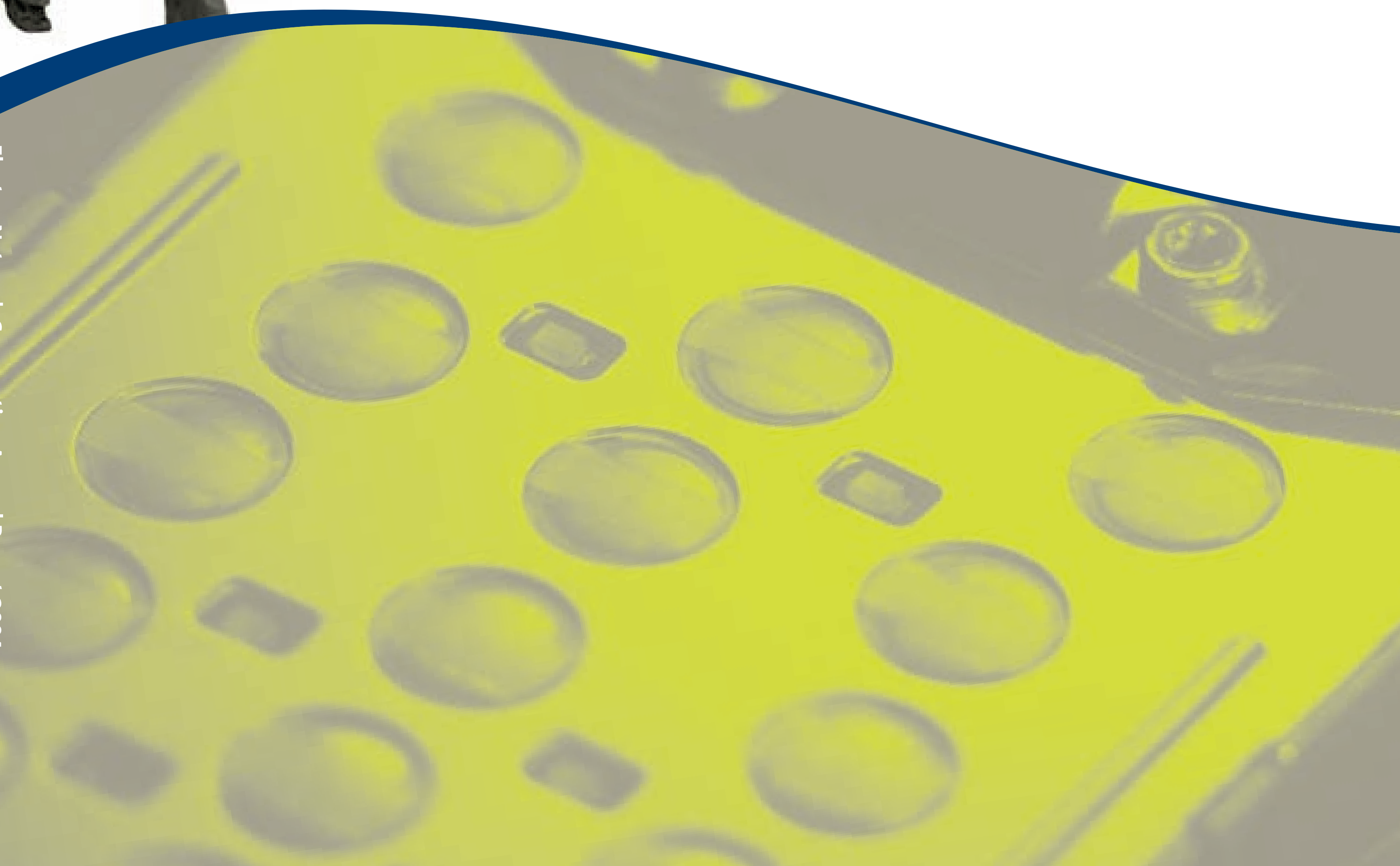
Annual Report 2004



# The Year 2004

**Elcoteq Network Corporation is a leading electronics manufacturing services (EMS) company that focuses on communications technology customers and products. Elcoteq ranks among the world's leading EMS providers and is clearly the largest European company in its field.**

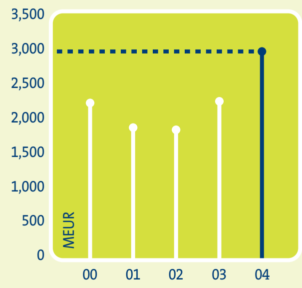
## Highlights of the Year 2004

- Net sales rose 32% and operating income 134%.
- Net sales from Communications Network Equipment almost doubled.
- Customer base of Terminal Products business area was expanded. New customers include RIM, Siemens, Thomson and Vitelcom.
- ODM agreement on mobile phones signed with Siemens.
- Outsourcing and acquisition agreement reached with Thomson. Elcoteq to manufacture Thomson's set-top boxes.
- Expansion projects in Brazil, India and Russia.
- Industrial electronics business sold to Enics AG.
- Elcoteq plans conversion into a European Company (SE).

### Key Figures

| | 2004 | 2003 |
|---|---|---|
| Net sales, MEUR | 2,953.7 | 2,235.7 |
| Operating income, MEUR | 71.4 | 30.5 |
| Income before taxes, MEUR | 59.0 | 22.5 |
| Earnings per share (EPS), EUR | 1.31 | 0.70 |
| Return on investment (ROI/ROCE), % | 19.8 | 10.2 |
| Solvency ratio, % | 30.5 | 32.6 |
| Gearing | 0.4 | -0.0 |
| Gross capital expenditures, MEUR | 128.3 | 68.1 |
| Personnel at year-end | 19,480 | 13,013 |

### Net Sales

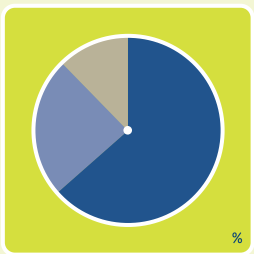



### Elcoteq 1984-2004

- Electronics manufacturing services since 1984
- Independent company since 1991
- Listed on the Helsinki Exchanges since 1997
- The largest European EMS company and 7th largest in the world
- Net sales MEUR 2,953.7 in 2004
- Number of employees 19,500
- Operations on four continents in 15 countries

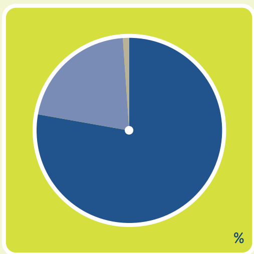
### Net Sales by Geographical Area, %

| | 2004 |
|---|---|
| Europe | 63.5 |
| Asia-Pacific | 24.2 |
| Americas | 12.3 |




### Net Sales by Business Area, %

| | 2004 |
|---|---|
| Terminal Products | 77.8 |
| Communications Network Equipment | 21.1 |
| Other* | 1.1 |




* The Industrial Electronics business that was divested on April 1, 2004

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# Elcoteq in Brief

**Elcoteq is a leading electronics manufacturing services (EMS) company that focuces on communications technology customers and products. Elcoteq provides globally end-to-end solutions from design to after-sales services for the whole lifecycle of its customers' products. The company has operations in 15 countries and employs 19,500 people. Elcoteq's net sales in 2004 totalled MEUR 2,953.7.**

**20 Years in the EMS Business** Elcoteq was established in 1984 as part of the Lohja Corporation in Finland. It has operated as an independent company since 1991 when the three existing principal shareholders of Elcoteq acquired the Lohja Microelectronics in a management buy-out. Elcoteq has since grown into a global corporation ranking among the world's leading EMS providers. It is clearly the largest European company in its field.

Elcoteq's Series A shares have been listed on the Helsinki Exchanges since 1997. The company also has 10,577,000 Series K shares, all of which are held by the three principal owners. At the end of 2004, Elcoteq's share capital consisted of 30,640,877 shares, and the company had approximately 12,600 shareholders.

**Strategy** Elcoteq stands apart from its competitors through its focus on one clearly defined market segment; the company serves communications technology companies whereas its competitors cater to the needs of companies in several different electronics sectors. Elcoteq believes that concentrating its resources on serving a single customer segment will enable it to build up an unrivalled service offering that will offer the company and its customers clear competitive advantages.

Elcoteq's strategic targets are a balanced customer base, a full range of services and profitable growth. The company's goal is to be the world's leading provider of ODM and electronics manufacturing services in the field of communications technology.

**Business Areas** Elcoteq organizes its operations into two business areas: Terminal Products and Communications Network Equipment. In addition to these, the company has three geographical areas: Europe, Asia-Pacific and Americas.

In 2004, Terminal Products accounted for roughly 78%, and Communications Network Equipment for 21%, of the Group's net sales. The remaining 1% is industrial electronics, which the company divested in April 2004.

The principal product group of Terminal Products is mobile phones, their parts, modules and accessories but the product range also includes other terminal devices such as set-top boxes and PDAs.

Communications Network Equipment's customers are primarily suppliers of mobile phone networks, wireless local area networks (WLANs) and broadband networks, for whom Elcoteq manufactures for example base stations and their modules, plug-in units for mobile base stations, base station antennas, routers for broadband networks, and microwave systems.

Elcoteq's largest customers are companies belonging to the Nokia and Ericsson groups. In 2004 these accounted for 73% of Elcoteq's consolidated net sales. The company's customer portfolio also includes several other leading communications technology companies such as Andrew Corporation, Kathrein, Marconi, Philips, RIM, Siemens, Sony Ericsson and Thomson.

**Services** Elcoteq's range of services covers the entire lifecycle of its customers' products from design to after-sales. The company's networks of new product introduction (NPI) centers and manufacturing plants operate globally in all the main markets – Europe, Asia-Pacific, and Americas.

The company also offers product design services to its mobile phone customers. Elcoteq's own mobile phone design unit, Elcoteq Design Center, operates in Finland and Russia. To support this range of services Elcoteq has made a collaboration agreement with Cellon International. Elcoteq's after-sales units operate in Finland, Germany, Hungary, Mexico and China.

All Elcoteq's volume production plants are situated close to the main end-user markets for the customers' products. Elcoteq has its largest plants in Estonia, Hungary, China and Mexico. In addition, Elcoteq is building a new volume manufacturing plant in St. Petersburg, Russia. The factors that determine the location of these plants are proximity to the end-user markets, the availability of a skilled workforce and the cost benefits of these localities. The company has also started offering manufacturing services in Brazil and India.

Elcoteq has built most of its manufacturing plants itself and for this reason the plant network is able to operate worldwide with an extremely high degree of consistency. Having globally consistent machinery, equipment, manufacturing processes and working procedures everywhere, Elcoteq is able, for example, to move product manufacturing from one plant to another fast and efficiently.

Elcoteq also has manufacturing capacity suitable for small and medium production series in Finland and Germany. The aggregate floor area of all Elcoteq's manufacturing plants totals 203,200 square meters.

# Chief Executive's Review

**Dear Reader,** 2004 was a particularly eventful year for Elcoteq as we worked hard to reach several exceptionally challenging targets simultaneously. These included our systematic drive to balance our customer base and to broaden our service range, not to mention expansion of the company's geographical presence, preparations for converting Elcoteq into a European Company (SE), and the start of a new strategic management process. The results of our considerable efforts show that we are on the right track.

Balancing our customer portfolio is one of the cornerstone's of our strategy. On the Terminal Products side we made gratifying progress in this direction during the year. Particularly important was the manufacturing agreement – the largest in our history – with the global media technology and services provider Thomson. This deal made Elcoteq Thomson's preferred manufacturing partner for set-top boxes. Broadening our customer portfolio will continue to rank among our top priorities.

Our strong drive to globalize that began at the end of the 1990s resulted in big changes but at the same time it laid a foundation for growth. After a few quieter years, 2004 was again a time of major expansion for Elcoteq. We began operations in Manaus, Brazil, we started construction of a new manufacturing plant in Russia, and we also announced plans to become the first EMS company to begin offering services to communications technology companies from Bangalore, India.

In 2005 we will further develop our entire service network, concentrating on ensuring that our organization and business processes work seamlessly and offer our customers tangible added value. In fact this forms the core of our strategy – consistent and streamlined operating procedures throughout our global service network and at all stages in the value chain. To reach this goal, at the end of 2004 we also initiated a new strategic management process in Elcoteq through which we intend to ensure that our internal processes truly help us implement our strategy at both the corporate and individual levels, so that each employee fully understands his or her role in achieving Elcoteq's targets. The foundation for starting this work and enabling faster decision-making was laid in the fall of 2004 when Elcoteq made changes to its organization and management reporting responsibilities to simplify and clarify the way it operates.

Elcoteq's internationalization strategy also includes its plans to become a European Company. The purpose of this change is to create an effective structural framework on which to continuously improve our competitiveness. We wish to be among the first companies to benefit from the opportunities that this new form of incorporation offers.

Our financial results for 2004 were very good, despite the many simultaneous challenges and investments. Our net sales increased and earnings per share improved considerably. Also our return on investment almost reached our long-term target. This shows that everything we do supports our chosen strategy.

I am confident this good development will continue during 2005, too. Last year confirmed that Elcoteq is better prepared than ever to face the challenges posed by its continuously changing business environment. Our service portfolio and comprehensive geographical service network enable us to serve an ever broader range of customers. Our services are in strong demand and our company has outstanding opportunities for growth.

In closing, let me extend my warm thanks to all our customers, suppliers, shareholders and other partners for their co-operation. My special thanks go to Elcoteq's employees for their efforts during such a heavy year of work. I look forward to our continued close co-operation during the year ahead of us!

Espoo, February 2005

**Jouni Hartikainen**
President and CEO

We will further develop our entire service network, concentrating on ensuring that our organization and business processes work seamlessly and offer our customers tangible added value.

# Strategy and Values

**Elcoteq concentrates on serving communications technology customers. The company believes that by targeting investments on, and developing services for, this specifically chosen segment it will gain a clear competitive edge that will strengthen its market position.**

## Strategic Targets

**Wide Service Range** We wish to provide a full range of services that fulfills our customers' needs. In particular we are developing design and NPI services, sourcing, and after-sales services to meet the demand and the evolving needs of our customers.

**Balanced Customer Base** We are expanding our customer base by attracting new customers especially among globally operating companies. This enables us to increase our own know-how, balance our business and spread our risks.

**Profitable Growth** We are targeting profitable growth both organically and through acquisitions. We wish to be so competitive that our growth is not dependent on market trends. That way we serve the interests of our shareholders, personnel, customers and other stakeholders.

**Strong Company Image** We are actively marketing our services and building a strong corporate identity. We wish to be known as a unique, highly skilled and global EMS provider in communications technology.

## Competitive Advantages – Elcoteq's 7 Cs

### Concentration
- Focus on terminal products and communications network equipment

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

### Co-evolution
- Superb customer service
- Confidentiality and close co-operation

### 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
- Sourcing power

### Coverage
- Global operations
- Full service range from design to after-sales

### Continuous Development
- Continuously competitive 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.

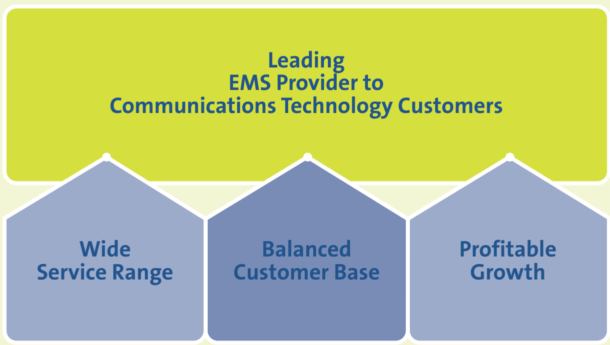
**Committed Personnel** We respect our colleagues. Initiative, sharing of ideas, and the give and take of responsibility form the basis for the entrepreneurial spirit that is valued at Elcoteq. We strive for rewarding good performance.

**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.

### Strategic Targets




**Key Financial Targets and Results**
Elcoteq has set itself challenging long-term financial goals relating to its profit growth, profitability and balance sheet structure.

**Financial Targets and Results**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Increasing earnings per share (EPS), EUR | 1.31 | 0.70 | 0.54 |
| Return on investment (ROI/ROCE), calculated over 12 months > 20% | 19.8 | 10.2 | 9.2 |
| Positive cash flow, MEUR | -80.3 | -18.1 | 77.3 |
| Gearing < 1 | 0.4 | -0.0 | -0.1 |

# Service Offering

**Elcoteq offers its customers services covering the entire lifecycle of their products from design to after-sales. The company's core competitive advantages are its integrated services, a worldwide operating network, long experience as a manufacturer of communications technology products, and globally consistent systems, processes, machinery and equipment.**

**Demand for Services** Elcoteq's operations revolve primarily around manufacturing but customers are increasingly asking their service providers for product design and new product introduction services as well. The ability to provide combined design, manufacturing and after-sales services, i.e. ODM (Original Design Manufacturing) services, has grown in importance over the past few years. This trend is particularly evident in the mobile phone sector, but also communications network equipment manufacturers are interested in outsourcing for example the design of certain entities for subsystems.

Elcoteq's range of services also covers sourcing and purchasing of components, materials management, and handling the logistics necessary for product manufacturing and distribution.

Customers gain clear benefits from outsourcing their design and manufacturing operations to a long-term partner as they are then free to concentrate their resources and investments on developing their core business. The partner can also help them increase and broaden their own resources. Other important factors contributing to the success of a customer's products are flexibility and correct timing of the product launch.

**Design Services** Elcoteq's design services are principally targeted at the leading mobile phone manufacturers. The advantages of outsourcing are best achieved through long-term customer relationships based on collaboration in product design and development of operations. Outsourcing of design and manufacturing is best suited to high-volume, technically advanced products. Elcoteq's global network of design partners and technology suppliers gives Elcoteq a uniquely comprehensive service, product and technology platform.

In 2002 Elcoteq founded the Elcoteq Design Center in Finland that provides design services to mobile phone manufacturers. Besides offering R&D services, Elcoteq Design Center also sources and develops the technologies required in mobile phone design. This center, with roughly 160 employees, has its main office in Salo, Finland, but operates also in Turku, Finland, and St. Petersburg, Russia.

Elcoteq Design Center acts both independently and in collaboration with the customer in design projects, as agreed. The compensation paid to Elcoteq for its design services depends in part on the operating model chosen, but other factors come into play as well, such as the ownership of immaterial rights. Elcoteq's aim in offering design services is to acquire new customers, to reach better profitability, and to have more stable capacity utilization at its manufacturing plants.

In order to broaden its expertise in product design, Elcoteq has entered into a co-operation agreement with Cellon International, which is an independent wireless design and development house. Elcoteq is also Cellon's preferred manufacturing partner. Cellon, with design centers in France and China, has over 800 employees.

**Integrated Services Throughout the Value Chain**

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

- Design, sourcing, assembly and testing for production lines, production tools and testing systems
- Prototype manufacturing
- Sourcing of materials for the NPI process
- Quality assurance, and
- Management of NPI and product development projects.

The purpose of the NPI process is to ensure cost-efficient manufacturing and rapid product launch. NPI centers work closely with product design engineers and manufacturing plants.

**Sourcing and Supply Chain Management** Elcoteq has placed strong emphasis on developing its sourcing and logistics operations to ensure more independent control of all aspects of the supply chain management process. These include:

- Selecting suppliers
- Price and contract negotiations
- Evaluating alternative components and component suppliers
- Sourcing and purchasing components, and
- Quality management and logistics functions related to these tasks.

Elcoteq works only with selected key suppliers to ensure that the service it offers is as cost-efficient and technically sound as possible. In addition to sourcing, Elcoteq also helps its customers to manage and develop their supply chains.

**Manufacturing Services** Manufacturing is Elcoteq's core business and the source of most of its net sales. Elcoteq's manufacturing services include:

- Box-build production, i.e. Elcoteq delivers complete products to the customers' distribution channel
- High-volume manufacturing
- Low-volume and prototype manufacturing
- Assembly of microelectronic components
- Electromechanical and final assembly, and
- Testing.

Elcoteq has high-volume manufacturing capacity on all the major continents – Europe, Asia and America – close to the end-user markets of products. The company's largest plants are in Estonia, Hungary, China and Mexico. Elcoteq also has smaller manufacturing units in Europe for low-volume and prototype manufacture. The units in Offenburg and Überlingen in Germany, for example, concentrate on serving communications network equipment companies.

The aggregate floor area of all Elcoteq's manufacturing plants totals 203,200 square meters. In 2004, Elcoteq announced its intentions to provide manufacturing services in Brazil, to expand to India and to build a new plant in St. Petersburg, Russia, due for completion in 2005.

**After-Sales Services** Elcoteq's after-sales services include product upgrades and repair, product analyses, spare parts supply, and logistics services. These services are supplied both to the company's terminal products and communications network equipment customers.

# The EMS Market in 2004

**2004 was a year of growth in the electronics manufacturing services (EMS) market. Especially strong was the increase in sales of mobile phones and deliveries of communication networks. The EMS and ODM markets are also expected to grow in the years ahead.**

**Elcoteq Holds Strong Position as Communications Technology EMS Provider** According to the research institute IDC, the total value of the global EMS market in 2004 was USD 138 billion. Elcoteq estimates that communications technology represented approximately USD 50 billion of this amount. Another important segment of the EMS industry is the manufacture of computers, while the other segments are considerably smaller.

Elcoteq's position in the EMS market for communications technology products strengthened further during 2004. With a market share of 7% Elcoteq now ranks as the world's fifth largest EMS provider to communications technology companies. Elcoteq's position is particularly strong in mobile phones, where the company is the world's second largest EMS provider with a market share of 14%. Other global EMS companies include Solectron, Flextronics, Celestica, Hon Hai Precision Industry, Sanmina-SCI and Jabil Circuit. The largest original design manufacturing (ODM) companies, specializing in mobile phone manufacturing are the Taiwanese companies BenQ, Arima Communication, Quanta Computer, Lite-On Technology, Compal Communication and High Tech Computer.

**Difference between Traditional EMS Companies and Taiwanese ODMs Is Getting Smaller** Many EMS companies have broadened their service offering in recent years to cover an ever larger part of the value chain of their products. EMS companies originally provided only product manufacturing services but today the majority of the big EMS players offer product design, industrialization and after-sales services. Simultaneously with this trend the Taiwanese ODMs have likewise been expanding towards the manufacturing end of the spectrum.

In addition to design, ODM services now cover manufacturing and after-sales services such as product repair. On the network side outsourcing of product design is not yet very common but it is already evident that the same trend will apply to communications network equipment as to mobile phones.

The Taiwanese ODMs have generally been more successful than their EMS counterparts in terms of depth of design expertise, net sales growth and profitability. However, the profitability of the Taiwanese ODMs, has lately begun to weaken and their sales growth has been lower than forecast.

Many analysts following this field have begun to question the ability of the Taiwanese ODMs to remain successful. The investment bank JP Morgan estimated in July 2004 that the traditional EMS companies would be able to raise their design capabilities to the level of the Taiwanese companies relatively quickly, while Citygroup's analysts do not believe that the market shares of the Taiwanese companies will rise as high in mobile phones as in computers. Lehman Brothers analysts have been surprised at how much certain Taiwanese ODMs have fallen short of their volume forecasts for mobile phones in 2004.

**Manufacturing Moves to Asia and Latin America** EMS companies have been moving their manufacturing capacity from North America and Western Europe to Asia, Eastern Europe and South America for years. Initially these companies built new manufacturing plants, for example in China, Mexico, Brazil and Eastern European countries. Later, when there started to be a surplus of capacity, the move to low-cost countries was accelerated by closing down plants or reducing capacity in North America and Western Europe.

Manufacturing is expected to continue moving to Asia, Eastern Europe and South America. EMS companies are especially interested in markets where demand for mobile phones and communication networks is growing fastest, such as Russia, India and Brazil. For both the original equipment manufacturers (OEMs) and the EMS companies it makes most sense in terms of cost efficiency to manufacture the products as close to the end-markets as possible. According to the research institute Gartner, the number of mobile users in 2005 is expected to grow by 28 million in India, by 22 million in Brazil and by 18 million in Russia.

By far the most interesting country on the American continent is Mexico, which offers both good logistics and a low cost level for electronics manufacturing services. Almost all the largest EMS companies have operations in Mexico – in Guadalajara, Juarez, Monterrey or Reynosa. Another country favored by EMS providers is Brazil, and in particular Manaus and São Paolo.

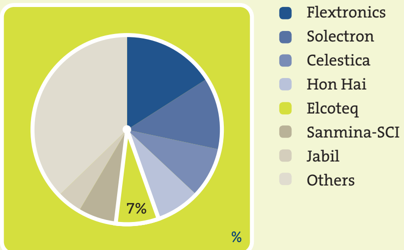
Western Europe is in the same situation as North America: plants are being closed and capacity reduced further owing to the high cost levels. In Eastern Europe electronics manufacturing is mainly concentrated in Hungary, where all the major EMS companies except Celestica have a manufacturing presence. On the other hand, in Russia Elcoteq is still the only large EMS company.

In Asia most EMS operations are located in China, where all the large EMS providers have several plants, particularly in the southern and eastern areas of the country. Other popular Asian countries for EMS companies are Malaysia, Japan and Singapore. Interest is currently focusing most of all, however, on India where Elcoteq is the first EMS company to have a high-volume manufacturing plant, which was inaugurated in early 2005.

**EMS and ODM Markets Will Grow Further** IDC forecasts further growth in the EMS and ODM markets. The ODM business model will become more widespread despite the problems experienced by the Taiwanese ODMs, as the EMS companies will continue to increase their design capabilities. In IDC's opinion, the traditional EMS business will grow by roughly 12% between 2004 and 2007 from USD 104 billion to USD 148 billion, while the ODM business will expand during the same period by an annual average of 22% from USD 34 billion to USD 62 billion.

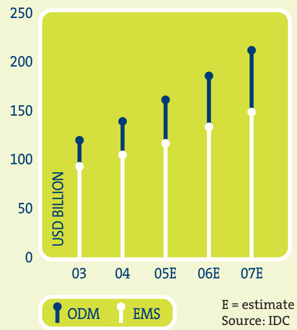
Elcoteq believes that growth in EMS services for communications technology will continue at the same pace as in the other product segments of the EMS market. Investment bank and research institute analysts expect the end-product markets for mobile phones and network equipment to grow by 5-10% during 2005. The EMS sector is forecast to growth faster than this because outsourcing is expected to increase slightly from the current level of roughly 40%.

**Market Shares of EMS Providers to the Communications Electronics Industry in 2004**




Source: Estimates by analysts and financial statements collated by Elcoteq

**Growth in the EMS and ODM Markets 2003-2007**




E = estimate
Source: IDC

# Terminal Products

**Elcoteq's Terminal Products (TP) business area designs and manufactures products that represent the latest advances in wireless communications technology. Most of these products are marketed worldwide. In 2004 Terminal Products accounted for 78% (80% in 2003) of Elcoteq's consolidated net sales.**

**2004 in Review** Net sales of the Terminal Products business area increased 29% in 2004 on the previous year to MEUR 2,300.0 (MEUR 1,779.9). The segment's operating income totaled MEUR 78.2 (MEUR 40.1).

Net sales increased in every quarter of 2004 compared with the same periods in 2003 driven by strong demand for mobile phones particularly in the latter six months. Development was most positive in the Americas, where demand exceeded the company's expectations. Demand for products was also good in Europe, especially during the second half of the year. Compared to 2003, growth in the product volumes manufactured was higher than growth in net sales.

**Products and Customers** Terminal Products manufactures mainly mobile phones and their accessories, wireless modules, cordless phones, and set-top boxes. The business area's customers include Aastra, Motorola, Nokia, Philips, RIM, Sony Ericsson, Thomson, and Vitelcom.

The single most important event in 2004 was the acquisition and outsourcing agreement reached with Thomson in December. Under this deal Elcoteq took over Thomson's manufacturing operation in Juarez, Mexico, at the beginning of 2005. At the same time the companies agreed on the manufacture of Thomson's set-top boxes at Elcoteq's plants. The acquired business is expected to increase Elcoteq's net sales by approximately MEUR 230 in 2005.

Other new customers announced in 2004 include Research in Motion (RIM), Vitelcom, and Siemens, with whom Elcoteq concluded an ODM agreement. Elcoteq also has other new Terminal Products customers and projects, in some of which the end-customer has also outsourced product design. Elcoteq estimates that these new customers will generate at least MEUR 350 in net sales during 2005. By giving greater balance to Terminal Products' customer portfolio they are also instrumental in helping Elcoteq achieve its strategic objectives.

**Services** Terminal Products offers its customers services covering the entire value chain of their products. In recent years Elcoteq has given particular emphasis to developing its product design services. The company's own design unit, Elcoteq Design Center, is dedicated to designing mobile phones. The unit operates in Finland and Russia. The company also co-operates with other mobile phone design specialists such as Cellon International.

Elcoteq manufactures terminal products at its high-volume plants in Europe, Asia-Pacific and Americas, close to the end-markets for these products. The products are made either box-built or as subassemblies, in which case Elcoteq supplies the finished parts and modules to its customers' plants for further processing.

Developing design services, sourcing operations and product lifecycle management will continue to be given high priority at Elcoteq. The company is further strengthening its design capacity and expertise by increasing its own capacity, as well as through partnerships. In sourcing, the company is developing its operations in close collaboration with preferred component suppliers in order to increase the transparency and efficiency of this co-operation throughout the supply chain.

**Prospects in 2005** Growth in the mobile phone markets is expected to be slower in 2005 compared to 2004, totaling 5-10%. On the other hand outsourcing of product design and manufacturing is forecast to increase further despite slower growth in the end-product markets. The number of new products entering the market is rising continuously, which means that the OEMs also need more external resources in design and manufacturing.

The emerging new markets are of interest to both the OEMs and EMS providers. Elcoteq began operations in Brazil during the final quarter of 2004. The company has also expanded into India and is building a new manufacturing plant in Russia. These new ventures are expected to increase Terminal Products' net sales already in 2005.

Elcoteq estimates that the customer portfolio of its Terminal Products business area will be broader in 2005. Supported by new customers, net sales of Terminal Products is forecast to increase significantly faster than the end-markets in 2005.

## Terminal Products

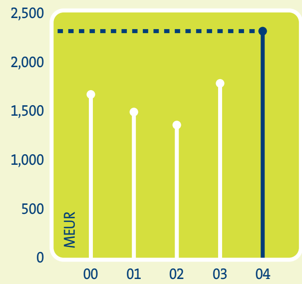
- 78% of the Group's net sales
- Net sales increased 29% in 2004
- 2nd largest EMS company in mobile phone manufacturing
- Service range covering the entire value chain of products
- Products: mobile phones and their parts, modules and accessories, set-top boxes
- Customers include Motorola, Nokia, Philips, RIM, Siemens, Sony Ericsson, Thomson and Vitelcom

### Key Indicators, MEUR

| | 2004 | 2003 |
|---|---|---|
| Net sales | 2,300.0 | 1,779.9 |
| Depreciation | 41.8 | 42.9 |
| Segment's operating income | 78.2 | 40.1 |
| Assets | 530.3 | 472.7 |
| Liabilities | 336.4 | 297.3 |
| Capital expenditures | 92.2 | 49.0 |

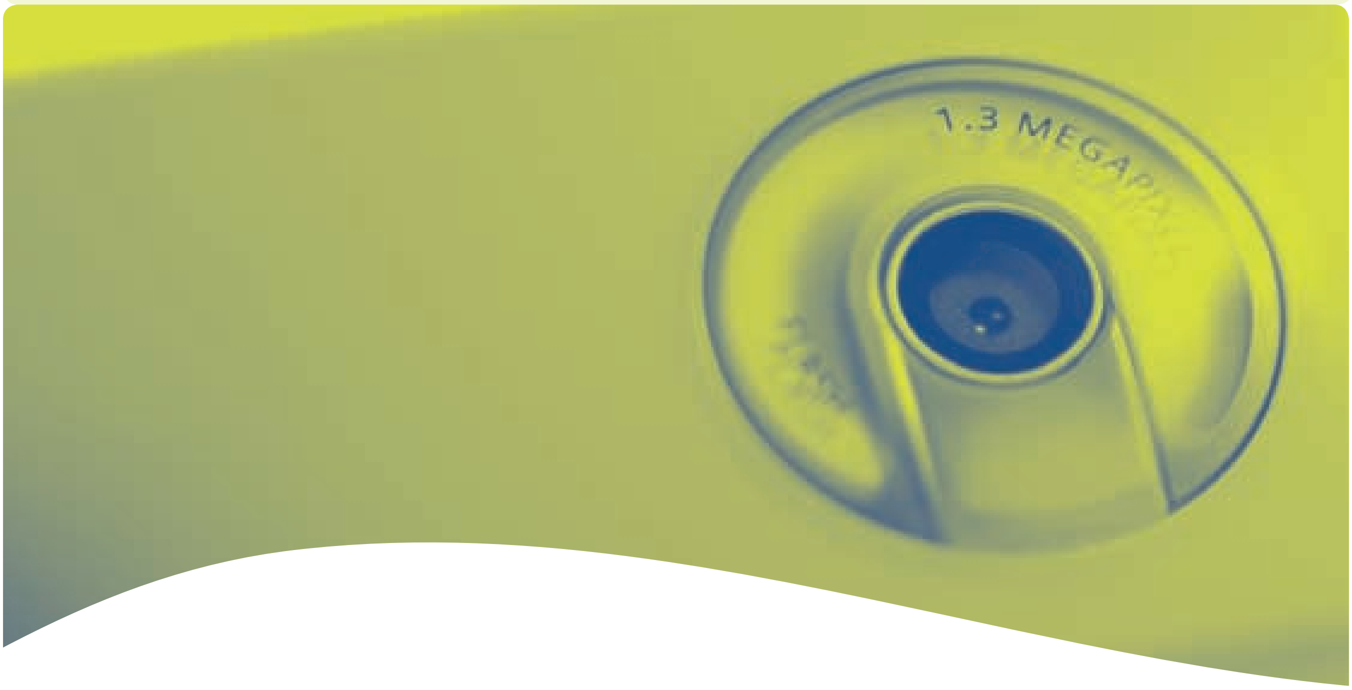
More information on key indicators is available in the notes to the consolidated financial statements on page 40.

Terminal Products
Net Sales in 2000-2004




### Quarterly Figures, MEUR

| | Q4/2004 | Q3/2004 | Q2/2004 | Q1/2004 | Q4/2003 | Q3/2003 | Q2/2003 | Q1/2003 |
|---|---|---|---|---|---|---|---|---|
| Net sales | 688.8 | 660.0 | 489.8 | 461.4 | 589.3 | 391.6 | 389.0 | 410.0 |
| Segment's operating income | 28.4 | 23.9 | 10.4 | 15.5 | 16.9 | 8.8 | 5.1 | 9.2 |
| as % of net sales | 4.1 | 3.6 | 2.1 | 3.4 | 2.9 | 2.2 | 1.3 | 2.2 |



# Communications Network Equipment

**Customers of the Communications Network Equipment (CNE) business area are manufacturers of mobile phone networks, wireless local area networks (WLANs) and broadband networks. In 2004 Communications Network Equipment accounted for 21% (15% in 2003) of Elcoteq's consolidated net sales.**

**2004 in Review** The Communications Network Equipment business area's net sales rose 89% to MEUR 621.8 in 2004 (MEUR 329.8), and the segment's operating income was MEUR 16.4 (MEUR 8.8). The growth was as expected, since at the beginning of 2004 Elcoteq estimated that CNE's net sales would almost double on the previous year. Net sales grew both organically and as a result of acquisitions in 2003, the latter representing MEUR 145 of net sales in 2004.

In Europe, Elcoteq boosted its manufacturing capacity for communications network products by doubling the floor area of its Tallinn plant in Estonia to 18,000 square meters, by converting the industrial electronics plant in Pécs, Hungary, into a CNE plant, and by integrating the Offenburg plant in Germany to the Group.

**Products and Customers** Elcoteq's CNE business area manufactures base station, switching and transmission products for mobile networks, as well as broadband network products. The product range includes base station units and integrated base station cabinets, tower top amplifiers, base station antennas, plug-in units for mobile phone base stations, routers, ADSL modems, and microwave systems. Most of these products are manufactured at Elcoteq's European plants.

Elcoteq's CNE customers cover manufacturers of complete systems, as well as suppliers of subsystems to these companies. Its largest customers are Ericsson, Marconi, Nokia and Siemens with other customers including Andrew Corporation, Huawei, Kathrein and Powerwave.

**Services** Elcoteq has continuously expanded its service offering to communications network equipment customers, as well as broadened the services' geographical coverage. System integration is a rapidly growing area, in which Elcoteq serves a number of companies.

Demand for NPI services has increased substantially in recent years as manufacturers look for expert support when moving products from R&D to volume manufacturing. Elcoteq has strengthened its NPI center capabilities and resources especially in the area of test design.

**Prospects in 2005** CNE's balanced portfolio of customers gives this business area a solid platform for future growth. Elcoteq aims to increase business volumes with all its key customers while at the same time gain major new customer accounts. The company's goal is to raise CNE's share to one-third of Elcoteq's total net sales.

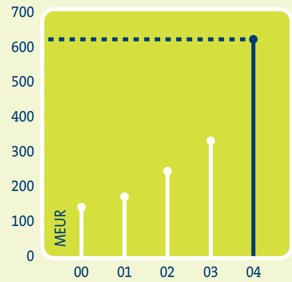
Although the global communications technology markets are not expected to grow significantly during 2005, growth is nonetheless forecast in the building of wireless networks and especially 3G mobile phone networks.

Elcoteq believes that the market share of its CNE business area will grow during 2005 coupled with an increase in its net sales compared to the previous year. Elcoteq is giving priority to developing its service range, in particular NPI and system integration services, to meet its customers' needs. Elcoteq's new manufacturing plants in India and Russia will further improve Elcoteq's cost efficiency, capacity and ability to supply communications network systems in emerging new markets.

## Communications Network Equipment

- 21% of the Group's net sales
- Net sales increased 89% in 2004
- Among the 10 largest EMS companies in its sector
- Products: base station units and integrated cabinets, tower top amplifiers, base station antennas, plug-in units for mobile phone base stations, routers, ADSL modems, and microwave systems
- Customers include Ericsson, Huawei, Marconi, Nokia and Siemens

**Communications Network Equipment Net Sales in 2000-2004**



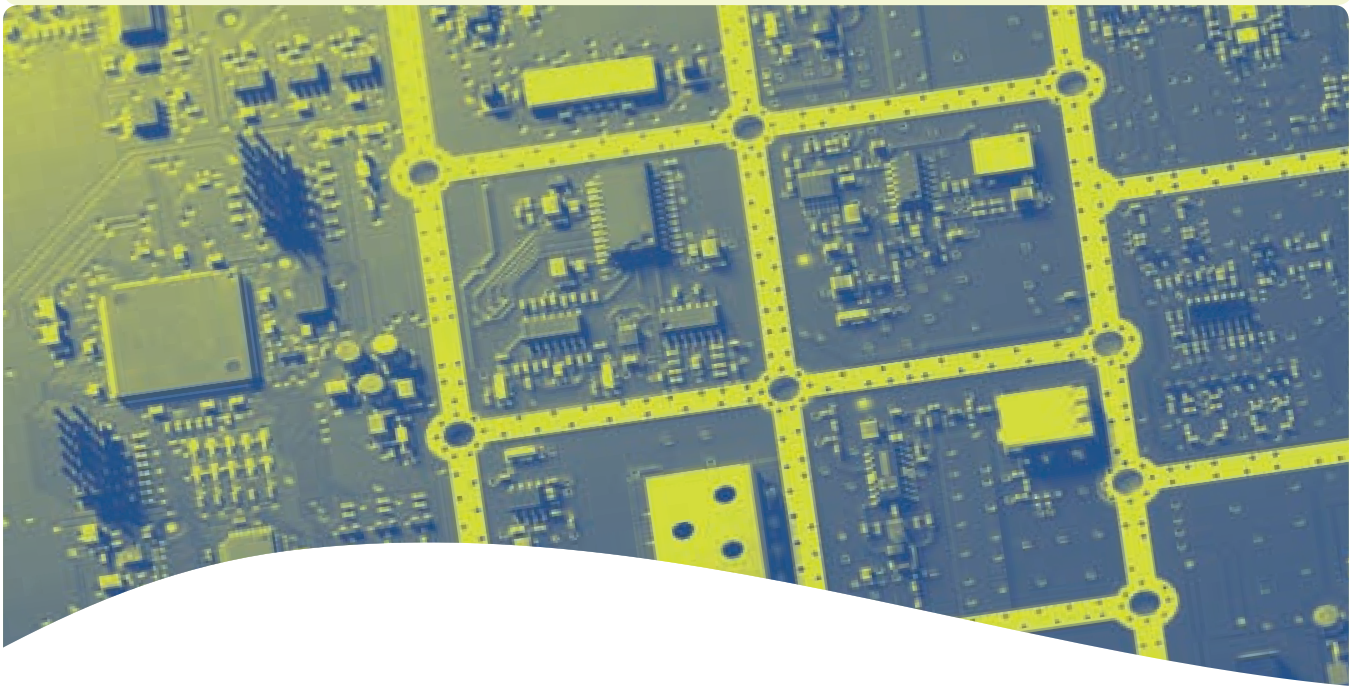

### Key Indicators, MEUR

| | 2004 | 2003 |
|---|---|---|
| Net sales | 621.8 | 329.8 |
| Depreciation | 16.1 | 9.1 |
| Segment's operating income | 16.4 | 8.8 |
| Assets | 297.7 | 176.2 |
| Liabilities | 120.0 | 95.8 |
| Capital expenditures | 31.8 | 15.6 |

More information on key indicators is available in the notes to the consolidated financial statements on page 40.

### Quarterly Figures, MEUR

| | Q4/2004 | Q3/2004 | Q2/2004 | Q1/2004 | Q4/2003 | Q3/2003 | Q2/2003 | Q1/2003 |
|---|---|---|---|---|---|---|---|---|
| Net sales | 175.9 | 168.6 | 152.2 | 125.1 | 100.6 | 73.3 | 78.7 | 77.2 |
| Segment's operating income | 2.5 | 1.7 | 7.4 | 4.7 | 5.1 | 0.3 | 1.9 | 1.5 |
| as % of net sales | 1.4 | 1.0 | 4.9 | 3.8 | 5.1 | 0.4 | 2.4 | 1.9 |



# Geographical Areas

**Elcoteq changed its geographical organization in 2004 by combining the previously separate areas Terminal Products Europe and Communications Network Equipment Europe. The company now has three geographical areas: Europe, Asia-Pacific and Americas. The company has applied this structure in its financial reporting from the beginning of 2005.**

**Net Sales** Europe is the largest of Elcoteq's geographical areas with net sales totaling MEUR 1,874.9 in 2004 (MEUR 1,421.0). Terminal Products accounted for MEUR 1,299.3 (MEUR 1,001.6) and Communications Network Equipment for MEUR 543.7 (MEUR 293.4) of this amount. Asia-Pacific's net sales totaled MEUR 714.1 (MEUR 698.2) and Americas' MEUR 364.6 (MEUR 116.5) in 2004.

Elcoteq sold its industrial electronics business after the first quarter of 2004. This business generated net sales of MEUR 31.9 in 2004.

**Europe** The net sales of Elcoteq's geographical area Europe increased 32% in 2004. Demand for mobile phones and communications network systems remained good throughout the year. Elcoteq increased its manufacturing capacity in Europe by doubling the floor area of its Tallinn, Estonia, plant, which specializes in communications network products, and the company also renovated its plant in Pécs, Hungary. Furthermore, Elcoteq started construction of a new, almost 15,000-square-meter manufacturing plant in St. Petersburg, Russia. The plant is scheduled for completion in the fall of 2005.

The strong demand for products was also reflected in the growth of the number of personnel. Elcoteq's total number of employees in Europe increased by some 2,500, or 34% in 2004.

Net sales of Terminal Products Europe developed well, increasing 30% in 2004. The increase was the result of both new and existing customers, with whom Elcoteq had success in expanding business volumes. New customers for Terminal Products in Europe included Research in Motion (RIM) and Siemens, with whom Elcoteq concluded an ODM agreement covering product design, as well as manufacturing.

In Europe Elcoteq's Communications Network Equipment business area has broadened its customer base through both organic growth and acquisitions. Integration of the businesses acquired at the end of 2003 continued during 2004. The manufacturing plant in Offenburg, Germany, acquired from Marconi, continued to operate in its existing premises. The plant has since taken on new customers, for example Orthogon Systems, for whom the plant makes digital network links.

Manufacturing of Siemens GSM base stations, that started in the fall 2003, showed positive progress and Elcoteq has broadened the scope of co-operation with Siemens to cover new products.

The bulk of Elcoteq's production capacity is in Europe. These plants have an aggregate floor area of some 120,000 square meters. The company's largest plants are located in Estonia and Hungary and their total floor space corresponds to more than 40% of the Group's entire capacity. These plants manufacture both mobile phones and network products. The company also has NPI centers in Europe, as well as smaller plants in Finland, Germany and Russia. The plants in Überlingen and Offenburg, Germany, specialize in serving the needs of communications network equipment customers. At the end of 2004, Elcoteq employed altogether 10,008 people in Europe.

**Asia-Pacific** In 2004, Elcoteq's Asia-Pacific sales rose 2%. One of the year's most important news items was Elcoteq's announcement of its intention to start offering EMS services in Bangalore, India. Initially Elcoteq operates there in leased premises with roughly 5,500 square meters of space built specifically for the company's needs. When fully operational this plant is expected to employ about 1,000 people. The plant was completed during the first quarter of 2005.

Elcoteq has three plants in China: one in Beijing, northern China, and two in southern China, Shenzhen and Dongguan. Together, these plants have floor space totaling 41,500 square meters, which represents roughly one-fifth of the total floor space of Elcoteq's plants.

To improve efficiency Elcoteq combined its two plants in Beijing, China, in the summer of 2004. The Beijing plant, and the NPI center that operates in conjunction with it, are located in the Xingwang industrial park.

Elcoteq also has sales and technical support units in Hong Kong, China, in Tokyo, Japan, and in Seoul, South Korea. At the end of 2004, Elcoteq's units in Asia-Pacific had altogether 5,364 employees.

**Americas** Net sales of Americas more than tripled in 2004 compared to the previous year. Improved capacity utilization at the plant in Mexico was also reflected in growth in the number of personnel.

In the Americas, Elcoteq aims to broaden its service offering to communications network equipment customers alongside its terminal products customers, which is why the company has increased its resources in this geographical area during 2004.

The number of customers increased in the Americas during 2004. New customers included RIM and Thomson, for whom Elcoteq manufactures products in Mexico as well as Vitelcom, for whom Elcoteq provides services in Brazil.

Elcoteq started offering EMS services in Manaus, Brazil, during the last quarter of the year. The company is currently operating in leased premises but the intention is to expand operations in the future. The Brazilian unit has roughly 120 employees.

In December, Elcoteq announced an outsourcing agreement with Thomson, which included the transfer of Thomson's manufacturing operation in Juarez, Mexico, to Elcoteq at the end of 2004. The total consideration paid by Elcoteq amounted to roughly MEUR 19.5. The agreement made Elcoteq a preferred manufacturing partner for Thomson's set-top boxes. Alongside manufacturing services Elcoteq will also provide certain component sourcing services to Thomson. The Juarez plant has manufacturing space of approximately 17,000 square meters and some 2,500 employees. It is ideally located in the border region between Mexico and the USA, providing a strategic location to develop business with Elcoteq's current and prospective US customers.

With the new plants in Brazil and Mexico, Elcoteq now has three manufacturing facilities in Americas with an aggregate floor space of approximately 37,000 square meters, as well as an NPI center in Dallas. At the end of 2004, Elcoteq had 4,108 employees in Americas.

### Net Sales of Geographical Areas, MEUR

| | Q4/2004 | Q3/2004 | Q2/2004 | Q1/2004 | Q4/2003 | Q3/2003 | Q2/2003 | Q1/2003 |
|---|---|---|---|---|---|---|---|---|
| Terminal Products Europe | 414.8 | 368.6 | 261.4 | 254.5 | 350.4 | 229.1 | 218.4 | 203.7 |
| Communications Network Equipment Europe | 154.6 | 145.2 | 131.8 | 112.1 | 89.4 | 60.9 | 70.9 | 72.2 |
| Asia-Pacific | 210.2 | 207.0 | 137.2 | 159.7 | 183.6 | 153.7 | 161.7 | 199.2 |
| Americas | 85.0 | 107.9 | 111.5 | 60.2 | 66.6 | 21.2 | 16.6 | 12.1 |
| Industrial Electronics Europe | - | - | - | 31.9 | 32.0 | 31.2 | 32.7 | 30.1 |

# Locations

| Location | Activities and Services |
|---|---|
| **EUROPE** | |
| Espoo, Finland | Group office, sales and technical support |
| Espoo and Lohja, Finland | NPI center Finland, after-sales services |
| Salo and Turku, Finland | Elcoteq Design Center, design services for mobile phones |
| Kista, Sweden | Sales and technical support |
| Tallin, Estonia | High-volume production, NPI center |
| Pécs, Hungary | High-volume production, NPI center, after-sales services, system integration |
| Offenburg, Germany | NPI center, after-sales services, system integration |
| Überlingen, Germany | NPI center |
| Luxembourg | Office |
| Zug, Switzerland | Office |
| St. Petersburg, Russia | Medium to high-volume production, NPI center |
| St. Petersburg, Russia | Elcoteq Design Center, design services for mobile phones |
| **ASIA-PACIFIC** | |
| Beijing, China | High-volume production, NPI center, after-sales services |
| Dongguan, China | High-volume production |
| Shenzhen, China | High and medium volume production |
| Bangalore, India | High-volume production |
| Hong Kong, China | Sales and technical support |
| Seoul, South Korea | Sales and technical support |
| Tokyo, Japan | Sales and technical support |
| **AMERICAS** | |
| Dallas, USA | NPI center, sales and technical support |
| Juarez, Mexico | High-volume production, NPI center |
| Monterrey, Mexico | High-volume production, after-sales services |
| Manaus, Brazil | Medium to high-volume production |

# Quality Management

**Elcoteq's aim is to enhance the competitiveness of its customers. The company can only do this by continuously improving its operational and financial performance. Elcoteq's quality policy and corporate values also commit the company's employees to continuous improvement of its internal processes and procedures.**

**Quality Assurance at Elcoteq** Elcoteq's quality function is responsible for ensuring the quality of the products that the company manufactures. Its task is also to establish that the quality of Elcoteq's service overall is at the level expected by customers, and that the entire organization is well equipped in terms of quality -related competencies to carry out their tasks both effectively and efficiently.

Elcoteq is moving rapidly from traditional electronics manufacturing to covering a larger part of its customers' value chain, and to taking greater responsibility for the lifecycle of their products. The quality function, accordingly, is also expanding its scope to cover the new services offered by Elcoteq and to make sure that quality-related risks are well managed.

Elcoteq's quality function has been transformed into a more decentralized operational structure. Most of its activities now take place in the company's geographical areas, as close to the customers and actual operations as possible. This is to ensure that customer expectations are taken fully into account, and to improve Elcoteq's operational efficiency and ability to adapt to change.

**Quality Tools and Competencies** Continuous improvement of all internal processes requires the entire organization to have adequate quality competencies. These range from simple operational methods to the most complex Six Sigma techniques, which enable the company to systematically minimize the occurrence of errors and defects. The quality function maps and develops the skills and tools needed. It also ensures that they are in effective use throughout the company by running regular and frequent quantitative quality assessments and, for example, by monitoring and reducing the cost of poor quality.

The quality function runs a global Six Sigma program entirely with internal resources. Qualified in-house experts, i.e. "Master Black Belts", in every geographical area manage "Black Belt" and "Green Belt" Six Sigma teams that execute projects. Elcoteq has moved beyond pure manufacturing-related Six Sigma projects that now cover transactional areas, especially in supply chain management. Elcoteq has also expanded the scope of its Six Sigma activities in the direction of Design for Six Sigma to ensure the quality of Elcoteq's design activities.

**Business Process Management** The global consistency of Elcoteq's business processes is one of the company's key competitive advantages. The quality function ensures that the key business processes are implemented throughout the company at the right level of global consistency. It owns the business process management framework, which contains the tools and systems needed to define and implement processes, and it maintains a process ownership structure.

**Quality Management System** The continuous development of Elcoteq's quality management system ensures proactive compliance with all relevant quality-related standards and regulations, and customer and internal business requirements.

The quality function runs a comprehensive internal audit routine globally to verify compliance with requirements and to ensure the continuous improvement of business performance. In addition, all of Elcoteq's operating procedures and business processes are ISO 9001:2000 and ISO 14001 certified. These certificates were upgraded in 2004 and now all the units have the same certification.

# Human Resources

**Elcoteq's human resources function aims to ensure that the number of employees, their availability, competencies and motivation, support the company in the best possible way in achieving its strategic business objectives.**

**Human Resources' Main Tasks** The key tasks of Elcoteq's human resources function are to actively promote a corporate culture throughout the organization based on fairness, equal opportunity, openness and participation, to provide individuals with opportunities for personal growth and career development, and to ensure that the company's employee remuneration and incentive schemes are competitive.

Elcoteq supports all efforts to create an atmosphere that encourages personal learning and participation, and supports an environment, in which continuous improvement of working methods is a natural part of everyone's working life.

**Significant Growth in the Number of Personnel** The rapid growth of Elcoteq's business had a significant effect also on the number of personnel in 2004. At year-end, Elcoteq employed 19,500 people compared to 12,500 at the beginning of the year. The largest increases occurred in China, Hungary, Estonia and Mexico, where the number of personnel increased by an additional 2,500 at the end of 2004 when the Juarez facility, which Elcoteq acquired from Thomson, was integrated into Elcoteq.

One of the greatest challenges for Elcoteq's human resources is recruiting highly skilled and educated employees to positions that require special expertise and knowledge, as well as retaining and motivating the company's existing personnel. Customers' expectations about supply chain management and engineering services, for instance, are constantly increasing. To keep up with this development, Elcoteq has strengthened its internal training system and expanded co-operation with universities.

**Organizational Changes** During 2004, Elcoteq simplified its operating model with changes to the company's organization and the management's reporting responsibilities. The purpose of this revision was to bring greater efficiency to strategy implementation, to expedite the widening of the customer base and the company's internationalization, and to enhance decision-making.

From an organizational perspective, Elcoteq took the logical step in 2004 of merging the two geographical areas in Europe. After this change, Elcoteq now has three geographical areas: Europe, Asia-Pacific and Americas. The main reason for the merger was the need to simplify the organizational structure and make it more efficient with unified services for supply chain management, finance, information management and human resources.

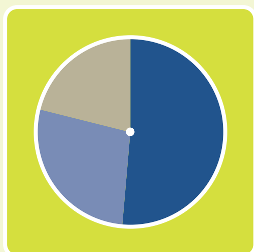
**Employee Survey Revealed Strengths and Development Areas** An employee survey was carried out during the fall of 2004 to measure employees' opinions and experiences of the working atmosphere in the company, the company's management, Elcoteq's image as an employer, and the changes compared to the previous surveys made in 2003 and 2002. The return rate, 73%, was higher than in the previous year's survey. An overall improvement can be seen in employees' opinions concerning Elcoteq as an employer, sharing of information and rewarding systems. The areas considered to need further actions included developing the content of work, as well as general management at all levels.

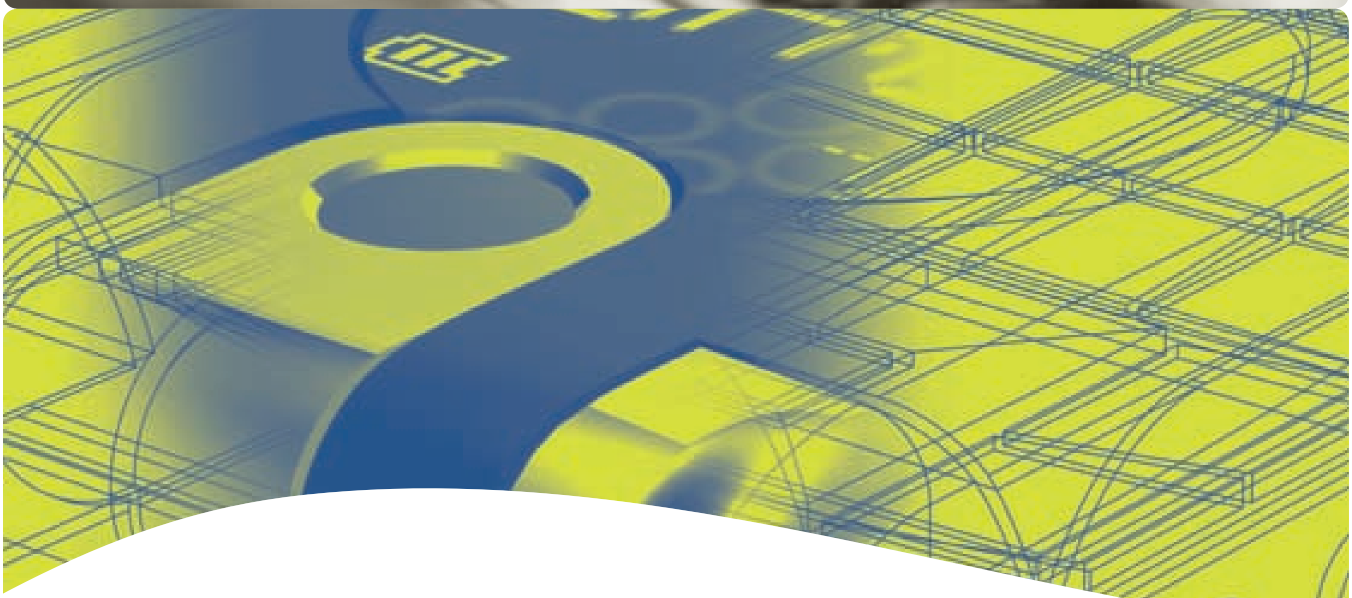
The Elcoteq Management Team has reviewed the results and action will be taken accordingly. Since the results varied significantly between different business units, action plans for development will be made locally in different Elcoteq units during spring 2005.

**Key Challenges for 2005** Elcoteq initiated a Strategic Management Process during the fall of 2004 aimed at enhancing strategy implementation in the company. Elcoteq will adopt a Balanced Scorecard type of approach in all its operations and units. Human resources, together with communications, has a significant role in this process, where the overall aim is to translate the company's strategy into more operational terms and in this way make strategy an essential aspect of every Elcoteq employee's daily work.

**Personnel by Geographical Area**

| | 2004 |
|---|---|
| Europe | 10,008 |
| Asia-Pacific | 5,364 |
| Americas | 4,108 |





# Corporate Responsibility

**In Elcoteq, responsibility for addressing the different dimensions of corporate responsibility (economic, social and environmental) is integrated in the company's management models, corporate governance, and the principles, guidelines and systems that are derived from them.**

**Reporting on Corporate Responsibility** Elcoteq completed its first separate Corporate Responsibility publication in November 2004. The report represents one of the ways through which the company informs its stakeholders about its operating principles and the actions it has taken so far within corporate responsibility. Corporate responsibility reporting in Elcoteq is based on the Global Reporting Initiative (GRI) guidelines for international sustainable development.

**Social Responsibility in Elcoteq** Elcoteq applies the SA8000 standard of Social Accountability International, the main aspects of which relate to preventing child and forced labor, employment hours and remuneration, occupational health and safety, freedom of association and the right to collective bargaining.

Elcoteq's manufacturing plants conduct self-assessments of their activities based on the SA8000 standard. In addition to internal assessments, Elcoteq's customers regularly audit aspects of Elcoteq's operations related to social and environmental responsibility.
The results of these assessments have been used by the plants to improve their operations to be in line with the SA8000 standard and the customers' requirements.

The focus of development during 2004 was on Asia, where Elcoteq organized training on SA8000 issues for its employees and continued close co-operation with customers and suppliers to promote the principles of social responsibility.

Occupational health and safety management was enhanced during 2004, and for example Elcoteq's Tallinn plant was granted the OHSAS 18001 certification.

**Supply Chain Management** Elcoteq works in co-operation with its customers to improve management of ethical issues in the supply chain. In 2004, for example, Elcoteq and Ericsson conducted joint audits of several suppliers, in which the parties examined compliance with Ericsson's supplier requirements and the SA8000 standard. Special attention was paid to employee rights and working conditions and to environmentally friendly business practices. Co-operation with customers in the area of supply chain management continues.

# Environmental Responsibility

**Elcoteq's goals are continuous improvement in environmental management, compliance with legal and customer requirements, and good business practices.**

**Focus Areas** The EU's integrated product policy has shifted the emphasis from management of site-specific environmental impacts to minimizing the environmental impacts of products throughout their lifecycle. Legislative obligations and customer requirements also set new demands and, to meet these, Elcoteq must continuously develop its environmental management.

**Lead-Free Manufacturing** Elcoteq started preparations for lead-free manufacturing in 2002, as soon as the EU ratified the RoHS Directive. Elcoteq has tested the viability of lead-free solutions with pilot projects, and Elcoteq's plants have shared all the experience and knowledge gained from the pilots.

Switching to a lead-free soldering process will be phased in for each product, material and component. A lead-free manufacturing process is already used for volume production in many of Elcoteq's plants.

**Control of Hazardous Substances** In controlling the use of hazardous substances Elcoteq employs a specific list of banned and restricted substances based on the requirements of legislation and the company's main customers. This list, in use since 2002, was updated in December 2004 to bring it into line with current demands. The list was also restructured to make it easier to use and its instructions were revised.

In 2004, all Elcoteq units globally adopted a software tool developed for managing data on materials and their recyclability in specific products and components. Backed up by a materials database, this tool enables Elcoteq to offer customers detailed analyses of the content of the materials it uses.

Elcoteq received the MQS Network award in 2004. MQS Network is a Nordic network for manufacturers, suppliers and users of printed circuit boards. The award, presented annually, was given to Elcoteq for its systematic work towards meeting the requirements of the RoHS and WEEE environmental directives. Elcoteq has developed lead-free manufacturing processes and RoHS-compatible products together with selected customers, as well as participating in national, Nordic and European projects. Elcoteq also received recognition for its efforts to enhance data collection on the material content of its products.

**Management of Environmental Aspects** Elcoteq's Group functions and all its manufacturing plants have an ISO 14001 environmental management system. The ISO 9001:2000 and ISO 14001 certificates were updated in 2004 and now all units have the same common certificate.

Elcoteq has distributed the responsibilities specified in its environmental management system by making the business units independently responsible for continuously improving and setting objectives for the environmental management of their local operations. This allows the units to address local conditions when defining development priorities.

In 2005, Elcoteq will further develop its environmental management system to meet the new requirements of the ISO 14001:2004 standard.

**Environmental Indicators** Elcoteq monitors environmental indicators on a quarterly basis to measure and assess environmental management at its plants, the consumption of natural resources, waste management and indirect environmental impacts. Further details on these indicators are given in the company's Corporate Responsibility publication.

# Report by the Board of Directors January 1 – December 31, 2004

Elcoteq Network Corporation's consolidated financial statements for 2004 have been prepared applying IFRS principles, which the company adopted at the beginning of 2004. The comparison period is the same period in the previous year unless otherwise specified. The comparison data for 2003 has been changed to correspond to IFRS principles.

The communications technology market began to recover at the end of 2003 and growth continued during 2004. The market for electronics manufacturing services (EMS) continued to grow likewise, which was also reflected in Elcoteq's net sales for 2004, up 32% on the previous year.

Elcoteq broadened its service portfolio during 2004 and strongly expanded its service network in all geographical areas. Manufacturing capacity was increased by building new production premises, by making more effective use of existing plant space, and through acquisitions. The company announced new manufacturing plant projects in Brazil, India and Russia. In December 2004 Elcoteq signed an agreement with the French company Thomson SA on the manufacture of set-top boxes. The agreement also included the transfer of Thomson's manufacturing operation in Mexico to Elcoteq at the end of 2004.

**Market Development** 2004 was a year of growth in the EMS market. Strong growth in mobile phone sales, coupled with increased delivery volumes in communications network equipment, created favorable conditions for EMS providers. Roughly 650 million mobile phones were sold in 2004, which represents growth of approximately 25% on the previous year. The size of the communications network market grew simultaneously by almost 10% from EUR 110 billion to EUR 120 billion.

The end-markets for mobile phones and network equipment are forecast to grow by 5-10% in 2005. Growth in the EMS sector is expected to be even higher, however, because the degree of outsourcing is forecast to rise somewhat from the present level of about 40%. In addition to manufacturing, customers are increasingly outsourcing other functions as well, such as product design. Demand is rising all the time, especially for original design manufacturing (ODM) services, which cover the entire value chain of the product from design to after-sales service.

The EMS and ODM markets are forecast to grow further in the years ahead. The traditional EMS business is expected to expand by 10% a year between 2004 and 2007 and the ODM business by an annual average of about 20%.

**Full-Year 2004: Net Sales Up and Result Improved** Elcoteq's net sales increased 32% to MEUR 2,953.7 (MEUR 2,235.7) in 2004. Operating income amounted to 71.4 (MEUR 30.5). Income before taxes was MEUR 59.0 (MEUR 22.5) and net income for the year was MEUR 39.8 (MEUR 20.7). Earnings per share (EPS) were EUR 1.31 (EUR 0.70).

Underlying the growth in net sales were good demand for mobile phones and increased delivery volumes of network equipment. Growth was especially strong in the Americas, where net sales more than tripled compared to 2003. Net sales in Europe rose approximately 30%, whereas net sales in Asia-Pacific grew only slightly. The business operations (Marconi and Tellabs) acquired at the end of 2003 contributed MEUR 145 to Elcoteq's consolidated net sales.

Operating income in 2004 included three one-time items which had an aggregate positive impact of MEUR 14.4 on Elcoteq's result. These were the operating profit, MEUR 10.0, on the divestment of the Industrial Electronics business, MEUR 2.3 from the settlement of the dispute related to VAT payable by Elcoteq's 70%-owned Shenzhen GKI company, and MEUR 2.1 arising from the reduction of Elcoteq's disability pension obligation under the Finnish Employees Pension Act (TEL). The aggregate impact of these items on Elcoteq's net income for the year was MEUR 7.3.

The Group's net financial expenses totaled MEUR 11.3 (MEUR 7.5). Factors contributing to the growth in financial expenses included an increase in loan capital, the syndicated loan raised at the year end, and an increase in the securitization limit for sold accounts receivable.

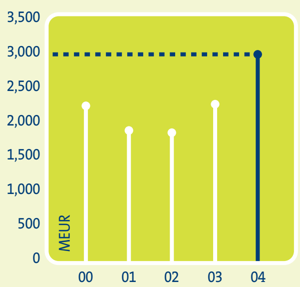
**Fourth-Quarter Net Sales and Result** Demand for services in the fourth quarter remained at the third quarter's level, as the company predicted. Fourth-quarter net sales amounted to MEUR 864.6 (MEUR 721.9), which marked growth of 4% on the previous quarter's figure of MEUR 828.7. Operating income in the fourth quarter totaled MEUR 20.8 (MEUR 20.0 in Q3/2004 and MEUR 17.0 in Q4/2003) and pretax income totaled MEUR 15.0 (MEUR 14.1). Operating income includes a one-time item of MEUR 2.6 arising from a reduction in the disability pension obligation under the Finnish Employees Pension Act (TEL), which had a positive effect on the result. Hence operating income from actual business operations in the fourth quarter of 2004 amounted to MEUR 18.2.

Profitability was boosted by the high production volumes of the Terminal Products business area. The profitability of the Communications Network Equipment business area was weaker than expected owing mainly to problems associated with one customer's production and deliveries. These problems were resolved by the end of 2004.

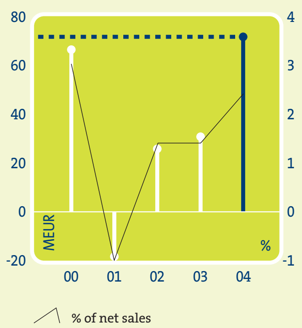
**Financing and Cash Flow** Liquidity was good throughout the year. At the end of December the company had unused but immediately available credit limits totaling MEUR 289.9 (MEUR 169.1 at the end of Q3/2004 and MEUR 168.8 at the end of 2003).

Interest-bearing net debt at the end of December totaled MEUR 98.2 (MEUR -0.4), gearing was 0.4 (-0.0), and the solvency ratio was

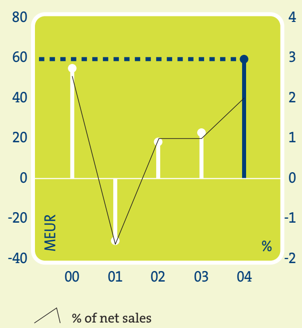
Net Sales




Operating Income




Income before Taxes



30.5% (32.6%). Cash flow from sold accounts receivable amounted to MEUR 164.0 (MEUR 165.4 at the end of Q3/2004 and MEUR 185.0 at the end of 2003).

In November Elcoteq signed a MEUR 230 five-year, syndicated revolving credit facility. This was used to replace the MEUR 105 facility, signed in 2001, which was due to begin amortizing in March 2005. Furthermore, Elcoteq increased its commercial paper program to MEUR 200 (MEUR 100) at the end of the year and its securitization of accounts receivable program to MEUR 250 (MEUR 200).

In December Elcoteq floated a fixed-coupon subordinated notes issue totaling MEUR 50 with a maturity of at most 7 years. The purpose of this issue is to extend the average duration of the company's credit portfolio and to strengthen its financial structure. The fixed annual nominal interest rate will be 5.0% for the first five years, after which the company will have the right to redeem the notes before their maturity. After the first five years the notes will become a floating rate loan. The emission price of the notes was 99.611% of the loan's nominal principal and the effective yield is 5.09%.

Cash flow after investing activities in 2004 was MEUR -80.3 (MEUR -18.1) and in the final quarter of the year MEUR -44.0 (MEUR 9.5). Cash flow, excluding the impact of the change arising from acquisitions and the sale of accounts receivable, was MEUR -37.4. The negative cash flow was mainly the result of capital expenditures and an increase in the working capital of the Communications Network Equipment business area.

Cash flow in the fourth quarter was reduced by the Thomson manufacturing acquisition at the end of December, for which Elcoteq paid MEUR 19.5. This deal increased the Group's balance sheet by approximately MEUR 22.0, and its impact on the solvency ratio was roughly 0.8 percentage points negative. The effect of the Thomson acquisition on Elcoteq's net sales and result will be visible in 2005.

**Capital Expenditures** Gross capital expenditures on fixed assets in 2004 represented 4.3% of net sales, or MEUR 128.3 (MEUR 68.1) and depreciation was MEUR 60.8 (MEUR 57.6). The largest investment items were purchases of machinery and equipment in Europe, the acquisition of the Thomson manufacturing operation in Mexico, and the new manufacturing plant in St. Petersburg, Russia. Capital expenditures in the fourth quarter of the year totaled MEUR 45.2 (MEUR 22.4).

Elcoteq also increased its manufacturing capacity through operating leases worth roughly MEUR 35.3 (MEUR 11.7) in 2004.

**Personnel** Elcoteq's total workforce grew due to improved sales and higher production volumes. The increase during 2004 was approximately 6,500 employees with strongest growth in Estonia, Hungary and Mexico, where the workforce increased by roughly 2,500 employees at the end of the year owing to the Thomson acquisition.

At the end of December the Group employed 19,480 (13,013) people: 817 (1,040) in Finland and 18,663 (11,973) in other countries. The average number of employees directly employed by the company during 2004 was 13,065 (11,044).

**Business Area Performance** Elcoteq has two business areas: Terminal Products and Communications Network Equipment. In 2004 net sales of Terminal Products contributed 78% (80%) and net sales of Communications Network Equipment 21% (15%) of Elcoteq's consolidated net sales.

Elcoteq's largest customers in 2004 were companies within the Nokia and Ericsson groups and accounted for 73% (78%) of Elcoteq's net sales. This figure does not include business activities with Sony Ericsson.

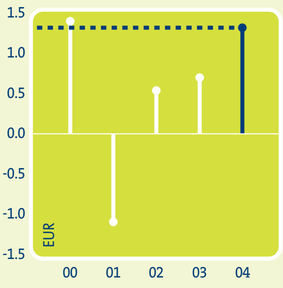
Elcoteq divested its Industrial Electronics business on April 1, 2004. Industrial Electronics represented MEUR 31.9 (MEUR 126.0) or 1% (5%) of Elcoteq's consolidated net sales in 2004. Operating income of the Industrial Electronics segment, including the gain on its divestment, was MEUR 13.0 (MEUR 11.5).

**Terminal Products** Net sales of the Terminal Products business area in 2004 increased on the previous year by roughly 30% to MEUR 2,300.0 (MEUR 1,779.9) and this segment's operating income almost doubled to MEUR 78.2 (MEUR 40.0). Fourth-quarter net sales in 2004 amounted to MEUR 688.8 (MEUR 589.3). The factors underlying the growth in full-year net sales were strong demand for mobile phones and growth in the end-market.

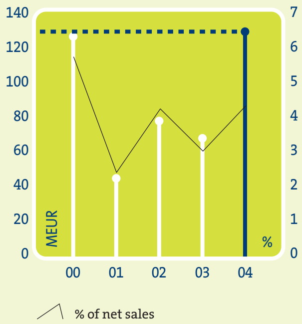
The strategic goal of the Terminal Products business area is to broaden its customer base. Elcoteq gained a number of new terminal products customers during 2004. The company believes that in 2005 the Terminal Products customer base will be distinctly wider and more balanced than hitherto. Elcoteq concluded manufacturing services agreements with customers including Research In Motion (RIM) and Vitelcom. The company also announced its first ODM agreement, a contract covering product design with Siemens, for whom production started in December. Elcoteq also has other Terminal Products customers and projects, in some of which the end-customer has also outsourced their product design. The company estimates that these accounts will increase its net sales in 2005 by approximately MEUR 350.

In December Elcoteq and the French company Thomson signed an EMS agreement covering the manufacture of Thomson's set-top boxes by Elcoteq. At the same time Elcoteq became a preferred EMS partner to Thomson for the manufacture of set-top boxes. The agreement also included the transfer to Elcoteq of the production operations of Thomson's plant in Juarez, Mexico, at the end of 2004. Elcoteq expects

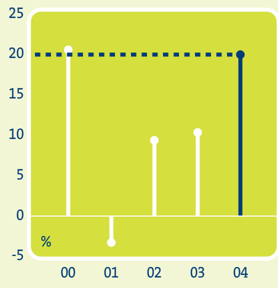
**Earnings per Share (EPS)**




**Capital Expenditures**




**Return on Investment (ROI/ROCE)**



the deal to boost its net sales in 2005 by approximately MEUR 230.

Elcoteq estimates that the net sales of its Terminal Products business area in 2005 will increase faster than end-market growth due to its new customers.

**Communications Network Equipment** The Communications Network Equipment business area almost doubled its net sales compared to 2003. The business area's net sales in 2004 amounted to MEUR 621.8 (MEUR 329.8) and the operating income of this segment was MEUR 16.4 (MEUR 8.8). Net sales grew both organically and as a result of the acquisitions made in 2003. The latter represented approximately MEUR 145 of the business area's 2004 net sales. Net sales in the fourth quarter of 2004 totaled MEUR 175.9 (MEUR 100.6).

In Europe the new customers announced by Communications Network Equipment during 2004 included Orthogon Systems and Schmid Telecom. The company also began manufacturing operations for Huawei in Shenzhen, China, in spring 2004.

Elcoteq and Tellabs have negotiated the terms for continuing co-operation, the operating model, and other long-term conditions related to this business. As a result of these negotiations, the companies have agreed to terminate their co-operation during the fall of 2005. Factors underlying this decision were changes in Tellabs' own business and strategy. Phasing out this production will not create extra costs for Elcoteq in 2005. Net sales from the Tellabs account in 2004 totaled approximately MEUR 60 and the result was a loss.

Elcoteq estimates the Communications Network Equipment business area will strengthen its market share in 2005 and increase its net sales on the previous year.

## Geographical Areas (GA)

Elcoteq revised the organization of its Geographical Areas in November 2004 with the merger of Terminal Products / Europe and Communications Network Equipment / Europe. The company now has three Geographical Areas: Europe, Asia-Pacific and Americas. In its financial reporting the company has applied this division since the beginning of 2005.

In 2004 the Geographical Areas contributed to Elcoteq's consolidated net sales as follows: Terminal Products / Europe 44% (45%), Communications Network Equipment /Europe 18% (13%), Asia-Pacific 24% (31%) and Americas 12% (5%).

**Europe** The aggregate net sales of GA Europe totaled MEUR 1,874.9 (MEUR 1,421.0). This was distributed as follows: Terminal Products / Europe MEUR 1,299.3 (MEUR 1,001.6), Communications Network Equipment / Europe MEUR 543.7 (MEUR 293.4) and Industrial Electronics MEUR 31.9 (MEUR 126.0).

In June Elcoteq decided to build a new 14,700-square-meter manufacturing plant in St. Petersburg, Russia. Construction began in the final quarter of 2004 and the plant is scheduled for completion in the fall of 2005. When operating at full capacity the plant is expected to have roughly 1,500 employees.

**Asia-Pacific** Net sales of GA Asia-Pacific totaled MEUR 714.1 (MEUR 698.2).

Elcoteq combined its two manufacturing plants in Beijing, China in summer 2004. The present plant, and the NPI center that operates in conjunction with it, are located in the Xingwang Industrial Park.

In June Elcoteq announced plans to start operations in Bangalore, India. The company is initially operating in leased premises (approx. 5,500 square meters), which were completed in January 2005. At full capacity, this plant will have about 1,000 employees.

**Americas** Net sales of GA Americas more than tripled in 2004 to MEUR 364.6 (MEUR 116.5).

Elcoteq started up EMS activities in Manaus, Brazil, towards the end of 2004. This plant, with approximately 1,500 square meters of leased space, employs roughly 120 people and it manufactures CDMA mobile phones.

The plant acquired from Thomson in Juarez, Mexico, doubled Elcoteq's total manufacturing capacity and workforce in the Americas. Elcoteq now operates two plants in Mexico with altogether about 3,900 employees. At its Juarez plant Elcoteq manufactures set-top boxes for Thomson.

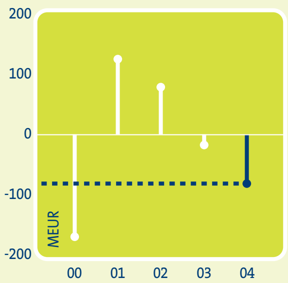
## The Annual General Meeting

Elcoteq's Annual General Meeting was held in Helsinki, Finland, on March 17, 2004. The meeting authorized the Board to float one or several convertible bond loans and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue. Under this authorization the company's share capital may be increased by at most EUR 2,435,042, which includes an increase of at most EUR 608,760 in the share capital arising from a personnel incentive scheme. This authorization remains in force until March 17, 2005.

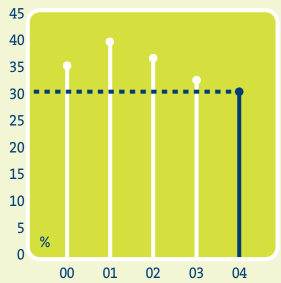
The Board exercised its authorization on August 3, 2004 and decided to issue new stock options. At most 1,350,000 option rights may be issued and they entitle to subscription of 1,350,000 Elcoteq Network Corporation A shares.

The meeting also authorized the company's executive management to continue preparations to convert Elcoteq into a European Company (SE).

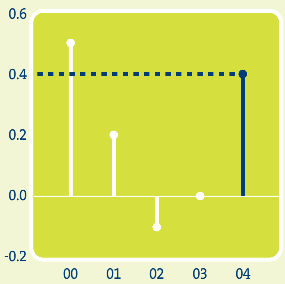
**Cash Flow after Investing Activities**




**Solvency Ratio**




**Gearing**



**The Board of Directors** The 2004 AGM elected seven members to the Board of Directors: President Martti Ahtisaari; Mr Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Dr Eero Kasanen, Rector of the Helsinki School of Economics; Mr Antti Piippo; Mr Henry Sjöman; Mr Juha Toivola, MSc, and Mr Jorma Vanhanen. The terms of office of the Board members extend until the end of the following Annual General Meeting. The chairman of the Board of Directors is Antti Piippo and the deputy chairman is Juha Toivola.

The Board's Nomination Committee will propose to the Annual General Meeting on March 23, 2005 that the Board's existing members be re-elected. These individuals have given their consent to re-election.

**The President and CEO** Elcoteq's President and CEO since January 1, 2004 has been Jouni Hartikainen MSc (Eng.) and the Deputy CEO has been COO Jukka Jäämaa LSc (Eng.).

**The Auditor** The AGM re-appointed the firm of authorized public accountants KPMG Oy Ab as the company's auditors and Mauri Palvi APA as the principal auditor.

**Shares and Shareholders** At the close of the 2004 fiscal year Elcoteq's share capital consisted of 30,640,877 shares divided into 20,063,877 A shares and 10,577,000 K shares. All the K shares are held by the company's three principal shareholders.

During 2004 altogether 246,900 new A shares were registered as a result of subscriptions under the 1997 bond with warrants and 202,850 new A shares under the 2001 stock options scheme.

Elcoteq Network Corporation had 12,588 registered shareholders on December 31, 2004. There were a total of 7,008,543 nominee-registered and foreign-registered A shares, or 22.9% of the total number of shares and 5.6% of the votes outstanding.

As part of Elcoteq's growth and internationalization strategy the company's Board of Directors decided in June 2004 to begin analyzing the alternatives available for strengthening the company's shareholders' equity. At the same time the Board decided to examine the feasibility of combining the unlisted K series shares with the listed A shares. These assessments are still in progress.

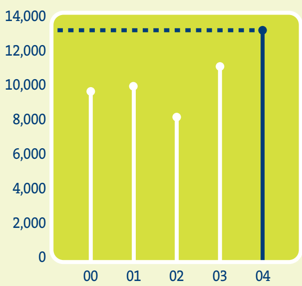
**Incentive Schemes 2004** In August Elcoteq's Board of Directors agreed on the motivation and commitment of the management and key personnel of the Group by means of a stock option plan, a share ownership plan and a reward plan.

Stock options were issued to the key personnel of the Group and to the wholly owned subsidiary Elcoteq Lohja Oy. A total of 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. The 2004A options have been allocated to the members of the company's Management Conference and the other options are held by Elcoteq Lohja Oy for the company's future needs.

The share ownership plan is intended for members of the Management Conference and has a duration of three years. The Board decides annually on each year's profit and net sales targets.

The Group also has a new reward plan for key persons, the potential reward of which is based on the growth of the market value of the company's shares. The reward plan is directed at key personnel not covered by the stock option plan and the share-based incentive plan.

**Personnel on Average**




**Conversion of Elcoteq into a European Company (SE)**
On October 8, 2004 Elcoteq's Board of Directors decided to propose to a general shareholders' meeting that Elcoteq be converted into a European Company (Societas Europaea, SE). This change, which is part of Elcoteq's internationalization strategy, aims to create an effective structural framework for ensuring continuous improvement of the company's competitive efficiency. In the longer term Elcoteq's aim as an SE is to raise efficiency and reduce administrative costs.

Becoming a European Company will not affect the company's domicile, the location of its head office, its tax status or the employment contracts of its employees. The only change in the position of the company's personnel will apply to employee participation, which in the future will be arranged at the European level. The position of the shareholders will remain unchanged likewise. The final decision will be made by a general meeting. The Board will submit its proposal to the general meeting after the preparations for the conversion are complete, most probably during fall 2005.

**Prospects** Elcoteq's principal goals in 2005 are to:

- Increase the number of ODM projects
- Balance the customer base especially in the Terminal Products business area
- Raise the profitability of the Communications Network Equipment business area.

Elcoteq estimates that both its net sales and operating income will improve in 2005 compared to the previous year.

Net sales for the first quarter of 2005 are expected to be higher than in the same period last year. Operating income is forecast to be weaker than in the first quarter last year owing principally to the product mix and the cost impacts of several simultaneous expansion projects.

**Board's Dividend Proposal** The Board of Directors proposes to the Annual General Meeting on March 23, 2005 that a dividend of EUR 0.65 per share, or approximately half of net income, be distributed on the financial year 2004.

Espoo, Finland
February 9, 2005

Board of Directors

# Consolidated Income Statement (IFRS)

| CONSOLIDATED INCOME STATEMENT, EUR 1,000 | Note | Jan. 1-Dec. 31, 2004 | Jan. 1-Dec. 31, 2003 |
|---|---|---|---|
| **NET SALES** | 1 | **2,953,735** | **2,235,668** |
| Change in work in progress and finished goods | | 11,280 | 6,500 |
| Other operating income | 2 | 6,157 | 2,362 |
| Gain on the sale of discontinuing operation | | 10,751 | 0 |
| Production materials and services | 3 | -2,556,361 | -1,899,856 |
| Personnel expenses | 5 | -171,885 | -153,886 |
| Depreciation and amortization | 7 | -60,847 | -54,182 |
| Writedowns | | 0 | -3,414 |
| Depreciation, amortization and writedowns, total | | -60,847 | -57,596 |
| Other operating expenses | 8 | -121,433 | -102,649 |
| **OPERATING INCOME** | | **71,396** | **30,543** |
| Financial income and expenses, total | 9 | -11,324 | -7,518 |
| Share of the losses of associated companies | | -1,025 | -502 |
| **INCOME BEFORE TAXES** | | **59,048** | **22,523** |
| Income taxes | 10 | -17,285 | -1,463 |
| Minority interests | | -1,946 | -406 |
| **NET INCOME** | | **39,816** | **20,654** |
| **Earnings per share, EUR** | | **1.31** | **0.70** |
| **Earnings per share, diluted, EUR** | | **1.25** | **0.67** |

# Consolidated Cash Flow Statement (IFRS)

| CASH FLOW STATEMENT, EUR 1,000 | Jan. 1-Dec. 31, 2004 | Jan. 1-Dec. 31, 2003 |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Income before taxes | 59,048 | 22,523 |
| Adjustments: | | |
| Scheduled depreciation and amortization | 60,847 | 57,596 |
| Unrealized foreign exchange gains and losses | -10,226 | -10,335 |
| Financial income and expenses | 8,045 | -502 |
| Other adjustments | -15,172 | 395 |
| Cash flow before change in working capital | 102,542 | 69,678 |
| **Change in working capital: *** | | |
| Change in non-interest-bearing current receivables | -29,157 | -44,133 |
| Change in inventories | -56,724 | -41,207 |
| Change in non-interest-bearing current liabilities | 63,555 | 121,771 |
| Cash flow from operating activities before financial items and taxes | 80,216 | 106,109 |
| Interest and other financial expenses | -11,607 | -5,642 |
| Operations-related interest income | 366 | 583 |
| Income taxes paid | -9,040 | -952 |
| **Cash flow from operating activities** | **59,935** | **100,098** |
| **Cash Flow from Investing Activities** | | |
| Purchases of tangible and intangible assets | -128,414 | -74,127 |
| Proceeds from disposal of tangible and intangible assets | 10,326 | 2,462 |
| Acquisitions | -43,247 | -46,727 |
| Disposals | 21,313 | 0 |
| Loans made | -253 | 0 |
| Repayment of loans receivable | 4 | 151 |
| **Cash flow from investing activities** | **-140,270** | **-118,241** |
| **Cash Flow from Financing Activities** | | |
| Proceeds from the issuance of shares | 2,036 | 8,099 |
| Change of current debt | 39,617 | -876 |
| Issuance of long-term debt | 49,678 | 20,017 |
| Repayment of long-term debt | -7,746 | -4,796 |
| Dividends paid and other distributions of earnings | -27,299 | -12,604 |
| **Cash flow from financing activities** | **56,286** | **9,841** |
| **Change in Cash and Cash Equivalents** | **-24,049** | **-8,302** |
| **Cash and equivalents on January 1** | **63,683** | **76,065** |
| **Effect of exchange rate changes on cash held** | **-394** | **-4,079** |
| **Cash and equivalents on December 31** | **39,239** | **63,683** |

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to weaken cash flow by MEUR 21.0 during the reporting period 1-12/2004 and to improve cash flow by MEUR 63.7 during 1-12/2003.

# Consolidated Balance Sheet (IFRS)

| ASSETS, EUR 1,000 | Note | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|---|
| **Non-Current Assets** | 13 | | |
| Intangible assets | | | |
| Intangible rights | | 6,660 | 3,028 |
| ADP Software | | 6,626 | 5,878 |
| Advance payments and construction in progress | | 4,601 | 1,962 |
| Goodwill | | 10,798 | 10,979 |
| Goodwill on consolidation | | 15,216 | 15,099 |
| | | 43,900 | 36,946 |
| Tangible assets | | | |
| Land and water areas | | 3,861 | 2,414 |
| Buildings | | 55,285 | 45,282 |
| Machinery and equipment | | 131,908 | 88,881 |
| Advance payments and construction in progress | | 14,745 | 17,407 |
| | | 205,799 | 153,984 |
| Investments | | | |
| Shares and equity interests in associated companies | | 2,748 | 3,058 |
| Receivables from associated companies | | 87 | 137 |
| Other shares and equity interests | | 11,535 | 11,666 |
| | | 14,371 | 14,861 |
| Long-term receivables | | | |
| Deferred tax assets | 16 | 6,375 | 11,185 |
| Other loans receivable | | 7,665 | 15 |
| | | 14,039 | 11,201 |
| **Non-current assets, total** | | **278,109** | **216,992** |
| **Current Assets** | | | |
| Inventories | | | |
| Raw materials | | 233,135 | 198,729 |
| Work in progress | | 31,509 | 31,855 |
| Finished goods | | 40,571 | 36,138 |
| Advance payments | | 128 | 245 |
| | | 305,343 | 266,967 |
| Current receivables | | | |
| Accounts receivable | 17 | 250,074 | 217,604 |
| Prepaid expenses and accruals | 18 | 34,879 | 39,121 |
| | | 284,953 | 256,724 |
| Cash and Equivalents | | 39,239 | 63,683 |
| **Current assets, total** | | **629,535** | **587,375** |
| **ASSETS, TOTAL** | | **907,645** | **804 ,367** |

# Consolidated Balance Sheet (IFRS)

| SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000 | Note | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|---|
| **Shareholders' Equity** | 19 | | |
| Share capital | | 12,256 | 12,076 |
| Additional paid-in capital | | 212,226 | 209,008 |
| Other reserves | | 8,354 | 8,354 |
| Share issue | | 0 | 1,361 |
| Translation differences | | -2,687 | -2,904 |
| Retained earnings | | 300 | 6,945 |
| Net income for the year | | 39,816 | 20,654 |
| **Shareholders' equity, total** | | **270,265** | **255,495** |
| | | | |
| **Minority Interests** | | **6,575** | **5,764** |
| | | | |
| **Liabilities** | 20 | | |
| | | | |
| Long-term liabilities | | | |
| Subordinated notes | | 49,678 | - |
| Medium-term notes | | 25,100 | 25,092 |
| Loans from financial institutions | | 3,333 | 13,931 |
| Loans from pension plans | | 2,144 | 2,609 |
| Other debt | | 1,128 | 7,805 |
| Deferred tax liability | 16 | 3,268 | 5,117 |
| | | 84,651 | 54,554 |
| Payments due within one year | | -8,074 | -5,180 |
| | | 76,577 | 49,374 |
| | | | |
| Current liabilities | | | |
| Loans from financial institutions | | 23,777 | 13,850 |
| Commercial paper program | | 39,881 | 4,951 |
| Loans from pension plans | | 465 | 465 |
| Advances received | | 196 | 3,016 |
| Accounts payable | | 413,292 | 376,474 |
| Other current liabilities | | 7,498 | 13,672 |
| Accrued expenses | 21 | 67,585 | 79,251 |
| Provisions | 20 | 1,535 | 2,056 |
| | | 554,229 | 493,734 |
| | | | |
| **Liabilities, total** | | **630,805** | **543,108** |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL** | | **907,645** | **804,367** |

# Calculation of Changes in Shareholders' Equity (IFRS)

| EUR 1,000 | Share Capital | Additional Paid-In Capital | Other Reserves | Share Issue | Translation Differences | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2004** | **12,076** | **209,008** | **8,354** | **1 361** | **-2,904** | **27,599** | **255,495** |
| Issue of share capital | 180 | 3,218 | | -1 361 | | | 2,037 |
| Translation differences | | | | | 216 | | 216 |
| Dividends | | | | | | -27,299 | -27,299 |
| Net income | | | | | | 39,816 | 39,816 |
| **BALANCE AT DECEMBER 31, 2004** | **12,256** | **212,226** | **8,354** | **0** | **-2,687** | **40,116** | **270,265** |
| **BALANCE AT JANUARY 1, 2003** | **11,797** | **202,550** | **8,354** | **0** | **759** | **18,741** | **242,201** |
| Issue of share capital | 280 | 6,458 | | 1,361 | | | 8,099 |
| Translation differences | | | | | -3,663 | | -3,663 |
| Dividends | | | | | | -11,797 | -11,797 |
| Net income | | | | | | 20,654 | 20,654 |
| **BALANCE AT DECEMBER 31, 2003** | **12,076** | **209,008** | **8,354** | **1,361** | **-2,904** | **27,599** | **255,495** |

# Accounting Principles Used in the Consolidated Financial Statements

**General Accounting Principles** Elcoteq Network Corporation is a Finnish public limited company registered in Lohja, Finland. 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. Elcoteq Group has applied IFRS accounting principles since January 1, 2004 and in the transition to IFRS the company has also applied the IFRS 1 standard on first-time adoption. The comparison figures for 2003 have been adjusted to correspond with IFRS principles. In its financial statements for 2004 Elcoteq has applied the standards in force at December 31, 2004. Furthermore, since January 1, 2004 the company has also applied IFRS 3 (Business Combinations) and the IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) standards, which were updated during 2004. The differences arising from IFRS reporting and the principles previously applied by the company (Finnish Accounting Standards, FAS) are shown in an IFRS reconciliation calculations appended to the financial statements (Adoption of IFRS Reporting), in which the comparative figures in 2003 are restated in line with IFRS.

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

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.

**Principles of Consolidation** The consolidated financial statements include the accounts of the parent company, Elcoteq Network Corporation, and each company in which it exercises, directly or indirectly, over 50% voting control or in which it otherwise exercises control. The results of subsidiaries acquired and established during the period are consolidated from the date on which Elcoteq assumed control. Subsidiaries are consolidated using the purchase method of accounting. Acquisitions made before the adoption of IFRS are not adjusted for IFRS but instead are valued according to FAS principles applying the easement permitted by IFRS 1 (First-Time Adoption). In acquisitions that took place after January 1, 2004 all 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. All intra-Group transactions, receivables, payables and internal margins are eliminated. Minority interests in the earnings and equity of subsidiaries are shown as separate items in the consolidated income statement and balance sheet.

Associated companies are entities in which the Group holds substantial influence (20-50% ownership and voting control) 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 post-acquisition retained earnings is reported under investments in associated companies in the consolidated balance sheet.

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

**Translation of Foreign Subsidiaries' Financial Statements**
The income statements of foreign subsidiaries are translated into euros each month at the average monthly exchange rates published by the European Central Bank (ECB), and their balance sheets are translated at the applicable exchange rates in effect on the last day of the period. Differences resulting from the translation of income statement items at the average monthly rate and balance sheet items at the year-end rate are recorded under shareholders' equity in the consolidated balance sheet. Foreign exchange differences arising from the application of the purchase method of accounting are recorded in shareholders' equity likewise. Differences arising before January 1, 2003 are entered under retained earnings during the transition to IFRS.

**Business Segments** Elcoteq has organized its operations into two business areas: Terminal Products and Communications Network Equipment. Elcoteq reports these business areas as its primary segments applying IAS 14 (Segment Reporting). In addition to these two business areas Elcoteq has also had a separate operation, Industrial Electronics, the bulk of which the company sold on April 1, 2004. The residual part of this business retained by Elcoteq is consolidated within the Communications Network Equipment business area. The comparison data for the segments in 2003 are adjusted for this new business structure.

Elcoteq reports its geographical areas – Europe, Asia-Pacific and 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 buyer and no material uncertainties remain as to the receipt of payment for them, associated costs, or the possible return of the goods by the buyer. Net sales are reported after cash discounts and sales-related foreign exchange gains and losses.

Under IAS 11 (Construction Contracts) revenue and costs from long-term contracts are recognized in proportion to their stage of completion during the reporting year (the percentage of completion method). This applies to fixed-price contracts, the outcome of which can be estimated reliably. If the outcome cannot be estimated reliably, no profit is recognized. When determining the stage of completion of a contract, the contract costs for work performed are compared to the estimated total costs of the contract.

**Translation of Foreign Currencies into Euros** Transactions during the period denominated in currencies other than the euro are recognized using the rate of exchange prevailing on the transaction date. All balance sheet items are valued using the rates of exchange published by the ECB for the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to the corresponding items.

Derivative financial instruments are recorded at their fair values. Hedge accounting is not applied to derivative instruments related to normal business operations; instead these instruments are recognized in the income statement at their fair values as adjustments to the corresponding items. Nor is hedge accounting applied to derivative instruments used to hedge financial items; these instruments are recorded at their fair values under financial items. Hedge accounting is applied when derivative contracts are used to hedge currency translation exposure related to the Group's equity in foreign subsidiaries. In this case foreign exchange gains and losses are treated as translation differences in the consolidated statements. The gains and losses relating to any ineffective portion of the hedge are recorded under financial items.

The year-end nominal values, book values and fair values of the derivatives contracts are shown in note "Assets Pledged and Contingent Liabilities".

**Non-Current Assets** Non-current assets are stated at their original purchase cost less accumulated scheduled depreciation or amortization. Costs arising later are capitalized and depreciated over the useful life of the asset provided that these costs generate increased economic benefit from the asset for the company. Non-current assets are depreciated or amortized on a straight-line basis over their expected useful lives. Land and water areas are not depreciated.

Available-for-sale assets under non-current assets are recorded at fair value. If the fair value cannot reliably be assessed, these assets are valued at their purchase price or lower if they are subject to a permanent impairment loss.

Goodwill stemming from the purchase of business operations (i. e. asset transactions) is reported as goodwill. Goodwill arising from the consolidation of acquired subsidiaries whose purchase price exceeds the book value of their equity at the time of acquisition is recognized as goodwill on consolidation. The Group ceased recording scheduled amortization of goodwill and goodwill on consolidation from January 1, 2004 on the adoption of IFRS 3 (Business Combinations) and the revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) standards. Goodwill is tested annually based on discounted cash flows and is amortized as required by these impairment tests.

If, according to IAS 36 (Impairment of Assets), the expected cumulative proceeds from a fixed asset (the recoverable amount) are estimated to be lower than the non-depreciated purchase price (the carrying amount), the difference is expensed as a writedown in the income statement. Impairment losses recognized on non-current assets in previous periods are reversed only if, after recording of the most recent impairment loss, the values used to determine the expected cumulative proceeds from the asset have changed. Impairment losses recorded on goodwill are not reversed, however.

Gains and losses on the disposal of non-current assets are included in operating income.

The expected useful lives of non-current assets are as follows:

| | |
|---|---|
| Intangible assets | 5-10 years |
| Development costs | 3-5 years |
| Computer software | 3-5 years |
| Buildings | 25 years |
| Building components | 15 years |
| Machinery and equipment incorporated in buildings | 10 years |
| Other machinery and equipment | 3-5 years |

**Inventories** Inventories are stated at the lower of their purchase and manufacturing cost or their net realizable value due to the rapid turnover of the products. 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.

**Accounts Receivable** Accounts receivable are valued at their purchase price less any writedowns.

The Group's accounts receivable do not contain realized cash flow from accounts receivable sold. The credit risk related to sold accounts receivable is transfered to the buyer at the time of sale without recourse to Elcoteq. The costs arising from the sale of accounts receivable are entered under other financial expenses. More detailed information on accounts receivable is given in the notes under Accounts Receivable.

**Cash and Equivalents** Cash and equivalents consist of cash in hand, bank accounts, and liquid short-term investments. Liquid investments are measured at fair value and the change in fair value is entered to the income statement.

**Leasing Contracts** Leasing contracts are treated as finance leases in accordance with IAS 17 (Leases) when the lease transfers substantially all the risks and rewards incident to ownership to the Group. Non-current assets acquired under finance leases are capitalized as non-current assets in the consolidated balance sheet and are depreciated over their expected useful lives. Conversely, liabilities related to these assets are shown as long-term loans from financial institutions.

The company had no production equipment under finance leases on December 31, 2004. Rental payments under operating leases are recognized under other operating expenses.

**Long-Term Liabilities** The Group's long-term liabilities are stated at amortized cost using the effective interest rate method.

**Research and Development Costs** Research and development costs are normally expensed in the fiscal period during which they are incurred. However, development costs that meet the criteria of IAS 38 (Intangible Assets) are capitalized and shown separately on the balance sheet. Capitalized development costs are amortized over their expected useful life, which is generally three years.

**Pension Costs** The consolidated entities have a variety of pension arrangements that are based on local regulations and practices in the countries in which they operate. Pension plans are for the most part defined contribution plans. The disability pension provided by the Finnish Employees Pension scheme (TEL) and which becomes a defined contribution plan in 2005, is treated as a defined benefit plan under IAS 19 (Employee Benefits) in the consolidated financial statements. Defined benefit plans also include the supplemental pension benefits paid on behalf of Finnish management, and the defined pension plans of certain foreign subsidiaries.

Expenses related to defined contribution plans are entered in the period during which they occur. Expenses related to defined benefit plans are charged to the income statement by spreading the regular cost over the service lives of employees in accordance with calculations performed annually by qualified actuaries. All actuarial gains and losses exceeding 10% of the pension obligations, or the fair value of the funds related to the plan if these are higher, are spread forward over the average remaining service lives of the employees. At the transition date January 1, 2003, all actuarial gains and losses were entered under shareholders' equity.

**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.

**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.

**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 various types of local taxes, etc. Income taxes also include any net changes in deferred tax liabilities and assets.

Deferred tax liabilities or assets are entered on all temporary differences between the tax basis of the consolidated entities ' assets and liabilities and their carrying amounts for financial reporting purposes, and for consolidation-related differences. 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, defined benefit pension plans, 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.

**Discontinuing Operations** A discontinuing operation is a relatively large part of a business enterprise, such as a business or geographical segment, that the enterprise is disposing of either substantially or in its entirety. Elcoteq treated the divestment of its Industrial Electronics business in 2004 as a discontinuing operation as defined under IAS 35 (Discontinuing Operations).

**Incentive Schemes for Management and Key Employees**
Elcoteq's 2001 and 2004 stock option schemes were not treated as an expense in the 2004 financial statements. Elcoteq adopted IFRS 2 (Share-Based Payments) for treating its stock options from January 1, 2005. Applying IFRS 2 in the 2004 accounts would have generated expenses for the Group totaling approximately MEUR 1.2.

The share-based incentive plan for key employees of the company was treated as an expense in the 2004 accounts to the extent that it related to the targets set for 2004.

**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.

**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).

**New Standards** The Group adopted the following new standards on January 1, 2005: 13 revised standards published as part of the Improvements project in 2003; the IFRS 2 (Share-Based Payments) and IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) standards published in 2004; and the applicable IFRIC interpretations.

# Adoption of IFRS Reporting

Elcoteq Group's reporting practice has complied with International Financial Reporting Standards (IFRS) since the beginning of 2004. Since Elcoteq has already applied IFRS in previous years within the constraints permitted by Finnish accounting legislation and other provisions governing the preparation of financial statements in Finland, the impacts of IFRS on the Group's income statement, balance sheet and shareholders' equity are not significant.

This text outlines the impact of IFRS on the financial statements for 2003, which the company has previously published in accordance with Finnish Accounting Standards (FAS). The FAS accounting principles are described in Elcoteq's annual report for 2003.

In the transition to IFRS, Elcoteq has applied IFRS 1 (First-Time Adoption), which facilitates the retrospective application of certain standards.

The adoption of IFRS affects Elcoteq's financial reporting in the following areas:

**Segment Reporting** Elcoteq has organized its business activities around two business areas: Terminal Products and Communications Network Equipment. Elcoteq reports these businesses as its primary segments in compliance with IAS 14 (Segment Reporting). In addition to these two business areas Elcoteq has also had a third, separate business called Industrial Electronics, the bulk of which was divested on April 1, 2004. The industrial electronics activities retained by Elcoteq have been merged with the company's Communications Network Equipment business area. The previous year's comparable segment figures have been adjusted to correspond with this new business structure.

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

No IFRS reconciliation figures are given under the company's segment reporting since Elcoteq has not published the results or assets and liabilities of its segments in its FAS financial statements.

**Leasing Contracts** Non-current assets leased by the company using finance lease contracts are capitalized to assets in the balance sheet and depreciated on a straight-line basis over the lease term as required by IAS 17 (Leases).

On December 31, 2003 the Group had no production equipment or machinery leased through finance lease contracts. Expenses related to equipment and machinery leased using operating lease contracts are entered as rental expenses under other operating expenses.

The real estate company Kiinteistö Oy Piiharju (the Lohja manufacturing plant) is treated as a finance lease under IAS 17 and therefore capitalized to Elcoteq's balance sheet already in the FAS financial statements.

With respect to rental agreements the adoption of IFRS has no impact on the 2003 result or shareholders' equity.

**Financial Instruments** Financial instruments, according to IAS 39 (Financial Instruments), are recognized in the income statement unless hedge accounting is used and considered effective.

Exchange rate differences arising from foreign currency derivative contracts made to hedge the currency transaction exposure in the balance sheet and the fair values of these contracts are entered in the income statement under adjustments to sales and purchases. The fair values of foreign currency derivative contracts related to off-balance-sheet items are entered under financial items, either income or expenses as appropriate, whereas under FAS only losses were entered.

Hedge accounting is applied to forward contracts used to hedge the foreign currency equity positions (translation positions) of foreign business units. Changes in the fair value of these forward contracts are entered under translation differences in shareholders' equity when considered effective as defined by IAS 39. Contrary to FAS, the portion of the fair value of hedging instruments not considered effective is entered under financial items. The effect of interest differences is entered under financial items.

**Sale of Accounts Receivable** Payments received from the sale of accounts receivable are not included under the Group's accounts receivable because, according to IAS 39 (Financial Instruments), the credit risk related to such accounts receivable has been transferred from the company without recourse. Costs arising from the sale of accounts receivable are entered under other financial expenses.

Where the sale of accounts receivable is concerned, the adoption of IFRS does not incur changes to the company's result, balance sheet or shareholders' equity.

**Pension Liabilities** All the pension plans applied by the company have been reviewed and then classified as either defined benefit plans or defined contribution plans. Pensions are reported in the manner required by IAS 19 (Employee Benefits).

The TEL employee pension insurance policies in Finland are treated as defined benefit pension plans since, according to the interpretation confirmed in 2004, the work disability component in such policies forms a defined benefit.

The IFRS 1 first-time adoption rule has been applied when defining pension liabilities. On this basis, actuarial gains and losses on pension insurance policies arising before January 1, 2003 are entered in the opening IFRS balance sheet. From the beginning of 2003, actuarial gains and losses exceeding 10% of the present value of the pension liabilities are entered in the income statement.

The impact of defined benefit pension plan entries was MEUR -0.4 on the Group's operating income and MEUR -0.3 on net income in 2003, and MEUR +1.9 on the balance sheet total at December 31, 2003 (the deferred tax assets deriving from pension liabilities). The impact on shareholders' equity at December 31, 2003 was MEUR -5.4 since the cumulative pension liability was entered retrospectively as required by IFRS 1.

**Associated Companies** Under IFRS, the Group's share of the results of its associated companies is reported separately after operating income. Under FAS, this item was included within other operating expenses.

The impact of this change in reporting practice improved the Group's operating income in 2003 by MEUR 0.5. The change had not impact on the review period's result.

**Long-Term Assets** IAS 22 (Business Combinations) has not been applied retrospectively. Instead the company has applied the easement permitted under IFRS 1 when valuing business combinations. For this reason business combinations agreed before January 1, 2003 are treated in the manner required by FAS.

Improvements to leased apartments (MEUR 6.0 on December 31, 2004) were previously reported under FAS within intangible assets but under IFRS they have now been moved to tangible assets.

Elcoteq has applied the retrospective first-time adoption rule permitted by the new IFRS 3 standard on business combinations. For this reason since the beginning of 2004 goodwill and goodwill on consolidation in the Group's financial statements have not been amortized on a straight-line basis. In the future goodwill will be amortized only when such action is justified by impairment tests made on these items. No impairments were required at the end of 2003.

## IFRS Reconciliation

1. EQUITY RECONCILIATION (MEUR)

| | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| **Equity according to FAS** | **247.6** | **260.9** |
| IAS 17 Leases | 0.0 | - |
| IAS 19 Employee Benefits | -5.3 | -5.4 |
| IAS 39 Financial Instruments | -0.1 | - |
| **Equity according to IFRS** | **242.2** | **255.5** |

2. CHANGES IN THE INCOME STATEMENT (MEUR)

| | 2003 |
|---|---|
| **Net income according to FAS** | **20.8** |
| IAS 17 Leases | 0.0 |
| IAS 19 Employee Benefits | -0.3 |
| IAS 39 Financial Instruments | 0.1 |
| **Net income according to IFRS** | **20.7** |

# Notes to the Consolidated Financial Statements

1. SEGMENT REPORTING

Elcoteq has organized its business operations into two business areas: Terminal Products and Communications Network Equipment. Elcoteq reports these as its primary segments applying the principles defined in IAS 14 (Segment Reporting). In addition to these business lines, Elcoteq has also had a separate Industrial Electronics business, most of which was divested on April 1, 2004. The remainder held by Elcoteq is consolidated with the company's Communications Network Equipment business area. Segment comparison data for 2003 has been adjusted to correspond with this new structure.

As its secondary segments Elcoteq reports its three geographical areas: Europe, Asia-Pacific and 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 is based on where the segment's assets are located. Net sales according to customer location is 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 rights, 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's corporate office. Non-allocated expenses were reduced by two items: the settlement in 2004, MEUR 2.3, of the Shenzhen GKI company's VAT demands for 2001 and 2002, and a MEUR 2.1 reduction in Elcoteq's statutory employment disability pension (TEL) obligation.

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.

**Discontinuing Operation** Elcoteq agreed in February 2004 on the divestment of its Industrial Electronics business. The divestment was closed, as planned, on April 1, 2004. On this date the assets of the sold Industrial Electronics segment totaled MEUR 43.7 and its liabilities were MEUR 22.5. The assets mainly comprised inventories and accounts receivable.

Operative cash flow after investing activities in the first quarter of 2004 amounted to MEUR 5.2 and capital expenditures were MEUR 0.5. Elcoteq recorded operating profit of MEUR 10.0 on the sale of this business and taxes totaling MEUR 4.3 on this gain.

**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.

Communications Network Equipment 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 2004, MEUR | Terminal Products | Communications Network Equipment | Discontinuing Operation (Industrial Electronics) | Non-Allocated | Group, total |
|---|---|---|---|---|---|
| Net sales | 2,300.0 | 621.8 | 31.9 | 0.0 | 2,953.7 |
| Depreciation | 41.8 | 16.1 | 0.5 | 2.5 | 60.8 |
| Operating income | 78.2 | 16.4 | 13.0 | -36.2 | 71.4 |
| Share of associated companies | 0.0 | -0.3 | 0.0 | -0.7 | -1,0 |
| Assets | 530.3 | 297.7 | 0.0 | 79.7 | 907.6 |
| Investments in associated companies | 0.2 | 1.9 | 0.0 | 0.6 | 2.7 |
| Liabilities | 336.4 | 120.0 | 0.0 | 174.4 | 630.8 |
| Capital expenditures | 92.2 | 31.8 | 0.5 | 3.9 | 128.3 |
| Sold accounts receivable* | 124.7 | 39.4 | 0.0 | 0.0 | 164.0 |

| BUSINESS AREAS IN 2003, MEUR | Terminal Products | Communications Network Equipment | Industrial Electronics | Non-Allocated | Group, total |
|---|---|---|---|---|---|
| Net sales | 1,779.9 | 329.8 | 126.0 | 0.0 | 2,235.7 |
| Depreciation | 42.9 | 9.1 | 2.5 | 3.0 | 57.6 |
| Operating income | 40.1 | 8.8 | 11.5 | -29.9 | 30.5 |
| Share of associated companies | 0.0 | -0.1 | 0.0 | -0.4 | -0.5 |
| Assets | 472.7 | 176.2 | 42.7 | 112.8 | 804.4 |
| Investments in associated companies | 0.3 | 2.3 | 0.0 | 0.5 | 3.1 |
| Liabilities | 297.3 | 95.8 | 14.4 | 135.5 | 543.1 |
| Capital expenditures | 49.0 | 15.6 | 1.0 | 2.5 | 68.1 |
| Sold accounts receivable* | 147.1 | 28.4 | 9.6 | 0.0 | 185.0 |

* not included in segment's assets

**Geographical Areas: Europe, Asia-Pacific and Americas** Elcoteq revised its geographical organization in November 2004 when it combined the previously separate areas Terminal Products / Europe and Communications Network Equipment / Europe. Elcoteq divested its Industrial Electronics segment on April 1, 2004.

| GEOGRAPHICAL AREAS IN 2004, MEUR | Terminal Products Europe | Communications Network Equipment Europe | Europe, total | Asia-Pacific | Americas | Discontinuing Operation (Industrial Electronics Europe) | Non-Allocated | Group, total |
|---|---|---|---|---|---|---|---|---|
| Net sales | 1,299.3 | 543.7 | 1,843.1 | 714.1 | 364.6 | 31.9 | 0.0 | 2,953.7 |
| Assets | 278.5 | 250.5 | 529.0 | 200.5 | 92.7 | 0.0 | 85.5 | 907.6 |
| Capital expenditures | 53.1 | 23.2 | 76.4 | 28.6 | 19.1 | 0.5 | 3.9 | 128.3 |
| Sold accounts receivable* | 124.7 | 39.4 | 164.0 | 0.0 | 0.0 | 0.0 | 0.0 | 164.0 |

| GEOGRAPHICAL AREAS IN 2003, MEUR | Terminal Products Europe | Communications Network Equipment Europe | Europe, total | Asia-Pacific | Americas | Industrial Electronics Europe | Non-Allocated | Group, total |
|---|---|---|---|---|---|---|---|---|
| Net sales | 1,001.6 | 293.4 | 1,295.0 | 698.2 | 116.5 | 126.0 | 0.0 | 2,235.7 |
| Assets | 229.0 | 155.1 | 384.1 | 199.1 | 61.6 | 42.6 | 117.0 | 804.4 |
| Capital expenditures | 21.5 | 12.2 | 33.7 | 10.6 | 9.1 | 1.0 | 13.8 | 68.1 |
| Sold accounts receivable* | 142.8 | 28.4 | 171.1 | 4.3 | 0.0 | 9.6 | | 185.0 |

*not included in segment's assets

| BREAKDOWN OF NET SALES BY MARKET, MEUR | 2004 | 2003 |
|---|---|---|
| Europe | 2,040.4 | 1,468.4 |
| Americas | 380.1 | 135.1 |
| Asia-Pacific | 533.3 | 632.2 |
| | 2,953.7 | 2,235.7 |

## 2. OTHER OPERATING INCOME

The bulk of Elcoteq's other operating income of MEUR 6.2 (MEUR 2.4) was made up of various types of service charges and gains on the disposal of fixed assets.

| 3. PRODUCTION MATERIALS AND SERVICES | 2004 | 2003 |
|---|---|---|
| Material and supplies | -2,555,081 | 11,896,896 |
| External services | -1,280 | -2,960 |
| Production materials and services, total | -2,556,361 | -1,899,856 |

## 4. PERSONNEL

The Group had 13,065 (11,044) employees on average during the year, distributed geographically as follows:

| | At Dec. 31 | At Jan. 1 | Change | Average |
|---|---|---|---|---|
| Finland | 817 | 1,040 | -223 | 957 |
| Brazil | 94 | - | 94 | 16 |
| Hong Kong | 111 | 59 | 52 | 89 |
| India | 18 | - | 18 | 3 |
| Japan | 12 | 16 | -4 | 15 |
| China | 4,406 | 4,295 | 111 | 4,134 |
| Mexico | 3,912 | 1,092 | 2,820 | 1,324 |
| Sweden | 7 | 5 | 2 | 6 |
| Hungary | 2,514 | 3,241 | -727 | 2,684 |
| Germany | 551 | 494 | 57 | 525 |
| Switzerland | - | 243 | -243 | 63 |
| USA | 81 | 55 | 26 | 70 |
| Russia | 227 | 190 | 37 | 210 |
| Estonia | 3,399 | 2,283 | 1,116 | 2,972 |
| Total | 16,149 | 13,013 | 3,136 | 13,065 |

On December 31, 2004 the Group employed 19,480 people, of whom 16,149 were on Elcoteq's payroll.

## 5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES, EUR 1,000

| Personnel Expenses | 2004 | 2003 |
|---|---|---|
| **Wages, salaries and fringe benefits** | | |
| Salaries and fringe benfits paid to the members of the Boards of Directors and Presidents of Group companies | 1,628 | 1,516 |
| Other wages, salaries and fringe benefits | 142,340 | 126,207 |
| Total | 143,968 | 127,723 |
| Fringe benefits | -4,856 | -3,968 |
| | 139,112 | 123,755 |
| **Indirect personnel expenses** | | |
| Indirect personnel expenses paid to the members of the Boards of Directors and Presidents of Group companies | 929 | 727 |
| Other pension expenses | 9,281 | 10,528 |
| Defined benefit pensions | -2,146 | 403 |
| Other indirect personnel expenses | 24,709 | 18,473 |
| Total | 32,773 | 30,131 |
| Personnel expenses in the income statement | 171,885 | 153,886 |

## 6. INCENTIVE PLANS

The terms of the stock option plans 2001 and 2004 are described under Shares and Shareholders on page 59. Only the social security costs related to the options are expensed in 2004, as required by IAS 19. From January 1, 2005 the cost impact of the options is charged to the Group's result as required by IFRS 2. If IFRS 2 had been applied in the 2004 financial statements, the cost impact on the year's result would have been approximately MEUR 1.2.

In 2004 the Board of Directors also decided to initiate a share ownership plan for key employees of the Group, the terms of which are described under Shares and Shareholders. The costs related to this share ownership plan in 2004 are allocated to the financial year 2004.

Share subscription prices for options in 2004:

| Option right | Ratio | Subscription price per share | Subscription period |
|---|---|---|---|
| 1997 | 1:1 | 9.64 | -31.1.2004 |
| 2001 A | 1:1 | 7.84* | 1.4.2002.-30.4.2007 |
| 2001 B | 1:1 | 7.84* | 1.4.2003.-30.4.2007 |
| 2001 C | 1:1 | 7.84* | 1.4.2004.-30.4.2007 |
| 2001 D | 1:1 | 7.84* | 1.4.2005.-30.4.2007 |
| 2001 E | 1:1 | 7.84* | 1.4.2006.-30.4.2007 |

* Subscription price after deduction of dividends distributed on 2003.

Changes in option rights in 2004 and 2003 (number):

| | 2004 | 2003 |
|---|---|---|
| Jan. 1 | 2,964,425 | 3,663,300 |
| Issued | | |
| Exercised | 450,350 | 698,875 |
| Unsubscribed at end of subscription period | 32,525 | |
| Dec, 31 | 2,481,550 | 2,964,425 |

Option rights at Dec. 31, 2004 do not include the 2004 options as these had not yet been allocated by Dec. 31, 2004.

### 7. DEPRECIATION AND AMORTIZATION, EUR 1,000

| Scheduled depreciation consists of the following: | | |
|---|---|---|
| Intangible rights | 680 | 1,513 |
| Goodwill | - | 1,573 |
| Goodwill on consolidation | - | 1,832 |
| ADP software | 5,224 | 4,425 |
| Buildings | 3,372 | 3,558 |
| Machinery and equipment | 51,571 | 41,282 |
| Total | 60,847 | 54,183 |
| Writedowns on capitalized product development costs | - | 3,414 |
| Depreciation, amortization and writedowns, total | 60,847 | 57,596 |

The 2003 writedown of capitalized product development costs relates to the product platforms acquired when Elcoteq Design Center Oy purchased most of Benefon's R&D operations.

**Goodwill and Goodwill on Consolidation** Elcoteq ceased recording planned goodwill depreciation and planned amortization of goodwill on consolidation on January 1, 2004 as required by IFRS 3.

Goodwill and goodwill on consolidation are tested for impairment based on cash-generating units. The cash generating units on which an impairment loss is recorded are the company's Geographical Areas. Impairment tests have also been made on the company's design operations.

Accrued cash flow is the cash flow forecast for the following eight years. The internal discount rate used for each Geographical Area is the weighted average cost of capital (WACC), which in 2004 was 10-13%. Based on these tests, there was no need in 2004 to enter impairment losses on goodwill or goodwill on consolidation.

| Amount of goodwill and goodwill on consolidation in cash generating units: | 2004 | 2003 |
|---|---|---|
| Europe | 791 | 1,093 |
| Design operations | 6,381 | 6,381 |
| Asia-Pacific | 18,531 | 18,331 |
| Americas | 311 | 274 |
| Total | 26,014 | 26,078 |

### 8. OTHER OPERATING EXPENSES, EUR 1,000

| Other operating expenses for the Group consist of the following items: | 2004 | 2003 |
|---|---|---|
| Other personnel expenses | 9,729 | 8,253 |
| Rental expenses | 28,773 | 22,302 |
| Transportation | 8,817 | 6,367 |
| Energy expenses | 7,808 | 7,047 |
| Office expenses | 6,791 | 6,792 |
| Travel, marketing and representation expenses | 14,025 | 12,327 |
| Insurance expenses | 2,521 | 2,512 |
| External services | 22,125 | 18,878 |
| Other operating expenses | 20,844 | 18,171 |
| Total | 121,433 | 102,649 |

### 9. FINANCIAL INCOME AND EXPENSES

| | | |
|---|---|---|
| Financial Income | | |
| Foreign exchange income | 1,447 | 476 |
| Other financial income | 1,510 | 1 631 |
| Other interest and financial income, total | 2,957 | 2 107 |
| | | |
| Financial Expenses | | |
| Interest expenses | -4,261 | -2,479 |
| Foreign exchange losses | -2,503 | -2,706 |
| Other financial expenses | -7,517 | -4,439 |
| Financial expenses, total | -14,281 | -9,625 |
| | | |
| Financial income and expenses, total | -11,324 | -7,518 |

### 10. INCOME TAXES, EUR 1,000

| | | |
|---|---|---|
| Income taxes for the current period | -12,121 | -364 |
| Income taxes for prior periods | -65 | 1 |
| Other direct taxes | -1,412 | -958 |
| | | |
| Change in deferred tax assets / liabilities | | |
| Due to depreciation difference | 85 | 512 |
| Due to consolidation | -1,756 | 59 |
| Due to operating loss carryforwards | - | - |
| Due to temporary tax differences | -2,016 | -713 |
| Change in deferred tax assets / liabilities, total | -3,687 | -142 |
| | | |
| Income taxes, total | -17,285 | -1,463 |

| Group Tax Expenses | 2004 | 2003 |
|---|---|---|
| Income before taxes | 59,047 | 22,523 |
| Taxes at parent company's tax rate (29%) | 17,124 | 6,532 |
| Impact of foreign subsidiaries' tax rates that differ from the parent company's tax rate | -1,792 | -1,672 |
| Impact of non-tax-deductable expenses | 1,472 | 1,245 |
| Impact of deferred tax assets left unrecorded | 2,250 | 5,338 |
| Impact of consolidation | 1,385 | -3,646 |
| Writedowns of subsidiary shares | 0 | -5,800 |
| Impact of deferred tax assets from previous periods left unrecorded | -3,154 | -534 |
| Group's tax expenses, total | 17,285 | 1,463 |

## 11. EARNINGS PER SHARE

Calculation formula for earnings per share:

$$\frac{\text{Net income}}{\text{Adjusted average number of shares outstanding at the end of the period}}$$

| | 2004 | 2003 |
|---|---|---|
| Net income (EUR 1,000) | 39,816 | 20,654 |
| Average number of shares | 30,420,473 | 29,572,826 |
| Dilution effect of options | 1,418,365 | 1,058,222 |
| Average diluted number of shares | 31,839,108 | 30,631,048 |
| Earnings per share (EPS) | 1.31 | 0.70 |
| Earnings per share (EPS), diluted | 1.25 | 0.67 |

## 12. CASH FLOW STATEMENT, EUR 1,000

Acquired and Divested Business Operations

| | | |
|---|---|---|
| Acquired business operations | -43,247 | -46,727 |
| Divested business operations | 21,313 | - |

The aggregate acquisition price of business operations acquired in 2004 totalled tEUR 19,492 (tEUR 34,361). Acquired assets and liabilities are specified by balance sheet group under Business Combinations.

## 13. NON-CURRENT ASSETS, EUR 1,000

| Intangible Assets | 2004 | 2003 |
|---|---|---|
| **Intangible rights** | | |
| Cost basis, Jan. 1 | 3,920 | 3,518 |
| Additions, Jan. 1-Dec. 31 | 4,338 | 402 |
| Disposals, Jan. 1-Dec. 31 | -7 | - |
| Translation difference | -22 | - |
| Cost basis, Dec. 31 | 8,229 | 3,920 |
| Accum. scheduled amortization, Jan. 1 | -892 | -141 |
| Accum. scheduled amortization on disposals | 4 | - |
| Translation difference | -1 | 2 |
| Scheduled amortization, Jan. 1-Dec. 31 | -680 | -753 |
| Book value, Dec. 31 | 6,660 | 3,028 |

| Product development costs | 2004 | 2003 |
|---|---|---|
| Cost basis, Jan. 1 | - | 4,042 |
| Additions, Jan. 1-Dec. 31 | - | 131 |
| Disposals, Jan. 1-Dec.31 | - | - |
| Scheduled amortization, Jan. 1-Dec. 31 | - | -759 |
| Writedowns, Jan.1-Dec. 31 | - | -3,414 |
| Book value, Dec. 31 | - | 0 |

The Group's research and development costs amounted to MEUR 7.9 (MEUR 6.8). Of this total MEUR 4.6 (MEUR 5.2) were entered as expenses and MEUR 3.3 (MEUR 1.6) were capitalized in the balance sheet. MEUR 3.3 of the latter amount is included in advance payments and construction in progress. R&D costs do not include the writedowns made in 2003.

| | 2004 | 2003 |
|---|---|---|
| **ADP software** | | |
| Cost basis, Jan. 1 | 24,570 | 23,479 |
| Additions, Jan. 1-Dec. 31 | 6,372 | 2,292 |
| Disposals, Jan. 1-Dec. 31 | -343 | -634 |
| Translation difference | -435 | -567 |
| Cost basis, Dec. 31 | 30,164 | 24,570 |
| Accum. scheduled amortization, Jan. 1 | -18,692 | -15,251 |
| Accum. scheduled amortization on disposals | 114 | 411 |
| Translation difference | 264 | 573 |
| Scheduled amortization, Jan. 1-Dec. 31 | -5,224 | -4,425 |
| Book value, Dec. 31 | 6,626 | 5,878 |
| **Advance payments and construction in progress** | | |
| Advance payments, Jan. 1 | 1,962 | 3,798 |
| Additions, Jan. 1-Dec. 31 | 7,677 | 6,020 |
| Disposals, Jan. 1-Dec. 31 | -5,030 | -7,846 |
| Translation difference | -8 | -10 |
| Advance payments, Dec. 31 | 4,601 | 1,962 |
| **Goodwill** | | |
| Cost basis, Jan. 1 | 13,278 | 12,439 |
| Additions, Jan. 1-Dec. 31 | | 852 |
| Disposals, Jan. 1-Dec. 31 | -251 | - |
| Translation difference | -18 | -13 |
| Cost basis, Dec. 31 | 13,009 | 13,278 |
| Accum. scheduled amortization, Jan. 1 | -2,299 | -737 |
| Accum. scheduled amortization on disposals | 85 | - |
| Translation difference | 3 | 11 |
| Scheduled amortization, Jan. 1-Dec. 31 | - | -1,573 |
| Book value, Dec. 31 | 10,798 | 10,979 |
| **Goodwill on consolidation** | | |
| Cost basis, Jan. 1 | 17,770 | 15,508 |
| Additions, Jan. 1-Dec. 31 | 200 | 2,262 |
| Disposals, Jan. 1-Dec. 31 | -83 | |
| Cost basis, Dec. 31 | 17,887 | 17,770 |
| Accum. scheduled amortization, Jan. 1 | -2,671 | -839 |
| Scheduled amortization, Jan. 1-Dec. 31 | - | -1,832 |
| Book value, Dec. 31 | 15,216 | 15,099 |

| Tangible Assets | | |
|---|---|---|
| **Land and water areas** | | |
| Cost basis, Jan. 1 | 2,414 | 2,448 |
| Additions, Jan. 1-Dec. 31 | 1,426 | - |
| Disposals, Jan. 1-Dec. 31 | - | - |
| Translation difference | 21 | -34 |
| Book value, Dec. 31 | 3,861 | 2,414 |

| | 2004 | 2003 |
|---|---|---|
| **Buildings** | | |
| Cost basis, Jan. 1 | 57,892 | 49,913 |
| Additions, Jan. 1-Dec. 31 | 13,528 | 8,703 |
| Disposals, Jan. 1-Dec. 31 | -49 | -215 |
| Translation difference | 63 | -509 |
| Cost basis, Dec. 31 | 71,434 | 57,892 |
| | | |
| Accum. scheduled amortization, Jan. 1 | -12,610 | -9,559 |
| Accum. scheduled amortization on disposals | -80 | 377 |
| Translation difference | -87 | 130 |
| Scheduled amortization, Jan. 1-Dec. 31 | -3,372 | -3,558 |
| Book value, Dec. 31 | 55,285 | 45,282 |

The Group owns a property which, in conjunction with the divestment of the Industrial Electronics business, was leased to a company outside the Group. The carrying value of the property is MEUR 2.2. The property has been valued at its acquisition cost as a fair value for the property cannot be reliably determined.

| | 2004 | 2003 |
|---|---|---|
| **Machinery and equipment** | | |
| Cost basis, Jan. 1 | 247,842 | 228,799 |
| Additions, Jan. 1-Dec. 31 | 101,533 | 38,816 |
| Disposals, Jan. 1-Dec. 31 | -31,990 | -4,787 |
| Translation difference | -6,758 | -14,986 |
| Cost basis, Dec. 31 | 310,627 | 247,842 |
| | | |
| Accum. scheduled amortization, Jan. 1 | -158,961 | -126,542 |
| Accum. scheduled amortization on disposals | 27,329 | 1,324 |
| Translation difference | 4,484 | 7,540 |
| Scheduled amortization, Jan. 1-Dec. 31 | -51,571 | -41,283 |
| Book value, Dec. 31 | 131,908 | 88,881 |
| | | |
| **Advance payments and construction in progress** | | |
| Advance payments and construction in progress, Jan. 1 | 17,407 | 2,517 |
| Additions, Jan. 1-Dec. 31 | 74,820 | 29,478 |
| Disposals, Jan. 1-Dec. 31 | -77,476 | -14,463 |
| Translation difference | -6 | -125 |
| Advance payments, Dec. 31 | 14,745 | 17,407 |

**Investments**

| | 2004 | 2003 |
|---|---|---|
| **Equity in associated companies** | | |
| Shares, Jan. 1 | 3,058 | 65 |
| Additions, Jan. 1-Dec. 31 | 875 | 3,494 |
| Share of the losses of associated companies, Jan. 1-Dec. 31 | -1,024 | -501 |
| Translation difference | -161 | - |
| Book value, Dec. 31 | 2,748 | 3,058 |
| | | |
| **Receivables from associated companies** | | |
| Receivables, Jan. 1 | 137 | 137 |
| Additions, Jan. 1-Dec. 31 | - | - |
| Disposals, Jan. 1-Dec. 31 | -50 | - |
| Book value, Dec. 31 | 87 | 137 |

| | 2004 | 2003 |
|---|---|---|
| **Other shares and equity interests** | | |
| Shares, Jan. 1 | 11,666 | 556 |
| Additions, Jan. 1-Dec. 31 | 25 | 11,121 |
| Disposals, Jan. 1-Dec. 31 | -141 | - |
| Translation difference | -15 | -11 |
| Book value, Dec. 31 | 11,535 | 11,666 |

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.

| Long-Term Receivables | 2004 | 2003 |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax assets, Jan. 1 | 11,185 | 9,291 |
| Additions, Jan. 1-Dec. 31 | - | 1,894 |
| Disposals, Jan. 1-Dec.31 | -4,810 | - |
| | 6,375 | 11,185 |
| | | |
| **Other loans receivable** | | |
| Other loans receivable, Jan. 1 | 15 | 166 |
| Additions, Jan. 1-Dec. 31 | 7,654 | - |
| Disposals, Jan. 1-Dec.31 | -4 | -151 |
| | 7,665 | 15 |

**Summary of Non-Current assets**

| | 2004 | 2003 |
|---|---|---|
| Cost basis, Jan. 1 | 386,584 | 340,767 |
| Additions, Jan. 1-Dec. 31 | 128,297 | 68,073 |
| Disposals, Jan. 1-Dec. 31 | -33,888 | -6,137 |
| Translation difference | -7,325 | -16,120 |
| Cost basis, Dec. 31 | 473,668 | 386,584 |
| | | |
| Accum. scheduled amortization, Jan. 1 | -200,296 | -153,069 |
| Accum. scheduled amortization on disposals | 27,449 | 2,112 |
| Scheduled amortization | -60,847 | -57,596 |
| Translation difference | 4,663 | 8,257 |
| Book value, Dec. 31 | 244,637 | 186,286 |
| | | |
| Advance payments and construction in progress | 19,346 | 19,369 |
| Loans receivable | 87 | 137 |
| Long-term receivables | 14,039 | 11,201 |
| Book value, Dec. 31 | 278,109 | 216,992 |

## 14. SHARES AND EQUITY INTERESTS

| | Share Capital | Consolidated Ownership, % | Parent Company Ownership, % | Parent Company Book Value, EUR 1,000 |
|---|---|---|---|---|
| **Group Companies** | | | | |
| Elcoteq Lohja Oy, Lohja, Finland | EUR 168,000 | 100 | 100 | 168 |
| Elcoteq Helsinki Oy, Helsinki, Finland | EUR 168,000 | 100 | 100 | 814 |
| AS Elcoteq Tallinn, Tallinn, Estonia | EEK 20,500,000 | 100 | 100 | 1,776 |
| Beijing Elcoteq Electronics Co. Ltd., Beijing, China | CNY 124,173,000 | 100 | 100 | 16,186 |
| Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China | CNY 115,811,500 | 70 | 70 | 3,705 |
| Elcoteq Asia Ltd, Hong Kong, China | HKD 8,600,000 | 100 | 100 | 994 |
| Elcoteq Inc., Dallas, USA | USD 59,801,000 | 100 | - | - |
| Elcoteq Holding Inc., Dallas, USA | USD 1,000 | 100 | 100 | 3,028 |
| Elcoteq JSC, St. Petersburg, Russia | RUB 7,009,415.50 | 100 | 100 | 277 |
| Elcoteq Elektronik GmbH, Überlingen, Germany | EUR 4,627,186.23 | 100 | - | - |
| Elcoteq Communications Technology GmbH, Offenburg, Germany | EUR 25,000 | 100 | - | - |
| Elcoteq Deutschland GmbH, Karlsruhe, Germany | EUR 6,442,277.70 | 100 | 100 | 9,742 |
| 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 | 100 | 57 |
| Elcoteq Sweden Ab, Stockholm, Sweden | SEK 200,000 | 100 | 100 | 22 |
| Elcoteq Design Center, Salo, Finland | EUR 3,008,000 | 100 | 100 | 3,008 |
| Elcoteq Finland Oy, Lohja, Finland | EUR 8,000 | 100 | 100 | 8 |
| Immolease Kereskedelmi Kft., Pécs, Hungary | HUF 790,000,000 | 100 | 100 | 2,997 |
| Beijing GKI Electronics Co. Ltd., Beijing, China | CNY 82,800,000 | 70 | 70 | 15,854 |
| Shenzhen GKI Electronics Co, Ltd., Shenzhen, China | CNY 99,609,465 | 70 | 70 | 12,624 |
| Elcoteq Electronics India, Bangalore, India | INR 56,221,000 | 100 | 100 | 1,200 |
| Elcoteq Network S.A, Luxembourg | EUR 31,000 | 100 | 100 | 31 |
| TSC S.A de C.V., Juarez, Mexico | USD 4,000 | 100 | - | - |
| Elcoteq da Amazonia Ltda, Manaus, Brazil | | 100 | 100 | 0 |
| Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland | EUR 201,000 | 100 | 100 | 1,016 |
| | | | | 83,424 |

| | | | | Consolidated Book Value, EUR 1,000 |
|---|---|---|---|---|
| **Associated Companies** | | | | |
| Nilistit Oy, Helsinki, Finland | EUR 161,460.41 | 33 | 33 | 61 |
| Imbera Electronics Oy, Helsinki, Finland | EUR 110,100.00 | 50 | 50 | 543 |
| ISIS Surface Mounting, Inc., California, USA | USD 120,000.00 | 20 | - | 2,144 |
| | | | | 2,748 |

| **Other Shares and Equity Interests Held by the Parent Company** | **Shareholders´ Equity** | | | |
|---|---|---|---|---|
| Kiinteistö Oy Lohjan Piiharju | 468,443.78 EUR | 10 | 10 | 17 |
| Cellon International Holding Corporation | | | | 10,949 |
| Other shares | | | | 342 |
| | | | | 11,308 |
| **Other shares and equity interests held by subsidiaries** | | | | **227** |
| **Other shares and equity interests, total** | | | | **11,535** |

## 15. IMPACT OF BUSINESS COMBINATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

At the end of 2004 Elcoteq concluded an outsourcing and acquisition agreement with Thomson SA, a French provider of media technology, systems and services. Under this agreement Thomson's production operation in Juarez, Mexico, was transferred to Elcoteq on Dec. 31, 2004. The agreement had no impact on Elcoteq Group's result in 2004. Nor can it be reliably determined what the impact of this agreement would have been on Elcoteq's 2004 result if the agreement had been signed at the beginning of 2004 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.

In 2003 Elcoteq took over the manufacturing operation of Tellabs in Espoo, Finland, and the electronics manufacturing operation of Marconi in Offenburg, Germany.

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

**Assets and liabilities acquired in business combinations in 2004 and 2003:**

| | 2004 Fair Value | 2004 Book Value | 2003 Fair Value | 2003 Book Value |
|---|---|---|---|---|
| Non-current assets | | | | |
| Intangible assets | 3,854 | - | 389 | - |
| Tangible assets | 3,672 | 3,672 | 8,484 | 8,484 |
| Current assets | | | | |
| Inventories | 11,617 | 11,617 | 40,666 | 40,666 |
| Current receivables | 235 | 235 | 134 | 134 |
| Cash and equivalents | 2,614 | 2,614 | | |
| Assets, total | 21,992 | 21,992 | 49,673 | 49,673 |
| Liabilities | | | | |
| Long-term liabilities | | | | |
| Current liabilities | 2,500 | 2,500 | 15,312 | 15,312 |
| Acquisition cost | 19,492 | | 34,361 | |

**Assets and liabilities sold in business combinations in 2004:**

| | 2004 Book Value |
|---|---|
| Non-current assets | |
| Intangible assets | 268 |
| Tangible assets | 3,993 |
| Current assets | |
| Inventories | 24,203 |
| Current receivables | 9,592 |
| Cash and equivalents | 2,265 |
| Assets, total | 40,321 |
| Liabilities | |
| Long-term liabilities | 9,615 |
| Current liabilities | 10,030 |
| Liabilities, total | 19,645 |
| Difference between carrying values of disposals and their sales price | 10,751 |
| Sales price | 31,427 |

## 16. DEFERRED TAX LIABILITIES AND ASSETS, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Due to deductible temporary differences | 6,288 | 10,891 |
| Due to consolidation | 87 | 294 |
| | 6,375 | 11,185 |
| **Deferred Tax Liabilities** | | |
| Due to appropriations | - | 31 |
| Due to temporary tax differences | 3,246 | 5,068 |
| Due to consolidation | 22 | 18 |
| | 3,268 | 5,117 |

## 17. ACCOUNTS RECEIVABLE

Elcoteq's 2004 consolidated accounts receivable of MEUR 250.1 (MEUR 217.6) exclude cash received from sold accounts receivable totaling MEUR 164.0 (MEUR 185.0). Receivables are sold within the limits of Elcoteq's sale of receivables and securitization facilities. The credit risk related to sold accounts receivable is transfered 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 on the balance sheet under prepaid expenses and accruals. Expenses related to the sale of receivables have been recognized under other financial expenses.

## 18. PREPAID EXPENSES AND ACCRUALS, EUR 1,000

| Prepaid expenses and accruals to the Group consist of the following intems: | 2004 | 2003 |
|---|---|---|
| Prepaid rent | 1,283 | 375 |
| Value-added taxes | 19,485 | 13,982 |
| Withholding taxes | 856 | 636 |
| Income taxes | 1,004 | 603 |
| Contributions | 3,142 | 2,609 |
| Other items | 9,108 | 20,916 |
| Total | 34,879 | 39,121 |

## 19. SHAREHOLDERS´ EQUITY, EUR 1,000

### DISTRIBUTABLE FUNDS IN SHAREHOLDERS´ EQUITY ON DEC. 31, EUR 1,000

| | | |
|---|---|---|
| Retained earnings | 300 | 6,945 |
| Net income for the year | 39,816 | 20,654 |
| Share issue costs recognized under additional paid-in capital | -2,433 | -2,433 |
| Accumulated depreciation and amortization difference recorded in shareholders´ equity | -52 | -118 |
| Distributable funds in shareholders´ equity | 37,630 | 25,048 |

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

| | Shares | 2004 EUR 1,000 |
|---|---|---|
| Series A (1 vote per share) | 20,063,877 | 8,026 |
| Series K (10 votes per share) | 10,577,000 | 4,231 |
| Total | 30,640,877 | 12,256 |

## 20. LIABILITIES, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| **Long-Term Liabilities** | | |
| **Interest-bearing** | | |
| Medium-term notes | 25,100 | 25,092 |
| Subordinated notes | 49,678 | - |
| Loans from financial institutions | 3,333 | 13,736 |
| Loans from pension plans | 2,144 | 2,609 |
| Defined benefit pensions | 593 | 7,271 |
| Other long-term liabilities | 535 | 535 |
| Total | 81,383 | 49,243 |
| Payments due within one year | -8,074 | -5,180 |
| Interest-bearing, total | 73,309 | 44,063 |
| **Non-interest-bearing** | | |
| Loans from financial institutions | - | 194 |
| Deferred tax liability | 3,268 | 5,117 |
| Non-interest-bearing, total | 3,268 | 5,311 |
| **Long-term liabilities, total** | **76,577** | **49,374** |
| **Current Liabilities** | | |
| **Interest-bearing** | | |
| Loans from financial institutions | 23,777 | 13,656 |
| Commercial paper program | 39,881 | 4,951 |
| Loans from pension plans | 465 | 465 |
| Interest-bearing, total | 64,123 | 19,072 |
| **Non-interest-bearing** | | |
| Account payable | 413,292 | 376,474 |
| Accrued expenses | 67,585 | 79,251 |
| Loans from financial institutions | - | 194 |
| Advances received | 196 | 3,016 |
| Other current liabilities | 7,498 | 13,672 |
| Provisions | 1,535 | 2,056 |
| Non-interest-bearing, total | 490,106 | 474,663 |
| **Current liabilities, total** | **554,229** | **493,735** |
| Interest-bearing liabilities | 137,432 | 63,135 |
| Non-interest-bearing liabilities | 493,374 | 479,974 |
| Liabilities, total | 630,805 | 543,108 |
| **Provisions** | | |
| Restructuring provision | | |
| Provision on Jan. 1 | 2,056 | 1,439 |
| Additions | - | 617 |
| Disposals | -1,421 | - |
| Provision on Dec. 31 | 635 | 2,056 |

| | 2004 | 2003 |
|---|---|---|
| Warranty provisions | | |
| Provision on Jan. 1 | - | - |
| Additions | 900 | - |
| Disposals | - | - |
| Provision on Dec. 31 | 900 | - |
| | | |
| Provisions, total | | |
| Provision on Jan. 1 | 2,056 | 1,439 |
| Additions | 900 | 617 |
| Disposals | -1,421 | - |
| Provision on Dec. 31 | 1,535 | 2,056 |

Restructuring provisions relate mainly to the personnel reductions that the Parent Company carried out during 2001 and 2003. Warranty provisions relate to the Group's product warranties.

**Bonds** In December 2002 Elcoteq Network Corporation issued EEK 80 million in private placement notes. These notes run from December 19, 2002 to December 19, 2005 and carry a fixed coupon of 5.00%. The notes are unsecured. The bond has been valued at amortized cost using the effective interest rate method.

In November of 2003 Elcoteq Network Corporation issued MEUR 20 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.

**Subordinated Notes** In December 2004 Elcoteq Network Corporation issued MEUR 50 in subordinated notes. These notes run from December 22, 2004 to 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 plus a 3.5% margin and the company has the right to redeem the notes prematurely at six-month intervals. The loan is unsecured. The bond has been valued at amortized cost using the effective interest rate method.

**Loans from Pension Plans** The company has TEL (Employees' Pensions Act) pension plan loans, whose repayment schedules and interest rates are regulated by Finnish law. The loan raised in 1999 is repayable in equal installments over 10 years. Pension plan loan interest rate range from 3.85% to 5.00%.

**Loans from Financial Institutions** Loans from financial institutions mature in 2005, and their interest rates are based primarily on 3-6-month market rates plus a margin varying from 0.25% to 0.65%.

**Commercial Paper Program** Elcoteq Network Corporation operates a MEUR 200 commercial paper program in Finland, which was used during the period to issue notes with a maximum maturity of six months. On the balance sheet date MEUR 40 face value was outstanding under this program with remaining maturities of less than three months.

**Other Long-Term Debt** In 2000 Beijing Elcoteq Electronics Co., Ltd. entered into a MUSD 6 credit agreement with Finnfund to finance investments at its Beijing manufacturing plant. MUSD 5.2 of this loan has been withdrawn and is being repaid in semiannual installments. The outstanding principal of the loan was USD 1.3 million on the balance sheet date. The last installment will be paid in 2005. The loan coupon rate is LIBOR +1.65%.

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

**Long-Term Liabilities Maturing in Five Years or Later, EUR 1,000:**

| | 2004 | 2003 |
|---|---|---|
| Loans from pension plans | 104 | 322 |
| Subordinated notes | 50,000 | - |

The subordinated notes are valued at amortized cost using the effective interest rate method. The carrying value in the balance sheet at December 31, 2004 was MEUR 49.7.

## 21. ACCRUED EXPENSES, EUR 1,000

| The Group´s company´s accrued expenses consist of the following items: | 2004 | 2003 |
|---|---|---|
| Wages and salaries | 11,684 | 8,236 |
| Vacation pay | 6,525 | 6,842 |
| Other indirect personnel expenses | 5,613 | 2,379 |
| Interest | 6,115 | 5,537 |
| Value-added taxes | 14,525 | 10,209 |
| Income taxes | 3,695 | 1,549 |
| Exchange rate accruals on forward contracts | 6,735 | 5,279 |
| Transportation expenses | 987 | 1,072 |
| Remainder of the unpaid Tellabs purchase price | - | 26,279 |
| Other items | 11,707 | 11,869 |
| Total | 67,585 | 79,251 |

## 22. EMPLOYEE BENEFITS

The pension coverage of most employee pensions in the Group's companies is arranged through defined contribution pensions. The most important defined benefit pension plans relate to the supplementary pensions payable to senior executives in the parent company and to that portion of the employee's disability pension under the Finnish Employees Pension Act (TEL) which is treated as a defined benefit pension in the financial statements. However, the Finnish TEL scheme will be changed to a defined contribution scheme in 2005 and for this reason Elcoteq's contingent liability was reduced considerably during the reporting year. 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. The company also has defined benefit pension plans to some extent in Japan, and also in Switzerland until April 1, 2004. The pension liabilities in Switzerland ceased to apply to the company after the divestment of the Industrial Electronics business.

| Actuarial estimates used to calculate pension liabilities: | 2004 | 2003 |
|---|---|---|
| Discount rate on Dec. 31 (%) | | |
| Finland | 5.00 | 5.25 |
| Switzerland | 3.75 | 3.75 |
| Japan | 2.10 | 1.86 |
| Expected yield (%) | | |
| Finland | 0-5.00 | 0-5.25 |
| Switzerland | 4.50 | 4.50 |
| Japan | - | - |
| Increase in wages and salaries (%) | | |
| Finland | 3.50 | 3.50 |
| Switzerland | 2.00 | 2.00 |
| Japan | 2.00 | 1.50 |
| Estimated inflation rate (%) | | |
| Finland | 2.00 | 2.00 |
| Switzerland | 1.00 | 1.00 |
| Japan | - | - |
| Terminated employment contracts (%) | | |
| Finland | 0-16 | 0-16 |
| Switzerland | 0-22 | 0-22 |
| Japan | 0.7-10 | 0.7-10 |

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

| | | |
|---|---|---|
| Service cost | 909 | 1,714 |
| Interest cost | 256 | 269 |
| Payments to mutual funds | -798 | -1,532 |
| Income from mutual funds | -50 | -48 |
| Reduction in Finland's TEL obligation | -1,680 | |
| Transfer of obligations in conjunction with business divestment | -4,541 | |
| Actuarial gains / losses | -744 | |
| Exchange rate difference | 9 | -239 |
| Impact of previous service costs | -39 | |
| Total | -6,678 | 164 |

MEUR 4.5 of the defined benefit pension costs in 2004 are entered under Gain on the sale of discontinuing operation.

| Change in balance sheet: | | |
|---|---|---|
| Contingent liability on Jan. 1 | 7,271 | 7,107 |
| Costs entered in income statement | -6,773 | 403 |
| Impact of foreign exchange rates | 95 | -239 |
| Contingent liability on Dec. 31 | 593 | 7,271 |

**23. LEASING CONTRACTS, EUR 1,000**

The Group has leased equipment under operating leases. In 2004 new operating lease contracts were made with an equipment purchase value of approximately MEUR 35.3. The lease payments are fixed for the duration of the leasing period.

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

| | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| 2004 | - | 6,214 |
| 2005 | 13,044 | 3,411 |
| 2006 | 12,862 | 3,273 |
| 2007 | 9,619 | 324 |
| 2008 | 1,837 | - |
| Total | 37,362 | 13,222 |

Rental expenses on operating leases for machinery amounted to MEUR 9.5 for the year ended December 31, 2004, and MEUR 7.2 for the year ended December 31, 2003.

No significant new finance lease contracts were signed during 2004.

Elcoteq has leased a manufacturing facility from the real estate corporation Kiinteistö Oy Piiharju in Lohja, Finland. At the end of 2004, the City of Lohja owned 90% of the real estate corporation and Elcoteq Network Corporation 10%. In accordance with a shareholders' agreement between Elcoteq Network Corporation and the City of Lohja, Elcoteq Network Corporation redeemed the City of Lohja's holding of this real estate corporation's share capital in January 2005 and the company became a wholly owned subsidiary of Elcoteq Network Corporation. Lease rentals on the Piiharju manufacturing facility totaled MEUR 0.7 in 2004 and MEUR 0.2 in 2003. At December 31, 2004 Elcoteq's consolidated balance sheet contained MEUR 3.2 in buildings related to the Kiinteistö Oy Piiharju finance lease.

**24. RELATED PARTY DISCLOSURES**

| Disclosures related to associated companies: | 2004 | 2003 |
|---|---|---|
| Goods and services purchased from associated companies | 17 | 0 |
| Goods and services sold to associated companies | 106 | 20 |
| Accounts receivable on Dec. 31 | 80 | 902 |
| Accounts payable on Dec. 31 | 22 | - |

The pricing of goods and services with associated companies is based on market prices. The tEUR 850 loan receivable under receivables at Dec. 31, 2003 was an equity loan.

Management salaries, payroll costs and incentive schemes are presented under Wages, Salaries and Other Personnel Expenses.

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

| 25. ASSETS PLEDGED AND CONTINGENT LIABILITIES, EUR 1,000 | 2004 | 2003 |
|---|---|---|
| **ON BEHALF OF OTHERS** | | |
| Guarantees | 8 | 168 |
| **LEASING COMMITMENTS** | | |
| Operating leases, machinery (excl. VAT) | 37,362 | 13,222 |
| Rental commitments, real estate (excl. VAT) | 24,238 | 20,571 |

## DERIVATIVE CONTRACTS

| | | 2004 | 2003 |
|---|---|---|---|
| Foreign currency derivative instruments | | | |
| Forward contracts, transaction risk | | | |
| Nominal value | | 227,581 | 117,157 |
| Book value | | -4,343 | -4,835 |
| Market value | | -4,343 | -4,812 |
| Forward contracts, translation risk | | | |
| Nominal value | | 20,959 | 36,429 |
| Book value | | 298 | 394 |
| Market value | | 298 | 394 |
| Forward contracts, financial risk | | | |
| Nominal value | | 72,109 | 36,160 |
| Book value | | 83 | 428 |
| Market value | | 83 | 428 |
| Foreign currency option contracts | | | |
| Nominal value | bought | 9,000 | 1,584 |
| | sold | 12,000 | 2,375 |
| Book value | bought | 46 | 0 |
| | sold | -149 | 0 |
| Market value | bought | 46 | 2 |
| | sold | -149 | 0 |

The forwards have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The fair value of options is the amount at which options could be exchanged if closed on the balance sheet date. The figures also include the closed positions.

## OTHER COMMITMENTS

In calculating value-added tax for China in 2004, Elcoteq has applied a method that has so far not received the written approval of the tax authorities. Should this approval not forthcome, the effect would be to reduce Elcoteq's result substantially. Elcoteq has estimated the risk to be small and has therefore made no provision.

In 2003 Elcoteq acquired a 20% stake in ISIS Surface Mounting Inc. Elcoteq has the option, and if ISIS had fulfilled certain profitability targets during 2004 also the obligation, to acquire the outstanding shares in this company. The required targets were not met in 2004 and neither did Elcoteq exercise its option in 2004. The book value of Elcoteq's 20% interest in ISIS Surface Mounting Inc. acquired in 2003 totals approximately MEUR 2.1.

Elcoteq acquired NPRC Inc., a New Product Introduction (NPI) services provider in Dallas, USA, in 2003. In 2004 Elcoteq received a demand for payment of an additional acquisition price for the company from its previous owners totaling approximately MUSD 1.3. Elcoteq does not consider the conditions for payment of this additional acquisition price to have been fulfilled and regards the demand to be unfounded. No provision has been entered to cover this demand.

# Parent Company Income Statement

| INCOME STATEMENT, EUR 1,000 | Note | Jan. 1 - Dec. 31 2004 | Jan. 1 - Dec. 31 2003 |
|---|---|---|---|
| **NET SALES** | 1 | **1,701,715** | **1,308,605** |
| Change in stock of work in progress and finished goods | | 10,644 | -2,169 |
| Other income from operations | 2 | 40,908 | 30,089 |
| Production materials and services | 3 | -1,593,015 | -1,195,012 |
| Personnel expenses | 5 | -34,976 | -36,993 |
| Depreciation and writedowns | 6 | -11,872 | -11,897 |
| Other operating expenses | 7 | -49 383 | -62 322 |
| **OPERATING INCOME** | | **64,021** | **30,301** |
| Financial income and expenses, total | 8 | -749 | 8,212 |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | | **63,272** | **38,513** |
| Extraordinary items | 9 | -18,600 | -10,500 |
| **INCOME BEFORE APPROPRIATIONS AND TAXES** | | **44,672** | **28,013** |
| Income taxes | 10 | -10,606 | -1,234 |
| **NET INCOME** | | **34,066** | **26,780** |

The income statement does not correspond to the official format for FAS income statements.

# Parent Company Cash Flow Statement

| CASH FLOW STATEMENT, EUR 1,000 | Jan. 1- Dec. 31 2004 | Jan. 1- Dec. 31 2003 |
|---|---|---|
| Cash Flow from Operating Activities | | |
| Income before extraordinary items | 63,272 | 38,513 |
| Adjustments: | | |
| Scheduled depreciation and amortization | 11,872 | 11,897 |
| Unrealized foreign exchange gains and losses | -7,013 | -5,079 |
| Financial income and expenses | 3,607 | -7,532 |
| Other adjustmens | -8,177 | 13,863 |
| Cash flow before change in working capital | 63,560 | 51,662 |
| Change in working capital: * | | |
| Change in non-interest bearing current receivables | -87,669 | -913 |
| Change in inventories | -46,498 | 3,829 |
| Change in non-interest bearing current liabilities | 32,649 | 54,850 |
| Cash flow from operating activities before financial items and taxes | -37,957 | 109,428 |
| Interest and other financial expenses | -10,481 | -4,926 |
| Operations-related dividend income | 2,673 | 4,374 |
| Operations-related interest income | 245 | 6,583 |
| Income taxes paid | -8,979 | 0 |
| Cash flow from operating activities | -54,499 | 115,459 |
| Cash Flow from Investing Activities | | |
| Purchases of tangible and intangible assets | -21,987 | -25,978 |
| Proceeds from disposal of tangible and intangible assets | 14,452 | 1,953 |
| Acquisition of subsidiary | -496 | -36,434 |
| Disposals | 10,463 | - |
| Loans made | -62,806 | -56,591 |
| Repayment of loans receivable | - | 1,238 |
| Cash flow from investing activities | -60,374 | -115,813 |
| Cash Flow from Financing Activities | | |
| Proceed from share issue | 2,615 | 8,099 |
| Change in current debt | 46,944 | -8,650 |
| Issuance of long-term debt | 49,686 | 19,995 |
| Repayment of long-term debt | -5,572 | -465 |
| Dividends paid and other distributions of earnings | -27,299 | -11,797 |
| Cash flow from financing activities | 66,373 | 7,183 |
| Change in Cash and Equivalents | -48,500 | 6,829 |
| Cash and equivalents on January 1 | 55,312 | 48,483 |
| Cash and equivalents on December 31 | 6,812 | 55,312 |

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to weaken cash flow by MEUR 2.3 during the reporting period 1-12/2004 and to improve cash flow by MEUR 57.9 during 1-12/2003.

# Parent Company Balance Sheet

| ASSETS, EUR, 1,000 | Note | Dec. 31 2004 | Dec. 31 2003 |
|---|---|---|---|
| **Fixed assets** | 11 | | |
| Intangible assets | | | |
| Intangible rights | | 2,688 | 2,730 |
| Other long-term expenditure | | 4,617 | 4,757 |
| Advance payments and construction in progress | | 1,100 | 1,589 |
| Goodwill | | 3,018 | 3,712 |
| | | 11,421 | 12,788 |
| Tangible assets | | | |
| Land and water areas | | 1,108 | 1,108 |
| Buildings | | 2,337 | 2,477 |
| Machinery and equipment | | 7,587 | 9,191 |
| Advance payments and construction in progress | | 5,937 | 11,311 |
| | | 16,969 | 24,087 |
| Investments | 12 | | |
| Shares and holdings in Group companies | | 83,424 | 89,006 |
| Receivables from Group companies | | 9,254 | 4,115 |
| Shares in associated companies | | 1,622 | 747 |
| Receivables from associated companies | | 87 | 137 |
| Other shares and holdings | | 11,308 | 11,308 |
| | | 105,695 | 105,312 |
| **Fixed assets, total** | | **134,085** | **142,187** |
| **Current assets** | | | |
| **Inventories** | | | |
| Raw materials | | 129,915 | 98,123 |
| Work in progress | | 9,599 | 5,508 |
| Finished goods | | 25,509 | 18,956 |
| | | 165,023 | 122,587 |
| Long-term receivables | | | |
| Deferred tax asset | | 1,245 | 3,875 |
| Loans receivable from Group companies | | 78,135 | 41,077 |
| Other loans receivable | | 10,614 | 1,684 |
| | | 89,994 | 46,636 |
| Current receivables | | | |
| Accounts receivable | | 132,827 | 80,649 |
| Receivables from Group companies | | | |
| Accounts receivable | | 59,855 | 35,443 |
| Loan receivables | | 77,134 | 52,917 |
| Accrued income | | 4,473 | 4,568 |
| Prepaid expenses and accruals | 13 | 9,483 | 7,377 |
| | | 283,771 | 180,954 |
| Cash and equivalents | | 6,812 | 55,312 |
| **Current assets, total** | | **545,600** | **405,489** |
| **ASSETS, TOTAL** | | **679,685** | **547,676** |

| SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000 | Note | Dec. 31 2004 | Dec. 31 2003 |
|---|---|---|---|
| **Shareholders' equity** | 14 | | |
| Share capital | | 12,256 | 12,076 |
| Additional paid-in capital | | 212,804 | 209,008 |
| Share issue | | 0 | 1,361 |
| Retained earnings | | 8,015 | 8,535 |
| Net income for the financial period | | 34,066 | 26,780 |
| **Shareholders' equity total** | | **267,141** | **257,760** |
| **Provisions** | 15 | **1,535** | **1,656** |
| **Liabilities** | 16 | | |
| Long-term liabilities | | | |
| Subordinated notes | | 49,678 | - |
| Medium-term capital notes | | 25,100 | 25,092 |
| Pension loans | | 2,144 | 2,609 |
| | | 76,922 | 27,702 |
| Payments due after one year | | -5,572 | -465 |
| | | 71,350 | 27,236 |
| Short-term liabilities | | | |
| Loans from financial institutions | | 5,107 | 0 |
| Commercial papers | | 39,881 | 4,951 |
| Pension loans | | 465 | 465 |
| Accounts payable | | 247,239 | 198,568 |
| Debt to Group companies | | | |
| Accounts payable | | 20,144 | 40,892 |
| Other short-term liabilities | | 8,257 | 1,350 |
| Accrued expenses | | 491 | 1,051 |
| Other short-term liabilities | | 1,043 | 866 |
| Accrued expenses | 17 | 17,032 | 12,882 |
| | | 339,660 | 261,025 |
| **Liabilities, total** | | **411,009** | **288,261** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL** | | **679,685** | **547,676** |

# Notes to the Parent Company's Financial Statements

## Accounting Principles of the Parent Company

The financial statements of Elcoteq Network Corporation have been prepared in accordance with the requirements of the Finnish Accounting Act and other Finnish regulations ("Finnish GAAP"). The consolidated f inancial statements have been prepared in accordance with the IFRS standards and the financial statements of the parent company have been prepared in accordance with the IFRS standards, whenever possible. 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 on 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.

**Derivative Financial Instruments** As required by IFRS, the gains and losses from derivative financial instruments are recorded at their fair values. The recording of gains does not lead to significant differences compared with the FAS (Finnish Accounting Standards) principles used to prepare the parent company's financial statements.

## Notes of the Parent Company Financial Statements

### 1. BREAKDOWN OF NET SALES

Breakdown of net sales by market:

| | 2004 | 2003 |
|---|---|---|
| Net sales, MEUR | | |
| Finland | 348.0 | 394.8 |
| Rest of Europe | 1,319.9 | 891.6 |
| Americas | 14.9 | 10.9 |
| Asia-Pacific | 18.9 | 11.3 |
| | 1,701.7 | 1,308.6 |

### 2. OTHER OPERATING INCOME

The bulk of other operating income of MEUR 40.9 (MEUR 30.1) was made up of service charges to subsidiaries and leasing receipts.

### 3. PRODUCTION MATERIALS AND SERVICES, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| Materials and supplies | | |
| Purchases during the year | 1,491,428 | 1,088,908 |
| Change in raw materials | -31,792 | 1,660 |
| Total | 1,459,636 | 1,090,568 |
| External services | 133,379 | 104,444 |
| Production materials and services, total | 1,593,015 | 1,195,012 |

### 4. PERSONNEL

The parent company had an average of 566 (740) employees during the year.

### 5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES, EUR 1,000

Personnel Expenses

| | 2004 | 2003 |
|---|---|---|
| Wages, salaries and fringe benefits | | |
| Salaries and fringe benefits paid to the members of the Board of Directors and the President and CEO | 1,385 | 1,124 |
| Other wages, salaries and fringe benefits | 28,327 | 30,713 |
| Total | 29,712 | 31,837 |
| Fringe benefits | -2,479 | -2,623 |
| | 27,233 | 29,214 |
| Indirect personnel expenses | | |
| Pension expenses | 5,532 | 5,319 |
| Other indirect personnel expenses | 2,211 | 2,459 |
| Total | 7,743 | 7,778 |
| Personnel expenses in the Income Statement | 34,976 | 36,993 |

### 6. DEPRECIATION AND AMORTIZATION, EUR 1,000

Scheduled depreciation and amortization consists of the following:

| | | |
|---|---|---|
| Intangible rights | 679 | 674 |
| Goodwill | 694 | 737 |
| Other long-term expenditures | 3,052 | 2,967 |
| Buildings | 215 | 189 |
| Machinery and equipment | 7,231 | 7,329 |
| Total | 11,872 | 11,897 |
| Depreciation and amortization, total | 11,872 | 11,897 |

### 7. OTHER OPERATING EXPENSES, EUR 1,000

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

| | | |
|---|---|---|
| Other personnel expenses | 1,306 | 1,732 |
| Rental expenses | 14,652 | 11,757 |
| Transportation | 4,149 | 2,366 |
| Energy expenses | 534 | 811 |
| Office expenses | 1,465 | 1,573 |
| Travel, marketing and representation expenses | 5,482 | 5,654 |
| Insurance expenses | 726 | 918 |
| External services | 12,987 | 16,818 |
| Other operating expenses | 8,081 | 20,693 |
| Total | 49,383 | 62,322 |

### 8. FINANCIAL INCOME AND EXPENSES, EUR 1,000

| | | |
|---|---|---|
| Financial Income | | |
| Interest income from long-term investments | | |
| From Group companies | 2,041 | 1,099 |
| Other interest and financial income | | |
| From Group companies | 5,283 | 7,619 |
| Foreign exchange gains | 2 829 | 5,507 |
| Other interest and financial income | 1,245 | 1,393 |
| | 11,397 | 15,617 |

| | 2004 | 2003 |
|---|---|---|
| **Financial expenses** | | |
| Interest and financial expenses to Group companies | -171 | -80 |
| Interest expenses | -3,151 | -1,720 |
| Foreign exchange losses | -1,785 | -1,305 |
| Other financial expenses | -7,040 | -4,301 |
| | -12,147 | -7,405 |
| Financial income and expenses, total | -749 | 8,212 |

## 9. EXTRAORDINARY ITEMS, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| **Extraordinary income** | | |
| Group contributions received | - | 2,500 |
| Extraordinary income, total | - | 2,500 |
| **Extraordinary expenses** | | |
| Group contributions paid | -18,600 | -13,000 |
| Extraordinary expenses, total | -18,600 | -13,000 |
| Extraordinary items, total | -18,600 | -10,500 |

## 10. INCOME TAXES, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| Income taxes for the year | 8,151 | - |
| Income taxes for prior years | -175 | - |
| Deferred taxes | 2,631 | -1,234 |
| | 10,606 | -1,234 |

## 11. FIXED ASSETS, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| **Intangible Assets** | | |
| **Intangible rights** | | |
| Cost basis, Jan. 1 | 3,506 | 3,471 |
| Additions, Jan. 1-Dec. 31 | 640 | 35 |
| Disposals, Jan 1.-Dec. 31 | -7 | - |
| Cost basis, Dec. 31 | 4,139 | 3,506 |
| Accum. scheduled amortization, Jan. 1 | -776 | -102 |
| Accum. scheduled amortization on disposals | 4 | - |
| Scheduled amortization, Jan. 1-Dec. 31 | -679 | -674 |
| Book value, Dec. 31 | 2,688 | 2,730 |
| **Other long-term expenditures** | | |
| Cost basis, Jan. 1 | 18,814 | 15,445 |
| Additions, Jan. 1-Dec. 31 | 2,970 | 3,760 |
| Disposals, Jan 1.-Dec. 31 | -111 | -391 |
| Cost basis, Dec. 31 | 21,673 | 18,814 |
| Accum. scheduled amortization, Jan. 1 | -14,077 | -11,110 |
| Accum. scheduled amortization on disposals | 72 | 20 |
| Scheduled amortization, Jan. 1-Dec. 31 | -3,052 | -2,967 |
| Book value, Dec. 31 | 4,617 | 4,757 |
| **Advance payments and construction in progress** | | |
| Cost basis, Jan. 1 | 1,589 | 3,741 |
| Additions, Jan. 1-Dec. 31 | 4,086 | 5,694 |
| Disposals, Jan 1-Dec. 31 | -4,575 | -7,846 |
| Advance payments, Dec. 31 | 1,100 | 1,589 |

| | 2004 | 2003 |
|---|---|---|
| **Goodwill** | | |
| Cost basis, Jan. 1 | 4,814 | 4,814 |
| Cost basis, Dec. 31 | 4,814 | 4,814 |
| Accum. scheduled amortization, Jan. 1 | -1,101 | -364 |
| Scheduled amortization, Jan. 1-Dec. 31 | -694 | -737 |
| Book value, Dec. 31 | 3,018 | 3,712 |
| **Tangible Assets** | | |
| **Land and water areas** | | |
| | 1,108 | 1,108 |
| Book value, Dec. 31 | 1,108 | 1,108 |
| **Buildings** | | |
| Cost basis, Jan. 1 | 3,738 | 3,501 |
| Additions, Jan. 1-Dec. 31 | 76 | 245 |
| Disposals, Jan. 1-Dec. 31 | - | -8 |
| Cost basis, Dec. 31 | 3,813 | 3,738 |
| Accum. scheduled depreciation, Jan. 1 | -1,262 | -1,073 |
| Accum. scheduled depreciation on disposals | 1 | 1 |
| Scheduled depreciation, Jan. 1-Dec. 31 | -215 | -189 |
| Book value, Dec. 31 | 2,337 | 2,477 |
| **Machinery and equipment** | | |
| Cost basis, Jan. 1 | 47,679 | 57,085 |
| Additions, Jan. 1-Dec. 31 | 12,718 | 2,672 |
| Disposals, Jan. 1-Dec. 31 | -23,428 | -12,078 |
| Cost basis, Dec. 31 | 36,970 | 47,679 |
| Accum. scheduled depreciation, Jan. 1 | -48,979 | -41,650 |
| Accum. scheduled depreciation on disposals | 26,827 | 10,491 |
| Scheduled depreciation, Jan. 1-Dec. 31 | -7,231 | -7,329 |
| Book value, Dec. 31 | 7,586 | 9,191 |
| **Advance payments and construction in progress** | | |
| Advance payments and construction in progress, Jan. 1 | 11,311 | 1,055 |
| Additions, Jan. 1-Dec. 31 | 36,016 | 21,740 |
| Disposals, Jan. 1-Dec. 31 | -41,389 | -11,484 |
| Advance payments, Dec. 31 | 5,937 | 11,311 |
| **Investments** | | |
| **Shares and equity interests in Group companies** | | |
| Shares, Jan. 1 | 93,124 | 133,825 |
| Additions, Jan. 1-Dec. 31 | 1,231 | 21,521 |
| Disposals, Jan. 1-Dec. 31 | -6,813 | -62,223 |
| Cost basis, Dec. 31 | 87,542 | 93,124 |
| Accumulated writedowns, Jan. 1 | -4,118 | -50,437 |
| Writedowns, Jan. 1-Dec. 31 | - | 46,319 |
| Book value, Dec. 31 | 83,424 | 89,006 |
| **Receivables from Group companies** | | |
| Receivables, Jan. 1 | 7,115 | 7,115 |
| Additions, Jan. 1-Dec. 31 | 6,796 | - |
| Disposals, Jan. 1-Dec. 31 | -1,657 | - |
| Cost basis, Dec. 31 | 12,254 | 7,115 |
| Accumulated writedowns, Jan. 1 | -3,000 | -3,000 |
| Book value, Dec. 31 | 9,254 | 4,115 |

| | 2004 | 2003 |
|---|---|---|
| **Equity in associated companies** | | |
| Shares, Jan. 1 | 747 | 319 |
| Additions, Jan. 1-Dec. 31 | 875 | 850 |
| Share of the losses of associated companies, Jan. 1-Dec. 31 | - | -422 |
| Book value, Dec. 31 | 1,622 | 747 |
| | | |
| **Receivables from associated companies** | | |
| Receivables, Jan. 1 | 137 | 137 |
| Additions, Jan. 1-Dec. 31 | 1,212 | - |
| Disposals, Jan. 1-Dec. 31 | -1,262 | - |
| Book value, Dec. 31 | 87 | 137 |
| | | |
| **Other shares and equity interests** | | |
| Shares, Jan. 1 | 11,308 | 343 |
| Additions, Jan. 1-Dec. 31 | - | 10,964 |
| Book value, Dec. 31 | 11,308 | 11,308 |

**Summary of fixed assets**

| | | |
|---|---|---|
| Cost basis, Jan. 1 | 184,838 | 219,911 |
| Additions, Jan. 1-Dec. 31 | 29,480 | 40,047 |
| Disposals, Jan. 1-Dec. 31 | -41,329 | -75,122 |
| Cost basis, Jan. 1 | 172,989 | 184,836 |
| | | |
| Accum. scheduled depr. and amort., Jan. 1 | -70,313 | -58,417 |
| Accum. scheduled depr. and amort. on disposals | 26,904 | 10,512 |
| Scheduled depr., amort. and writedowns, Jan. 1-Dec. 31 | -11,872 | -11,896 |
| Book value, Dec. 31 | 117,708 | 125,035 |
| Advance payments and construction in progress | 7,037 | 12,900 |
| Loans receivable | 9,341 | 4,252 |
| Book value, Dec. 31 | 134,085 | 142,187 |

### 12. SHARES AND EQUITY INTERESTS

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

### 13. PREPAID EXPENSES AND ACCRUALS, EUR 1,000

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

| | | |
|---|---|---|
| Prepaid rent | 1,249 | 270 |
| Periodized exchange rate differences of forwards | 1,659 | 921 |
| Value-added taxes | 214 | 2,113 |
| Withholding taxes | 856 | 636 |
| Income taxes | 829 | 0 |
| Avoir fiscal tax credit | 649 | 0 |
| Securitization | 3,142 | 2,609 |
| Other items | 5,358 | 5,395 |
| Total | 13,956 | 11 945 |

### 14. SHAREHOLDERS’ EQUITY, EUR 1,000

| | | |
|---|---|---|
| **Share Capital** | | |
| Share capital, Jan. 1 | 12,076 | 11,797 |
| Shares subscribed with 1997 and 2001 warrants | 180 | 279 |
| Share capital, Dec. 31 | 12,256 | 12,076 |

| | 2004 | 2003 |
|---|---|---|
| **Additional Paid-In Capital** | | |
| Additional paid-in capital, Jan. 1 | 209,008 | 202,550 |
| Additional paid-in capital | 3,796 | 6,458 |
| Additional paid-in capital, Dec. 31 | 212,804 | 209,008 |
| | | |
| **Share Issue** | | |
| Share issue, Jan. 1 | 1,361 | - |
| Change in share issue | -1,361 | 1,361 |
| Share issue, Dec. 31 | 0 | 1 361 |

The above change in the issuance of shares in 2003 includes the subscription price of the shares (141,275 total) subscribed through the exercise of 1997 and 2001 options but not entered in the Finnish Trade Register as of December 31, 2003.

| | | |
|---|---|---|
| **Retained Earnings** | | |
| Retained earnings, Jan. 1 | 35,314 | 20,331 |
| Dividend payment | -27,299 | -11,797 |
| Retained earnings, Dec. 31 | 8,015 | 8,535 |
| | | |
| **Net income for the year** | 34,066 | 26,780 |
| | | |
| **Shareholders’ equity, total** | **267,141** | **257,760** |

**DISTRIBUTABLE FUNDS IN SHAREHOLDERS’ EQUITY ON DEC. 31, EUR 1,000**

| | | |
|---|---|---|
| Retained earnings | 8,015 | 8,535 |
| Net income for the year | 34,066 | 26,780 |
| Share issue costs recognized under additional paid-in capital | -2,433 | -2,433 |
| Distributable funds in shareholders’ equity | 39,648 | 32,881 |

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

| | | 2004 |
|---|---|---|
| | Shares | EUR 1,000 |
| Series A (1 vote per share) | 20,063,877 | 8,026 |
| Series K (10 votes per share) | 10,577,000 | 4,231 |
| Total | 30,640,877 | 12,256 |

### 15. PROVISIONS

The loss provisions recorded in 2004 related to warranty provisions and personnel reductions carried out during 2001 and 2003.

The loss provisions recorded in 2003 related to the personnel reductions carried out during 2001 and 2003.

### 16. LIABILITIES, EUR 1,000

| | 2004 | 2003 |
|---|---|---|
| **Long-Term Liabilities** | | |
| **Interest-bearing** | | |
| Subordinated notes | 49,678 | - |
| Medium-term notes | 25,100 | 25,092 |
| Loans from pension plans | 2,144 | 2,609 |
| Total | 76,922 | 27,701 |
| Payments due within one year | -5,572 | -465 |
| Interest-bearing, total | 71,350 | 27,236 |
| | | |
| **Long-term liabilities, total** | 71,350 | 27,236 |

| | 2004 | 2003 |
|---|---|---|
| **Current Liabilities** | | |
| **Interest-bearing** | | |
| Medium-term notes | 5,107 | - |
| Commercial paper program | 39,881 | 4,951 |
| Loans from pension plans | 465 | 465 |
| Interest-bearing, total | 45,453 | 5,416 |
| | | |
| **Non-interest bearing** | | |
| Accounts payable | 247,239 | 198,568 |
| Accrued expenses | 17,032 | 12,882 |
| Liabilities to Group companies | 28,892 | 43,293 |
| Other current liabilities | 1,043 | 866 |
| Non-interest bearing, total | 294,207 | 255,609 |
| | | |
| **Current liabilities, total** | 339,660 | 261,025 |
| | | |
| Interest-bearing liabilities | 116,803 | 32,652 |
| Non-interest bearing liabilities | 294,207 | 255,609 |
| Liabilities, total | 411,009 | 288,261 |

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

## 17. ACCRUED EXPENSES, EUR 1,000

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

| | 2004 | 2003 |
|---|---|---|
| Wages and salaries | 3,515 | 2,688 |
| Vacation pay | 3,328 | 2,736 |
| Other indirect personnel expenses | 2,521 | 1,077 |
| Interest | 199 | 167 |
| Value-added taxes | 460 | - |
| Income taxes | - | 177 |
| Exchange rate accruals on forward contracts | 6,735 | 5,279 |
| Other items | 765 | 1,809 |
| Total | 17,523 | 13,933 |

## 18. LEASING CONTRACTS, EUR 1,000

The company has leased equipment under operating leases. In 2004, new operating lease contracts were made with an equipment purchase value of approximately MEUR 35.3. The lease payments are fixed for the duration of the leasing period.

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

| | Dec. 31 2004 | Dec. 31 2003 |
|---|---|---|
| 2004 | - | 6,031 |
| 2005 | 12,943 | 3,302 |
| 2006 | 12,862 | 3,273 |
| 2007 | 9,619 | 324 |
| 2008 | 1 837 | - |
| Total | 37,261 | 12,931 |

Rental expenses on operating leases for machinery amounted to MEUR 9.5 for the year ended December 31, 2004, and MEUR 7.2 for the year ended December 31, 2003. No significant new financing lease contracts were signed during 2004.

Elcoteq Network Corporation has leased a manufacturing facility from the real estate corporation Kiinteistö Oy Piiharju in Lohja. At the closing of the financial statements the City of Lohja owned 90% of this real estate and Elcoteq Network Corporation 10%. In accordance with a shareholders’ agreement between Elcoteq Network Corporation and the City of Lohja, Elcoteq Network Corporation redeemed the City of Lohja’s holding of this real estate corporation’s share capital in January 2005 and the company became a wholly owned subsidiary of Elcoteq Network Corporation. Lease rentals on the Piiharju manufacturing facility totaled MEUR 0.7 in 2004 and MEUR 0.2 in 2003.

## 19. ASSETS PLEDGED AND CONTINGENT LIABILITIES, EUR 1,000

| | | 2004 | 2003 |
|---|---|---|---|
| **ON BEHALF OF GROUP COMPANIES** | | | |
| Guarantees | | 98,091 | 87,996 |
| **ON BEHALF OF OTHERS** | | | |
| Guarantees | | 8 | 168 |
| **LEASING COMMITMENTS** | | | |
| Operating leases, machinery and equipment (excl. VAT) | | 37,261 | 12,931 |
| Rental commitments, real estate (excl. VAT) | | 2,732 | 3,885 |
| **DERIVATIVES CONTRACTS** | | | |
| Foreign currency derivatives instruments | | | |
| Forward contracts, transaction risk | | | |
| Nominal value | | 215,524 | 108,502 |
| Book value | | -4,624 | -4,965 |
| Market value | | -4,624 | -5,065 |
| Forward contracts, translation risk | | | |
| Nominal value | | 20,959 | 36,429 |
| Book value | | 298 | 394 |
| Market value | | 298 | 394 |
| Forward contracts, financial risk | | | |
| Nominal value | | 72,109 | 36,160 |
| Book value | | 83 | 428 |
| Market value | | 83 | 428 |
| Foreign currency option contracts, transaction risk | | | |
| Nominal value | bought | 9,000 | - |
| | sold | 12,000 | - |
| Book value | bought | 46 | - |
| | sold | -149 | - |
| Market value | bought | 46 | - |
| | sold | -149 | - |

The forwards have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The fair value of options is the amount at which options could be exchanged if closed on the balance sheet date. The figures include also the closed positions.

# Risk Management

**Risk management at Elcoteq is based on the company's risk management policy, which was adopted in 2002. This policy classifies risks as external or internal on the one hand, and as strategic, operational, financial, or property and casualty risks on the other. Elcoteq seeks to manage these risk areas in a comprehensive and forward-looking manner.**

**Risk Management Principles** Elcoteq's risk management policy is based on the integration of risk management as part of the business processes of each unit and at 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 risks associated with their own activities, draw up appropriate development plans, and provide reports on these risks and plans in accordance with Elcoteq's organizational structure. The purpose of Elcoteq's Risk Management function is to support and evaluate the risk management efforts of the company's business units, and to report key risks to the company's top management.

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

**Risk Assessment** In 2004, Elcoteq conducted an extensive risk assessment, in which the manufacturing plants, each business area and geographical area, and Group functions charted and assessed the risks in their respective operations and drew up development plans to manage these risks. The Group's risk management function was responsible for guiding and supervising this process.

The objective of the work, which was carried out mainly at the management meetings of the various units, was to identify the risks as broadly as possible in the various areas of the company's business operations. For each identified risk the units assessed the probability for the occurrence of the identified risk, its impact on the unit's activities, and the level of risk management. The points awarded against each risk for each of these aspects were then summed to provide a risk class indicating the gravity of the risk. The risk classification is used in risk management to prioritize those issues that need the most attention.

The analysis indicated that the most important risks to Elcoteq's business operations were the following: customer dependency, new services and business models, materials management, acquisitions, operations in emerging markets, the competitive situation, retention of key employees, and credit risks.

**Risk Management Organization**

| Risk Area | Risk Management Tool | Main Responsibility |
|---|---|---|
| Strategic risks, such as | Strategy, business plans | Group management, business areas |
| • customer dependency | | |
| • new services and business models | | |
| • acquisitions | | |
| • competition | | |
| • market trends | | |
| Operative risks, such as | | Geographical areas |
| • political risks | Risk management policy | Geographical areas, risk management function |
| • product liability and R&D risks | Risk management policy | Geographical areas, business areas |
| • technology risks | Risk management policy | Geographical areas, business areas |
| • personnel risks | Human resources policy | Geographical areas, human resources function |
| • environmental risks | Environmental policy and systems | Geographical areas, environmental management function |
| • materials management | | |
| Financial risks, such as | Treasury policy | Geographical areas, treasury function |
| • foreign exchange risks | | |
| • credit risks | | |
| Casualty risks | Risk management policy and guidelines | Risk management function |
| • data security risks | Data security principles | Information management |
| • product liability and security | Risk management policy | Geographical areas, risk management function |
| • occupational health and safety | Human Resources policy, safety and security instructions | Geographical areas, human resources function |

The methods used in the risk assessment and its results have been reviewed with the Audit Committee of the Board of Directors and the results have been presented to the Board.

**Financial Risk Management** 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 support the company's business units in identifying and managing 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 parent company's Treasury function. The funding needs of subsidiaries are generally addressed through internal lending arrangements.

**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. These transaction risks are hedged through product pricing that incorporates exchange rates and through derivatives contracts that cover the company's net foreign exchange exposure. Transaction risks mainly relate to the US dollar and Japanese yen. In addition to components and manufacturing costs, Elcoteq's pricing model also considers the prevailing foreign exchange rates in connection with pricing and facilitates currency hedging based on forecasted sales volumes. Prices are typically agreed for the upcoming three months. This pricing period may also be shorter, and therefore no significant long-term items are included in the company's transaction exposure. Approximately 90% 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, and the level of hedges is monitored throughout the pricing period. Foreign exchange regulations may hamper hedging activities in certain countries, Brazil for example.

The foreign exchange risk associated with equity denominated in currencies other than the euro, i.e. the translation risk, arises from differences in the calculated euro values of these amounts. Translation risks relate mainly to the US dollar (USD), the Chinese yuan (CNY) and the Hong Kong dollar (HKD). These risks are partly hedged using exchange rate derivative contracts. Roughly 80% of the parent company's holdings in these companies is hedged and this level is updated during every subsequent month after the financial statements of the subsidiaries for the previous month are completed. On December 31, 2004 roughly 70% of the equity denominated in USD and CNY was hedged at the end of the previous month.

Note 25 of the Notes to the Consolidated Financial Statements shows the year-end nominal and market values of derivatives contracts. The principles applied in entering these items are described in the accounting principles on page 35.

**Liquidity and Refinancing Risks** Liquidity risk is measured through reports that are based on the Group's cash flow forecasts. The company strives to continue to safeguard its good liquidity position under varying market conditions through sufficient cash reserves and credit facility arrangements. On December 31, 2004 the Group's cash reserves totaled MEUR 39.2 and its interest-bearing net debt was MEUR 98.2. The average maturity of the loan portfolio was extended with the issue of subordinated notes totaling MEUR 50 in December 2004. The company also minimizes its refinancing risk by maintaining sufficient financial reserves. On December 31, 2004 the company had MEUR 289.9 in unused credit limits, which included a MEUR 230 syndicated and committed credit facility.

The company also has a MEUR 200 domestic commercial paper program, of which MEUR 160 was unused at December 31, 2004. In addition the company will continue to make use of accounts receivable sales facilities whenever cost-effective. Apart from a MEUR 250 accounts receivable securitization facility, the company also has other smaller sale of receivable limits available.

**Interest Rate Risk** The Group follows its interest exposure by monitoring, in particular, the interest payment flow risk since the company's borrowings and investments are, for the most part, tied to short-term interest rates. In 2004, the average interest rate of the loan portfolio was 3.97% and approximately 85.2% of the portfolio was denominated in euros. No derivatives were used during the year to hedge against interest rate exposure. However, the interest payment flow risk was reduced in December 2004 through a MEUR 50 issue of fixed-coupon subordinated notes. On December 31, 2004 loans with long-term fixed interest rate accounted for MEUR 77.0 of the Group's debt portfolio.

Short-term market interest rates also affect the price received by Elcoteq when selling its accounts receivable. The interest rate risk associated with this off-balance-sheet item is not hedged.

**Credit and Counterparty Risk** Primary responsibility for credit risks associated with the company's commercial operations lies with its geographical areas. Commercial credit risks are managed in accordance with the company's credit policy, and adequate collateral is to be requested if the need for it is indicated by the creditworthiness of a customer. The company is released from the credit risk related to sold accounts receivable at the time of sale.

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

# Shares and Shareholders

**Share Series and Share Capital** Elcoteq Network Corporation has two classes of shares, Series A and Series K. Elcoteq's A shares (ticker symbol ELQAV) are quoted on the Helsinki Exchanges and are included in the book-entry system maintained by the Finnish Central Securities Depository Ltd. Elcoteq shares are traded in lots of 50. 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 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 close of 2004, Elcoteq's share capital consisted of altogether 30,640,877 shares divided into 20,063,877 A shares and 10,577,000 K shares. The nominal value of each share is EUR 0.40. The company's registered share capital on December 31, 2004 totaled EUR 12,256,350.80. Elcoteq Network Corporation does not hold any treasury shares.

**Board Authorizations** Elcoteq's Annual General Meeting held on March 17, 2004 authorized the Board of Directors to float one or more convertible bond loans, and/or to issue stock options, and/or to increase Elcoteq's share capital in one or more installments through a rights offering. Under this authorization, the company's share capital may be increased by a maximum of EUR 2,435,042, of which at most EUR 608,760 may arise from personnel incentive schemes. This one-year authorization expires on March 17, 2005.

The Board exercised this authorization on August 3, 2004 and decided to issue stock options as part of the incentive scheme for senior management and key employees of the company. At most 1,350,000 option rights were issued and they entitle to subscribe for 1,350,000 Series A shares.

**Share Information (Dec. 31, 2004)**

| | |
|---|---|
| Number of A shares | 20,063,877 |
| Ticker symbol | ELQAV |
| Minimum trading lot | 50 shares |
| Number of K shares | 10,577,000 |

## Option schemes

**Bond with Warrants 1997** In the fall 1997, Elcoteq offered bonds with warrants totaling FIM 1,125,000 to key executives of the company. The exercise period for all warrants expired on January 31, 2004. In January 2004, a total of 246,900 new A shares were subscribed for with these warrants. At the expiration of the warrant exercise period on January 31, 2004 a total of 32,525 options remained unexercised, 32,500 of which were held by Elcoteq Lohja Oy.

**Stock Option Plan 2001** Elcoteq issued a stock option plan for key employees in 2001. The options not allocated to key employees were issued to Elcoteq Lohja Oy. A total of 2,685,000 options (A-E) were issued that entitle their holders to subscribe for a maximum of 2,685,000 new A shares. At the end of 2004, this plan covered 327 employees, who together held 2,268,550 options. Elcoteq Lohja Oy holds 217,000 options for future needs. These options form part of the company's incentive program for ensuring the motivation and long-term commitment of its key employees.

The options (A-E) may be exercised to subscribe for at most 537,000 new A shares annually over a five-year period from April 1, 2002 until April 30, 2007. The Series A options became exercisable on April 1, 2002, the Series B options on April 1, 2003, and the Series C options at the earliest on April 1, 2004. The exercise period of the D options will start at the earliest on April 1, 2005 and for the E options on April 1, 2006. After the dividend payment in 2004, the share subscription price has been EUR 7.84 per share and will be adjusted downward for any dividends paid after the issue of the options. The share subscription price cannot, however, be lower than the nominal value of the underlying shares.

No options issued pursuant to this option plan were exercised in 2002. In 2003, a total of 600 options were exercised under this option plan and in 2004 altogether 202,850 shares. On December 31, 2004 there were a total of 2,481,550 unexercised option rights to subscribe for A shares.

A, B and C options issued under Elcoteq's 2001 stock option plan are traded on the Helsinki Exchanges. These options are traded in lots of 50 under the ticker symbol ELQAVEW101.

**Incentive Plans 2004** On August 3, 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, a share ownership 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 Lohja 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.

Upon issue, all these stock options were granted to Elcoteq Lohja Oy. At February 1, 2005 this stock option plan covered all members of the Management Conference and the aggregate number of 2004 options held by them was 450,000. The 2004B and 2004C options have not yet been allocated and continue to be held by Elcoteq Lohja Oy.

The share subscription price for all options is EUR 15.30 i.e. the trade volume weighted average quotation of the Elcoteq A share on the Helsinki Exchanges in July 2004. 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 shall, for stock option 2004A, be March 1, 2005 - March 31, 2007, for stock option 2004B March 1, 2006 - March 31, 2008 and for stock option 2004C March 1, 2007 - March 31, 2009. The share subscription period shall 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 EUR 21, with stock options 2004B at least EUR 27, and with stock options 2004C at least EUR 33.

**Share Ownership Plan 2004** The Board of Directors also approved a new share-based incentive plan for the Group's key employees. The duration of the incentive plan is three years. In the share ownership plan the Board of Directors shall annually determine the profit and net sales targets for each year. The share ownership plan covers all members of Elcoteq's Management Conference.

The potential reward from the plan in 2004 will be based on the development of the Group's earnings per share and net sales. The reward will be paid in 2005, partly in the company's Series A shares and partly in cash. The shares will be acquired at the Helsinki Exchanges by the end of April 2005. It is prohibited to transfer the shares corresponding to the gross annual salary of a key person as long as his/her employment in the Group continues. The President and CEO of the company is not allowed, without the consent of the Board of Directors, to transfer his A shares as long as he is in the service of the company.

**Reward Plan 2004** The Board of Directors also approved a new reward plan for the Group's key employees. 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 reward plan is directed at key personnel not covered by the stock option plan and the share-based incentive plan.

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

The members of the company's Board of Directors are not included in the incentive plans described above.

**CEO's and the Board Members' Shareholdings** At February 1, 2005 the members of the company's Board of Directors owned a total of 2,809,060 A shares and 10,577,000 K shares, which represented 43.7% of the total number of shares and 86.3% of the votes outstanding.

On February 1, 2005, Mr Jouni Hartikainen, Elcoteq's President and CEO, held 150,000 options issued under the 2001 option program and 60,000 options under the 2004 option program. Mr Jukka Jäämaa, COO and Deputy CEO, held 61,000 options issued under the 2001 option program and 46,000 options under the 2004 option program. The President and the COO could exercise these options to subscribe for a maximum of 317,000 new A shares, which would represent 1.02% of the share capital and 0.25% of the votes outstanding after such exercise. If all the other unexercised options on February 1, 2005 were also exercised, Elcoteq's President, COO and the members of the Board of Directors would collectively hold 39.8% of the total share capital and 84% of the total votes outstanding.

The share and option holdings of Elcoteq's Board of Directors and top management are presented on pages 73 and 75. A listing of Elcoteq insiders' share and option holdings is available on the company's website at www.elcoteq.com > Investors.

**Shareholders** Elcoteq had 12,588 registered shareholders at the end of 2004. There were a total of 7,008,543 nominee-registered or foreign-registered A shares, representing 22.9% of the total number of shares and 5.6% of the votes outstanding.

**Free Float** At December 31, 2004 Elcoteq's free float (the number of A shares not held by its principal owners) totaled 17,106,877 shares, or 86.0% of all A shares and 56.2% of the total share capital. Nominee-registered and foreign-registered shares accounted for 40.7% of the free float.

**Taxable Value of Elcoteq Shares in Finland** The 2004 value assigned to Elcoteq Network Corporation A shares for Finnish tax purposes is EUR 12.38 per share.

**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, 2004

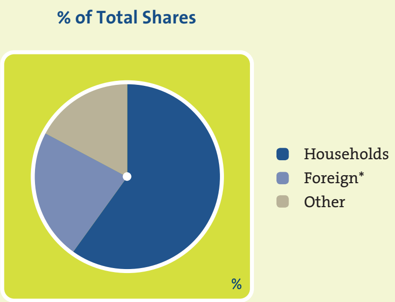
| Number of Shares | Number of Holders | % of Total Shares | % of Total Votes |
|---|---|---|---|
| 1-100 | 4,470 | 1.02 | 0.25 |
| 101-1,000 | 7,000 | 8.98 | 2.19 |
| 1,001-10,000 | 1,018 | 8.50 | 2.07 |
| 10,001-100,000 | 85 | 9.42 | 2.29 |
| 100,001- | 15 | 72.08 | 93.20 |

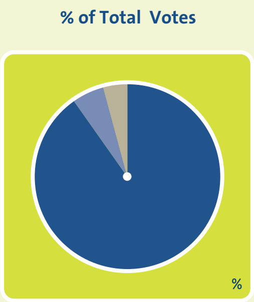
Figures included nominee-registered shareholders.
Each nominee is treated as one shareholder.

## Shareholders by Type, December 31, 2004

| | Number of Shares | % of Total Shares | % of Total Votes |
|---|---|---|---|
| Households | 18,360,747 | 59.92 | 90.24 |
| Foreign* | 7,008,543 | 22.87 | 5.57 |
| Financial and insurance institutions | 2,309, 954 | 7.54 | 1.84 |
| Public entities | 1,004,490 | 3.28 | 0.80 |
| Corporations | 1,291,178 | 4.21 | 1.03 |
| Non-profit organizations | 665,965 | 2.17 | 0.53 |

* Includes nominee-registered shares




## Series A Share Performance and Trading

| | 2004 | 2003 |
|---|---|---|
| Highest price, EUR | 21.50 | 17.75 |
| Lowest price, EUR | 12.80 | 9.76 |
| Average price, EUR | 16.68 | 12.75 |
| Closing price, EUR | 17.89 | 15.98 |
| Trading volume, MEUR | 537.5 | 323.2 |
| Trading volume, shares | 32,218,487 | 25,344,918 |

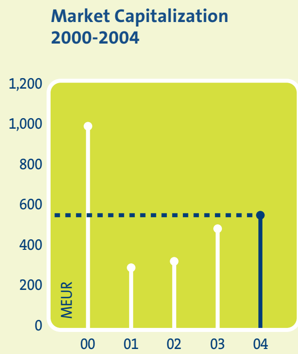
## Performance and Trading of the Year 2001 Options

| | 2004 | 2003 |
|---|---|---|
| Highest price, EUR | 12.00 | 8.95 |
| Lowest price, EUR | 5.25 | 3.46 |
| Average price, EUR | 8.82 | 5.33 |
| Closing price, EUR | 9.75 | 7.50 |
| Trading volume, MEUR | 7.7 | 1.4 |
| Trading volume, Options | 883,000 | 205,450 |

## Market Capitalization, MEUR

| | 2004 | 2003 |
|---|---|---|
| Series A shares | 358.9 | 313.4 |
| Series K shares | 189.2 | 169.0 |
| Total | 548.2 | 482.4 |

Market capitalization is calculated by multiplying the company's total shares outstanding, i.e. all A and K shares, by the closing quotation of 2004 and 2003.

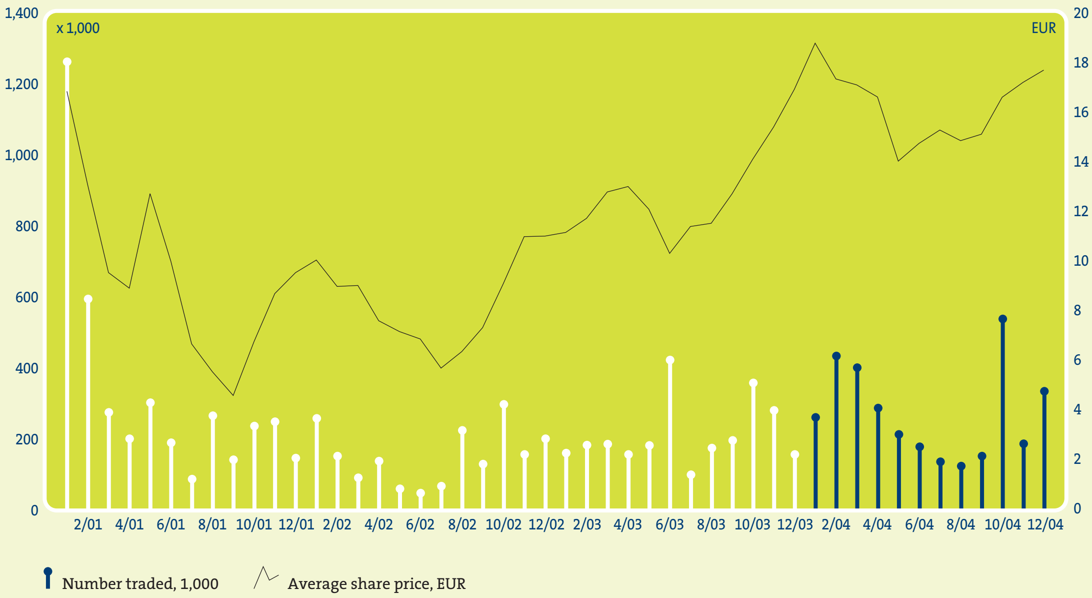


## Major Shareholders, December 31, 2004

| | A Shares | K Shares | % of Shares | % of Votes |
|---|---|---|---|---|
| 1. Antti Piippo | 1,587,770 | 5,411,000 | 22.84 | 44.26 |
| 2. Jorma Vanhanen | 601,565 | 2,583,000 | 10.39 | 21.01 |
| 3. Henry Sjöman | 586,565 | 2,583,000 | 10.34 | 20.99 |
| 4. Tapiola Mutual Pension Insurance Company | 365,000 | - | 1.19 | 0.29 |
| 5. OP-Suomi Kasvu Mutual Fund | 274,500 | - | 0.90 | 0.22 |
| 6. State Pension Fund | 255,000 | - | 0.83 | 0.20 |
| 7. FIM Fenno Fund | 238,800 | - | 0.78 | 0.19 |
| 8. FIM Forte Fund | 216,650 | - | 0.71 | 0.17 |
| 9. Gyllenberg Finlandia Mutual Fund | 201,470 | - | 0.66 | 0.16 |
| 10. Alfred Berg Finland Mutual Fund | 152,150 | - | 0.50 | 0.12 |
| Total | 4,479,470 | 10,577,000 | 49.14 | 87.61 |

A monthly updated list of Elcoteq's 30 largest shareholders
is available on the company's website at www.elcoteq.com.

## Trading Prices and Volumes of Elcoteq's A Shares from January 1, 2001 to December 30, 2004




## Possible Impact of Unexercised Option Rights on Elcoteq's Share Capital on February 1, 2005

| | Number of Shares | % of Shares | Share Capital, EUR | % of Votes |
|---|---|---|---|---|
| Option scheme 2001 | + 2,481,550 | +8.1 | +992,620 | +1.97 |
| Option scheme 2004 | +1,350,000 | + 4.4 | +540,000 | +1.07 |
| Total | +3,831,550 | +12.5 | +1,532,650 | +3.04 |

If all the above mentioned and hitherto unexercised subscription rights were exercised,
Elcoteq would have altogether 34,472,427 shares and a total of 129,665,427 voting rights.

# Formulas for the Calculation of Financial Ratios

| | | |
|---|---|---|
| Return on equity (ROE) = | (Income before taxes – taxes) x 100 | Shareholders’ equity + minority interests, average of opening and closing balances |
| Return on investment (ROI/ROCE) = | (Income before taxes + interest and other financial expenses) x 100 | Total assets – non-interest bearing liabilities, average of opening and closing balances |
| Current ratio = | Current assets | Current liabilities |
| Solvency = | (Shareholders’ equity + minority interests) x 100 | Total assets – advance payments received |
| Gearing = | Interest-bearing liabilities – cash and equivalents | Shareholders’ equity + minority interests |
| Earnings per share (EPS) = | Net income | Adjusted average number of shares outstanding during the period |
| Earnings per share, diluted (EPS) = | Net income | Adjusted average number of shares outstanding during the period + effect of dilution on the number of shares |
| Shareholders’ equity per share = | Shareholders’ equity | Adjusted number of shares in issue at the end of the period |
| Dividend per share = | Dividends paid for the fiscal year | Adjusted number of shares outstanding at the end of the period |
| Payout ratio = | Dividend per share x 100 | Earnings per share |
| Dividend yield = | Dividend per share x 100 | Average share price at the end of the period |
| P/E ratio = | Average share price at the end of the period | Earnings per share (EPS) |
| Return on investment (ROI/ROCE) for trailing 12 months = | (Income before taxes + interest and other financial expenses) x 100 | Total assets – non-interest-bearing liabilities, average of opening and closing balances |

# Five Years in Figures

| OPERATIONS | | IFRS 2004 | IFSR 2003 | FAS 2002 | FAS 2001 | FAS 2000 |
|---|---|---|---|---|---|---|
| Net sales | MEUR | 2,953.7 | 2,235.7 | 1,840.2 | 1,862.5 | 2,213.5 |
| of which outside Finland | % | 86.4 | 81.0 | 77.5 | 76.5 | 68.5 |
| Gross capital expenditures (does not include operating leases) | MEUR | 128.3 | 68.1 | 78.0 | 45.1 | 125.7 |
| Employees, average | | 13,065 | 11,044 | 8,127 | 9,960 | 9,630 |
| **PROFITABILITY** | | | | | | |
| Operating income before depreciation and amortization (EBITDA) | MEUR | 132.2 | 88.1 | 74.7 | 29.9 | 101.2 |
| Operating income | MEUR | 71.4 | 30.5 | 25.5 | -18.4 | 66.4 |
| as percentage of net sales | % | 2.4 | 1.4 | 1.4 | -1.0 | 3.0 |
| Income before taxes | MEUR | 59.0 | 22.5 | 18.6 | -30.7 | 54.4 |
| as percentage of net sales | % | 2.0 | 1.0 | 1.0 | -1.6 | 2.5 |
| Net income | MEUR | 39.8 | 20.7 | 16.1 | -32.0 | 37.2 |
| as percentage of net sales | % | 1.3 | 0.9 | 0.9 | -1.7 | 1.7 |
| Return on equity (ROE) | % | 15.5 | 8.2 | 7.4 | -11.7 | 19.3 |
| Return on investment (ROCE/ROI) | % | 19.8 | 10.2 | 9.2 | -3.5 | 20.4 |
| **FINANCIAL RATIOS** | | | | | | |
| Current ratio | | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Solvency | % | 30.5 | 32.6 | 36.6 | 39.6 | 35.1 |
| Gearing | | 0.4 | -0.0 | -0.1 | 0.2 | 0.5 |
| Interest-bearing liabilities | MEUR | 137.4 | 63.3 | 42.6 | 75.8 | 182.3 |
| Interest-bearing net debt | MEUR | 98.2 | -0.4 | -33.4 | 39.4 | 150.5 |
| **PER SHARE DATA** | | | | | | |
| Earnings per share (EPS) | EUR | 1.31 | 0.70 | 0.54 | -1.08 | 1.38 |
| Diluted earnings per share (EPS) | EUR | 1.25 | 0.67 | - | - | 1.33 |
| Shareholders' equity per share | EUR | 8.82 | 8.46 | 8.40 | 7.99 | 9.37 |
| Share price at the end of the year | EUR | 17.89 | 15.98 | 10.80 | 10.00 | 33.50 |
| Dividend per share ** | EUR | 0.65 | 0.90 | 0.40 | 0.00 | 0.38 |
| Payout ratio ** | % | 49.6 | 131.0 | 73.5 | 0.0 | 30.0 |
| Dividend yield ** | % | 3.6 | 5.6 | 3.7 | 0.0 | 1.1 |
| P/E ratio | | 13.7 | 22.9 | 19.7 | -9.1 | 24.4 |
| Adjusted weighted average number of shares in issue during the period | Shares | 30,420,473 | 29,572,826 | 29,491,652 | 29,491,373 | 26,944,809 |
| Adjusted number of shares in issue at the end of the period | Shares | 30,640,877 | 30,190,527 | 29,491,652 | 29,491,652 | 29,488,902 |

** The dividend shown for 2004 represents the Board's proposal to the Annual General Meeting.

Financial statements have been prepared in compliance with the IFRS standards beginning from January 1, 2003. Financial statements 2000-2002 have been prepared in compliance with the Finnish Accounting Act, which came into effect on December 31, 1997.

# Board's Proposal to the Annual General Meeting

The Group's distributable funds on the balance sheet date totaled EUR 37,630,340.21. The parent company recorded a net profit of EUR 34,065,546.02 for the year. Retained earnings from previous years, adjusted for the share issue costs entered in the additional paid-in capital, amounted to EUR 5,582,013.33. Therefore the parent company's distributable funds totaled EUR 39,647,559.35.

The Board will propose to the Annual General Meeting that the parent company distribute a dividend of EUR 19,958,810.30 in total, or EUR 0.65 per share, on the financial year. After this, unused retained earnings will amount to EUR 19,688,749.05 in the parent company and EUR 17,671,529.91 in the Group.

Espoo, February 9, 2005

**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 Network Corporation

We have audited the accounting records, the financial statements and the administration of Elcoteq Network Corporation for the year 2004. The financial statements prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), and parent company financial statements prepared in accordance with prevailing regulations in Finland (FAS). Based on our audit we express an opinion on the consolidated financial statements and on the parent company's financial statements and on administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 that the members of the Board of Directors and the President and CEO have complied with the rules of the Finnish Companies Act.

**Consolidated Financial Statements** In our opinion, the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) give a true and fair view of the consolidated results of operations as well as of the financial position. The financial statements are in accordance with prevailing regulations in Finland and can be adopted.

### Parent Company's Financial Statements and Administration

The financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland.

The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations, as well as the financial position. The 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 concerning the distribution of retained earnings is in compliance with the Finnish Companies Act.

Espoo, February 10, 2005

KPMG OY AB

**Mauri Palvi**
Authorized Public Accountant

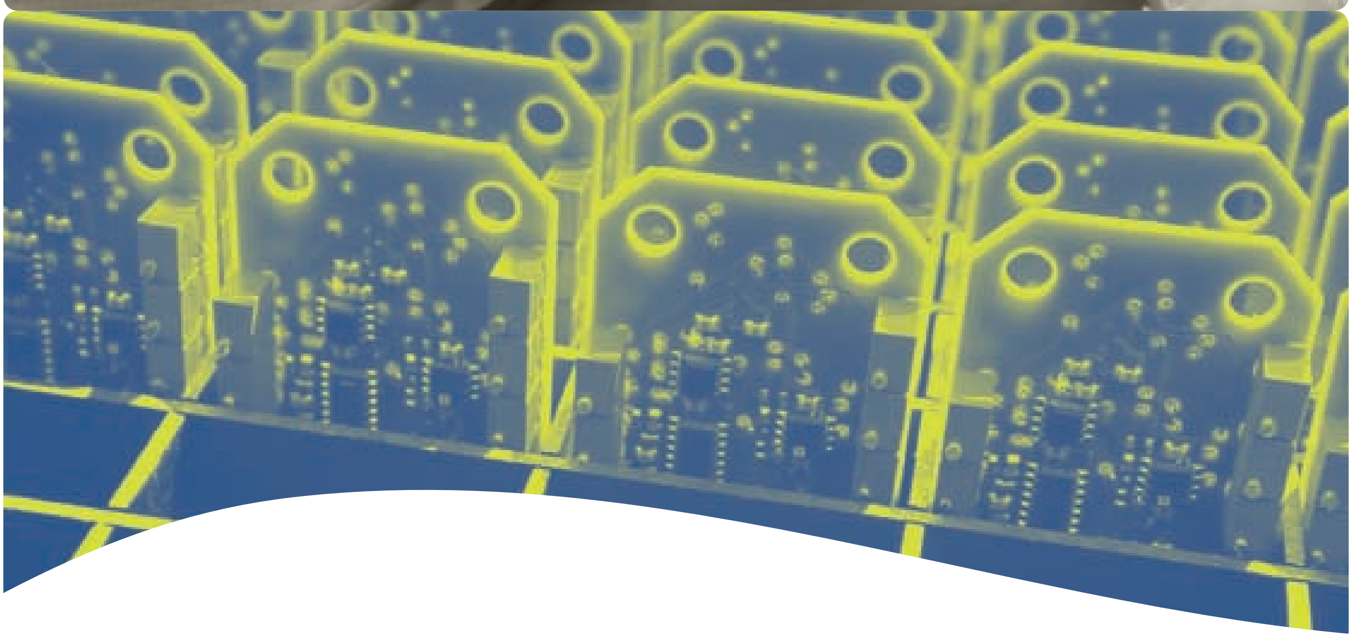
# Quarterly Figures (Unaudited)

| INCOME STATEMENT, MEUR | Q4/2004 | Q3/2004 | Q2/2004 | Q1/2004 | Q4/2003 | Q3/2003 | Q2/2003 | Q1/2003 |
|---|---|---|---|---|---|---|---|---|
| **NET SALES** | **864.6** | **828.7** | **641.9** | **618.5** | **721.9** | **496.1** | **500.4** | **517.3** |
| Change in work in progress and finished goods | -23.6 | 16.7 | -3.2 | 21.3 | 13.0 | 5.0 | 3.8 | -15.3 |
| Other operating income | 2.0 | 1.0 | 12.6 | 1.2 | 0.6 | 0.5 | 0.7 | 0.6 |
| Operating expenses | -805.9 | -810.6 | -617.6 | -615.5 | -703.6 | -480.7 | -488.6 | -483.5 |
| Depreciation and writedowns | -16.4 | -15.9 | -14.4 | -14.2 | -14.9 | -14.4 | -14.5 | -13.8 |
| **OPERATING INCOME** | **20.8** | **20.0** | **19.3** | **11.3** | **17.0** | **6.6** | **1.8** | **5.2** |
| % of net sales | 2.4 | 2.4 | 3.0 | 1.8 | 2.4 | 1.3 | 0.4 | 1.0 |
| Financial income and expenses | -5.8 | -2.5 | -2.2 | -0.9 | -2.7 | -1.7 | -1.8 | -1.3 |
| Share of profits and losses of associates | -0.1 | -0.3 | -0.3 | -0.4 | -0.2 | -0.1 | -0.2 | 0.0 |
| **INCOME BEFORE TAXES** | **15.0** | **17.2** | **16.8** | **10.1** | **14.1** | **4.8** | **-0.2** | **3.9** |
| Income taxes | -2.0 | -5.1 | -5.7 | -4.4 | -1.1 | 3.7 | -1.9 | -2.1 |
| Minority interests | 0.2 | -2.2 | 0.1 | -0.1 | -0.5 | 0.1 | 0.0 | 0.1 |
| **NET INCOME** | **13.1** | **10.0** | **11.2** | **5.6** | **12.4** | **8.5** | **-2.2** | **1.9** |

| BALANCE SHEET, MEUR | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Non-current assets | | | | | | | | |
| Intangible assets | 43.9 | 39.5 | 38.1 | 37.5 | 36.9 | 38.4 | 42.0 | 43.0 |
| Tangible assets | 205.8 | 183.6 | 153.7 | 156.6 | 154.0 | 141.6 | 135.4 | 144.9 |
| Investments | 14.4 | 14.5 | 14.7 | 14.8 | 14.9 | 1.1 | 1.2 | 0.8 |
| Long-term receivables | 14.0 | 15.4 | 15.1 | 9.1 | 11.2 | 10.7 | 5.9 | 6.6 |
| **Non-current assets, total** | **278.1** | **253.0** | **221.7** | **218.0** | **217.0** | **191.8** | **184.5** | **195.4** |
| Current assets | | | | | | | | |
| Inventories | 305.3 | 357.3 | 268.6 | 279.4 | 267.0 | 200.1 | 158.9 | 176.5 |
| Short-term receivables | 285.0 | 320.7 | 324.9 | 305.5 | 256.7 | 221.0 | 222.8 | 222.9 |
| Cash and cash equivalents | 39.2 | 37.4 | 40.7 | 18.4 | 63.7 | 24.6 | 44.4 | 41.3 |
| **Current assets, total** | **629.5** | **715.4** | **634.1** | **603.3** | **587.4** | **445.7** | **426.1** | **440.6** |
| **ASSETS, TOTAL** | **907.6** | **968.4** | **855.8** | **821.3** | **804.4** | **637.5** | **610.6** | **636.0** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | | | | | |
| Shareholders' equity | | | | | | | | |
| Share capital | 12.3 | 12.2 | 12.2 | 12.2 | 12.1 | 11.8 | 11.8 | 11.8 |
| Other shareholders' equity | 258.0 | 244.1 | 234.3 | 222.8 | 243.4 | 224.8 | 216.9 | 220.0 |
| **Shareholders' equity, total** | **270.3** | **256.3** | **246.5** | **235.0** | **255.5** | **236.6** | **228.7** | **231.8** |
| Minority interests | 6.6 | 7.9 | 5.9 | 5.9 | 5.8 | 8.3 | 10.2 | 11.7 |
| Long-term liabilities | | | | | | | | |
| Long-term loans | 72.2 | 34.1 | 35.3 | 35.5 | 36.5 | 21.8 | 22.1 | 22.4 |
| Other long-term debt | 4.4 | 14.8 | 13.3 | 14.4 | 12.9 | 12.5 | 10.6 | 10.3 |
| | 76.6 | 49.0 | 48.6 | 50.0 | 49.4 | 34.3 | 32.7 | 32.7 |
| Current liabilities | | | | | | | | |
| Current loans | 64.1 | 57.6 | 43.0 | 90.9 | 19.3 | 10.9 | 46.2 | 44.4 |
| Other current liabilities | 488.6 | 595.4 | 509.3 | 437.8 | 472.4 | 346.4 | 292.0 | 314.4 |
| Provisions | 1.5 | 2.3 | 2.6 | 1.7 | 2.1 | 1.0 | 0.7 | 0.9 |
| | 554.2 | 655.3 | 554.9 | 530.4 | 493.8 | 358.2 | 338.9 | 359.8 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL** | **907.6** | **968.4** | **855.8** | **821.3** | **804.4** | **637.5** | **610.6** | **636.0** |

| | Q4/2004 | Q3/2004 | Q2/2004 | Q1/2004 | Q4/2003 | Q3/2003 | Q2/2003 | Q1/2003 |
|---|---|---|---|---|---|---|---|---|
| Personnel on average during the period | 13,481 | 12,865 | 12,638 | 13,222 | 12,864 | 11,132 | 10,566 | 10,210 |
| Gross capital expenditures, MEUR | 45.2 | 46.7 | 16.5 | 19.9 | 22.4 | 21.8 | 10.3 | 13.6 |
| ROI/ROCE from 12 preceding months, % | 19.8 | 21.3 | 17.2 | 11.3 | 10.2 | - | - | - |
| Earnings per share (EPS), EUR | 0.43 | 0.33 | 0.37 | 0.18 | 0.42 | 0.30 | -0.08 | 0.06 |
| Solvency ratio, % | 30.5 | 27.3 | 29.6 | 29.5 | 32.6 | 38.4 | 39.2 | 38.3 |
| CONSOLIDATED CASH FLOW STATEMENT, MEUR | | | | | | | | |
| Cash flow before change in working capital | 22.0 | 33.5 | 24.6 | 22.4 | 29.2 | 23.9 | 3.5 | 13.1 |
| Change in working capital | 24.5 | -12.0 | 52.2 | -87.1 | 26.2 | 11.0 | 18.9 | -19.6 |
| Financial items and taxes | -13.4 | -2.9 | -2.7 | -1.2 | -3.8 | 0.7 | -1.9 | -1.1 |
| Cash flow from operating activities | 33.1 | 18.6 | 74.1 | -65.9 | 51.6 | 35.6 | 20.5 | -7.6 |
| **Cash flow from investing activities** | **-77.1** | **-36.2** | **-2.8** | **-24.2** | **-42.1** | **-19.1** | **-7.0** | **-50.0** |
| **Cash flow before financing activities** | **-44.0** | **-17.6** | **71.3** | **-90.1** | **9.5** | **16.5** | **13.5** | **-57.6** |
| BUSINESS AREAS | | | | | | | | |
| **Net sales, MEUR** | | | | | | | | |
| Terminal Products | 688.8 | 660.0 | 489.8 | 461.4 | 589.3 | 391.6 | 389.0 | 410.0 |
| Communications Network Equipment | 175.9 | 168.6 | 152.2 | 125.1 | 100.6 | 73.3 | 78.7 | 77.2 |
| Industrial Electronics | - | - | - | 31.9 | 32.0 | 31.2 | 32.7 | 30.1 |
| Total | 864.6 | 828.7 | 641.9 | 618.5 | 721.9 | 496.1 | 500.4 | 517.3 |
| **Segment's operating income, MEUR** | | | | | | | | |
| Terminal Products | 28.4 | 23.9 | 10.4 | 15.5 | 16.9 | 8.8 | 5.1 | 9.2 |
| Communications Network Equipment | 2.5 | 1.7 | 7.4 | 4.7 | 5.1 | 0.3 | 1.9 | 1.5 |
| Industrial Electronics | - | - | 10.0 | 3.0 | 3.5 | 4.8 | 1.8 | 1.4 |
| Group's non-allocated expenses/income | -10.2 | -5.6 | -8.5 | -11.9 | -8.6 | -7.3 | -7.0 | -6.9 |
| Total | 20.8 | 20.0 | 19.3 | 11.3 | 17.0 | 6.6 | 1.8 | 5.2 |
| GEOGRAPHICAL AREAS | | | | | | | | |
| **Net sales, MEUR** | | | | | | | | |
| Terminal Products Europe | 414.8 | 368.6 | 261.4 | 254.5 | 350.4 | 229.1 | 218.4 | 203.7 |
| CNE* Europe | 154.6 | 145.2 | 131.8 | 112.1 | 89.4 | 60.9 | 70.9 | 72.2 |
| Asia-Pacific | 210.2 | 207.0 | 137.2 | 159.7 | 183.6 | 153.7 | 161.7 | 199.2 |
| Americas | 85.0 | 107.9 | 111.5 | 60.2 | 66.6 | 21.2 | 16.6 | 12.1 |
| IE** Europe | - | - | - | 31.9 | 32.0 | 31.2 | 32.7 | 30.1 |

CNE* = Communications Network Equipment
IE** = Industrial Electronics



# Corporate Governance

**Elcoteq applies the Corporate Governance recommendations for listed companies prepared by the Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. These came into force on July 1, 2004. Elcoteq also applies the insider guidelines published by the Helsinki Exchanges.**

**General Meeting** 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 Finnish legislation and the company's Articles of Association. Elcoteq's Annual General Meeting is held before the end of May on a date set by the Board of Directors. Extraordinary shareholder meetings are convened at the discretion of the Board of Directors or if otherwise required for legal reasons.

**Group Structure** 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 latter being supported in his work by a Management Team and a Management Conference.

The Elcoteq Group's top management consists of the President and CEO, COO (Deputy CEO), and the members of the Management Team and Management Conference. The overall task of the Group's management is to manage the Group in accordance with the strategy and goals endorsed by the Board of Directors. Its responsibilities include developing and executing the company's strategy, 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 Elcoteq Management Team currently comprises the President and CEO, the COO, the CFO, and the three Senior Vice Presidents responsible respectively for sales and marketing, corporate development and human resources. The members of the Management Team report to the President and CEO. The Management Team meets monthly. Its main tasks are strategy formulation, and assuring and monitoring the company's financial performance.

The company also has a Management Conference, which consists of 11 key senior managers of the Group in addition to the Management Team. The Management Conference convenes at the discretion of the President and CEO 3-4 times a year. The purpose of the Management Conference meetings is to provide a senior management forum for planning the company's operations and sharing information.

The company has organized its operations into two business areas: Terminal Products and Communications Network Equipment. In addition to these, the company has three geographical areas: Europe, Asia-Pacific and Americas. The head of each business area is responsible for developing the business operations, service offering and supply chain management in his area and for ensuring that the business area's operations are globally consistent. The heads of the geographical areas are responsible for sales, production and profitability in their areas.

**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 the Annual General Meeting. The Board's rules of procedures stipulate that a majority of the Board members must be non-executive directors independent of the company's principal shareholders. Four of the seven Board members elected by the Annual General Meeting 2004 are independent. 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 Board elects a chairman and a deputy chairman from among its members and decides on the establishment of its committees and their members.

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.

According to the Rules of Procedure the Board of Directors assesses its own activities and performance annually. This assessment will be carried out for the first time concerning the year 2004.

The Board convenes regularly and at least eight times during its term of office in accordance with a prearranged schedule, or 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. 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 CEO and the COO of the company, and additionally other individuals when expert advisers are required, to present matters.

In addition to the matters stipulated in the Companies Act 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 senior managers
- 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 had seven members during the term of office ending at the 2005 Annual General Meeting. Since the Annual General Meeting on March 17, 2004 the Chairman of the Board has been Mr Antti Piippo and the Deputy Chairman Mr Juha Toivola.

The Board of Directors met 22 times during 2004. The attendance of its members at these meetings averaged 92.2%.

**The Board's Committees** The Board of Directors has established four committees: Working Committee, Review Committee, Compensation Committee and Nomination Committee. The Board can also establish other committees for specific purposes. The tasks of each committee are stipulated in its rules of procedure which are approved by the Board of Directors. The committees report on their work to the Board at the Board's meetings.

**The Working Committee** prepares matters for the Board related to the company's business operations, particularly matters concerning the company's strategy and business development. The Committee consists of at least three members and it is convened by its chairman as necessary. During the 2004-2005 period the Working Committee was chaired by Mr Antti Piippo, Chairman of the Board, and the members were Mr Henry Sjöman, Mr Juha Toivola and Mr Jorma Vanhanen. The Committee met 28 times during 2004.

**The Review Committee** supervises and prepares for the Board matters related to financial reporting, external auditing and risk management. It also supervises and enhances these functions in the company. The Committee consists of at least three Board members independent of the company, 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 2004-2005 period the Review 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 seven times during 2004.

**The Compensation Committee** prepares for the Board matters related to the remuneration, performance-based compensation, benefits and perquisites policies applied to the company's executive management and the remuneration policy of the company. The Committee consists of at least three Board members who are independent of the company. The Committee meets during its term of office as necessary and is convened by its chairman. During the 2004-2005 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 2004.

**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 it is convened as necessary by its chairman. During the 2004-2005 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 2004.

**The President and CEO** The Board of Directors appoints a President who is responsible for the operative management of the company as required by the provisions of the Finnish Companies Act 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 MSc (Eng.) and the COO and Deputy CEO Mr Jukka Jäämaa LSc (Eng.).

**Board's Fees** As decided by the Annual General Meeting 2004, the Board members are each paid an annual fee of EUR 30,000, 60% of which is paid in cash and 40% in shares. In 2004, with respect to the latter payment, the Elcoteq shares were acquired between April 29 and May 12 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 2004 decided to pay an additional monthly fee of EUR 25,000 to the full-time Chairman of the Board and an additional monthly fee of EUR 6,000 to the Deputy Chairman of the Board.

The salaries, fees and fringe benefits paid to the Board of Directors in 2004 totalled EUR 604,841.72.

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

**President and CEO's Remuneration** In addition to a 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 annual salary. The CEO also receives normal fringe benefits. The salary, fringe benefits and performance-based bonus paid to the President and CEO in 2004 totaled EUR 437,143.

In addition to the statutory pension cover, additional pension arrangements allow the President and 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. Furthermore, owing to the relocation of the CEO to Switzerland, additional fixed-term severance compensation has been agreed with the CEO to the effect that should the CEO's employment contract be terminated by the company without a proper cause before September 1, 2006, the CEO will be paid every month an amount corresponding to his monthly salary as severance compensation from the date of dismissal until September 1, 2006.

## Management Remuneration and Incentive Schemes

The Board of Directors decides on the management's fees and remuneration schemes based on a proposal by the Compensation Committee. The level and competitiveness of salaries is reviewed, for example, on the basis of comparison data obtained from the International Position Evaluation (IPE) system.

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. In 2004, the maximum amount of the bonus varied between 15% and 100% of the annual basic salary depending on the individual's job level. The maximum amount to be paid to members of the Management Team and Management Conference in 2004 is 50% of their basic annual salaries.

The company has also other incentive plans. The 2001 option scheme covers also other key personnel in addition to the members of the Management Conference.

On August 3, 2004 Elcoteq's Board of Directors agreed on the motivation and commitment of the management and key personnel of the Group by means of a stock option plan, a share ownership plan and a reward plan. The stock option and share ownership plans cover the members of the company's Management Conference. The reward plan is intended for key employees not covered by the stock option and share ownership plans.

The members of the Board of Directors are not covered by the company's stock option schemes. Further information on the stock option schemes is given on page 59.

The pension arrangements of the President and CEO and the members of the Board of Directors are described in the notes to the consolidated income statement on page 48.

**The Auditor** According to the company's Articles of Association the company shall have one auditor who shall also be a firm of authorized public accountants approved by the Central Chamber of Commerce of Finland. The auditor's term of office ceases at the close of the first Annual General Meeting following his election.

Elcoteq's auditors are the firm of authorized public accountants KPMG Oy Ab, under the supervision of Principal Auditor Mauri Palvi, APA. The auditing associations belonging to the KPMG Group were paid approximately EUR 560,000 in auditing fees and approximately EUR 820,000 for other consultation assignments in 2004.

**The Internal Audit** Elcoteq does not have a separate internal audit function. The company's internal control and risk management functions, which are organized according to the company's risk management policy, are considered to be sufficient together with the audits carried out by the external auditor to ensure that Elcoteq's financial reporting is correct and in compliance with all rules and regulations and that the company's administrative processes are efficient and continuously developed. In the end of 2004, Elcoteq re-evaluated the need to establish a separate internal audit function and decided to outsource its internal audit during 2005 to a partner that will be chosen later.

**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 Helsinki Exchanges. Personnel are trained in the matters covered by these Insider Rules.

The company's statutory list of insiders (permanent insiders) comprises the members of the Board of Directors, the President and CEO, the COO and the auditor. Other permanent insiders are the members of the company's Management Conference, as well as individuals who by virtue of their responsibilities or position receive information made available to the Management Conference or other information regarded as insider information. The company also maintains project specific insider registers.

Under the company's Insider Rules, insiders should 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 for 21 days before the release of its interim or annual financial results.

Elcoteq's insider register is maintained by the company's legal affairs department, which updates the information of Elcoteq's insiders in the register maintained by the Finnish Central Securities Depository Ltd. A list of the share and stock option holdings of Elcoteq's insiders is also posted on Elcoteq's website at www.elcoteq.com.

Board of Directors:

Back row, from left: Heikki Horstia, Martti Ahtisaari, Jorma Vanhanen, Henry Sjöman and Eero Kasanen. In front: Antti Piippo and Juha Toivola.

# Board of Directors

**Martti Ahtisaari** born 1937, Teacher Training Course Graduate, University of Oulu, Chairman of the Board of Crisis Management Initiative, has been a member of Elcoteq's Board of Directors since 2000. Mr Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. His many posts include Ambassador of Finland to Tanzania, the UN's special representative to Namibia and Secretary of State in Finland's Ministry for Foreign Affairs. Mr Ahtisaari was President of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts including co-chairman of the East West Institute. Mr Ahtisaari is also a member of the Board of Directors of UPM-Kymmene and he holds honorary doctorates from a number of universities.

**Heikki Horstia** born 1950, BSc (Econ.), Vice President, Treasurer of Wärtsilä Corporation, has been a member of Elcoteq's Board of Directors since 1991. Mr Horstia has had a career in the financial management of industrial enterprises 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, has been a member of Elcoteq's Board of Directors since 2001. Dr Kasanen is a member of the Boards of Directors of Kesko Oyj and Kaleva Mutual Insurance Company and chairman of the Boards of Directors of the Helsinki School of Economics Holding Ltd and Finland Post Corporation.

**Antti Piippo** born 1947, BSc (Eng.), is one of the founders and principal shareholders of the company. He has acted as Chairman of Elcoteq's Board of Directors from 1991 until 2001 and again since 2003. 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. Mr Piippo is, and has been, a member of the Boards of Directors of numerous other companies and business associations.

**Henry Sjöman** born 1950, BSc (Eng.), is one of the founders and principal shareholders of the company. He has been a member of Elcoteq's Board of Directors since the management buy-out in 1991. 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, MSc, has been a member of Elcoteq's Board of Directors since 1997. He 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. Mr Toivola is the chairman or member of the boards of directors of several companies. He is also a member of the Association of Finland's Board Professionals.

**Jorma Vanhanen** born 1959, MSc (Eng.), is one of the founders and principal shareholders of the company. He has been a member of Elcoteq's Board of Directors since the management buy-out in 1991. Mr Vanhanen has held various management positions in Elcoteq and its predecessors since 1985.

**Board's Shareholdings on February 1, 2005**

| Name | A shares | K shares | Change from 2003 |
|---|---|---|---|
| Antti Piippo | 1,587,770 | 5,411,000 | +800 |
| Henry Sjöman | 586,565 | 2,583,000 | +800 |
| Jorma Vanhanen | 601,565 | 2,583,000 | +800 |
| Martti Ahtisaari | 9,440 | - | +6,050 |
| Heikki Horstia | 5,190 | - | +800 |
| Eero Kasanen | 6,840 | - | +3,450 |
| Juha Toivola | 11,690 | - | +800 |

# Elcoteq Management Team


Jouni Hartikainen


Jukka Jäämaa


John-James Farquharson


Vesa Keränen


Nils Kämpe


Teo Ottola

**Jouni Hartikainen**, born 1961, MSc (Eng.)
President and CEO
Joined the company in 2000
Member of the management team since 2000
CEO since January 2004
Areas of responsibility: overall management of the Elcoteq Group

**Jukka Jäämaa**, born 1965, LSc (Eng.)
Chief Operating Officer (COO) and Deputy CEO
Joined the company in 1998
Member of the management team since 1998
Deputy CEO since January 2004
Areas of responsibility: geographical areas, operations, sourcing, supply chain management, and information management

**John-James Farquharson**, born 1956, MA (Geography), MBA
Senior Vice President, Human Resources
Joined the company and the management team in November 2004
Areas of responsibility: human resources management and development

**Vesa Keränen**, born 1970, MSc (Eng.)
Senior Vice President, Corporate Development
Joined the company in 1997
Member of the management team since 2001
Areas of responsibility: corporate development, business areas, mergers and acquisitions, and corporate strategy planning

**Nils Kämpe**, born 1955, BSc (Eng.)
Senior Vice President, Sales and Marketing
Joined the company in 2003
Member of the management team since 2004
Areas of responsibility: sales and marketing

**Teo Ottola**, born 1968, MSc (Econ.)
Chief Financial Officer (CFO)
Joined the company in 1996
Member of the management team since 2000
Areas of responsibility: business control and accounting, treasury, communications and investor relations, legal affairs, and risk management

# Management Conference

In addition to the members of the Management Team,
the Management Conference consists of the following people:

**Douglas Brenner**, President, Americas
**Bruno Cathomen**, Vice President, Communications Network Equipment
**Jukka Hakkila**, Senior Vice President, Legal Affairs
**Esko Hannula**, Vice President, Design and ODM Development
**Tuula Hatakka**, Senior Vice President, Treasury
**Reeta Kaukiainen**, Director, Communications and Investor Relations
**Hannu Keinänen**, President, Asia-Pacific
**Anssi Korhonen**, Senior Vice President, Terminal Products
**Petteri Laaksomo**, Vice President, Global Operations and Quality
**Mirja Lammi**, Director, Business Control and Accounting
**Harri Ollila**, Senior Vice President, Strategic Partners
**Esa Retva**, Vice President, Sourcing, Supply Chain Management and Information Management

## Option and Share Ownership of the Management Team and Management Conference

The number of shares and options held by the members of the Group's Management Team and Management Conference on February 1, 2005:

| | 2001 Stock Option Plan | 2004 Stock Option Plan (2004A Options) | 2004 Share Ownership Plan* | Number of Shares |
|---|---|---|---|---|
| Douglas Brenner | 30,000 | 26,000 | 1,400 | - |
| Bruno Cathomen | 7,000 | 16,000 | 920 | - |
| John-James Farquharson | - | 16,000 | 920 | - |
| Jukka Hakkila | 50,000 | 21,000 | 1,160 | - |
| Esko Hannula | 40,000 | 16,000 | 920 | - |
| Jouni Hartikainen | 150,000 | 60,000 | 3,360 | - |
| Tuula Hatakka | 40,000 | 21,000 | 1,160 | 50 |
| Jukka Jäämaa | 61,000 | 46,000 | 2,560 | - |
| Reeta Kaukiainen | 5,000 | 16,000 | 920 | - |
| Hannu Keinänen | 47,000 | 26,000 | 1,400 | - |
| Vesa Keränen | 20,000 | 32,000 | 1,800 | - |
| Anssi Korhonen | 15,000 | 21,000 | 1,160 | - |
| Nils Kämpe | 14,000 | 32,000 | 1,800 | - |
| Petteri Laaksomo | - | 16,000 | 920 | - |
| Mirja Lammi | 9,000 | 16,000 | 920 | - |
| Harri Ollila | 34,000 | 21,000 | 1,160 | - |
| Teo Ottola | 35,000 | 32,000 | 1,800 | 580 |
| Esa Retva | 30,000 | 16,000 | 920 | - |

* Shares were acquired in February 2005.

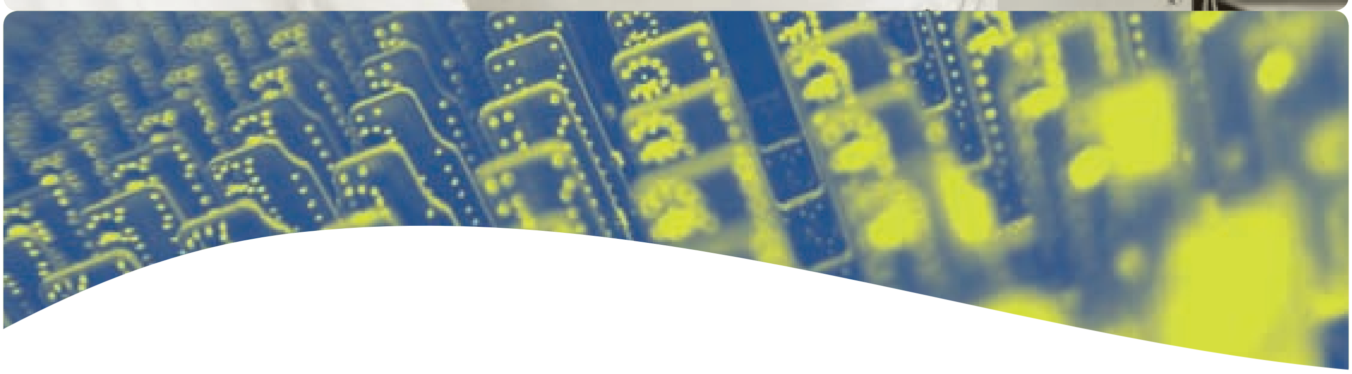
# Conversion into a European Company

Elcoteq's Board of Directors decided in October 2004 to propose a general meeting of shareholders to convert Elcoteq into a European Company (Societas Europaea, SE). This change, which is part of Elcoteq's globalization strategy, aims to create an effective structural framework for ensuring continuous improvement of the company's competitiveness. The decision about converting Elcoteq into an SE will be made by a general meeting once the necessary personnel negotiations are concluded.

The conversion will change the company's name from Elcoteq Network Corporation to Elcoteq Network SE. It will have no impact on the company's domicile, the location of its head office, the employment contracts of its personnel, or its tax status. Nor will it affect the position of the company's shareholders.

In the longer term Elcoteq 's aim as an SE is to increase efficiency and reduce administrative costs. An SE will be able to merge its subsidiaries throughout the 28 countries of the European Economic Area (EEA), generating savings in administrative costs and making decision-making processes faster and more efficient. The SE form of a company will also make it more flexible to implement cross-border mergers, acquisitions and divestments, and registration of the company in a new country. Elcoteq believes the SE form of a company will also have a positive effect on its image and will thus support its business operations.

The only change in the position of the company's personnel will apply to employee involvement, which in the future will be arranged at the European level. In an SE, employee involvement is required to be at least on the same level as in Elcoteq today. A special negotiating body will be set up to negotiate the details of employee involvement in the SE before the conversion can be registered.

# Main Events 2004

## January

**Negotiations Concerning the Relocation of the Espoo Plant Manufacturing (Jan. 8)** Elcoteq invited personnel representatives from its Espoo plant in Finland to negotiations concerning the relocation of the plant's manufacturing activities and the related impact on personnel. Elcoteq acquired the Espoo plant from Tellabs at the end of 2003.

**Hannu Keinänen Appointed President, Asia-Pacific (Jan. 19)** Mr Hannu Keinänen, MSc (Eng.), was appointed President, Elcoteq Asia-Pacific, from February 1, 2004. He took over this position from Mr Jouni Hartikainen, who became President and CEO of Elcoteq as of January 2004.

## February

**Divestment of Industrial Electronics Business (Feb. 27)** Elcoteq made an agreement whereby it divested its industrial electronics business activities to a new Swiss company, Enics AG, formed by Ahlström Capital Oy and the management of Elcoteq's industrial electronics business. The transaction included the business operations and the related assets and liabilities of the industrial electronics operation. In 2003, the sold business generated sales of approximately MEUR 127 and was profitable. The agreement included Elcoteq's industrial electronics plants in Baden, Switzerland, and in Lohja (the Länsi-Louhenkatu plant) and Vaasa, Finland, and their 650 employees, who joined the new company on April 1, 2004.

**Production at the Espoo Plant to Be Moved to Estonia (Feb. 27)** Personnel negotiations at Elcoteq's manufacturing plant in Espoo, Finland, were concluded in February. As a result of the negotiations, Elcoteq decided to move production at the Espoo plant to the company's plant in Tallinn, Estonia.

## March

**Elcoteq to Manufacture Digital Connection Devices for Schmid Telecom (March 15)** Elcoteq and the Swiss manufacturer of advanced telecommunications solutions, Schmid Telecom signed a co-operation agreement under which Elcoteq will manufacture high-speed connection devices for Schmid Telecom. Production began at Elcoteq's plant in St. Petersburg, Russia, during the second quarter of 2004.

## April

**Competition Authorities Approve the Divestment of Industrial Electronics (April 6)** The competition authorities gave their approval to the arrangement announced on February 27, 2004, whereby Elcoteq divested its industrial electronics business activities to Enics AG. Following the approvals by the competition authorities, the transaction was closed according to plan. The financial implications of the transaction took effect retroactively on April 1, 2004.

**First Quarter More Positive than Forecast (April 13)** Elcoteq's net sales for the first quarter of 2004 totaled almost MEUR 620 (MEUR 517.3 in Q1/2003) and operating income was approximately MEUR 10 (MEUR 5.3).

**Adoption of IFRS Reporting (April 28)** Elcoteq adopted International Financial Reporting Standards (IFRS) from the beginning of 2004. Since Elcoteq has already applied IFRS in previous years within the constraints permitted by the Finnish accounting legislation and other provisions governing the preparation of financial statements in Finland, the impacts of IFRS on the Group's income statement, balance sheet and shareholders' equity are not significant.

## May

**Elcoteq Joins WiMAX Forum (May 18)** Elcoteq joined the WiMAX Forum in May 2004. As a member of the WiMAX Forum, Elcoteq is dedicated to supporting its clients and the communications industry by manufacturing products and providing supporting services that adhere to the IEEE 802.16 standard.

## June

**Elcoteq to Become the First Global Communications Technology EMS Company in India (June 2)** Elcoteq announced its intention to expand its operations to Bangalore, India. In doing so, Elcoteq became the first EMS company offering manufacturing services to infrastructure and handset OEMs in India. Initially, the company will operate in rented manufacturing space. When fully operational, the plant is estimated to employ approximately 1,000 people.

**Strengthening of Shareholders' Equity and Combining Share Series (June 28)** The Board of Directors of Elcoteq decided to start evaluating options for strengthening the company's shareholders' equity as part of its growth and globalization strategy. At the same time the Board initiated another analysis on the possibilities for combining the current two share series so that the unlisted Series K shares will be converted into Series A shares.

**New Plant in St. Petersburg, Russia (June 28)** The Board of Directors of Elcoteq decided to build a new plant in St. Petersburg, Russia. The plant, with an area of 14,700 square meters, is expected to be ready in the fall of 2005. The investment in land and construction will total approximately MEUR 15. When operating at full capacity the plant is expected to employ some 1,500 people.

## August

**Incentive Plans 2004 (August 4)** The Board of Directors of Elcoteq agreed on the motivation and commitment of the management and key personnel of the Group by means of a stock option plan, a share ownership plan and a reward plan.

**New Operating Model (Aug. 19)** Elcoteq tightened and simplified its operating model with changes to the company's organization and the management's reporting responsibilities. The purpose of this revision is to bring greater efficiency to strategy implementation, to expedite the widening of the customer base and the company's internationalization, as well as to enhance decision-making.

## September

**Manufacturing Operation in Manaus, Brazil (Sept. 8)** Elcoteq announced its plan to initiate manufacturing operations in Manaus, Brazil, during the fall 2004. At this facility, Elcoteq's initial focus will be manufacturing and supply chain services for communications technology customers, with particular emphasis on the terminal products business. In the beginning Elcoteq will operate in rented space of 1,500 square meters.

**Elcoteq and RIM Enter Outsourcing Relationship (Sept. 9)** Elcoteq and Research In Motion (RIM), a leading designer, manufacturer and marketer of innovative wireless solutions for the mobile communications market, engaged in an outsourcing business relationship. Elcoteq is augmenting RIM's manufacturing capacity and has undertaken certain manufacturing activities for RIM in Europe and Mexico.

## October

**Proposal by the Board on Conversion into a European Company (Oct. 8)** Elcoteq's Board of Directors decided to propose to a general meeting of shareholders to convert Elcoteq into a European Company (Societas Europaea, SE). Conversion of the company into an SE is part of Elcoteq's internationalization strategy and has the aim of creating an effective structural basis for ensuring continuous improvement of the company's competitiveness.

**Elcoteq to Manufacture Mobile Phones in Brazil (Oct. 13)** Elcoteq signed an agreement with Vitelcom Mobile Technology to manufacture CDMA phones on a box build basis, ready for distribution to end-users. The products will be manufactured at Elcoteq's plant in Manaus, Brazil. Elcoteq provides logistics, manufacturing, testing and packaging services.

**Preliminary Information on Third-Quarter Net Sales and Result (Oct. 18)** Elcoteq disclosed unaudited preliminary information on its third-quarter interim report since the company's net sales and result for the period were clearly better than the market opinion.

## November

**John-James Farquharson Appointed SVP, Human Resources (Nov. 5)** Mr John-James Farquharson was appointed Senior Vice President, Human Resources and member of the Elcoteq Management Team effective November 15, 2004. He is responsible for human resources management and development globally. Mr Farquharson has sound experience in business development, sales and human resources in different international companies including BP Oil International and the BASF Group. He joined Elcoteq from Hayes Lemmerz International, where he has worked as Vice President, Human Resources.

**Bruno Cathomen Appointed Head of Communications Network Equipment (Nov. 5)** Mr Bruno Cathomen was appointed Vice President, Communications Network Equipment Business Area and member of the Management Conference.

**Europe's Two Geographical Areas Merged into One (Nov. 5)** Elcoteq merged its two geographical areas in Europe i.e. Terminal Products and Communications Network Equipment into one geographical area on November 8, 2004. After this change Elcoteq has three geographical areas, which are Europe, Asia-Pacific and Americas.

**MEUR 230 Credit Facility (Nov. 18)** Elcoteq signed an agreement for a MEUR 230 loan facility. The loan is a five-year, syndicated revolving credit facility and replaces the MEUR 105 facility from 2001, which was due to mature in March 2005. In addition, the new loan facility will be used for general corporate purposes.

**Elcoteq Prepares a Subordinated Notes Issue (Nov. 30)** Elcoteq announced that it will prepare a subordinated notes issue. Under the preliminary terms and conditions of the issue, the notes will have a maximum total nominal amount of MEUR 100 and a maturity of at most seven years. The issuer will have the right to redeem the notes for the first time five years after the issuance and thereafter at semi-annual intervals. The notes were offered primarily to Finnish institutional investors.

## December

**Issue of Elcoteq's Subordinated Notes (Dec. 17)** The subscription period for Elcoteq's subordinated notes 1/2004 ended on December 17, 2004. Fixed-coupon notes were issued in the amount of MEUR 50. The fixed annual nominal interest rate for the first five years will be 5.0% and the emission price of the notes will be 99.611% of the maximum nominal amount. The subscription payment and issuance date was December 22, 2004.

**Long-Term Outsourcing Agreement with Thomson (Dec. 20)** Elcoteq reached an agreement for its largest outsourcing and acquisition to date with the French company Thomson. The deal included the acquisition of Thomson's manufacturing operation in Juarez, Mexico in the beginning of 2005, and manufacturing co-operation in the set-top box business. The employees of the Juarez plant joined Elcoteq on December 31, 2004. Elcoteq leases the required manufacturing space of approximately 17,000 square meters. Following the agreement, Elcoteq became a preferred manufacturing partner for the manufacture of Thomson's set-top boxes.

Elcoteq's press and stock exchange releases are posted in full on the company's website at www.elcoteq.com.

# Glossary

| | |
|---|---|
| **Bluetooth** | Technology that enables short-range wireless connections |
| **BOM** | Bill of Materials = A comprehensive listing of all subassemblies, components, and raw materials that go into a parent assembly. |
| **Box build** | Business model, in which an EMS company delivers finished products in consumer packages directly to the customers' distribution channel |
| **CDMA** | Code Division Multiple Access |
| **CNE** | Communications Network Equipment (Elcoteq's business area) |
| **EDC** | Elcoteq Desing Center |
| **EDGE** | Enhanced Data Rates for Global Evolution |
| **EMS** | Electronics Manufacturing Services |
| **EMS company** | Company providing manufacturing services for OEMs |
| **Free float** | Shares freely available for investors |
| **GPRS** | General Packet Radio Service |
| **GSM** | Global System for Mobile Communications |
| **IEEE 802.11** | Standard for WLAN |
| **IPR** | Intellectual Property Rights |
| **MBO** | Management Buy-Out |
| **NPI** | New Product Introduction |
| **ODM** | Original Design Manufacturer |
| **OEM** | Original Equipment Manufacturer |
| **PCB** | Printed Circuit Board |
| **PCBA** | Printer Circuit Board Assembly |
| **PDA** | Personal Digital Assistant |
| **RF** | Radio Frequency |
| **RoHS** | Directive on Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment |
| **SMA** | Surface Mount Assembly |
| **SMD** | Surface Mount Device |
| **SMT** | Surface Mount Technology |
| **TDMA** | Time Division Multiple Access |
| **TP** | Terminal Products (Elcoteq's business area) |
| **UMTS** | Universal Mobile Telecommunications System |
| **WCDMA** | Wideband Code Division Multiple Access |
| **WEEE** | Directive on Waste Electrical and Electronic Equipment |
| **WiMAX Forum** | An industry-led corporation formed to promote and certify compatibility and interoperability of broadband wireless products |
| **WLAN** | Wireless Local Area Network |

# Investor Relations

**Elcoteq's Investor Relations function aims 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, enabling the capital markets to form a true and fair view of the company and thus make informed decisions concerning their holdings. IR seeks to increase awareness of Elcoteq's strategy and activities, thereby enhancing interest in Elcoteq as an investment prospect.**

**Investor Meetings** Elcoteq arranges conferences in Finland as well as web conferences and teleconferences for analysts, financiers, investors and financial journalists on the publication of its interim and full-year reports. The conferences provide participants with the opportunity to hear the company's views and to address questions to its top management. The company also arranges a Capital Markets Day once a year for investors, analysts and fund managers. The material presented at these events is also made available on the company's website.

The company regularly meets analysts and investors in Europe and the USA and takes part in various investor seminars. Finnish and foreign analysts and investors also visit the company's management at Elcoteq's premises. The main themes of these meetings are Elcoteq's strategy, financial performance and prospects, based on information published by the company.

Private investors are invited to meet the company's representatives at the Annual General Meeting in the spring and at the Sijoitus-Invest exhibition in Helsinki, Finland, in the fall of 2005.

**Stock Exchange Releases** Following the guidelines of the Helsinki Exchanges, Elcoteq classifies its releases into stock exchange releases, press releases, or stock exchange announcements depending on their content. Stock exchange releases contain information that in the company's opinion could have a material impact on the share price. Press releases provide new or supplementary information on the company's activities and are not expected to affect the company's share price. Stock exchange announcements are releases of a technical nature, for example on the company's financial reporting calendar or registration of increases in share capital.

**Financial Publications in 2005** Elcoteq's annual reports, interim reports, and releases are published in English and Finnish on the company's website at www.elcoteq.com.

In 2005 Elcoteq will publish interim reports on the following dates:

- January – March, April 28, at 9.00 am (EET)
- January – June , August 3, at 9.00 am (EET)
- January – September, October 27, at 9.00 am (EET)

To order these publications, please contact the company at Elcoteq Network Corporation, Ms Riitta Kemppainen, P.O. Box 8, FI-02631 Espoo, Finland, call +358 10 413 1718, visit the company's website, or send an e-mail to info@elcoteq.com.

**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 their book-entry account is registered there.

**Prospects** Elcoteq operates in an industry where business volumes can vary considerably and very rapidly. 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 only a verbal description of its prospects in its financial statements bulletins and interim reports. In these reports, Elcoteq's primary aim is to forecast the quarter immediately following the reported period.

**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.

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Ms Kemppainen is responsible for mailing lists and the distribution of Elcoteq's publications.

# Analysts Covering Elcoteq

**The investment analysts listed below actively monitor Elcoteq's performance:**

| | | | |
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Elcoteq takes no responsibility for any evaluations or recommendations published by these analysts.

# Annual General Meeting

The Annual General Meeting of Elcoteq Network Corporation shareholders will be held on Wednesday March 23, 2005, commencing at 2.00 pm (EET), in the Ball Room of the Scandic Hotel Continental, Mannerheimintie 46-48, Helsinki, Finland.

Shareholders who have registered themselves in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd. on March 11, 2005 may attend the Annual General Meeting.

Shareholders wishing to attend the AGM are requested to notify the company no later than 4.00 pm (EET) on March 18, 2005

- by telephone on +358 10 413 2081/Ms Minna Cederberg,
- by telefax on +358 10 413 1804/Ms Minna Cederberg
- by e-mail to minna.cederberg@elcoteq.com, or
- in writing to Elcoteq Network Corporation, Ms Minna Cederberg, P.O. Box 8, FI-02631 Espoo, Finland.

Registration by mail and letters of authorization should arrive at the above address before the notification period expires. All shareholders registering to attend the AGM are required to provide their name, address, telephone number and date of birth.

**Dividend Proposal** The Board proposes to the Annual General Meeting that a dividend of EUR 0.65 be distributed on the financial year 2004. The dividend approved by the AGM will be paid to shareholders registered in the Elcoteq shareholder register maintained by the Finnish Central Securities Depository Ltd on the record date.

### Dividend Payment

| | |
|---|---|
| Annual General Meeting | March 23 |
| The dividend record date | March 30 |
| The dividend payment date | April 6 |

# Contact Information

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**www.elcoteq.com**

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