest bearing liabilities, average of opening and closing balances}}$$

$$\text{Return on investment (ROI/ROCE) for trailing 12 months} = \frac{\text{(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) x 100}}{\text{Total assets – non-interest-bearing liabilities, average of opening and closing balances}}$$

$$\text{Current ratio} = \frac{\text{Current assets + assets classified as held for sale}}{\text{Current liabilities + liabilities classified as held for sale}}$$

$$\text{Solvency} = \frac{\text{Total equity x 100}}{\text{Total assets – advance payments received}}$$

$$\text{Gearing} = \frac{\text{Interest-bearing liabilities – cash and equivalents}}{\text{Total equity}}$$

$$\text{Earnings per share (EPS)} = \frac{\text{Net income attributable to equity holders of the parent}}{\text{Adjusted average number of shares outstanding during the period}}$$

$$\text{Earnings per share, diluted (EPS)} = \frac{\text{Net income attributable to equity holders of the parent}}{\text{Adjusted average number of shares outstanding during the period + effect of dilution on the number of shares}}$$

$$\text{Dividend per share} = \frac{\text{Dividends paid for the fiscal year}}{\text{Adjusted number of shares outstanding at the end of the period}}$$

$$\text{Payout ratio} = \frac{\text{Dividend per share x 100}}{\text{Earnings per share}}$$

$$\text{Dividend yield} = \frac{\text{Dividend per share x 100}}{\text{Average share price at the end of the period}}$$

$$\text{P/E-ratio} = \frac{\text{Average share price at the end of the period}}{\text{Earnings per share (EPS)}}$$

Five Years in Key Figures

		2007	2006	2005	2004*	2003
OPERATIONS						
Net sales	MEUR	4,042.9	4,284.3	4,169.0	2,921.8	2,235.7
of which outside Finland	%	93.9	89.7	81.4	86.2	81.0
Gross capital expenditures	MEUR	67.2	116.9	123.6	128.3	68.1
(does not include operating leases)						
Employees, average		19,131	16,651	15,242	13,065	11,044
PROFITABILITY						
Operating income before depreciation and amortization (EBITDA)	MEUR	–16.6	126.6	155.0	117.6	88.1
Operating income	MEUR	–96.3	43.9	76.5	57.3	30.5
% of net sales	%	–2.4	1.0	1.8	2.0	1.4
Income before taxes	MEUR	–122.8	19.2	59.3	44.9	22.5
% of net sales	%	–3.0	0.4	1.4	1.5	1.0
Net income **	MEUR	–108.4	12.1	41.3	30.7	20.7
% of net sales	%	–2.7	0.3	1.0	1.1	0.9
Return on equity (ROE)	%	–42.5	4.8	14.1	15.1	8.2
Return on investment (ROCE/ROI)	%	–19.6	9.1	17.6	19.5	10.2
FINANCIAL RATIOS						
Current ratio		1.1	1.2	1.2	1.1	1.2
Solvency	%	18.1	26.1	26.0	30.5	32.6
Gearing		0.7	0.4	0.3	0.4	–0.0
Interest-bearing liabilities	MEUR	237.2	210.3	191.7	137.4	63.3
Interest-bearing net debt	MEUR	144.5	128.0	90.3	98.2	–0.4
PER SHARE DATA						
Earnings per share (EPS)	EUR	–3.37	0.38	1.34	1.01	0.70
Diluted earnings per share (EPS)	EUR	–3.37	0.37	1.28	0.96	0.67
Shareholders' equity per share **	EUR	5.72	9.31	9.55	8.82	8.46
Share price at the end of the year	EUR	4.06	9.78	20.15	17.89	15.98
Dividend per share ***	EUR	0.00	0.20	0.66	0.65	0.90
Payout ratio ***	%	0.0	52.3	49.7	49.6	131.0
Dividend yield ***	%	0.0	2.0	3.3	3.6	5.6
P/E ratio		–1.2	25.7	15.0	14.1	22.9
Adjusted weighted average number of shares in issue during the period		32,178,081	31,338,611	30,764,705	30,420,473	29,572,826
Adjusted number of shares in issue at the end of the period		32,594,819	31,539,327	31,103,577	30,640,877	30,190,527

* The key figures for the income statement and earnings per share are calculated on continuing operations. Other key figures include the impact of the discontinued operation.

** Amount attributable to equity holders of the parent company. The net income for 2004 does not include the income of the discontinued operation.

*** The dividend in 2007 is the proposal of the Board of Directors to the Annual General Meeting.

Board's Proposal to the Annual General Meeting

The parent company recorded a net income of –40,305,862.72 euros for the year. Retained earnings from previous years, adjusted for the share issue costs entered in the additional paid-in capital, amounted to 56,528,808.58 euros. Therefore the parent company's distributable funds totaled 16,222,945.86 euros.

The Board will propose to the Annual General Meeting that the parent company will not distribute a dividend on the financial year.

Luxembourg, February 5, 2008

Antti Piippo Chairman of the Board	**Martti Ahtisaari**	**Heikki Horstia**	**Eero Kasanen**
Henry Sjöman	**Juha Toivola**	**Jorma Vanhanen**	**Jouni Hartikainen** President and CEO

Auditors' Report

TO THE SHAREHOLDERS OF ELCOTEQ SE

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Elcoteq SE for the period January, 1–December 31, 2007. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Limited Liability Companies Act.

CONSOLIDATED FINANCIAL STATEMENTS

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

PARENT COMPANY'S FINANCIAL STATEMENTS, REPORT OF THE BOARD OF DIRECTORS AND ADMINISTRATION

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors on how to deal with the result for the financial period is in compliance with the Limited Liability Companies Act.

Espoo, February 8, 2008

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Quarterly Figures (Unaudited)

INCOME STATEMENT, MEUR	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
NET SALES	**1,062.4**	**1,059.7**	**968.3**	**952.5**	**1,104.6**	**1,169.1**	**1,029.6**	**981.1**
Change in work in progress and finished goods	–5.7	23.8	–0.9	1.3	–8.1	19.4	–6.5	12.6
Other operating income	4.0	2.1	1.0	1.0	3.2	1.0	1.1	1.7
Operating expenses	–1,050.9	–1,063.5	–964.5	–957.0	–1,070.9	–1,151.0	–991.9	–968.2
Restructuring expenses	–15.3	–1.8	–3.1	–30.1	-	-	-	-
Depreciation and writedowns	–19.4	–20.4	–19.9	–20.1	–22.0	–21.8	–20.1	–18.9
OPERATING INCOME	**–24.9**	**–0.1**	**–19.0**	**–52.4**	**6.9**	**16.6**	**12.2**	**8.3**
% of net sales	–2.3	0.0	–2.0	–5.5	0.6	1.4	1.2	0.8
Financial income and expenses	–6.3	–7.3	–6.1	–6.4	–7.4	–6.2	–5.0	–5.1
Share of profits and losses of associates	–0.1	0.0	–0.1	–0.3	–0.3	–0.2	–0.2	–0.3
INCOME BEFORE TAXES	**–31.2**	**–7.5**	**–25.1**	**–59.0**	**–0.8**	**10.1**	**7.0**	**2.9**
Income taxes	–2.9	1.6	5.3	12.4	1.6	–3.4	–2.0	–0.8
NET INCOME FOR THE PERIOD	**–34.2**	**–5.9**	**–19.8**	**–46.6**	**0.8**	**6.7**	**5.0**	**2.1**
ATTRIBUTABLE TO:								
Equity holders of the parent company	–34.5	–6.3	–20.6	–46.9	–0.3	5.9	4.4	2.1
Minority interests	0.4	0.4	0.7	0.3	1.1	0.8	0.6	–0.0
	–34.2	–5.9	–19.8	–46.6	0.8	6.7	5.0	2.1

BALANCE SHEET, MEUR	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
ASSETS								
Non-current assets								
Intangible assets	32.7	35.0	36.9	38.8	45.4	47.8	49.4	48.2
Tangible assets	200.1	210.5	220.4	227.3	245.0	263.6	242.1	238.2
Investments	2.2	2.4	2.5	2.6	13.7	14.0	14.0	14.0
Long-term receivables	33.8	37.6	34.8	28.6	15.3	14.2	11.2	10.6
Non-current assets, total	268.8	285.5	294.7	297.4	319.4	339.6	316.7	311.0
Current assets								
Inventories	355.8	395.7	365.0	346.4	359.0	407.4	366.1	339.6
Current receivables	335.6	435.3	420.3	390.1	402.9	518.1	447.9	425.7
Cash and equivalents	92.7	65.8	44.4	75.4	82.3	102.4	41.0	143.5
Assets classified as held for sale	39.5	7.9	7.6	6.7	-	-	-	-
Current assets, total	823.5	904.7	837.3	818.6	844.2	1,028.0	854.9	908.9
ASSETS, TOTAL	**1,092.3**	**1,190.2**	**1,132.0**	**1,116.0**	**1,163.6**	**1,367.6**	**1,171.7**	**1,219.9**
SHAREHOLDERS' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent company								
Share capital	13.0	13.0	13.0	12.6	12.6	12.6	12.6	12.5
Other shareholders' equity	173.5	206.1	213.5	228.5	281.0	279.9	272.9	267.1
Equity attributable to equity holders of the parent company, total	186.6	219.2	226.6	241.1	293.7	292.5	285.4	279.5
Minority interests	11.3	11.0	9.8	10.1	9.6	7.9	7.0	6.7
Total equity	197.9	230.2	236.4	251.2	303.3	300.4	292.5	286.3
Long-term liabilities								
Long-term loans	159.3	179.6	179.4	179.6	179.7	179.9	179.9	180.0
Other long-term debt	4.9	5.0	5.1	4.5	5.2	4.3	4.1	3.7
Long-term liabilities, total	164.2	184.6	184.5	184.1	184.8	184.3	184.0	183.7
Current liabilities								
Current loans	77.5	49.8	56.6	64.8	30.6	92.0	26.2	38.7
Other current liabilities	625.6	718.0	647.0	607.3	643.1	788.3	666.3	708.9
Provisions	6.5	7.5	7.5	8.5	2.8	2.5	2.7	2.5
Liabilities classified as held for sale	20.5	-	-	-	-	-	-	-
Current liabilities, total	730.2	775.4	711.1	680.6	676.5	882.9	695.2	750.0

	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	1,092.3	1,190.2	1,132.0	1,116.0	1,163.6	1,367.6	1,171.7	1,219.9
Personnel on average during the period	19,131	19,433	19,714	19,065	17,431	16,930	16,581	15,748
Gross capital expenditure, MEUR	27.8	14.8	13.4	11.2	32.3	38.5	30.1	16.0
ROI/ROCE from 12 preceding months, %	−19.6	−12.0	−9.4	−2.9	9.1	12.1	15.7	16.0
Earnings per share (EPS), EUR	−1.06	−0.19	−0.64	−1.49	−0.01	0.19	0.14	0.07
Solvency, %	18.1	19.4	20.9	22.5	26.1	22.0	25.0	23.5

CONSOLIDATED CASH FLOW STATEMENT, MEUR	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Cash flow before change in working capital	5.2	13.1	−2.3	−4.3	23.8	36.8	28.4	25.2
Change in working capital	33.6	33.9	−5.9	−18.4	30.7	13.7	−73.1	12.6
Financial items and taxes	−6.1	−3.8	−1.2	−8.6	−11.6	−7.7	−6.6	−7.3
Cash flow from operating activities	32.7	43.2	−9.5	−31.2	43.1	42.6	−51.3	30.6
Purchases of non-current assets	−26.2	−18.0	−12.5	−10.4	−18.2	−48.8	−24.5	−17.4
Disposals of non-current assets	15.4	3.7	1.0	0.7	16.4	1.5	4.2	1.1
Cash flow before financing activities	21.9	28.9	−21.0	−40.9	41.2	−4.7	−71.5	14.2
Proceeds from share issue	-	-	6.7	-	0.5	0.5	1.4	0.5
Redemption of parent company shares	−0.1	-	-	-	-	-	-	-
Change in current debt	9.3	−4.5	−8.8	34.4	−60.9	65.4	−10.3	−1.7
Issuance of long-term debt	-	-	-	-	-	-	-	29.8
Repayment of long-term debt	−0.2	-	−0.2	−0.2	−0.2	−0.1	−0.2	-
Dividends paid	-	−1.5	−7.4	-	-	-	−20.6	-
Cash flow from financing activities	9.1	−6.0	−9.7	34.3	−60.6	65.9	−29.7	28.6
Change in cash and equivalents	30.9	23.0	−30.8	−6.6	−19.3	61.1	−101.1	42.8
Cash and equivalents at the beginning of the period	65.8	44.4	75.4	82.3	102.4	41.0	143.5	101.4
Cash and equivalents classified as held for sale	−3.2	-	-	-	-	-	-	-
Effect of exchange rate changes on cash held	−0.8	−1.6	−0.2	−0.3	−0.8	0.4	−1.4	−0.7
Cash and equivalents at the end of the period	92.7	65.8	44.4	75.4	82.3	102.4	41.0	143.5

BUSINESS AREAS, MEUR	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Net sales								
Terminal Products	849.9	842.9	752.0	767.2	898.6	967.9	837.6	808.0
Communications Networks	212.5	216.8	216.4	185.3	206.0	201.2	192.0	173.1
Total	1,062.4	1,059.7	968.3	952.5	1,104.6	1,169.1	1,029.6	981.1
Segment's operating income								
Terminal Products	1.3	6.0	−11.4	−36.9	13.2	18.6	20.7	15.9
Communications Networks	−17.2	2.4	2.2	−4.7	5.7	8.8	3.2	4.6
Group's non-allocated expenses/ income	−9.0	−8.5	−9.8	−10.8	−12.1	−10.8	−11.6	−12.3
Total	−24.9	−0.1	−19.0	−52.4	6.9	16.6	12.2	8.3
Restructuring expenses recognized in segment's operating income:								
Terminal Products	−2.6	−2.1	−2.9	−28.3	-	-	-	-
Communications Networks	−12.6	0.3	−0.3	−1.4	-	-	-	-
Group's non-allocated expenses/ income	0.0	0.0	0.1	−0.4	-	-	-	-
Total	−15.3	−1.8	−3.1	−30.1	-	-	-	-

GEOGRAPHICAL AREAS, MEUR	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Net sales								
Europe	557.5	530.2	481.0	507.6	635.8	659.4	599.7	530.5
Asia-Pacific	293.9	313.7	272.1	231.2	260.3	307.2	272.8	253.8
Americas	211.1	215.7	215.2	213.6	208.5	202.4	157.1	196.8
Total	1,062.4	1,059.7	968.3	952.5	1,104.6	1,169.1	1,029.6	981.1

Domiciled in Luxembourg as of January 1, 2008

Corporate Governance

Elcoteq SE, the parent company of the Elcoteq Group, is a European Company that, as from January 1, 2008, is domiciled in Luxembourg (domiciled in Lohja, Finland, until December 31, 2007).

TRANSFER OF DOMICILE

Elcoteq's Annual General Meeting held on March 22, 2007 approved the transfer of the company's domicile to Luxembourg. Elcoteq has been domiciled in Luxembourg as of January 1, 2008 (domiciled in Lohja, Finland, until December 31, 2007).

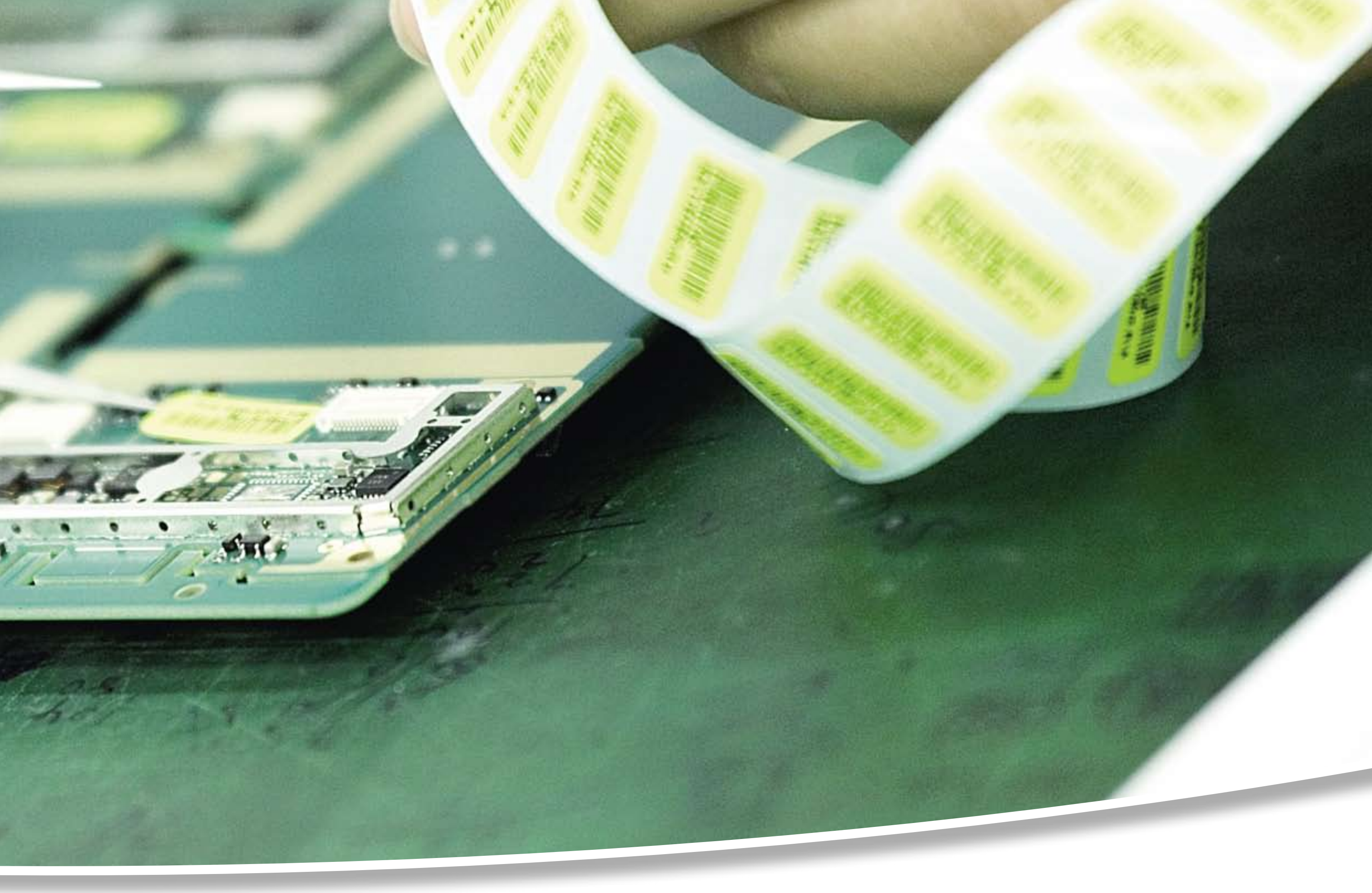
After the transfer of domicile, Elcoteq shall primarily apply the laws of Luxembourg, the company's Articles of Association that came into force on January 1, 2008, and the rules of procedure of the company's Board of Directors and its committees in its corporate governance and management.

Trading in Elcoteq's Series A shares will continue on the OMX Nordic Exchange Helsinki. Elcoteq complies also after the transfer of domicile with the Corporate Governance recommendations for listed companies prepared by the OMX Nordic Exchange Helsinki, the Central Chamber of Commerce and the Confederation of Finnish Industries EK as well as the insider guidelines of the OMX Nordic Exchange Helsinki and applicable Finnish securities market legislation.

GENERAL MEETINGS

The general meeting of shareholders is the supreme decision-making body in Elcoteq and the forum in which its shareholders exercise their voting rights. Shareholder meetings consider the matters stipulated by legislation and the company's Articles of Association. The language in the meetings is English.

As from January 1, 2008, the Annual General Meeting will be held on March 23 in the city of Luxembourg at the time and in the venue specified by the Board of Directors in the invitation to



the Meeting. If said date falls on a national holiday or bank holiday in Luxembourg or Finland, the Annual General Meeting will be held the next day. Shareholders can also participate in the meeting via remote access at an event held in Helsinki.

GROUP ADMINISTRATION

In addition to the general meeting of shareholders, the principal responsibility for the company's administration and operations lies with the Board of Directors and the President and CEO. The Board is responsible for the proper organization of the company, and the strategy formulated by the Management Team is endorsed by the Board of Directors. The President and CEO is responsible for day-to-day operations. He is supported in his work by the Management Team.

The Elcoteq Management Team consists of the President and CEO, the COO, the CFO, and the three Presidents responsible for the business areas. The task of the Group's management is to manage the Group in accordance with the strategy endorsed by the Board of Directors. Its main responsibilities include developing and executing the company's strategy, monitoring and ensuring the company's financial performance, steering and supervising the company's operations, developing and maintaining the company's internal operating procedures and guidelines and also its reporting and monitoring systems, and ensuring that the company's activities comply with legal regulations.

The Management Team meets at least once a month. Its members report to the President and CEO.

After the organizational change on January 1, 2008, the company does not have a separate Management Conference.

The company has organized its operations into three business areas that have profit responsibility: Personal Communications, Home Communications and Communications Networks. The President of each business area is responsible for customer accounts in his area and the related operations, supply chain management and further development of business and the service offering. In addition, the Group functions are responsible for aligning the consistent processes so that economies of scale can be achieved.

THE BOARD OF DIRECTORS

Responsibility for the management of the company and the appropriate organization of its operations lies with the Board of Directors, which comprises at least four and at most eight members who are elected by a General Meeting.

The Board of Directors applies Rules of Procedure, which stipulate for example the following matters:

- composition and constitution of the Board of Directors
- conduct and number of meetings
- information on the company to be regularly submitted to the Board
- matters requiring regular consideration at Board meetings, and
- assessment of the Board's performance.

The Board's Rules of Procedure stipulate that a majority of the Board members must be independent of the company and at least two of this majority must be independent of the company's principal shareholders. Four of the seven Board members elected by the Annual General Meeting (AGM) in 2007 are independent of the company and its principal shareholders. The term of office of the Board members expires at the close of the first AGM following their election. After the close of the Annual General Meeting, the new Board elects a chairman and a deputy chairman from among its members and decides on the establishment of its committees and their members.

According to the Rules of Procedure, the Board of Directors assesses its own activities and performance annually and develops its activities based on the results of this assessment.

The Board convenes regularly and at least six times during its term of office in accordance with a prearranged schedule, and holds extraordinary meetings at the request of a Board member or the company's CEO. The Board is convened by its chairman. The Board of Directors constitutes a quorum when more than half of its members are present, either in person or represented by another Board member. Decisions are made with a simple majority of votes. In the event of a tied vote, the chairman's vote is decisive. The Board's meetings are also attended by the President and CEO and the COO of the company to present matters, and additionally executives and other persons when expert advisers are required.

In addition to the matters stipulated in the applicable legislation and Elcoteq's Articles of Association, the Board of Directors also:

- decides the Group's strategy and supervises its implementation
- evaluates and approves projects related to the company's development and decides on the establishment or discontinuation of the Group's subsidiaries
- approves the Group's business plan and budget and monitors their implementation
- decides acquisitions and significant investments and monitors their implementation
- decides significant Group-level financing arrangements and the granting of collateral and guarantees
- decides the Group's administration and organization
- decides the appointment and remuneration of the President and CEO, the COO and other top management
- decides the bonus and remuneration schemes applied to the company's management and personnel
- considers and approves the annual and interim financial statements
- supervises risk management in the Group and compliance with its procedures
- supervises compliance with legislation and regulations and compliance with the company's corporate governance guidelines
- decides donations to good causes, and
- presents proposals to general meetings.

The Board of Directors has seven members during the term of office ending at the 2008 Annual General Meeting. Since the Annual General Meeting in 2007, the Chairman of the Board has been Mr. Antti Piippo and the Deputy Chairman Mr. Juha Toivola.

The Board of Directors met 13 times during 2007. The attendance of its members at these meetings averaged 96%.

THE BOARD'S COMMITTEES

The Board of Directors has four committees: a Working Committee, Audit Committee, Compensation Committee and Nomination Committee. The Board can also establish other committees for specific purposes.

The tasks of each committee are stipulated in their own rules of procedure which are approved by the Board of Directors. The committees report on their work to the Board at the Board meetings.

Working Committee

The Working Committee prepares matters for the Board related to the company's business operations, strategy and business development. The Working Committee consists of at least three members and a chairman, who convenes the committee.

During the 2007–2008 period, the Working Committee was chaired by Mr. Antti Piippo, and the members were Mr. Henry Sjöman, Mr. Juha Toivola and Mr. Jorma Vanhanen. The Committee met 39 times during 2007.

Audit Committee

The Audit Committee supervises and prepares for the Board matters related to financial reporting, external auditing, the internal audit and risk management. It also supervises and enhances these functions in the company. The Committee consists of at least three independent Board members, who must have sufficient financial expertise for the task. The Committee meets regularly and at least four times during its term of office. The Committee is in regular contact with the company's auditors.

During the 2007–2008 period the Audit Committee was chaired by Mr. Juha Toivola, and its other members were Mr. Martti Ahtisaari, Mr. Heikki Horstia and Mr. Eero Kasanen. The Committee met four times during 2007.

Compensation Committee

The Compensation Committee prepares for the Board matters related to the remuneration, performance-based compensation, benefits and perquisites policies applied to the company's management and the remuneration policy of the company. The Committee consists of at least three independent Board members. The Committee meets during its term of office as necessary and is convened by its chairman.

During the 2007–2008 period the Compensation Committee was chaired by Mr. Juha Toivola, and its other members were Mr. Martti Ahtisaari, Mr. Heikki Horstia and Mr. Eero Kasanen. The Committee met four times during 2007.

Nomination Committee

The Nomination Committee prepares matters related to the nomination and remuneration of the Board members, and seeks suitable individuals for nomination to the Board. The Committee consists of at least three members and is convened as necessary by its chairman.

During the 2007–2008 period the Nomination Committee was chaired by Mr. Antti Piippo, and its other members were Mr. Henry Sjöman, Mr. Juha Toivola and Mr. Jorma Vanhanen. The Committee met once during 2007.

FEES PAID TO THE BOARD OF DIRECTORS

As decided by the Annual General Meeting held in the spring of 2007, the Board members are each paid an annual fee for their Board work amounting to 60,000 euros, 60% of which is paid in cash and 40% in shares. In 2007, with respect to the latter payment, the Elcoteq shares were acquired between April 27 and May 11, 2007 within the limits set by the rules governing insider trading. 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 in 2007 decided to pay an additional monthly fee of 45,000 euros to the full-time Chairman of the Board and an additional monthly fee of 10,000 euros to the Deputy Chairman of the Board. The salaries, fees and fringe benefits paid to the Board of Directors for their Board work in 2007 totaled approximately 1,141,000 euros.

In addition to the statutory pension cover, additional pension arrangements allow some of the Board members to retire at the age of 60.

The members of the company's Board of Directors do not participate in Elcoteq's stock option plans.

Board's Fees Approved by the Annual General Meeting on March 22, 2007	
Chairman	60,000 euros/year + 45,000 euros/month
Deputy Chairman	60,000 euros/year + 10,000 euros/month
Other members	60,000 euros/year

THE PRESIDENT AND CEO

The Board of Directors appoints a President who is responsible for overall management of the company as required by legislation and in accordance with the instructions and stipulations of the Board of Directors.

Since January 1, 2004, the President and CEO of the company has been Mr. Jouni Hartikainen, M.Sc. (Eng.), and the COO and Deputy CEO Mr. Jukka Jäämaa, L.Sc (Eng.).

PRESIDENT AND CEO'S REMUNERATION

The President and CEO's monthly salary is 87,356 Swiss francs, i.e. approximately 53,169 euros, and he also receives the usual fringe benefits. In addition to his monthly salary, the President and CEO receives a performance-based bonus in accordance with the incentive scheme in force to a maximum amount of 50% of his basic annual salary. The salary, other short-term benefits and share-based payments paid to the President and CEO in 2007 totaled some 736,000 euros.

In addition to the statutory pension cover, additional pension arrangements allow the President and CEO and the Deputy CEO to retire at the age of 60.

The CEO's notice period is six months. In the event that the CEO's employment contract is terminated by the company without proper cause, the CEO will be paid severance compensation equivalent to 12 months' monetary salary.

MANAGEMENT REMUNERATION AND INCENTIVE SCHEMES

The Board of Directors decides on the fees and remuneration schemes applicable to the members of the Management Team based on a proposal by the Compensation Committee. The level and competitiveness of the salaries is reviewed on the basis of comparison data obtained from international evaluation systems.

The company operates a bonus system under which a part of the bonus is based on achievement of the Group's financial targets and a part on achievement of each director's individual targets. The Board of Directors determines the criteria for the financial targets based on a proposal by the Compensation Committee. Individual targets are determined during performance appraisal discussions. The maximum amount to be paid to members of the Management Team for 2007 is 50% of their basic annual salaries.

The company also has other incentive plans. In 2004, the Board of Directors agreed on the motivation and commitment of the management and key employees of the Group by means of a stock option plan. The 2004 stock option plan covers the members of the Management Conference. In 2007, Elcoteq's Board of Directors decided on a share subscription plan for the commitment and motivation of key employees in the Group's middle to senior level management.

Further information on the incentive schemes is given under Shares and Shareholders on page 74. Further information on the share and stock option holdings of the Management Team is given on page 97.

INTERNAL CONTROL

Elcoteq employs a reporting system to monitor its business performance in which corporate sales are reported daily and results are reported monthly. Forecasts for the following 12 months are drawn up monthly. The results and forecasts include an income statement, a balance sheet and key financial indicators. The company monitors fulfillment of its strategic goals in quarterly strategy meetings. The meetings review the key indicators that describe the business plan targets. Elcoteq updates its business plan once a year for a three-year period.

Elcoteq has outsourced its internal audit to KPMG Oy Ab Risk Advisory Services. The internal audit is coordinated by Elcoteq's risk management function. The internal audit reports administratively to the CFO but in matters related to the internal audit directly to the Audit Committee of the Board of Directors. The Audit Committee also decides annually the areas that the internal audit will focus on. The internal audit function is independent of the company's external auditors.

Elcoteq performs numerous audits with KPMG Oy Ab Risk Advisory Service each year to establish, among other things, the functionality of certain preselected processes and the adequacy and efficacy of controls in various units. The most important observations resulting from the audits are reported in detail to the management of each unit in question and a summary of the audits is submitted to the Audit Committee.

INSIDER MATTERS

The Insider Rules endorsed by the Board of Directors and adopted by the company on March 1, 2000 fully comply with and exceed the requirements of the guidelines recommended by the OMX Nordic Exchange Helsinki. The Insider Rules are available to all the company's employees through the company's intranet.

Under the company's Insider Rules, insiders may engage in trading in the company's shares only at times when the market has the fullest possible knowledge of matters that could influence the share value. For this reason, Elcoteq's permanent insiders are not permitted to trade in the company's shares during the time between the closing of its reporting period and the date of the results publication.

As from the beginning of 2006, the company has maintained a public insider register that comprises the members of the Board of Directors, the President and CEO, the COO, the members of the Management Team, the auditor and other separately specified members of the company's management. Individuals who by virtue of their duties regularly receive information regarded as insider information are included in the company's non-public insider register. Elcoteq also maintains project-specific insider registers.

The insider registers are maintained by Elcoteq's legal affairs department, which also updates the information on Elcoteq's insiders in the register maintained by the Finnish Central Securities Depository. The company's public insider register can be viewed on the company's website.

Elcoteq's shares remain in the book-entry securities system maintained by the Finnish Central Securities Depository even after the transfer of domicile. The insider registers will remain as before. As of January 1, 2008, the legislation of both Finland and Luxembourg will be applied in insider supervision. The Finnish Financial Supervision Authority supervises compliance with legislation and regulations on project-specific insider registers, while supervision of the public insider register is handled by CSSF (Commission de Surveillance du Secteur Financier).

THE AUDITOR

According to the company's Articles of Association, the company shall have one or more statutory auditors. The Annual General Meeting appoints the auditor. The term of office ceases at the close of the first Annual General Meeting following his election.

Elcoteq SE's auditors are the firm of authorized public accountants KPMG Oy Ab, under the supervision of Principal Auditor Mauri Palvi, APA. Following the transfer of the company's domicile (on January 1, 2008), the company's auditor is KPMG Audit S.à.r.l. until the conclusion of the next Annual General Meeting. In 2007, the auditing associations belonging to the KPMG Group were paid approximately 590,000 euros in auditing fees and approximately 480,000 euros for other consultation assignments. Other consultation assignments mainly consisted of consultation related to the company's globalization projects, taxation consulting and internal auditing.

Panu Virtanen, Engineering Manager: "I Ensure That the Customer Receives Consistent Service from Us Globally"

"I work for Elcoteq as Global Engineering Manager for one Home Communications customer. It's my job to ensure maximum consistency in the technical operating procedures used to manufacture this customer's products in our whole plant network and over the entire lifecycle of the products. The customer provides us with development ideas and feedback, and we seek to adopt these ideas at all our product lines simultaneously. This means we don't have to keep reinventing the wheel.

My work is varied and no single day is the same. When customer projects are being launched, I help with production start-up. I also provide guidelines and training on process and procedure issues related to NPI and volume production for the NPI engineers and Product Line Managers of the plants manufacturing the customer's products. I also oversee global compliance with procedures.

We cater to the needs of customers in our process development. Our goal is to ensure maximum production flexibility and consistency worldwide. Thanks to our cooperation, we can provide our customers with feedback on our production in order to facilitate design (Design for Manufacturing) – this optimizes the volume production of the design from day one".

Salaries and Share-Based Payments to the Management Team, EUR 1,000	Salaries and Other Short-Term Benefits 2007	Salaries and Other Short-Term Benefits 2006	Share-Based Payments* 2007	Share-Based Payments* 2006	Total 2007	Total 2006
President and CEO	652	935	84	197	736	1,132
Deputy CEO	374	571	63	151	437	722
Other Management Team members**	1,065	1,131	68	346	1,133	1,477

* Includes costs of stock options and share incentive plans.
** The number of other Management Team members was 4–5 persons in 2006 and 3–4 persons in 2007.

David Liu, Product Program Manager: "Program Management Will Become Even More Important With Elcoteq's Expanding Service Offering"

"My work as a Product Program Manager in product development services involves product definition, design, implementation, production and maintenance during the entire lifecycle of our customers' products. Each program has a cross-functional team to ensure we reach our business targets: the defined budget, schedule and quality. The program size can vary from hundreds of people to even thousands of people. In addition to our defined processes, creativity, innovation and flexibility play a key role in product program management.

Our task is to provide our customers with ODM service in addition to traditional electronics manufacturing services. Pressure from time-to-market constraints and increasingly complex program management means that an increasing number of customers are seeking tailored, one-stop solutions. We manage the complexity of product lifecycles on our customers' behalf. They can then focus on brand management, marketing and customer relationships.

I believe that program management will become even more important with Elcoteq's expanding service offering. Program management has an important role as the glue between mechanics and electronics".

Board of Directors

Martti Ahtisaari,
born 1937, Teacher Training Course Graduate, University of Oulu

Independent member of Elcoteq's Board of Directors since 2000; member of the Audit and Compensation Committees

Work experience: Mr. Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. Mr. Ahtisaari was President of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts. Mr. Ahtisaari also holds honorary doctorates from a number of universities.

Other key posts: board chairman of Crisis Management Initiative

Heikki Horstia,
born 1950, B.Sc. (Econ.)
Vice President, Group Treasurer of Wärtsilä Corporation

Independent member of Elcoteq's Board of Directors since 1991; member of the Audit and Compensation Committees

Work experience: Mr. Horstia has had a career in the financial management of industrial enterprises (Teollisuuden Voima Oy, Oy Lohja Ab, Metra Corporation) since 1976, and has occupied management and board positions in the electronics industry since 1983.

Eero Kasanen,
born 1952, DBA
Rector of the Helsinki School of Economics and Professor of Finance

Independent member of Elcoteq's Board of Directors since 2001; member of the Audit and Compensation Committees

Work experience: Professor at the Helsinki School of Economics since 1989

Other key posts: Dr. Kasanen is a board member of several companies, for example Kaleva Mutual Insurance Company. He is also chairman of the boards of directors of the Helsinki School of Economics Holding Ltd and Finland Post Corporation.

Antti Piippo,
born 1947, B.Sc. (Eng.)
Founder and principal shareholder of Elcoteq

Chairman of Elcoteq's Board of Directors in 1991–2001 and Chairman of the Board of Directors again since 2003. Chairman of the Working and Nomination Committees

Work experience: Mr. Piippo has held management positions in the electronics industry since 1971, first in Aspo Oy (1971–1984) and then in Oy Lohja Ab (1984–1991). He was head of the electronics divisions of both companies.

Other key posts: supervisory board member of Varma Mutual Pension Insurance Company and chairman of the board of Piippo Oy, Gallery Kalhama & Piippo Contemporary Oy, Nordic Solutions Oy and Bossa Kulttuuriravintola Oy

Henry Sjöman,
born 1950, B.Sc. (Eng.)
Founder-shareholder of Elcoteq

Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees

Work experience: Mr. Sjöman has worked in the electronics industry since 1974 and has held various management positions in Elcoteq and its predecessors since 1984.

Juha Toivola,
born 1947, Master of Arts

Independent member of Elcoteq's Board of Directors since 1997; Deputy Chairman of the Board in 1997–2001 and again since 2003; Chairman of the Board in 2001–2003. Chairman of the Audit and Compensation Committees, member of the Working Committee

Work experience: Mr. Toivola has over 30 years of experience from both Finnish and international industrial corporations and the insurance sector. Between 1971 and 1995 Mr. Toivola worked for Fiskars Corporation, and between 1996 and 2001 he was Managing Director of Industrial Insurance Company Ltd and Deputy Managing Director of the Sampo Group.

Other key posts: Mr. Toivola is a board member or board chairman of several companies. He is also a member of the Association of Finland's Board Professionals.

Jorma Vanhanen,
born 1959, M.Sc. (Eng.)
Founder-shareholder of Elcoteq

Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees

Work experience: Mr. Vanhanen has held various management positions in Elcoteq and its predecessors since 1985.

Board´s Shareholdings on December 31, 2007

Name	A Shares	K Shares	Change from 2006
Antti Piippo	1,594,065	5,411,000	+3,765
Henry Sjöman	592,860	2,583,000	+3,765
Jorma Vanhanen	607,860	2,583,000	+3,765
Martti Ahtisaari	15,735	-	+3,765
Heikki Horstia	11,485	-	+3,765
Eero Kasanen	13,135	-	+3,765
Juha Toivola	17,985	-	+3,765

Up-to-date information on the public insiders' shareholdings is available at www.elcoteq.com>Investors.

Elcoteq Management Team

Jouni Hartikainen,
born 1961, M.Sc. (Eng.)
President and CEO

Joined Elcoteq in 2000; member of the Management Team since 2000 and President and CEO since 2004

Area of responsibility: Developing and implementing the strategy. In addition to Elcoteq Management Team members, the following functions report directly to the President and CEO: legal affairs, marketing and communications, human resources and corporate development.

Work experience: Mr. Hartikainen has previously worked in Elcoteq as the head of the geographical area Asia-Pacific, the Communications Networks business area and global sales and customer service. Before joining Elcoteq, Mr. Hartikainen held several positions in Tecnomen Corporation. He has also worked several years in Canada and Malaysia.

Key posts: Board member of the Federation of Finnish Technology Industries (Teknologiateollisuus ry)

Jukka Jäämaa,
born 1965, L.Sc. (Eng.)
Chief Operating Officer (COO) and Deputy CEO

Joined Elcoteq in 1998; member of the Management Team since 1998 and Deputy CEO since 2004

Areas of responsibility: All Group-wide operations, sourcing, quality and processes

Work experience: Previously in Elcoteq Mr. Jäämaa has headed the geographical area Europe, the Communications Networks business area and the Industrial Electronics business area, as well as Europe's sales and account management. Prior to Elcoteq, Mr. Jäämaa held a variety of positions in Perlos Corporation since 1990.

Vesa Keränen,
born 1970, M.Sc. (Eng.)
President, Home Communications business area

Joined Elcoteq in 1997; member of the Management Team since 2001

Areas of responsibility: Home Communications business area

Work experience: Mr. Keränen has worked in various business development and strategy planning positions in Elcoteq since 1997. Prior to his current position, Mr. Keränen was in charge of sales and business development, as well as the Terminal Products business area. Before joining Elcoteq, Mr. Keränen held positions in various international companies in Finland and Germany.

Anssi Korhonen,
born 1965, M.Sc. (Electrical Engineering)
President, Personal Communications business area

Has worked in Elcoteq in 1992–1995 and again since 1997; member of the Management Team since November 2005

Areas of responsibility: Personal Communications business area

Work experience: Prior to his current position Mr. Korhonen has worked in Elcoteq as Senior Vice President responsible for product development services and before that as the head of the Terminal Products business area. Earlier he has held various project, product line, account management and business development positions since 1997 and worked as Development Engineer in 1992–1995. During 1995–1997 Mr. Korhonen worked for Ericsson Mobile Communications AB's R&D site in Sweden.

Tommi Pettersson
Born 1968, M.Sc. (Electrical Engineering)
President, Communications Networks business area

Has worked in Elcoteq since 2005; member of the Management Team since January 2008

Areas of responsibility: Communications Networks business area

Work experience: Prior to his current role, Mr. Pettersson was Vice President for Strategic Account Management in the Communications Networks business area. Mr. Pettersson has been working for Elcoteq since February 2005 as Account Director for certain strategic customers. Before joining Elcoteq he has held several sales and marketing and senior management positions in software and electronics design companies like Mobile Innovation Finland Oy, Synopsys Inc and Smartech Oy.

Mikko Puolakka
born 1969, M.Sc. (Econ.)
Chief Financial Officer (CFO)

Joined Elcoteq in 2001; member of the Management Team since August 2007

Areas of responsibility: business control, treasury, investor relations, corporate responsibility, corporate relations, risk management and security

Work experience: Prior to his current role, Mr. Puolakka worked as Controller of Elcoteq's geographical area Europe. Before this he was Controller of the Industrial Electronics and Communications Networks business areas and Elcoteq's Swiss and German production units. Before joining Elcoteq, Mr. Puolakka worked in Treasury, Business Unit Finance and Operations Controlling for Huhtamäki Corporation in Finland, Switzerland and Poland.

Option and Share Ownership of the Elcoteq Management Team on December 31, 2007

Name	2004 Options	Number of Shares
Jouni Hartikainen	60,000	38,132
Jukka Jäämaa	45,000	5,596
Vesa Keränen	30,000	3,232
Anssi Korhonen	18,500	1,924
Tommi Pettersson	-	300
Mikko Puolakka	-	1,000

Up-to-date information on the public insiders' shareholdings is available at www.elcoteq.com>Investors.

Investor Relations (IR)

Elcoteq's IR function seeks to increase investors' awareness of Elcoteq and enhance interest in the company as an investment.

IR PRINCIPLES

Elcoteq's IR policy is to provide information about the company's activities, financial position and goals, as well as conditions in its operating environment, in a timely, open, accurate and objective manner. The IR function's aim is to enable the capital markets to form a true and fair view of the company. IR seeks to increase awareness of Elcoteq's strategy and activities, thereby enhancing interest in Elcoteq as an investment.

INVESTOR MEETINGS

Elcoteq arranges press conferences for analysts, investors, financiers and financial journalists on the publication of its interim and full-year results. One may also participate by teleconferencing. Conferences can be viewed as real-time webcasts or recordings on the company's website. The conferences provide participants with the opportunity to hear the company's views and to address questions to its top management. The company may also arrange Capital Market Days for investors, analysts and financiers. Recordings of press conference webcasts and the material presented at these events are available on the company's website.

The company regularly meets analysts and investors in both Europe and the USA and takes part in various investor seminars. Finnish and foreign analysts and investors also meet the company's management at Elcoteq's premises. The main themes of these meetings are Elcoteq's strategy, financial performance and prospects, based on published information.

Private investors are invited to meet representatives of the company's management at the Annual General Meeting in the spring. As from the beginning of 2008, AGM will be held in Luxembourg due to the change of the company's domicile. Shareholders can also participate in the AGM in Helsinki, Finland via remote access.

SILENT PERIOD

Elcoteq observes a silent period from the closing of its interim or annual accounts to the date on which its results are published. During this period Elcoteq's representatives do not meet investors or comment on the company's results.

PROSPECTS

Elcoteq operates in an industry where business volumes can vary considerably even in the short term. Further on, these changes may have a substantial effect on the company's previously stated forecasts. For this reason Elcoteq does not include precise figures on net sales and profits in its forecasts, preferring instead to provide a mainly verbal description of its prospects in its financial statements bulletins and interim reports.

FINANCIAL REPORTING IN 2008

- Financial Statements Bulletin for 2007, February 6, at 9.00 am (EET)
- Annual Report, week commencing on March 3
- Interim Report January–March, April 23, at 9.00 am (EET)
- Interim Report January–June, July 23, at 9.00 am (EET)
- Interim Report January–September, October 23, at 9.00 am (EET)

Elcoteq's annual reports, corporate responsibility reports, interim reports, and releases are published both in English and Finnish. They are available on the company's website at www.elcoteq.com.

To order these publications, please visit the company's website, send an e-mail to info@elcoteq.com or contact Group Communications at Elcoteq SE, Finnish Branch, Ms. Riitta Kemppainen, P.O.Box 8, FI-02631 Espoo, Finland or call +358 10 413 1718.

CHANGES OF ADDRESS

Shareholders are kindly asked to notify any changes of address either to the bank holding their book-entry account or to the Finnish Central Securities Depository Ltd, if the book-entry account is registered there.

ANNUAL SUMMARY 2007

Elcoteq's releases, interim reports and financial statements bulletin from the year 2007 can be found on the company's website at www.elcoteq.com.

Investor Relations Contacts

Tuula Hatakka, Senior Vice President,
Treasury and Investor Relations
Tel. +358 10 413 1808
Fax +358 10 413 1810
E-mail: tuula.hatakka@elcoteq.com

Riitta Kemppainen, Marketing and Communications Specialist
Tel. +358 10 413 1718
Fax +358 10 413 1938
E-mail: riitta.kemppainen@elcoteq.com

ANALYSTS COVERING ELCOTEQ

The investment analysts listed below actively monitor Elcoteq's performance. Elcoteq takes no responsibility for any evaluations or recommendations published by them.

Analysts

Brokerage House	Analyst	Telephone	E-mail
ABG Sundal Collier	Magnus Innala	+46 8 5662 8633	magnus.innala@abgsc.se
ABN Amro	Rauli Juva	+358 9 2283 2709	rauli.juva@fi.abnamro.com
Carnegie Investment Bank AB, Finland Branch	Janne Rantanen	+358 9 6187 1237	janne.rantanen@carnegie.fi
Danske Markets Equities	Ilkka Rauvola	+358 10 236 4712	ilkka.rauvola@mandatum.fi
Deutsche Bank AG, Helsinki Branch	Jussi Uskola	+358 9 2525 2551	jussi.uskola@db.com
SEB Enskilda	Antti Karessuo	+358 9 6162 8729	antti.karessuo@enskilda.fi
eQ Bank Ltd	Jari Honko	+358 9 681 781	jari.honko@eQonline.fi
Glitnir	Teemu Saari	+358 9 6134 6514	teemu.saari@glitnir.fi
Handelsbanken Capital Markets	Karri Rinta	+358 10 444 2409	karri.rinta@handelsbanken.fi
Impivaara Securities Ltd	Jeffery Roberts	+44 20 7284 3937	impivaara@pomor.com
Kaupthing Bank Oyj	Michael Schröder	+358 9 4784 0287	michael.schroder@kaupthing.com
Pohjola Bank Plc	Hannu Rauhala	+358 10 252 4392	hannu.rauhala@pohjola.fi

Annual General Meeting

Elcoteq SE's Annual General Meeting (AGM) 2008 will be held in Luxembourg on Tuesday, March 25, 2008, at 3.00 pm CET (4.00 pm EET).

The Meeting will be held at Elcoteq's premises at 19 Rue Eugène Ruppert, L-2453 Luxembourg. Shareholders can also participate in the Meeting via remote access in Helsinki at Ballroom of the Hotel Scandic Continental (Mannerheimintie 46, Helsinki, Finland). The language of the AGM is English, with simultaneous interpretation from English into Finnish.

Shareholders who are in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd. on March 14, 2008 shall have the right to participate in the AGM.

Shareholders wishing to attend the AGM are requested to notify the company no later than at 4.00 pm CET (5.00 pm EET) on March 17, 2008 either:

- On the company's website at www.elcoteq.com
- In writing to Elcoteq SE, Finnish Branch, Ms. Katri Kemppinen, P.O. Box 8, FI-02631 Espoo, Finland
- By fax at +358 10 413 1804/ Katri Kemppinen, or
- By telephone at +358 10 413 2081 between 8.00 and 10.00 am CET (9.00 and 11.00 am EET) and between 12.00 am and 3.00 pm CET (1.00 and 4.00 pm EET)/Ms. Katri Kemppinen.

Registration by mail and powers of attorney, if any, should arrive at the above address before the notification period expires. All shareholders registering to participate in the AGM are requested to provide their name, address and telephone number, as well as to indicate whether they will participate in the meeting in Luxembourg or in Helsinki.

Additional information on the Annual General Meeting can be found on the company's website at www.elcoteq.com.

DIVIDEND PROPOSAL

The Board of Directors proposes to the Annual General Meeting that no dividend will be distributed for the financial year 2007.

Domicile in Luxembourg as of January 1, 2008

Elcoteq SE was redomiciled to the city of Luxembourg in the Grand Duchy of Luxembourg on January 1, 2008, in accordance with the decision of the Annual General Meeting on March 22, 2007. Before the company's domicile was in Lohja, Finland.

After the transfer of domicile, Elcoteq's new Articles of Association have entered into force. Annual General Meetings will be held on March 23 in the city of Luxembourg. If said date is a national holiday or bank holiday in Luxembourg or Finland, the Annual General Meeting will be held on the next day. Shareholders can also participate in the meeting via remote access at an event held in Helsinki.

The transfer of domicile does not affect trading in the company's Series A shares, which continues as usual on the OMX Nordic Exchange Helsinki.

Glossary

BOX BUILD
Business model in which an EMS company delivers finished products in consumer packages directly to the customers' distribution channel.

EMS
Electronics Manufacturing Services. An EMS company provides services to original equipment manufacturers (OEMs) with OEMs' own brands.

IEMS
Integrated Electronics Manufacturing Services. As an IEMS company Elcoteq adds expertise in mechanics-related technologies to its electronics manufacturing and product development services.

IPR
Intellectual Property Rights

NPI
New Product Introduction. The purpose of the NPI process is to ensure cost-efficient manufacturing and rapid product launch. This phase includes testing for production lines and manufacturing prototypes.

ODM
Original Design Manufacturing. In Elcoteq's service offering the term ODM refers to all the services covering the entire value chain of customers' products – from product development to after-market services.

OEM
Original Equipment Manufacturer, which is the brand owner

PCBA
Printed Circuit Board Assembly

REACH
EU regulation on Registration, Evaluation, Authorization and Restriction of Chemicals

ROHS
EU directive on Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment

WIMAX
Wireless broadband technology

CONTACT INFORMATION

ELCOTEQ SE
19, Rue Eugène Ruppert
L-2453 Luxembourg
Tel. +352 248 331
Trade registry number:
B 134554

ELCOTEQ SE,
Finnish Branch
P.O. Box 8
Sinimäentie 8B
FI-02631 Espoo, Finland
Tel. +358 10 41 311
Business ID: 2146811-2

E-mails
info@elcoteq.com
environment@elcoteq.com
purchasing@elcoteq.com
sales@elcoteq.com

www.elcoteq.com

Other Addresses
Contact information of all Elcoteq sites is available at www.elcoteq.com.

Contact information can also be obtained by e-mail: info@elcoteq.com.

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