2008 annual report and corporate responsibility report

ELCOTEQ

1 Elcoteq SE is a global electronics manufacturing services company focusing on communications technology

Largest European company in its field and the sixth largest in the world

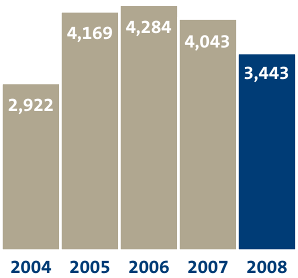
Net sales 3,443.2 million euros in 2008

18,830 employees

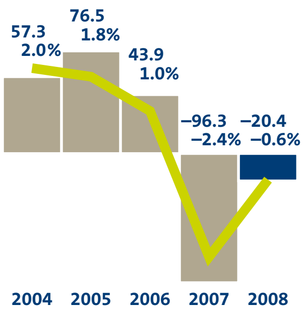
Operations in 15 countries on four continents

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

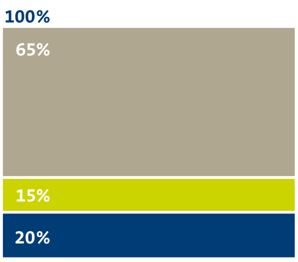
NET SALES, MEUR



OPERATING INCOME, MEUR
% OF NET SALES

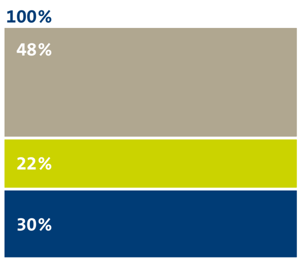


NET SALES BY BUSINESS AREA 2008, %



65% Personal Communications
15% Home Commumications
20% Communications Networks

NET SALES BY GEOGRAPHICAL AREA 2008, %



48% Europe
22% Asia-Pasific
30% Americas

In the beginning of year 2008, the primary profit and loss responsibility was shifted from geographical areas to business areas. The company has three business areas: Personal Communications, Home Communications and Communications Networks.

Each of the business areas attend to their own customer accounts and related supply chain management independently and develop their service offering in their own area. The centralized Group functions are responsible for the consistency of operating models and their development and thus bringing economies of scale.

The new organization has streamlined and clarified decision-making processes. Furthermore, the importance of competitive customer service has grown.

WORLDWIDE CUSTOMERS

Elcoteq's customers are globally operating original equipment manufacturers (OEMs) of communications technology products.

The main product group for Personal Communications is mobile phones, their parts, modules and accessories.

The company's Home Communications products include set-top boxes, flat panel televisions, and other home communications devices.

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

In 2008, Personal Communications contributed 65% to the Group's net sales. Home Communications' contribution was 15% and Communications Network's 20%.

GLOBAL SERVICE NETWORK

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

All of the company's high-volume plants are located close to the main end-markets of customers' products and in regions with good availability of trained labor. These countries are also competitive in terms of cost.

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

ELCOTEQ IN BRIEF

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

KEY FIGURES

	2008	2007
Net sales, MEUR	3,443.2	4,042.9
Operating loss, MEUR	–20.4	–96.3
% net sales	–0.6	–2.4
Loss before taxes, MEUR	–52.9	–122.8
Net loss, MEUR*	–65.9	–108.4
Capital employed, MEUR	468.8	435.1
Return on capital employed (ROI/ROCE), %	–3.1	–19.6
Cash flow, MEUR	–99.7	–11.1
Interest-bearing net debt, MEUR	238.5	144.5
Gearing	1.8	0.7
Solvency ratio, %	14.2	18.1
Earnings per share, A shares, EUR	–2.02	–3.37
Gross capital expenditures, MEUR	71.4	67.2

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

During the year, Elcoteq went through a significant change in its customer structure as the combined share of Home Communications and Communications Networks Business Areas of group revenues increased. The Nokia related business declined faster than anticipated but this decline was mostly offset by the increase in other customer sales. Excluding Nokia, revenues from other customers grew about 14% on previous year.

The company also managed to execute successfully the efficiency programs commenced in 2007 and improved its profitability. However, due to exceptionally uncertain market situation and general economic development, the company decided to lau nch a new restructuring plan in January 2009. The plan consists of several measures, such as closing some plants, reducing personnel globally as well as selling of machinery and equipments. The plan targets to secure profitability and to prepare the company to grasp future growth opportunities

EXPANDING THE SERVICE OFFERING AND NETWORK

The company has sought to further expand its service offering in response to the rapidly changing outsourcing needs of its customers. In September, the service offering was expanded to the final assembly of flat panel TVs (FTVs), when the company purchased Philips' FTV assembly operations in Juarez, Mexico.

Due to the great growth potential of the Russian market, the company made a strategic decision to continue the operations of its subsidiary in St. Petersburg. Unfortunately, this decision had to revised due to insufficient demand resulting from the general market downturn. The St. Petersburg plant will be closed during the year 2009.

NEW CUSTOMER ACCOUNTS

Balancing the customer base has been one of Elcoteq's key goals. In 2008, no single customer accounted for more than 40% of consolidated net sales. The largest customers (in alphabetical order) were EADS, Ericsson, Funai, Huawei, Nokia Devices, Nokia Siemens Networks, Philips, Research in Motion (RIM), Sony Ericsson and Thomson.

The acquisition of Philips' plant in Juarez also brought in a major new customer, Funai Electric Co. Ltd, for which the company manufactures flat panel TVs for the North American market. During the report year, also the company's existing customers expanded their production operations into new product segments.

IMPLEMENTING THE STRATEGY PHASE BY PHASE

Elcoteq's strategy has prioritized expanding the service offering in order to forge the company into a provider of integrated electronics manufacturing services (IEMS). To this end, the company not only has to develop its own operations, but also pursue mergers, acquisitions and partnership arrangements with other players in the industry.

Global financial markets were shadowed by uncertainty in the latter half of 2008. For this reason, the schedule for the implementation of the plan has been pushed back. It is also probable that the strategy will be implemented in phases. ●

2008 IN BRIEF

Elcoteq forged ahead with balancing its customer base, expanding its service offering and carrying out its action plan to improve competitiveness.

"We are satisfied with the direction but not with the speed of positive development."

In spite of substantially lower sales, tough market conditions and the global economic crisis, Elcoteq balanced its customer portfolio and gradually improved its profitability in 2008. As a result, we can be satisfied with the direction but not with the speed of positive development.

CEO'S REVIEW

Communication technology companies were impacted by the global financial crisis that shook the world in the latter part of 2008. Profit margins across the industry became tighter and sales were lower. Even in these tough market conditions, Elcoteq managed to balance its customer portfolio in line with its long-term strategy.

The acquisition of Philips' flat panel TV assembly operations in Juarez was an important move to balance our business portfolio and hence a significant addition to the company's Home Communications business. Elcoteq now offers full set of services for flat panel TV makers: from sourcing and new product introduction related engineering services to board level and final assembly. The plant in Juarez produces up to 6,000 flat panel televisions a day.

Our Communications Networks Business Area has started to diversify its customer base and extend its market focus into various other infrastructure products.

Elcoteq was successful in implementing the efficiency programs that were launched in 2007. Even though the target profit level was not reached, the company managed to realize annual savings of about 100 million euros with these programs. Many actions were also carried out in order to lower the critically high inventory levels and they yielded some positive results in the course of the year. In the fourth quarter, the inventory levels were clearly reduced and the company was able to generate significantly positive cash flow. During the time of financial crisis the cash generation capability has become even more important and the actions to support that will play a central role also in 2009.

However, the actions implemented in 2008 did not go far enough, as the market situation in the year ahead looks exceptionally uncertain. The company made a difficult decision to launch another intense restructuring plan in January 2009. The plan included closing and consolidating plants in Romania, USA, Russia and China, personnel cuts of approximately 5,000, selling machinery and equipment, terminating facility and machinery lease agreements as well as cutting external services. Even after these actions, Elcoteq will maintain its global footprint and continue to provide manufacturing services for its customers in Mexico, Brazil, Estonia, Hungary, China and India.

In times of change and painful reductions, the importance of corporate responsibility is often overlooked. The principles on which Elcoteq is founded remain the same, no matter whether the company is thriving or going through difficult times. This is the first time we are integrating the report about our corporate responsibility activities and future objectives into our Annual Report. Corporate responsibility serves as the foundation of Elcoteq's actions and decisions, and it is emphasized in difficult times. For Elcoteq, it is crucial to protect our customers' valuable brands by maintaining our ethical conduct of business at all the plants. All of the plants conform to the same operating guidelines, rules, regulations, and high standards of quality, safety, and efficiency.

The past year was tough and tested our tolerance. Many urgent actions were needed to get us through it. I would like to thank our committed employees, and encourage all of us to look bravely to the future. 2009 is now well under its way. I believe that we at Elcoteq have all the necessary ingredients to succeed, even in these tough conditions.

Zug, Switzerland, February 2009

Jouni Hartikainen
President and CEO

The estimated total assembly value of the global electronics market grew by roughly 5% on the annual level and exceeded the landmark figure of 1,000 billion US dollars in 2008. The three biggest product segments of the electronics markets remained unchanged during the year: computer, communications and consumer. In 2009, the total assembly value is expected to increase only slightly, or to be even a bit negative due to the general slowdown of the global economy.

GROWTH IN END MARKETS CONTINUES BUT UNCERTAINTY HIGHLIGHTS THE FUTURE

The combined value of electronics manufacturing services (EMS) and original design manufacturing (ODM), including all the electronics market segments, was roughly 300 billion US dollars in 2008, according to the average figures of industry market research data providers Electronic Trend Publications (ETP), iSupply, and Technology Forecasters (TFI).

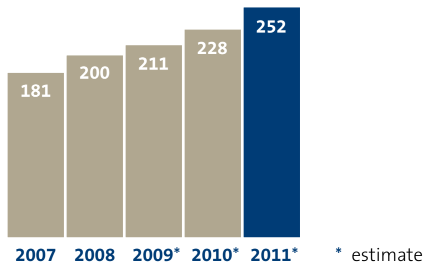
The electronics manufacturing services (EMS) market alone was valued roughly 200 billion US dollars in 2008, based on the above average estimates. This represents annual EMS market growth of about 11%. Apart from the growing general electronics market, EMS growth was driven by greater usage of outsourcing in electronics manufacturing – a trend that is expected to continue in the future as well. In 2008, the outsourcing share, i.e. EMS and ODM together, represented only roughly 30% of global electronics assembly market.

Generic EMS market growth is expected to be around 8–10% on average during the next five years, based on the figures of industry research data providers. However, due to rising uncertainty about the development of the global economy in the near future, EMS business growth estimates regarding 2009 vary greatly between the different industrial and financial forecasts available. The average growth estimate for 2009 is about 5%.

MARKET REVIEW

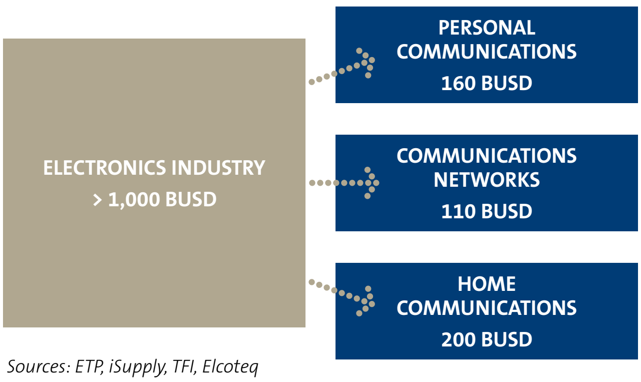
The market for electronics manufacturing services continued its growth in 2008, but the exceptionally serious and sudden slowdown of the global economy will hinder growth in 2009.

EMS MARKET 2007–2011, BUSD



Sources: ETP, iSupply, Elcoteq

TOTAL ASSEMBLY VALUE OF THE ELECTRONICS MARKET IN 2008



Sources: ETP, iSupply, TFI, Elcoteq

WORLD'S LARGEST EMS COMPANIES ACCORDING TO NET SALES

1. Foxconn / Hon Hai
2. Flextronics
3. Jabil Circuit
4. Sanmina-SCI
5. Celestica
6. Elcoteq
7. Benchmark
8. Venture's
9. Universal Scientific
10. Plexus

ASIA RETAINS ITS LEADING MANUFACTURING POSITION

The trend for EMS companies to concentrate their volume manufacturing in low-cost countries is still ongoing, but this trend is slowing because the manufacturing costs have risen also in these countries. Distribution and logistics costs have thus become more important favoring closer proximity to end-user markets. Distribution and logistics costs are affecting especially electronic products that are bigger in physical size.

Asia now accounts for more than 50% of total EMS manufacturing. Although some companies are already searching for other countries with lower cost levels, China has still strengthened its position as the leading country in 2008.

In Europe, the flow has continued eastwards to countries like Romania and Ukraine, while countries like Hungary and Estonia are still very cost competitive. In North America, Mexico has retained its position as the low-cost manufacturing base, while Brazil remains a key manufacturing country for South America.

ELCOTEQ'S MARKET POSITION IS SOLID

Elcoteq holds a strong position in the EMS market. The company is ranked as Europe's biggest and the sixth largest EMS company in the world. Elcoteq's role is particularly strong in mobile phone manufacturing, where the company is the world's third largest EMS provider. Other global EMS companies include (in alphabetical order): Celestica, Flextronics, Foxconn, Jabil Circuit and Sanmina-SCI. Together the ten biggest EMS companies are estimated to serve more than 60% of the total EMS market.

The consolidation trend within the EMS industry has continued in 2008, but the steps have been smaller. Since 2006 and 2007, the EMS market has not seen any really sizeable merger or acquisition.

APPLE AND RIM CHALLENGE NOKIA IN SMARTPHONES

The estimated total value of the Personal Communications electronics assembly market amounted to roughly 160 billion US dollars in 2008. Personal Communications electronics refers generally to mobile phones and accessories, other wireless phones and PDAs, for example. The single biggest market segment in Personal Communications is mobile phones, where Elcoteq is ranked as the world's third largest EMS provider.

The research institute Oppenheimer estimates that the mobile phone market saw growth of about 8% in 2008. Global sales of mobile phones amounted to about 1,240 million units. 2008 is set to be the first time since 2001 when the global handset market did not experience double-digit growth mainly because it was impacted by the global macroeconomic slowdown.

Despite losing market share slightly, Nokia remains solidly in the market leadership position. Samsung strengthened its number two position further, followed by Motorola, Sony Ericsson and LG. The top five handset vendors had about 80% of the total market, a small drop from 84% in 2007. In the smartphone area, the two biggest market gainers were Research In Motion (RIM) and Apple, who more than doubled their combined market share during 2008.

According to Oppenheimer and iSupply, global handset shipments will decline about 5% in 2009. With handset demand falling, industry revenue could see a rare drop in 2009 after several years of good growth.

GROWTH IN COMMUNICATIONS NETWORKS MARKET WILL SLOW DOWN IN 2009

The estimated total size of the Communications Networks electronics assembly market amounted to roughly 110 billion US dollars in 2008. The Communications Networks market includes wireless and wireline infrastructure products and equipment for public and enterprise networks. Within this market area, wireless infrastructure was the biggest segment during the year.

In the market for communications network equipment, the biggest players – such as Cisco Systems, Ericsson and Nokia Siemens Networks – held on to their market positions. Huawei saw strong growth and is likely to surpass Alcatel-Lucent's third market position in the wireless segment. As in previous years, a major factor driving growth in the market for wireline networks was demand for broadband services and next generation broadband network rollouts.

WiMAX remains one of the fastest-growing wireless broadband technologies, although its growth rate has not been as high as expected earlier. WiMAX investments by operators are expected to rise, especially in developing markets. An industry organization, WiMAX Forum, sees the biggest growth in the amount of subscribers in the APAC region.

Growth expectations in all communication equipment segments have slowed down due to the economic downturn in 2008. Growth in the market for wireless networks is expected to amount to about 1% in 2009.

FLATPANEL TV BUSINESS CONTINUES ON GROWTH TRACK

The estimated total assembly value of the Home Communications electronics market amounted to roughly 200 billion US dollars in 2008. The Home Communications market covers TVs, set-top boxes, home media devices and game consoles, for example. The two biggest business segments are clearly FTVs and set-top boxes.

Growth in the flatpanel TV market continued strong in 2008. According to iSuppli, unit sales of LCD TVs grew by about 20%, amounting to over 90 million in 2008. Europe remains the largest market, but vigorous growth was also seen in the United States and China. The global market leaders are Samsung, Sharp, Sony, Philips and LG Electronics.

The leading set-top box companies – Thomson, Motorola, Cisco, Pace and Humax – have a combined market share of over 60%. Analysts state that about 110 million set-top boxes were sold in 2008.

In spite of global economy worries, both the FTV and set-top box markets are expected to grow in 2009. As analog TV broadcasts cease in various markets during the coming years and digitalization support for High Definition develops, the STB market is expected to remain at 10% CAGR during the next 5 years. The growth in the market for FTVs is expected to be even higher.

VISION, STRATEGY AND VALUES

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

VISION

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

Elcoteq's vision – to be the leading provider of Integrated Electronics Manufacturing Services (IEMS) to communications technology companies – includes the addition of expertise in mechanics-related technologies into the service offering. This is especially important for the customers of the Personal Communications Business Area.

In 2008, Elcoteq re-evaluated its plan to implement the IEMS strategy in the light of the uncertain market situation and trend in the economy. Rather than making acquisitions requiring heavy investments, the company is now opting for more flexible solutions such as partnering or taking smaller steps towards becoming an integrated EMS company. This also seems to be in line with our customers' expectations.

Elcoteq has two main goals that are linked to its vision: creating superior value to communications technology customers and driving shareholder value on par with competition and beyond.

STRATEGY

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

Expanding the service offering plays a key role in the IEMS strategy. Customers expect their partners to take on a larger role in the management of complex product structures throughout the entire supply chain. As competition tightens and product lifecycles shorten, especially in the Personal Communications Business Area, Elcoteq targets to offer its customers a broader service offering globally. Elcoteq seeks to bolster the company's ability to generate added value with a top-quality service offering that optimizes the total costs of customers' supply chains.

Focused growth aims to balance the company's customer base and at the same time optimize the use of plants and service units. Several plants will be either closed or consolidated during the first half of 2009 as part of the restructuring plan, but Elcoteq will retain its global manufacturing capability in spite of these measures.

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

CONTINUOUS MONITORING OF RESULTS

A great deal of concerted effort and continuous monitoring of results are necessary to make the vision a reality. In the strategic management process, the Group's objectives have been divided into sub-targets for the Business Areas and functions. Selected benchmarks are used to keep track of the realization of objectives.

KEY FINANCIAL TARGETS

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

KEY FINANCIAL TARGETS	2008	2007	2006	2005	2004
Increasing earnings per share (EPS), A shares, EUR	–2.02	–3.37	0.38	1.34	1.01
Return on investment (ROI/ROCE), trailing 12 months > 20%	–3.1	–19.6	9.1	17.6	19.5
Positive cash flow, MEUR	–99.7	–11.1	–20.8	24.4	–80.3
Gearing < 1	1.8	0.7	0.4	0.3	0.4

COMPETITIVE ADVANTAGES:

CONCENTRATION

- Communications technology

COMPETENCE

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

CO-EVOLUTION

- Superb customer service
- Confidentiality and close cooperation

CONSISTENCY

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

COST-EFFICIENCY

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

COVERAGE

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

CONTINUOUS DEVELOPMENT

- Continuously competitive and unique service offering

VALUES:

CUSTOMER SATISFACTION

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

COMMITTED PERSONNEL

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

ETHICAL CONDUCT OF BUSINESS

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

CONTINUOUS IMPROVEMENT

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

RESULT ORIENTATION

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

ELCOTEQ'S VISION AND STRATEGY

EXPAND SERVICE OFFERING

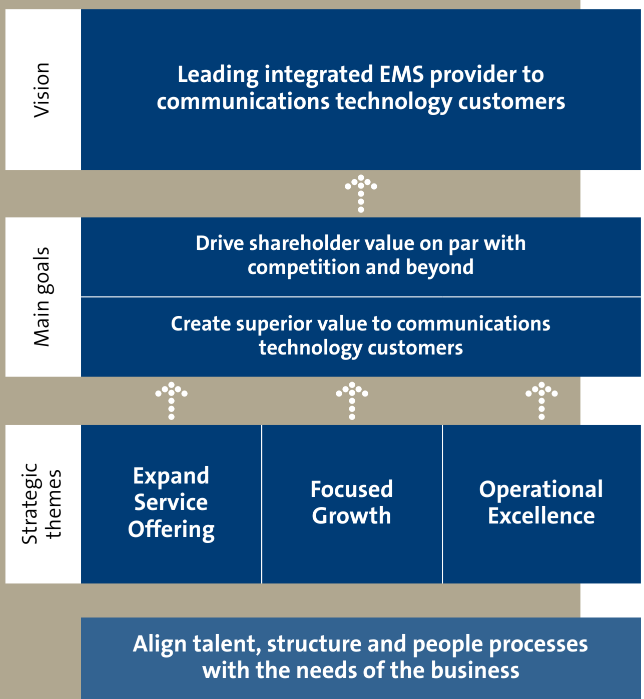
- Service offering from product development to after market services covering the whole lifecycle of the products
- Strengthening the service offering through a partnership network by means of collaboration or M&A arrangements

FOCUSED GROWTH

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

OPERATIONAL EXCELLENCE

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



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SERVICE OFFERING AND NETWORK

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SERVICE OFFERING

Elcoteq provides its global customers services that cover the entire lifecycle of products, from product development to after market services. Elcoteq's key competitive advantages are its focus on communications technology, extensive experience and global service network, coupled with its consistent manufacturing equipment, systems and processes.

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

FURTHER EXPANDING THE SERVICE OFFERING

Elcoteq targets to further expand its current service offering with integrated electronics manufacturing services (IEMS). This means that Elcoteq will upgrade its electronics manufacturing and product development services, especially with expertise in mechanics-related technologies.

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

Elcoteq's aim is to offer its customers a wide range of integrated services tailored to their needs throughout the product lifecycle. In Elcoteq's view, such vertical integration only represents a stage in the development of the EMS market and is not necessarily permanent. The company does not intend to set up structures that are overly rigid or heavy. Instead, Elcoteq seeks to gradually expand its service offering by means of cooperation and partnership arrangements that provide greater flexibility.

INCREASING COOPERATION WITH CUSTOMERS

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

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

COMPETITIVE ADVANTAGE FROM A CONSISTENT SERVICE NETWORK

Elcoteq maintains a comprehensive and consistent global service network close to customers' end-markets. The consistency is a result of the fact that most of the plants have been either built by Elcoteq or customized for the company. This makes it easy to transfer production flexibly from plant to plant in line with the customer's needs. All the high-volume manufacturing plants are in low-cost countries.

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

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

WHAT IS OUTSOURCING?

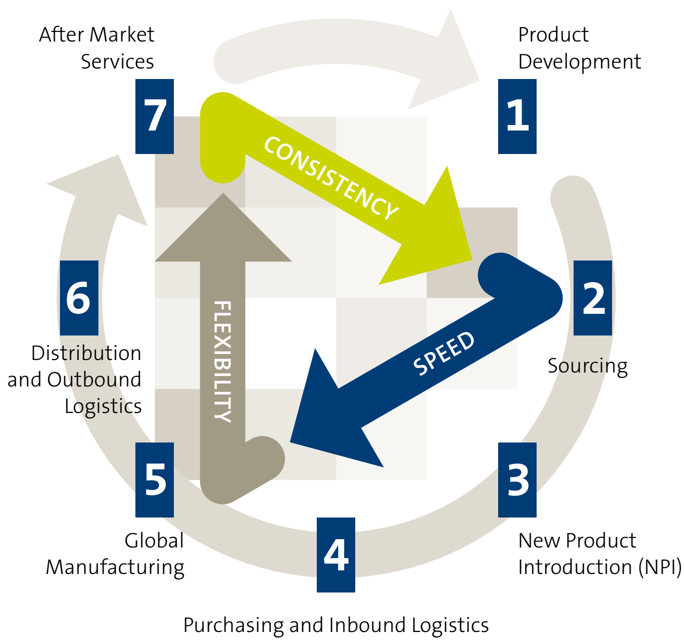
In the communications technology business, outsourcing refers to a situation where an OEM purchases services from an EMS company – from product development to after market services.

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

BENEFITS FOR THE CUSTOMERS:

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

ELCOTEQ'S SERVICE OFFERING

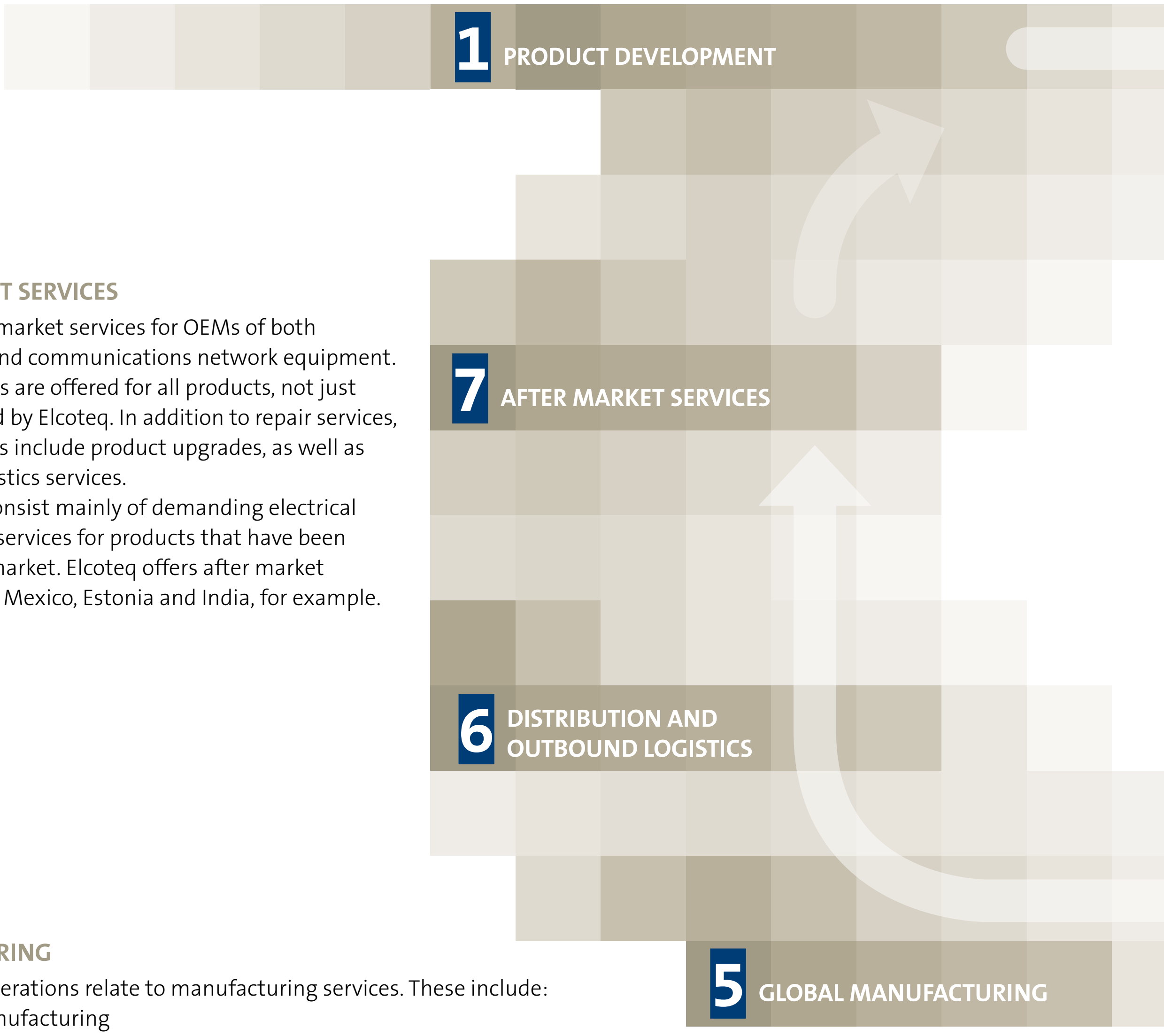


1 PRODUCT DEVELOPMENT

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

Elcoteq has its own product development in China and Finland.

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



7 AFTER MARKET SERVICES

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

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

5 MANUFACTURING

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

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

Elcoteq has high-volume manufacturing capacity in Europe, Asia and the Americas – close to the main end-markets of customers' products. The company's plants are in Hungary, Estonia, China, Mexico, India and Brazil.

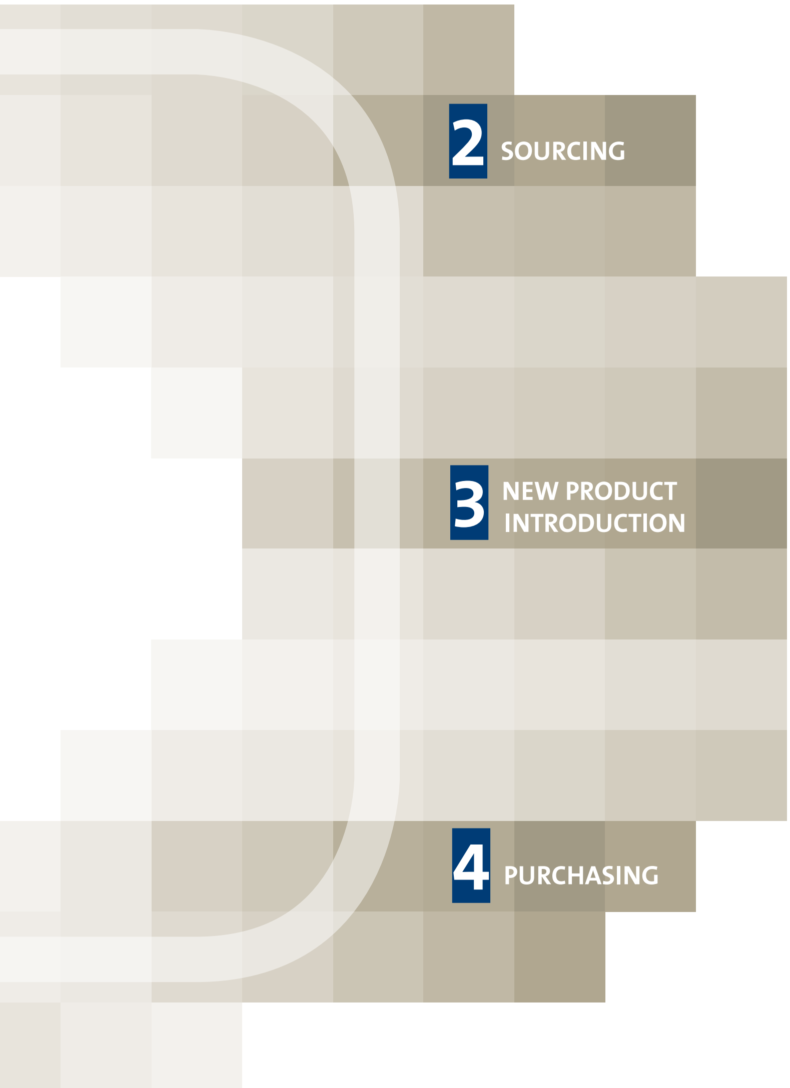
2 SOURCING

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

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

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

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



3 NEW PRODUCT INTRODUCTION (NPI)

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

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

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

4 6 PURCHASING, DISTRIBUTION AND LOGISTICS

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

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

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

The service network includes high-volume manufacturing plants, units specializing in smaller series as well as product development units and new product introduction (NPI) centers.

Elcoteq's high-volume manufacturing capacity is located in Europe, Asia and the Americas, close to its largest customers and the end-markets of their products. The availability of skilled labor is good in these areas and they are also competitive in terms of cost.

SERVICE NETWORK

Elcoteq's global service network covers four continents and 15 countries.

EUROPE

PLANT	ACTIVITIES AND SERVICES	PERSONNEL ON DEC. 31, 2008
Hungary (Pécs)	High-volume production, NPI center, after market services, system integration	5,594
Estonia (Tallinn)	High-volume production, NPI center	1,992
Russia (St. Petersburg) [1]	High-volume production, NPI center	386
Romania (Arad) [1]	Final assembly, tuning and testing	393
OTHER LOCATIONS		242
Finland (Espoo and Salo), Sweden (Kista), Luxembourg, Switzerland (Zug)		
EUROPE, TOTAL		**8,607**

ASIA-PACIFIC

PLANT	ACTIVITIES AND SERVICES	PERSONNEL ON DEC. 31, 2008
China (Beijing)	High-volume production, NPI center	1,758
China (Dongguan)	Medium to high-volume production	1,055
China (Shenzhen) [2]	High-volume production	1,273
India (Bangalore)	Medium to high-volume production, after market services	885
OTHER LOCATIONS		56
China (Hong Kong), Korea (Seoul), Japan (Tokyo)		
ASIA-PACIFIC, TOTAL		**5,027**

AMERICAS

PLANT	ACTIVITIES AND SERVICES	PERSONNEL ON DEC. 31, 2008
Mexico (Monterrey)	High-volume production, after market services	3,594
Mexico (Juarez)	High-volume production, after market services	667
Brazil (Manaus)	Medium to high-volume production	790
OTHER LOCATIONS		145
USA (Dallas and Richardson [1])		
AMERICAS, TOTAL		**5,196**

[1] Will be closed during 2009

[2] Will be consolidated into Beijing plant during 2009

Net sales of the Personal Communications Business Area amounted to 2,222.2 million euros (2,777.8). The decline was mainly due to a structural change in the customer portfolio. The segment's operating income was 19.6 million euros; excluding restructuring costs, it was 25.5 million euros. Personal Communications accounts for 65% of the Group's net sales, which is sligthly lower than in the previous year. This decline reflects Elcoteq's long-term strategy to strike a better balance between its business areas.

NEW SETUP – TOWARDS GROWTH AND PROFITABILITY

The Personal Communications and Home Communications Business Areas were part of the same profit centre – Terminal Products – before the turn of the year. They now operate as separate, profit responsible business areas.

The main achievement of 2008 has been the broadening of the customer portfolio in the Personal Communications Business Area. Compared to 2007, the volume of Research in Motion (RIM) increased remarkably, and Nokia continued to form a significant part of the business. In order to secure future growth and profitability, the Personal Communications Business Area seeks to increase its efforts to win business with new selected customers.

STRONG FOCUS ON PRODUCT DEVELOPMENT

The Personal Communications Business Area has its own product development organization that is located mostly in China and Finland. It focuses on joint research and development (JRD) projects with customers.

A new Laboratory for Design Validation & Verification has been established in Beijing. This service centre allows Elcoteq to perform important end-to-end services throughout product development phases locally. As such, this Laboratory will support and shorten time to volume for our customers' products. Elcoteq can utilize such capabilities for both its EMS and JRD services.

OVERVIEW OF THE MARKET SITUATION IN 2008

Market research institute Oppenheimer estimates that the mobile phone market in 2008 saw growth of 8%. Global sales of mobile phones amounted to about 1,240 million units. 2008 is set to be the first year since 2001 when the global

Business Areas
PERSONAL COMMU

Despite the challenging times in the market, Elcoteq was able to retain its share as the third largest EMS provider in the Personal Communications business globally. Elcoteq's role was particularly strong in handset manufacturing in 2008. The segment's net sales declined by 20% compared to 2007.

handset market did not experience double-digit growth, due to the global economic slowdown.

The handset market in 2008 was dominated by a limited group of companies: Nokia, Samsung, Sony Ericsson, Motorola and LG Electronics. These top five handset vendors had a share of about 80% of the total market, a small drop from 84% for 2007.

During the first half of 2008, Elcoteq's sales development was favorable compared to the expectations. In the second half, the global economic recession and increased price competition were also felt in the Personal Communications business, for example in Nokia's declining volumes.

The Personal Communications segment in the EMS market is expected to show the strongest rate of growth over the next five years, compared with other sectors.

PROSPECTS FOR 2009

According to the consensus estimate, global handset shipments will decline about 5% to around 1,182 million units in 2009. With handset demand falling, industry revenue could see a meaningful drop in 2009 after several years of good growth. Growth in the smartphone market is likely to remain strong compared to the total handset industry, with year-on-year unit growth of 13% in 2009. Elcoteq has an excellent track record in manufacturing smartphones for RIM.

In 2009, the Personal Communications Business Area will concentrate on strengthening its value-add services, such as after market services. Further expansion is predicted for value-add services. They will offer an incremental opportunity for OEMs outsourcing.

Regionalized product customization and postponement center (post-production warehousing services) activities are expected to increase in importance due to continued demand for lead time reductions and product availability. Rising transportation prices are also speeding up this development. China continues to be a global hub for cost effective manufacturing of generic products that can be customized and finalized close to end markets. Any restrictive developments in duties and taxes on mobile phones with advanced features will have a direct impact on how companies will be required to have a global footprint in cost competitive locations. Elcoteq is particularly well structured to handle such demands.

The main objectives of the Personal Communications Business Area for 2009 are to win new customers, streamline operations and achieve its stated aim of expansion in becoming a truly integrated EMS provider. The Personal Communications Business Area emphasizes the importance of the expanded target customer lists and particular attention has been given to approved staffing and resources for new customer wins. The size of the Personal Communications organization is appropriate and the development of the internal and external competences to support expansion, growth and new customer acquisition is ongoing and will continue in 2009. ●

NICATIONS

PERSONAL COMMUNICATIONS:

- Net sales 2,222.2 million euros in 2008, 65% of the Group's net sales
- Handles personal communications products such as mobile phones and their parts as well as wireless modules and wireless phones
- Globally operating customers include Aastra, Huawei, Nokia, Research in Motion (RIM) and Sony Ericsson
- Strong focus on serving the complete value chain, including product development and after market services

Net sales of the Home Communications Business Area grew to 517.3 million euros in 2008 (434.2), mainly due to the winning of new customers and the acquisition of Philips' flat panel TV production in Juarez, Mexico. Due to effective cost control actions and favorable business development, the operating profit improved and was –4.6 million euros, excluding restructuring costs –2.5 million euros.

FLAT PANEL TVS A STRATEGIC PRODUCT SEGMENT

Elcoteq's long-term strategy has been to strike a better balance between its business areas. In line with this strategy and in order to strengthen the Home Communications business, the company purchased Philips' FTV assembly operations in Juarez, Mexico, in September. Elcoteq paid the total consideration of about USD 32 million in cash. All of the approximately 740 employees at the plant joined Elcoteq.

FTV production is an industry segment that is expected to show strong growth but also tight competition in the future. Even with the softer general economic outlook, consumer demand for FTVs is still expected to grow due to the rapid decline in the prices for larger panel sizes as well as rising new market areas such as Latin America.

Elcoteq considers FTVs to be a strategic product segment for its Home Communications business. Previously the company only provided service solutions for printed circuit board assemblies (PCBA) and various subassemblies, but with the Juarez acquisition the service offering of Home Communications expanded to the complete final assembly of FTVs. The acquisition provided Elcoteq with world-class capabilities to offer final assembly service solutions for FTVs, including related engineering and new product introduction (NPI), supply chain management, sourcing and repair service solutions.

EXPANDING CUSTOMER BASE

The Juarez deal included a long-term cooperation agreement with Philips. Under the agreement, Elcoteq will provide FTV manufacturing services to Philips for its Latin American FTV business and its hospitality business in the Americas. The deal also included a long-term cooperation agreement with a new customer, Funai Electric Co., Ltd. Elcoteq will provide

Business Areas
HOME COMMUNICA

The past year was a time of strong development for the Home Communications Business Area in many ways. In financial terms, the segment's net sales grew nearly 20% compared to the previous year. In terms of business development, Home Communications managed to extend both its service offering and customer base.

full box build manufacturing services solutions to Funai's FTV business in North America.

The Juarez acquisition will also support Elcoteq's business development with other FTV OEMs on a global basis. Elcoteq continues to develop Juarez as a multi-customer manufacturing site focusing on providing final assembly services for FTV and STB customers. First new customer programs for the site were won during the fourth quarter of 2008.

One of the key advantages of Elcoteq's service network is the consistency of its plants. This makes it easy to copy and implement best practices and processes from one plant to another. It also enables rapid production ramp ups and continuous cost reductions while leveraging experience across company sites.

PROSPECTS IN 2009

The latter half of 2008 was highlighted by the exceptionally serious and sudden slowdown of the global economy. In the Home Communications business area, this had a particular impact on profitability due to extraordinarily high fluctuations in the Brazilian currency.

Market research companies' estimates for EMS market growth in 2009 vary greatly depending on the source. In general, it can be said that due to the global economic situation growth estimates for the EMS markets have also become more cautious. However, growth is expected to continue to be strong in the Home Communications business area.

In 2009, the global outsourcing trend of customers is expected to continue but at a slower pace. In FTVs, Elcoteq estimates the growth for the EMS market to be more than 10% and in STBs about 5%.

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

The main objectives of the Home Communications Business Area for 2009 are to continue improving its profitability and to further enlarge its customer base. Growth in net sales of Home Communications Business Area is expected to outpace the growth of the business' EMS market. ●

ATIONS

HOME COMMUNICATIONS:

- Net sales 517.3 million euros in 2008, 15% of the Group's net sales
- Handles home communications products such as flat panel TVs (FTV), set-top boxes (STB) and other home connectivity products
- Service offering covers the entire value chain of customers' products, from product development to after market services
- Customers are globally operating original equipment manufacturers like Philips, Funai and Thomson

Communications Networks Business Area's net sales amounted to 703.7 million euros (831.0). The decline was mainly due to the divestment of Offenburg plant. The segment's operating income was 1.6 million euros; excluding restructuring costs, it was 7.0 million euros. Communications Networks accounts for 20% of the Group's net sales.

2008 – A YEAR OF CHANGES

The newly formed Communications Networks Business Area started its operations at the beginning of 2008. With a new management team and an organization focusing exclusively on the needs of the Communications Networks market, the efficiency of the business area has improved continuously. This also means that resources are shared more efficiently between the locations and both know-how and best practices are exchanged much more effectively throughout Elcoteq's global footprint. Structural changes have also been implemented, such as the phase out of Offenburg and St. Petersburg customers and the establishment of Communications Networks-specific Global Engineering Services and Global Sourcing organizations. These changes have enlarged Communications Networks' service offering for the benefit of Elcoteq's customers.

During the second half of 2008, the Communications Networks Business Area decided to extend its market focus into infrastructure products, targeting business opportunities where customers can benefit from the existing set-up, service offering and competences in radio frequency technology. The world is getting more and more wireless connected and there are countless future applications in the infrastructure business. Wireless meters and products to control buildings are just some examples of potential business that Communications Networks has started to explore.

The main achievement in the business area took place in India, where the customer portfolio was broadened by new customer wins and the reputation grew because of the competitive service offering.

Business Areas
COMMUNICATIONS

Elcoteq's Communications Networks business area is among the top six EMS providers in the market. In 2008, the Business Area accounted for 20% (21%) of Elcoteq's consolidated net sales.

TOUGH COMPETITION IN THE COMMUNICATIONS NETWORKS MARKET

In 2008, the Communications Networks market was very competitive. Market growth was lower than predicted in the Annual Report 2007. At the same time several actions during 2008 improved profitability, which was the long-term aim.

In the traditional wireless equipment market, the business increased with existing customers by utilizing Elcoteq's global footprint. Adjacent markets like infrastructure products already demonstrated their first growth potential, especially in the emerging Indian market, but also in Western Europe.

In 2008, the Communications Networks Business Area once again took note of the rising cost pressures and the tremendously decreased predictability of the business. A strong focus needs to be put on forecasts assessment and inventory management. Furthermore, during the second half of 2008, decision making at the customer side has slowed down dramatically. The readiness to move from the existing supplier base to a new supplier is only in place if there is pressure to go to new markets where a supplier base does not exist yet.

NETWORKS

COMMUNICATIONS NETWORKS:

- Net sales 703.7 million euros in 2008, 20% of the Group's net sales
- Products include wireless infrastructure equipment (such as complete cellular base stations, plug-in units for base stations, microwave systems and antennas), wireline infrastructure components (such as ADSL multiplexers and other broadband network products) as well as enterprise network products
- Communications Networks will include more and more equipment from the adjacent infrastructure market
- Among the top six EMS companies manufacturing communications networks equipment
- Customers include American Power Supply (APC), Avocent, Cypress Semiconductor, EADS, Ericsson, Huawei, Nokia Siemens Networks, Radio Frequency Systems (RFS), Redline and Telsima

PROSPECTS FOR 2009

According to UBS Warburg, growth expectations in all communication equipment segments have slowed down and are currently difficult to predict. Growth in the market for wireless networks is expected to amount to about 1% in 2009. Growth is generated mainly by developing markets and new builds in emerging regions.

The major goal for 2009 is to ensure the full satisfaction of its existing customer base, to win new customers and run the current business profitably. The existing customer base of the Communications Networks Business Area is strong and most of them are leaders in their respective markets.

In the market, WiMax deployment is continuously increasing, but the overall state of the market does not match predictions. It is forecast that LTE (Long term evolution technology) is coming slowly, but it won't impact the telecom infrastructure market in the short term. At the moment, LTE products are in or at the end of the R&D phase, to be followed by field trials and then commercial deployments few years later. In the meantime, HSDPA (high speed downlink packed access) has become a popular wireless broadband technology.

Due to the restructuring still ongoing in the market, there is potential for increased outsourcing in the Communications Networks business. Customers are consolidating their EMS business to fewer and fewer suppliers and if they have in-house manufacturing they will first load this. In the Communications Networks market, there might be still consolidation, which is also likely to influence the EMS market.

In general, Elcoteq expects the Communications Networks business to remain flat, with some growth in Asia-Pacific. In the Communications Networks market, broadband demand – both wireless and wireline – is still growing. For this reason, an updated backhaul solution is required, along with increased capacity in transport and core networks. That said, Elcoteq expects that this growth will be canceled out by declines in other market areas. ●

3

CORPORATE RESPONSIBILITY

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CORPORATE RESPONSIBILITY AT ELCOTEQ

Elcoteq's customers require their partners to operate responsibly all over the world. Corporate responsibility at Elcoteq means a proactive approach in compliance with the principles of sustainable development on the basis of the company's values. It encompasses economic, social and environmental responsibility and accounts for the requirements set by the company's stakeholders and legislation. Corporate responsibility is part of the company's strategy and operations.

Corporate responsibility means taking responsibility for the impacts of the company's decisions and operations on both the local communities and the company's stakeholders. Corporate responsibility covers three dimensions: economic, social and environmental.

At Elcoteq, responsibility for addressing these three dimensions are integrated in the company's strategy, management systems, corporate governance, and the principles and guidelines that are derived from them. The company has a clear corporate responsibility policy and has established processes for its implementation. Elcoteq's Corporate Responsibility Team operates under the CFO.

RESPONSIBILITY EXTENDS TO THE SUPPLY CHAIN

The company and its customers expect all the partners in the supply chain to comply with legislation, international standards and agreements on corporate responsibility. In other words, these requirements extend beyond the company. The development of supply chain management was one of the most important projects of 2008.

Elcoteq is an international company operating in emerging markets, which makes it particularly important to manage corporate responsibility issues. Majority of Elcoteq's net sales is generated by customers that market consumer products globally and have valuable brands. For these original equipment manufacturers (OEMs), responsible operations in the entire supply chain are of paramount importance for safeguarding their brands and reputation. Elcoteq seeks to support its customers' businesses as a reliable and responsible partner.

In the customer satisfaction survey carried out in 2008, two of the five modes of operation in which Elcoteq received the best grades concerned corporate responsibility. Customers were particularly satisfied with our approach to environmental responsibility and our ethical business conduct in general.

COVERAGE OF REPORTING ON CORPORATE RESPONSIBILITY

Elcoteq has published an annual Corporate Responsibility Report since 2004. This year, it is included in the Annual Report for the first time. Its inclusion reflects the trend of recent years – corporate responsibility is now seen as an increasingly integral part of operations. Companies are expected to present annual targets, benchmarks and transparent results. This report intends to provide a general overview of corporate responsibility results and events in 2008. The 2007 Corporate Responsibility Report was published in June 2008.

Elcoteq develops its corporate responsibility reporting based on the Global Reporting Initiative (GRI) guidelines. The company initially planned to have the 2008 report independently assured, but this plan had to be dropped for reasons of time and cost-savings. However, the company continuously develops its internal procedures to ensure the quality and reliability of information – this will be a particular focus area when internal audits are carried out in 2009.

The G3 guidelines issued by the GRI in October 2006 are applied in this corporate responsibility report. The choice of indicators was affected by the nature of Elcoteq's business and the aspects that are of central importance to it and the company's stakeholders. The key indicators presented herein were chosen by comparing Elcoteq's indicators with the GRI guidelines and the availability of information.

This section focuses on describing the company's social and environmental management systems, the performance indicators used in them and events in 2008. Economic responsibility is covered in other sections of the Annual Report. The social responsibility section of this report applies to the entire Group, while the environmental section covers the company's manufacturing plants. The plant acquired in September 2008 in Juarez, Mexico is not included in the report.

DATA COLLECTION

Elcoteq employs a corporate responsibility reporting system based on the GRI guidelines. The system is primarily used to collect information on the management of environmental and HR matters. The reporting system enables the company to set and keep track of objectives systematically, compare operating locations and disseminate best practices. To improve its reliability, the data fed into the system is verified and closed within a certain timeframe. After this period all revisions are registered separately. The information on social responsibility is also based on Elcoteq's internal human resources reporting.

The figures reported on have previously been compared with net sales. 2008 was a challenging year, not least due to the great changes in the customer portfolio and the decline in net sales. Even if the absolute figures of the corporate responsibility indicators have improved, the results are negative when considered relative to the lower net sales. The results thus don't necessarily provide an accurate picture. Furthermore, the reporting schedule was much tighter than in previous years. For this reason, we chose to report on the absolute figures for 2008.

A GOOD REPUTATION IS MORE IMPORTANT IN TOUGH TIMES

Developing even more environmentally friendly products and taking the green perspective into consideration in all operations are a powerful trend in the electronics industry. This trend will gather momentum in the next few years. Elcoteq has been a trailblazer in many environmental issues. We must press on with our development efforts even during tough times.

Although the market is challenging, it goes without saying that Elcoteq will not compromise on the cornerstones of corporate responsibility. Customers must always be able to rest assured that the company's operations are sustainable and ethical no matter what the circumstances. Continuous development is the company's approach to corporate responsibility. ●

CORPORATE RESPONSIBILITY DEVELOPMENT AT ELCOTEQ

1997

Environmental Policy was launched

1998

Elcoteq values were modified and communicated to personnel

1999

First ISO 14001 certificates were granted to Elcoteq

2000

Environmental requirements were included to supplier requirements

2001

Ethical requirements were included to supplier requirements

First environmental database was taken into use

2002

First version of Elcoteq's restricted substances list was published

Corporate Responsibility Policy was launched

Started to develop lead-free manufacturing capabilities

2003

Elcoteq was accepted as a member of Kempen/SNS Smallcap SRI Europe Index

Started to develop Design for Environment concept

2004

First Corporate Responsibility report was published

OHSAS 18001 certification was granted to Tallinn plant

Web based tool for material content data management for components and products was taken into use

Multisite certification for environmental management system was taken into use

2005

RoHS project started for information and materials management

2006

Web based tool for Corporate Responsibility reporting was taken into use

Internal SA8000 and OHSAS 18001 audits were conducted in cooperation with external partner in APAC

OHSAS 18001 certification was granted to Pécs plant

Bi-annual support agreement with International Youth Foundation was signed

2007

Internal CR audits were conducted in APAC region

Workplace practices guidelines were launched

2008

Systematic internal CR audit process was started

Supplier Code of Conduct was launched

Global environmental, health and safety policy was compiled

Calculation of carbon footprint was piloted in Tallinn plant and Espoo office

Players in the global business environment are increasingly dependent on each other. For global companies like Elcoteq, this means that the number of stakeholders will grow many times over. Elcoteq's customers are companies – but nowadays, the effect of its operations extends beyond its own customers to their customers, whether they are companies or consumers. In recent years, awareness of corporate responsibility issues has increased significantly among consumers. Non-governmental organizations, for instance, have taken a greater interest in the electronics industry.

Growth in the pool of stakeholders is also evident at the other end of the supply chain. The companies and partners serving component suppliers or service providers are part of the supply chain. Elcoteq must be able to ensure that they, too, operate responsibly.

Stakeholder diversity has also increased. Stakeholders in the capital markets comprise shareholders, analysts, investors and providers of finance, all of which have different expectations towards the company. Elcoteq seeks to continuously analyze this diverse group in order to better meet their expectations and needs. The media are also fragmented. Media outlets range from local to international, print to electronic, and general to trade publications. Some provide editorial content, while others rely on user-generated content. All of them have their own needs and expectations concerning content – which makes interaction challenging.

Elcoteq organized a workshop in 2008 to identify its stakeholders and prioritize them on the basis of influence and significance. The participants, the CEO among them, represented different functions of the company. Customers and personnel were recognized as the most important groups. Other key stakeholders were capital market players, companies and partners in the supply chain, and the media. The working group also drafted a list of the issues observed to have the greatest significance for Elcoteq and its major stakeholders. These issues were transparency, brand protection, working conditions, cost-effectiveness and service capacity. The company seeks to take these issues into consideration in the focuses of both the development of corporate responsibility and reporting.

KEY STAKEHOLDERS

Open interaction with all stakeholders helps Elcoteq to identify and account for the expectations that they have for the company. Elcoteq's key stakeholders include customers, personnel, component suppliers, capital markets, and the media. The company communicates about its operations in an open, unbiased and timely manner.

STAKEHOLDER COOPERATION

Elcoteq interacts with its stakeholders everywhere the company has operations, all over the world. For instance, cooperation with universities, local authorities and communities is handled at the grassroots level on a location-by-location basis. Certain elements of stakeholder cooperation – such as Group-level communications and relations with capital market parties – are centralized within the Group administration.

Stakeholder cooperation is guided by Elcoteq's policies and operating procedures. The company wants to treat its stakeholders fairly and in line with their needs. Continuous interaction and dialogue with stakeholders about what they expect from the company's operations and corporate responsibility in particular ensure that the company can rapidly meet their needs and requirements.

Stakeholder cooperation takes many forms. Understanding the needs of present and potential new customers plays a key role in the whole company's success. Elcoteq seeks to be a cost-effective, reliable and global partner whose quality can be counted on and which always keeps in step with its customers.

Employees' expectations concern remuneration, occupational health and safety, training and career advancement opportunities, equal and fair treatment, information, and an open and encouraging workplace atmosphere. Meeting personnel expectations and ensuring the availability of new employees pose challenges in the EMS business, as personnel turnover is quite high and resources often have to be downscaled in short cycles. Elcoteq seeks to meet these challenges with regular appraisal discussions, a personnel representation system, internal communications, training, personnel surveys, occupational safety measures and systematic recruitment processes.

MEMBERSHIP IN INDUSTRY ORGANIZATIONS

Elcoteq is a member of the European Information, Communication and Consumer Electronics Technology Industry Association (EICTA) and the European Alliance for Corporate Social Responsibility. Both organizations offer opportunities for exchanging experiences and practices with other companies in the industry as well as joint projects for monitoring and influencing the business environment of the industry and the development of legislation.

In 2008, Elcoteq was also represented on the Finnish Standards Association's Social Responsibility Committee, which follows and comments on the development of the intended new International Standard providing guidelines for corporate social responsibility (ISO 26000).

Stakeholders	Expectations	Interaction	Corporate Guidelines
Customers	• Overall responsibility • Brand protection • Understanding customer needs • Wide service offering, globally • Quality and continuous development • Cost-efficiency • Confidentiality • Reliability	Regular meetings with customers and continuous interaction, customer satisfaction surveys, agreement structures, audits, customer magazine, exhibitions, Internet	Group's strategy, global operating system, EHS policy, corporate responsibility policy, risk management policy and customer requirements
Personnel	• Fair remuneration and incentives • Training and career opportunities • Supportive working environment • Equal and fair treatment • Job satisfaction • Working conditions • Continuous information flow	Performance appraisal discussions, personnel representation, internal communications, training, personnel surveys, organizing occupational safety	Group's values, strategy, global operating system, HR policies and processes, corporate responsibility policy, EHS policy, SA8000 and OHSAS18001 standards
Capital Markets	• Profitability and increasing shareholder value • Creditworthiness • Openness • Reliable, accurate and up-to-date information	Meetings and continuous interaction, releases and reports, press conferences and Capital Market Days, shareholder meetings, Internet	Group's strategy and financial objectives, administrative principles, financial policy and guidelines, principles of investor communications, risk management policy, legislation as well as rules and recommedations of supervisory authorities
Suppliers	• Networking • Operational reliability • Ethical conduct of business	Regular meetings, agreement structures, supplier audits, extranet	Group's strategy, global operating system, corporate responsibility policy, EHS policy, supply chain management instructions, risk management policy, supplier Code of Conduct

Elcoteq carries out effective internal corporate responsibility audits to ensure that practices are consistent and measure up to requirements globally. The company uses Social Accountability International's SA8000 and Occupational Health & Safety Advisory Services BS OHSAS 18001 as its social responsibility guidelines. Elcoteq bases its environmental guidelines on the International Organization for Standardization's ISO 14001 standard. Each and every Elcoteq manufacturing unit has a certified environmental system. In order to ensure compliance with SA8000, OHSAS 18001 and ISO 14001, Elcoteq launched systematic corporate responsibility audits at the beginning of 2008 in line with its objectives. These audits cover all manufacturing units and it is intended that each unit will be audited at least once during an 18-month period. The audits assess not only compliance with these standards, but also how well customers' requirements for corporate responsibility have been accounted for. Corporate responsibility training is always arranged during the audits to address the special needs of each location.

The audit team comprises two auditors who are certified to audit ISO 14001, OHSAS 18001 and SA8000. The audits always include a review of documentation, a plant tour, employee interviews, and an audit of possible night shift. The audits yield a list of non-conformances and areas requiring development. On the basis of the results, each audited unit draws up a development plan. The Group's Corporate Responsibility Team systematically follows up the realization of this plan.

European plants were audited in the first quarter of 2008 in Romania, Hungary and Estonia. The audits showed that the European plants comply well with the above standards. Room for development was noted in the integration of the SA8000 management system into existing management systems such as ISO 14001. In the latter half of the year, the plants in Monterrey, Mexico, and Dongguan, China were audited. The greatest area requiring development in Monterrey was occupational safety, while in Dongguan further improvements were required in not only occupational safety, but also the management of overtime, especially during peak demand. Elcoteq will continue corporate responsibility audits in 2009 in accordance with the agreed schedule and auditing process.

OCCUPATIONAL HEALTH AND SAFETY

Elcoteq seeks to provide all its employees with safe and healthy working conditions. The plants have taken steps to

SOCIAL RESPONSIBIL

The objective of social responsibility is to safeguard personnel wellbeing and ensure that human rights and local cultures are respected at all Elcoteq locations. In 2008, Elcoteq drafted a global Environment, Health and Safety (EHS) policy, published a Supplier Code of Conduct and deployed a new competence model to overhaul organizational development processes.

upgrade their own occupational safety. For example, the plants in Tallinn and Pécs have certified their occupational safety systems in line with OHSAS 18001. The goal for 2008 was to standardize occupational safety issues by drafting a global policy and guidelines in order to achieve a more systematic approach.

Instead of instituting a separate occupational health and safety policy, Elcoteq created a global, company-wide EHS policy (Environment, Health and Safety) encompassing all these issues. In addition to this policy, the company started the preparation of occupational safety guidelines. Communications, training and the deployment of this policy at manufacturing units will be carried out in 2009.

Elcoteq collects information on occupational safety with an Internet-based tool that is in use at every manufacturing unit. Data on any accidents and the working time lost as a result is collected on a monthly basis. In 2008, 126 injuries resulted in lost working days and time lost as a consequence totaled 11,295 hours. Although accidents are tracked at the monthly level, Elcoteq does not as yet have global objectives for occupational safety. The company intends to set such objectives in 2009.

ITY

RESPONSIBLE SUPPLY CHAIN

Elcoteq's main business is to provide manufacturing services to its customer who themselves are responsible for their supply chain. However, as Elcoteq's global service offering covers the entire lifecycle of products, Elcoteq has built up practices to ensure its own supply chain capability.

In order to operate responsibly, Elcoteq must ensure that the entire supply chain meets corporate responsibility requirements. To achieve this Elcoteq must define its supplier requirements, have suppliers commit to these requirements and operating principles, and ensure that the suppliers are capable of complying with them. In order to ensure the capability of its supply chain, Elcoteq has incorporated corporate responsibility issues into supplier management processes, requirements and audits as well as created a separate operating model for the corporate responsibility audits of identified high-risk suppliers.

In 2008, Elcoteq continued with projects started up in 2007 to develop the corporate responsibility issues of its supply chain. Last year, Elcoteq released an internal process for the corporate responsibility audits of suppliers and continued to provide training for supplier auditors in Europe. Supplier corporate responsibility audits focus on environmental, occupational health and safety, and social responsibility issues alike. Elcoteq's supplier audits will be based on the Supplier Code of Conduct published at the end of 2008. As part of this Code of Conduct, Elcoteq also released detailed corporate responsibility requirements for suppliers.

Elcoteq requires its suppliers to have environmental system in line with ISO 14001 and to comply with the principles of SA8000. In addition, suppliers must fulfill Elcoteq's requirements concerning both banned and restricted substances, as set out in the company's restricted substances list. Elcoteq improved its communications about its requirements in 2008 by launching a new site where suppliers can easily find the latest versions.

In 2009, Elcoteq will start to communicate to its suppliers the Supplier Code of Conduct and provide internal trainings on the topic.

PRODUCT SAFETY AND LIABILITY

All of Elcoteq's units comply with national and international laws and regulations concerning product safety and liability as well as general operating principles. In its manufacturing services, the company only uses components and subcontractors that have been approved by its customers, takes on responsibility for the quality assurance of components used in production, and both manufactures and tests the products in accordance with the agreed specifications and standards. Information collected during component receiving inspections is stored in Elcoteq's global database that measures supplier capability. The information in this database is used for optimizing quality assurance in the supply chain and identifying product quality and liability risks related to components and materials. Elcoteq has a dedicated approval process for ensuring that products and production measure up to requirements.

Procedures agreed on with the customer are used in product testing and inspections as well as product database management. Elcoteq is responsible for the confidentiality, correctness and availability of its information on individual products and customers.

Along with product development services, Elcoteq also offers the management of official authorizations in the agreed market areas. In keeping track of official regulations, Elcoteq relies on well-known global partners.

PERSONNEL

At the end of 2008, Elcoteq employed 18,830 (24,222) people, of whom 17,401 (19,131) were on the company's direct payroll. The geographical distribution of the workforce was as follows: Europe 8,607 (10,936), Asia-Pacific 5,027 (7,598), and the Americas 5,196 (5,688).

Of the Group's total workforce, some 86% are blue-collar employees. The remaining 14% are white-collar employees. Elcoteq also uses leased labor when necessary to respond to great variations in demand; in the end of 2008, 30% of the people employed by the Group were external labor.

The average age of Elcoteq employees is quite low. 42% of employees are under 30 years of age. Young people comprise a particularly large share of personnel at the plants in Asia.

Of the employees, 56.5% are women and 43.5% men. Elcoteq has management teams at different organizational levels. The Elcoteq Management Team (EMT) comprises six men. In addition, each of the company's three business areas has a management team. 15 of the business area management team members are men and one is a woman. 78% of plant's management team are men and 22% women.

As an employer, Elcoteq neither prevents nor requires the organization of employees. Personnel representation is based on local systems. In Europe, Elcoteq personnel are also organized as required under European Company Regulation. As a European company (SE), Elcoteq is obliged to have a European Representative Body (RB) that comprises 14 members, at least one from each of the company's European units in the EEA countries. In 2008, the RB convened twice to discuss Elcoteq's outlook and other current issues on the agenda. Elcoteq does not track the extent of employee organization at the global level.

CHANGES IN PERSONNEL

Changes in Elcoteq's business are also reflected in its personnel strength. The number of employees required to manufacture different types of products varies. Furthermore, product life cycles and changes in the markets for the end products have a direct impact on how many people are employed by each of the units. In order to ensure profitable operations, the company must be able to maintain long-term employment relationships that support the development and continuity of expertise, while maintaining flexibility in its response to changes in the need for labor.

Changes in demand and the reorganization of operations mean that from time to time, Elcoteq has to downscale its personnel strength, either through redundancies or temporary layoffs. In such situations, the company always observes the periods of notice and other conditions set by local legislation and collective agreements.

During the report year, the number of permanent employment relationships that ended at Elcoteq was 6,024. Of these employees, 3,693 resigned. 4,106 new permanent employees joined the company in 2008. Elcoteq also hires personnel under fixed-term employment relationships and makes use of external labor. Fixed-term employment relationships change greatly due to the nature of operations. The amount personnel employed by Elcoteq has decreased by 5,392 persons during the year.

REMUNERATION

Remuneration has a significant effect on ensuring the availability and retention of competent employees. In addition, remuneration motivates employees and drives performance. Elcoteq always complies with the compensation requirements set forth in SA8000, under which pay must be no less than the statutory minimum wage in the country in question.

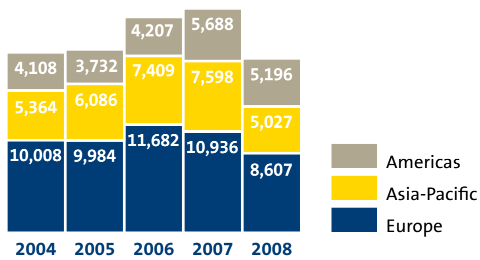
To safeguard its position as an attractive employer, Elcoteq seeks to pay competitive wages and salaries. Pay levels are influenced by the role and responsibilities of the job performed as well as the expertise and competence of the employee. On top of basic salaries and wages, the company uses incentive schemes such as production- and target-based bonuses and share based plans. Incentive schemes aim to commit employees and reward them for a job well done.

The incentive rewards for white-collar employees are tied to targets set for both the individual's and the company's performance. Local bonus schemes in line with local practices and regulations have been set up for production employees. About 95% of Elcoteq's employees are covered by an incentive

PERSONNEL IN FIGURES IN 2008	
Number of employees 31.12.2008	18,830
Average age of employees, years*	34
Male/female ratio %	43.5/56.5
New employees, number	4,106
Contracts of employment terminated, number	6,024
Personnel expenses, MEUR	193
Coverage of different bonus schemes, %	95

* average calculated based on age distribution

NUMBER OF PERSONNEL IN 2004–2008



scheme. In 2008, Elcoteq paid out a total of 193 million euros in wages, salaries and other personnel expenses.

EMPLOYEE SATISFACTION

In 2008, Elcoteq continued to make use of the results of the employee satisfaction survey carried out in the fall of 2007. As there were significant differences in the results of the business units, the action plans were drafted at a local level. The actions focused on, for instance, clarifying the internal roles and responsibilities in the organizations, developing the workplace environment and social facilities, and improving supervisory work.

FROM PERSONNEL EVALUATION TO DEVELOPMENT

Appraisal discussions between supervisors and their subordinates play a key role in organizational planning. In 2008, the appraisal discussion process for white-collar employees was overhauled. Greater weight will be given to personal development from now on. Supervisors were trained to use and make the most of the new process. Each plant organization is responsible for appraisal discussions with its personnel locally.

Appraisal discussions primarily focus on individuals. For this reason, Elcoteq also launched a model that supports supervisors by enabling the evaluation and development of the operations of organizations and teams. This aims to help the company, its management and individual teams to better pinpoint the development needs and risks of their own organization, identify key employees more systematically and improve successor planning.

A customized competence model was developed to support and facilitate Elcoteq's development efforts. The competence model serves as the foundation of all development efforts – it indicates the behaviors and competence the company requires and seeks to develop. In addition to general competences, skills can be defined for each task.

TRAINING

The company's business environment is in constant flux. This means that it is vital to continuously pursue personnel training and development. Training is organized both locally at the plants and internationally. On average, 3.4 days of training were held per person in 2008.

The major target groups for training in 2008 were product line supervisors and project managers. Training for these key groups will continue in the year ahead. In addition, new Elcoteq Business processes were deployed in 2008. An extensive round of training was provided in connection with their launch.

CODE OF CONDUCT

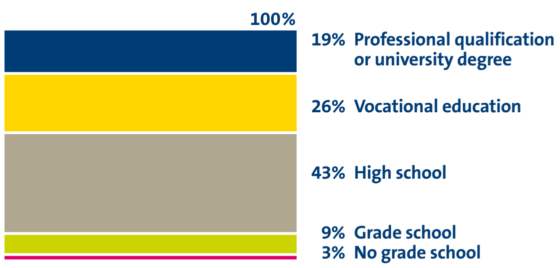
The launch of an internal ethical Code of Conduct was planned already for 2008. Due to the profound restructuring plan and significant personnel changes it was decided to be postponed to the second half of 2009.

The target is that by the end of 2009 every employee has a clear understanding of the company's common and global ethical rules and that everyone is committed to the Code of Conduct. The Code will also be an important element of the induction training for new employees.

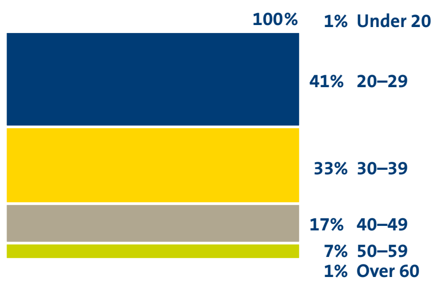
OBJECTIVES FOR SOCIAL RESPONSIBILITY IN 2009

- Communicating Elcoteq's internal ethical Code of Conduct globally to personnel
- Communicating EHS policy and guidelines, implementing them globally, and setting objectives and benchmarks for occupational health and safety issues
- Communicating to suppliers about the Supplier Code of Conduct

LEVEL OF EDUCATION



DISTRIBUTION BY AGE



During the fall, Elcoteq identified and re-evaluated the significance of environmental aspects at all of its production facilities and in its global operations.

For years now, Elcoteq's global environmental targets have been to lower energy consumption, reduce the amount of waste generated and increase waste recycling. 2008 saw the introduction of additional targets that will enable Elcoteq to achieve new kinds of environmental benefits.

Teams have been appointed to identify environmental aspects at every plant and for all global operations. The members of each team have been chosen to provide the most comprehensive representation for its area of operations. The environmental aspects of Elcoteq's operations were considered within the teams, and the importance of each identified aspect was then subjected to a failure modes and effects analysis (FMEA). The re-evaluation of environmental aspects began in June and was completed for all plants and teams by the beginning of December.

In addition to energy consumption and waste, other clearly significant environmental aspects identified in the analysis included travel, packaging waste generated by products and production materials, and the environmental impact of commuting.

Substantial resources were employed in identifying these environmental aspects, with almost one hundred people taking part. As well as enabling Elcoteq to set new types of environmental goals for the coming years, the wide-ranging nature of this project has helped to commit employees to environmental consciousness at all levels. Elcoteq intends to implement the initiatives generated during the analysis.

CARBON FOOTPRINT

In recent years, climate change and global warming have been leading the development actions in international organizations, national governments and companies alike.

In 2008, Elcoteq decided to introduce carbon footprint measurement as one of the company's continually monitored environmental indicators. The Greenhouse Gases Protocol (GHG Protocol), which has been drawn up by the World Resource Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), will be used to calculate the carbon footprint created by Elcoteq's operations. Elcoteq's carbon footprint includes all three of the GHG's broad scopes.

2007 was selected as the baseline year for Elcoteq's carbon footprint calculation. The carbon footprints of the Espoo

ENVIRONMENTAL RESPONSIBILITY

2008 was an important year for Elcoteq's environmental system. Environmental aspects were re-evaluated at all of the company's locations. Elcoteq also introduced carbon footprint measurement as one of the company's continually monitored environmental indicators.

office and the Tallinn plant were calculated as a pilot project. Although the carbon footprints of Elcoteq's other offices are estimated on the basis of the Espoo figures, each plant's carbon footprint is calculated individually. Carbon footprint calculations included: material flows (for example, process chemicals and office supplies), business travel, freights, commuting to and from work, energy consumption, and waste.

The error margin for the calculations is quite large, and several exclusions had to be made as the project progressed: for example, only freights arriving at Elcoteq's plants were included, and production components were excluded from the project.

The total carbon footprint for the Espoo office in 2007 was 1,582.08 tons, the equivalent of 9.47 tons per person. Air travel was the single highest factor contributing to the Espoo office's carbon footprint, as Elcoteq has plants on four continents. In 2008, a project was launched to acquire videoconference equipment with the aim of reducing the environmental burden caused by air travel. The total carbon footprint for the Tallinn plant in 2007 was 34,338 tons. Energy consumption and freights were the major factors at the Tallinn plant. On the basis of the pilot results, reducing air travel has been taken as an Elcoteq's environmental target. In 2009, Elcoteq will calculate the company's total carbon footprint and set long-term goals to reduce it.

CHEMICAL MANAGEMENT

The European Union's new chemical regulation, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) came into force on 1 June 2007. The regulation aims to ensure the highest possible level of safety in chemical handling with regard to both human health and the environment.

The project team established to work on the REACH regulation at Elcoteq in 2007 continued their efforts in 2008. The team implemented the following measures:

- the environmental manager was appointed to be responsible for REACH,
- Chemical Reviews at European plants were updated in January–March,
- a REACH bulletin was sent to all chemical suppliers,
- major chemical suppliers were asked to commit to complying with REACH obligations and to ensuring uninterrupted deliveries to Elcoteq's plants,
- Elcoteq personnel were given REACH training,
- a REACH information section was added to the Elcoteq Intranet,
- customers were informed about REACH preparedness as required.

Other REACH project measures taken in 2008 included re-approaching all major chemical suppliers to clarify the pre-registration status of the chemicals used in Elcoteq's European plants and to request the pre-registration number for every substance used.

During 2009, the REACH regulation will require Elcoteq to continually monitor the chemicals used in production and their registration status. Plant environmental teams, which will normally include chemicals responsible person, will carry out this monitoring. Customer-specific agreements will also take note of the REACH regulation, so that the company can ensure compliance for all of the chemicals it uses.

MATERIAL DATA MANAGEMENT

Elcoteq uses a global application developed for internal material data management. This tool can be used to store, analyze and report the chemical content of all components and materials included in the product. This system also makes it easier to report on product recyclability and it will be an important element to help with meeting the future requirements, such as the EuP Directive, a framework for setting eco-design and development requirements for energy-using products.

ENVIRONMENTALLY FRIENDLY PRODUCT DESIGN

Elcoteq uses Design for Environment (DfE) process in its R&D projects. In order to ensure that, for example, product recyclability is improved and the use of hazardous substances, energy consumption and material amounts are minimized at the design phase, Elcoteq has created a DfE plan that includes the project schedule and a checklist of environmental criteria.

CHALLENGING ENVIRONMENTAL TARGETS

Elcoteq's environmental targets for 2008 have been to reduce energy consumption and the amount of waste generated in relation to net sales. A decline in net sales made these targets extremely difficult to reach in 2008.

Elcoteq's total energy consumption for 2008 totaled 612,777 GJ. Total consumption includes all electricity, heat and fuels used, but not the energy consumed by vehicles and transportation. Ventilation, heating, lighting and production machinery and equipment consumed the most energy. Elcoteq primarily uses electricity, which accounted for 82% of total energy consumption in 2008.

Large amounts of water are not used in Elcoteq's manufacturing processes. Water consumption consists mainly of faucet water and water used in air-conditioning systems. In 2008, total water consumption was 327,217 m³. Municipal water networks provided 263,796 m³ and artesian wells provided 63,421 m³.

Elcoteq categorizes its waste as either non-hazardous or hazardous waste. These waste categories are then subdivided by processing method into three groups: recycling, incineration, and landfill. In 2008, the total amount of waste produced was 8,363 tons, 371 tons of which was hazardous waste.

Air emissions are being regularly monitored at the Beijing, St. Petersburg, Bangalore and Tallinn plants as required by local environmental permits. Substances reported are Nitrogen Oxides (NO_x) 7,649 kg, Volatile Organic Compounds (VOC) 3,051.9 kg, Carbon Monoxide (CO) 4,102 kg and Tin (Sn) 4.94 kg.

COMPLIANCE

All Elcoteq units comply with national and international legislation, regulations and generally approved principles concerning environmental matters. The company records deviations from the requirements of regulations, nonconformances and any consequent penalties in its global environmental database. No such deviations were recorded in 2008.

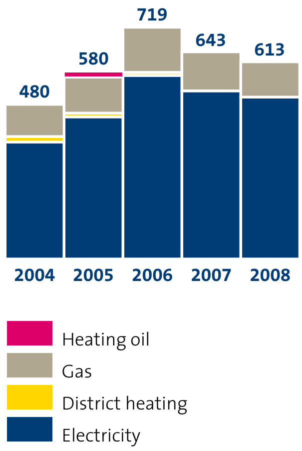
AWARDS

In September 2008, Elcoteq's Bangalore plant in India was awarded the Electronic Industries Association of India's Excellence in Environment Management award. The Bangalore plant's commitment to responsible operations has led to significant energy savings. ●

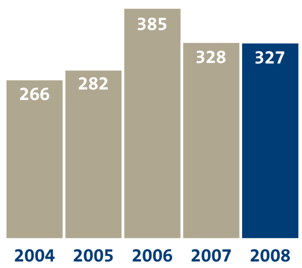
ELCOTEQ'S ENVIRONMENTAL TARGETS FOR 2009

- Identifying the composition and volume of packaging materials used and reducing their environmental impact
- Optimizing chemical usage both globally and at individual plants
- Reducing energy consumption by 10% by 2012
- Reducing the amount of waste by 5% compared to previous year
- Reducing air travel by 15% during 2009

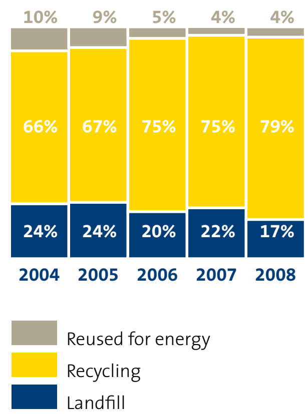
ENERGY CONSUMPTION, 1000 GJ



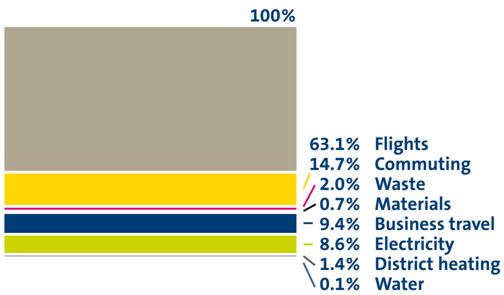
WATER CONSUMPTION, 1000 m³



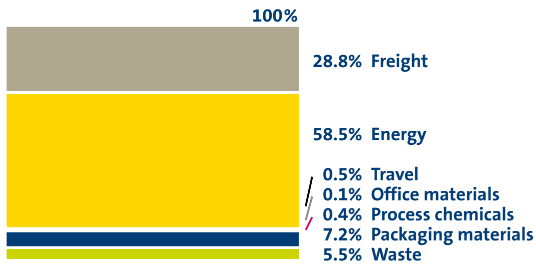
WASTE HANDLING, %



CARBON FOOTPRINT, 2007
ESPOO OFFICE



CARBON FOOTPRINT, 2007
TALLINN PLANT



GRI G3 CONTENT INDEX

REPORTED	
	Reported
	Partly reported

GRI APPLICATION LEVEL
This Corporate Responsibility data has been self-declared at Application level C.

Names of certain GRI indicators have been shortened in this content index.

4

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FINANCIAL STATEMENTS

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Elcoteq SE's net sales in 2008 declined about 15% on the previous year and amounted to 3,443.2 million euros (4,042.9 million euros in 2007). Profitability increased even with lower sales, although being negative. Year 2008 was exceptionally challenging due to the major changes in the customer structure. Full-year operating income was –20.4 million euros (–96.3) and excluding restructuring expenses it was –6.9 million euros (–46.1). Cash flow developed positively towards the end of the year and was 46.6 million euros positive in the fourth quarter of 2008. Full-year cash flow after investing activities was –99.7 million euros (–11.1).

Elcoteq SE's consolidated financial statements for 2008 have been prepared using IFRS recognition and measurement principles. The comparative figures given are the figures for the corresponding period of the previous year, unless stated otherwise.

MARKET REVIEW

The estimated total assembly value of the global electronics market grew by roughly 5% at the annual level and exceeded the landmark figure of 1,000 billion US dollars in 2008. The electronics manufacturing services (EMS) market alone was valued at 186 billion US dollars in 2008, based on the average estimates of industry market research data providers Electronic Trend Publications (ETP), iSupply, and Technology Forecasters (TFI). This represents annual EMS market growth of about 11%. Apart from the growing general electronics market, EMS growth was driven by greater usage of outsourcing in electronics manufacturing – a trend that is expected to continue in the future as well.

Elcoteq holds a strong position in the EMS market. The company is ranked as Europe's biggest and among the ten largest EMS companies in the world. Elcoteq's role is strong in mobile phone manufacturing, where the company is the world's third largest EMS provider.

FINANCIAL YEAR 2008

Elcoteq's 2008 net sales declined on the previous year and amounted to 3,443.2 million euros (4,042.9). Operating income was –20.4 million euros (–96.3), representing –0.6% (–2.4%) of net sales. Income before taxes was –52.9 million euros (–122.8) and net income was –65.9 million euros (–108.4). Earnings per share (EPS) amounted to –2.02 euros (–3.37). Earnings include 13.5 million euros (50.2) in restructuring expenses.

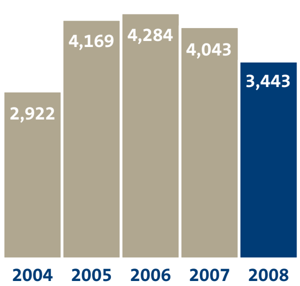
The decline was mainly in the Personal Communications Business Area where a structural change in the customer portfolio is under way. Net sales by the Home Communications Business Area clearly rose as a result of the flat TV (FTV) assembly acquisition while net sales by Communications Networks Business Area were down slightly due to the divestment of loss-making German operations in January 2008.

Operating income for 2008 was negative but clearly better than in 2007. In view of the fact that net sales were 600 million euros lower than in the previous year, this is a positive development. The company has been able to offset to a great extent the effects of the sales decline with the

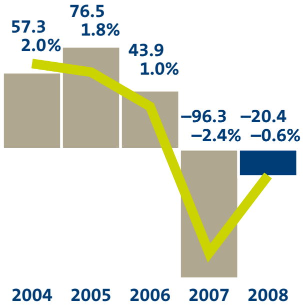
REPORT BY THE BOARD OF DIRECTORS

JANUARY 1 – DECEMBER 31, 2008

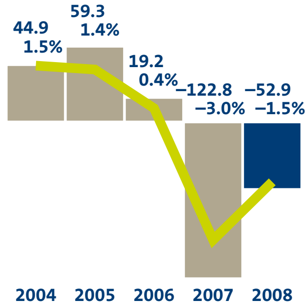
NET SALES, MEUR



OPERATING INCOME, MEUR
% OF NET SALES



INCOME BEFORE TAXES, MEUR
% OF NET SALES



cost savings achieved through the Action Plans initiated in February 2007. However, the change in customer structure has been more intense than originally anticipated. Therefore the company has not been able to utilize its manufacturing resources in the most optimal manner. Both the Personal Communications and Communications Networks Business Areas reported positive operating income. Operating income reported by the Home Communications Business Area was negative mainly due to low sales at the beginning of the year and foreign exchange losses incurred in Brazil.

The Group's net financial expenses amounted to 32.4 million euros (26.1). The increase was mainly due to the higher usage of credit lines to finance the extraordinarily high inventory levels.

FOURTH-QUARTER NET SALES AND EARNINGS

Fourth-quarter net sales in 2008 grew compared to the third quarter, as expected, and amounted to 889.1 million euros (1,062.4 million euros in the fourth quarter of 2007 and 740.5 in the third quarter of 2008).

Operating income in the fourth quarter was –11.8 million euros (–24.9 in the fourth quarter of 2007 and 0.3 in the third quarter of 2008) and income before taxes was –25.2 million euros (–31.2). Operating income exclusive of restructuring expenses in the fourth quarter was positive at 1.7 million euros.

FINANCING AND CASH FLOW

At the end of December 2008, Elcoteq had cash and unused but immediately available credit lines totaling 165.9 million euros (186.9 million euros in the third quarter of 2008 and 389.2 million euros at the end of 2007). Higher usage of credit lines resulted from lower sold account receivables and financing of excess inventories. These credit limits included a 230 million euros syndicated, committed credit facility of which 70 million euros was unused. Negotiations are under way to extend the syndicated committed credit facility beyond year 2009. Furthermore, the company will not use its option to prepay the 60 million euros subordinated notes in December 2009, but it will maintain the prepayment option until December 2011 according to the loan terms.

At the end of December, the Group's interest-bearing net debt amounted to 238.5 million euros (144.5) and gearing was 1.8 (0.7). The solvency ratio was 14.2% (18.1%). Cash flow from sold accounts receivable amounted to 101.1 million euros (226.5 million euros at the end of 2007 and 115.4 at the end of the third quarter of 2008). Return on capital employed (ROCE) was –3.1% (–19.6%).

Cash flow after investing activities in 2008 was –99.7 million euros (–11.1), while it was 46.6 million euros positive in the fourth quarter. The company managed to clearly reduce inventory levels during the last quarter. Full-year cash flow was impacted by the unusually high levels of finished goods and component inventories especially in the second and third quarters. A particular cause for this excess inventory was that a Personal Communications customer had provided overly optimistic forecasts for the second and third quarters. It had been agreed that these inventories, financed by the company but the customer's liability, would be run down during the second quarter of 2008, but lower than expected customer demand resulted in the consumption of inventory being slower than anticipated. Even though the cash flow is not yet at the target level, the inventory levels are heading back to normal.

CAPITAL EXPENDITURES

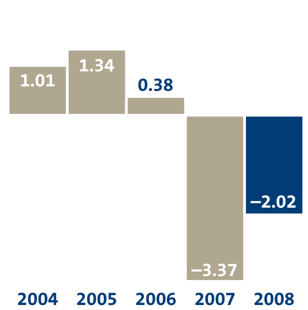
The Group's gross capital expenditures on fixed assets in 2008 amounted to 71.4 million euros (67.2), or 2.1% of net sales. Depreciation was 78.9 million euros (79.8), representing 2.3% of net sales. Investments were primarily earmarked for production machinery. In the fourth quarter, investments amounted to 9.9 million euros (27.8). No new operating lease contracts were made in 2008 (in 2007 equipment purchase value amounted to approximately 3.4 million euros).

PERSONNEL

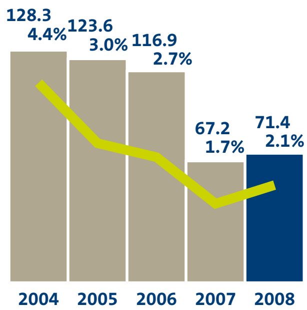
At the end of December, the Group employed 18,830 (24,222) people: 217 (260) in Finland and 18,613 (23,962) elsewhere. The geographical distribution of the workforce was as follows: Europe 8,607 (10,936), Asia-Pacific 5,027 (7,598) and the Americas 5,196 (5,688). The average number of Elcoteq employees on the company's direct payroll in 2008 was 17,401 (19,131).

On January 15, 2009, the company announced a restructuring plan that includes several measures, including

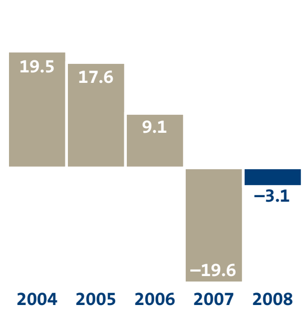
EARNINGS PER SHARES, A SHARES, EUR



GROSS CAPITAL EXPENDITURES, MEUR
% OF NET SALES



RETURN ON INVESTMENT (ROI/ROCE), %



personnel reductions. The company estimates, that the personnel reductions are likely to be in the scale of 5,000 persons, including both indirect and direct employees, calculated from the 2008 third quarter personnel level of 21,000. Some measures were already carried out in December. These reductions will be completed by the end of the first quarter of 2009.

Wages, salaries and other personnel expenses in 2008 amounted to 193.0 million euros (206.2).

CORPORATE RESPONSIBILITY

Elcoteq's corporate responsibility includes economic, social and environmental aspects. The company's environmental management system corresponds with the requirements of the ISO 14001:2004 standard. All Elcoteq units operate within a multisite certificate for quality and environmental management. The key environmental development projects having a bearing on the company's business operations in 2008 concerned meeting the requirements of the European Union's REACH Regulation, developing corporate responsibility compliance in the supply chain and starting a carbon footprint project. In 2008, Elcoteq started systematic group-level internal audits of environmental, social accountability as well as occupational health and safety standards.

RESEARCH AND DEVELOPMENT

Elcoteq's research and development costs in 2008 totaled approximately 1.8 million euros (4.6), or 0.1% of net sales. The company's R&D activities cover, among other things, equipment and process development for production and production testing needs as well as development related to the platforms, software, electronics, mechanics and testing of mobile phones.

TRENDS OF THE BUSINESS AREAS

As of the beginning of 2008, Elcoteq's reporting covers three Business Areas: Personal Communications, Home Communications and Communications Networks. In 2008, Personal Communications contributed 65% (69%), Home Communications 15% (10%) and Communications Networks 20% (21%) of the Group's net sales.

Elcoteq has continued to balance its customer portfolio in line with its key strategic focus. In 2008, Elcoteq's largest customers (in alphabetical order) were EADS, Ericsson, Funai, Huawei, Nokia Devices, Nokia Siemens Networks, Philips, Research in Motion (RIM), Sony Ericsson and Thomson. No single customer accounted for over 40% of consolidated net sales.

PERSONAL COMMUNICATIONS

Net sales of the Personal Communications Business Area in 2008 were somewhat lower than expected at 2,222.2 million euros (2,777.8). Operating income in this segment was 19.6 million euros (–30.2), 1% of net sales and excluding restructuring expenses, it was 25.5 million euros. Fourth-quarter net sales in 2008 amounted to 465.2 million euros (750.1) and the segment's operating income to 6.7 million euros (–1.9).

Despite the challenging market conditions in the EMS market during 2008, Elcoteq was able to hold on to its share as the third largest EMS provider in the global Personal Communications business. Elcoteq's position was particularly strong in handset manufacturing. Services were stepped up in box build and after market services.

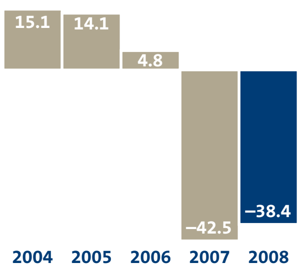
The main achievement of 2008 was the broadening of the customer portfolio. Compared to 2007, the deliveries to Research in Motion (RIM) increased substantially whereas deliveries to Nokia continued to decline. In order to secure future growth and profitability, the Personal Communications Business Area seeks to increase its efforts to win business from selected new customers.

HOME COMMUNICATIONS

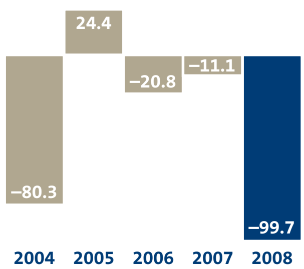
Net sales of the Home Communications Business Area in 2008 amounted to 517.3 million euros (434.2). The segment's operating income was –4.6 million euros (–10.9); excluding restructuring expenses, it was –2.5 million euros. Fourth-quarter net sales in 2008 amounted to 218.8 million euros (99.8) and the segment's operating income was –4.1 million euros (3.2).

In September, the company acquired Philips' FTV assembly operations in Juarez, Mexico. FTV production is an industry segment that is expected to show strong growth but also tight competition in the future. Elcoteq considers FTVs to be a strategic product segment. Previously the company only provided service solutions for printed circuit board assemblies (PCBA) and various subassemblies, but with the Juarez

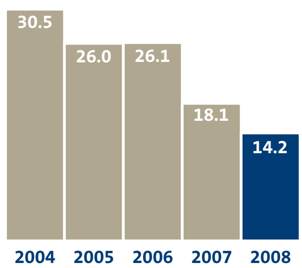
RETURN ON EQUITY (ROE)



CASH FLOW AFTER INVESTING ACTIVITIES



SOLVENCY RATIO



acquisition the service offering of Home Communications expanded to the complete final assembly of FTVs.

The Juarez deal included long-term cooperation agreements with Philips and a major new customer, Funai Electric Co., Ltd. New customer accounts were also acquired in other parts of the plant network as existing customers expanded their production operations into new product segments.

COMMUNICATIONS NETWORKS

Net sales of the Communications Networks Business Area in 2008 declined by about 15% on the previous year and amounted to 703.7 million euros (831.0). The decline was mainly due to the divestment of Offenburg plant. The segment's operating income was 1.6 million euros (–17.3); excluding restructuring expenses, it was 7.0 million euros. Fourth-quarter net sales in 2008 amounted to 205.2 million euros (212.5) and the segment's operating income was –5.1 million euros (–17.2).

During 2008, the efficiency of the Communications Networks Business Area improved continuously. Some structural changes, such as the phase out of Offenburg and St. Petersburg customers, were also made. The Business Area expanded its activities in India, where the customer portfolio was broadened by new customer wins and its reputation grew because of the competitive service offering.

The Communications Networks Business Area has decided to extend its market focus into infrastructure products, targeting business opportunities where customers can benefit from the existing set-up, service offering and competences in radio frequency technology as the world gets more and more wireless. Wireless meters and products to control buildings are just some examples of potential business that Communications Networks has started to explore.

GEOGRAPHICAL AREAS

Elcoteq has three geographical areas: Europe, Asia-Pacific and the Americas. Elcoteq's net sales in 2008 were derived from these areas as follows: Europe 48% (52%), Asia-Pacific 22% (27%) and the Americas 30% (21%).

DECISIONS OF THE ANNUAL GENERAL MEETING

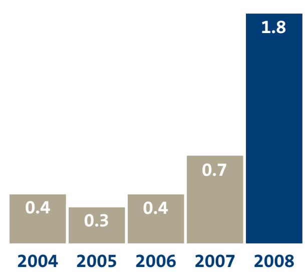
Elcoteq SE´s domicile was transferred to Luxembourg as of January 1, 2008. According to the new Articles of association, the Annual General Meeting took place in Luxembourg on March 25, 2008. The meeting could also be attended via remote access from Helsinki, Finland. The Meeting confirmed the consolidated and parent company's income statements and balance sheets for the financial year 2007 and discharged the members of the Board of Directors and the statutory auditor from liability for the financial year. The Final Accounts relating to the transfer of domicile were also approved.

The Meeting approved the Board´s proposal to amend the first sentence of Article 30 of the Articles of Association whereby the number of directors in the Board of Directors shall not be less than four (4) and not more than ten (10). The Meeting also approved the Board´s proposal to amend the second paragraph of Article 54 of the Articles of Association whereby should the Annual General Meeting day, March 23, be a legal or bank holiday in Luxembourg or Finland, the meeting shall be held on the second following business day.

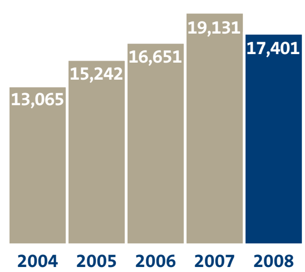
The Meeting elected eight members to the Board of Directors. All previous members were re-elected and the Meeting elected one new member, Mr. François Pauly, General Manager of Sal. Oppenheim Jr. & Cie. S.C.A, to Elcoteq´s Board of Directors. The following persons continued as members: President Martti Ahtisaari; Mr. Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Mr. Eero Kasanen, Rector of the Helsinki School of Economics; Mr. Antti Piippo, principal owner and founder-shareholder of Elcoteq SE; Mr. Henry Sjöman, founder-shareholder of Elcoteq SE; Mr. Juha Toivola, Master of Arts; and Mr. Jorma Vanhanen, founder-shareholder of Elcoteq SE. The terms of office of the Board members extend until the end of the following Annual General Meeting. Ahtisaari, Horstia, Kasanen, Pauly and Toivola are independent Board members, and they represent more than half of the Board´s members.

Convening after the Annual General Meeting in Luxembourg, the Board of Directors elected Mr. Antti Piippo as its Chairman and Mr. Juha Toivola as the Deputy Chairman. Mr. Piippo was elected Chairman of the Nomination Committee and the Working Committee and Mr. Henry Sjöman, Mr. Juha Toivola and Mr. Jorma Vanhanen as members of these committees. Mr. Toivola was elected Chairman of the Compensation Committee and the Audit Committee

GEARING



EMPLOYEES ON AVERAGE



and President Martti Ahtisaari, Mr. Heikki Horstia, Mr. Eero Kasanen and Mr. Pauly as members of these committees.

On the proposal of the Board´s Audit Committee, the firm of authorized public accountants KPMG Audit S.à.r.l. under the supervision of Mr. Philippe Meyer was appointed as the Company´s auditor for the financial year ending on December 31, 2008. The auditors are paid a fee appropriate to the scope of their work.

SHARES AND SHAREHOLDERS

On December 31, 2008 the company had 127,795,919 shares divided into 22,025,919 series A shares and 105,770,000 series K Founders' shares. All the K Founders' shares are held by the company's three principal owners.

Elcoteq had 9,301 shareholders on December 31, 2008. There were altogether 6,957,018 nominee-registered and foreign-registered shares, representing 5.4% of the total number of shares and 5.4% of the votes outstanding.

INCENTIVE SCHEME

The company has a share subscription plan which allows the company to issue a maximum of 1,500,000 new Series A shares in November 2009. The actual number of shares to be issued is based on the improvement of the profit before taxes of the full financial year 2008. According to the plan and on the basis of the 2008 results, the company will be issuing approximately 480,000 new Series A shares in November 2009.

EVENTS AFTER THE END OF THE REVIEW PERIOD

On January 15, 2009, Elcoteq announced that it will launch an intense and profound restructuring plan to prepare the company for the exceptionally uncertain market situation and general economic development in 2009 and to secure the company´s profitability in 2009 and beyond. The plan consist of several measures: streamlining of operations and workforce reductions as well as other cost savings measures, such as selling idle machinery and equipment, terminating facility and old machinery lease agreements as well as cutting external services. As part of the plan, Elcoteq will close its plants in Arad (Romania), Richardson (USA) and St. Petersburg (Russia) as well as consolidate the plant in Shenzhen (China) to the plant in Beijing (China).

The Plan targets annual savings in the range of 80–100 million euros. The savings will start having a positive effect gradually from the second quarter of 2009 onwards and will significantly improve Elcoteq's full-year profitability. The total one-time costs related to the restructuring plan are approximately 24 million euros. The estimated total cash effect is 10 million euros.

On January 15, 2009, Elcoteq also announced that it has started a process to strengthen its balance sheet through a structured equity linked instrument during the first half of 2009, broadening the company's ownership base.

On January 30, Elcoteq concluded a property transaction whereby a real estate in Lohja, Finland, was sold. The property was Elcoteq's first manufacturing location and it was leased out when a new plant was opened in Lohja in 1995. The transaction price was 1.7 million euros. The transaction has no impact on company's financial results.

CHANGES IN ELCOTEQ´S MANAGEMENT

Two new members were appointed to Elcoteq Management Team (EMT) as of April 14: Mr. Petteri Laaksomo, Senior Vice President, Group Operations and Sourcing, and Mr. Markus Kivimäki, Senior Vice President, Corporate Legal Affairs.

On July 1, Mr. Jouni Hartikainen, President and CEO of Elcoteq SE, took over management of the Group's Personal Communications Business Area when Mr. Anssi Korhonen, previous President of the Personal Communications Business Area and member of the Elcoteq Management Team, took up a new position outside the company.

The responsibilities of the COO (Chief Operating Officer) were integrated into the Sourcing and Supply Chain Organization on September 5, when Mr. Jukka Jäämaa, deputy CEO and COO, member of the Elcoteq Management Team, took up a new position outside Elcoteq. Mr. Petteri Laaksomo, member of the Elcoteq Management Team and Senior Vice President of Group Operations and Sourcing, decided to pursue his career outside Elcoteq as of September 22. The responsibilities of Mr. Jäämaa and Mr. Laaksomo were taken over by Mr. Roger Taylor, who started as a new Senior Vice President (SVP), Group Operations and member of the Elcoteq Management Team (EMT) as of October 8.

THE IEMS STRATEGY

Expanding Elcoteq's service offering to an Integrated EMS (IEMS) provider was a priority in 2008. The plan is to place special emphasis on broadening the company's service offering to increase its mechanics expertise and services, and to strengthen product development services that combine both electronics and mechanics.

Elcoteq has previously announced that, in addition to developing its own operations, this strategy could call for specific M&A arrangements or various forms of collaboration with other companies in the same sector. Due to the current uncertainty in the markets, the plan has been delayed and is more likely to be implemented in several phases.

SHORT-TERM RISKS AND UNCERTAINTIES

The most important short-term challenges with respect to Elcoteq's business operations concern the company's ability to improve its cost structure – and thus its profitability – at a rate quick enough to cope with market conditions that are becoming increasingly tight, coupled with its ability to offer service packages that correspond to customer demands and needs. The ability to react rapidly to changing market situation is especially important in times of increased economic uncertainty in order not to tie up cash unnecessarily in working capital and investments.

STRENGTHENING THE BALANCE SHEET

Elcoteq has executed consistent actions to balance its customer portfolio and improve its profitability. This new business set-up gives a good basis for strong growth opportunities in the electronics outsourcing market. In order to respond to these growth opportunities, Elcoteq has started a process to strengthen its balance sheet. The planned capital raise is expected to be implemented through a structured equity linked instrument during the first half of 2009 and it will broaden the company's ownership base. The company is currently proceeding with the project in the stated timetable and is having discussions with several counterparts ranging from strategic partners to private investors.

PROSPECTS

Generic growth in the EMS market is expected to be around 8–10% on average during the next five years, based on the figures of industry research data providers. However, due to rising uncertainty about the development of the global economy in the near future, EMS business growth estimates regarding 2009 vary greatly between the different industrial and financial forecasts available. The average growth estimate for 2009 is about 5%.

In Personal Communications Business Area the global handset shipments are expected to decline about 5% to around 1,182 million units in 2009. Growth in the smartphone market is likely to remain strong compared to the total handset industry, with year-on-year unit growth of 13% in 2009. In Home Communications Business Area the growth is expected to continue to be strong and in FTVs, Elcoteq estimates the growth potential to be over 10% and in STBs about 5%. The Communications Networks business is expected to remain flat, with some growth in Asia-Pacific. In the Communications Networks market, broadband demand – both wireless and wireline – is still growing.

Under the current market conditions it is extremely difficult to make exact forecasts. The first quarter net sales are expected to be clearly lower than the fourth quarter of 2008. The operating income, before one-time costs arising from the announced restructuring plan, is expected to be negative because the restructuring actions will not yet have a significant impact on the cost structure in the first quarter. The actions will start having positive impact from the second quarter onwards.

The company's priority areas for 2009 are the strengthening of the equity base, further balancing of customer base, clear improvement in bottom-line profitability through the ongoing restructuring actions and strong cash generation through improved profitability, limited capital expenditure and further working capital reduction.

BOARD'S DIVIDEND PROPOSAL

The Board of Directors proposes to the Annual General Meeting to be held on March 23, 2009, that no dividend will be paid for the financial year 2008.

ANNUAL GENERAL MEETING 2009

Elcoteq's Annual General Meeting will be held in Luxembourg on March 23, 2009. A separate Shareholder Information Meeting will be held before the Annual General Meeting in Helsinki, on March 18, 2009.

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

Luxembourg, February 10, 2009
Board of Directors

CONSOLIDATED INCOME STATEMENT (IFRS)

EUR 1,000	Note	Jan. 1–Dec. 31, 2008	Jan. 1–Dec. 31, 2007
NET SALES	2	**3,443,199**	**4,042,932**
Change in work in progress and finished goods		–35,516	18,499
Other operating income	3	11,182	8,176
Production materials and services	4	–2,989,012	–3,635,868
Personnel expenses	5, 6	–192,982	–206,230
Depreciation	8	–78,921	–78,699
Impairments	8	-	–1,093
Depreciation and impairments, total		–78,921	–79,792
Restructuring expenses	9	–13,496	–50,231
Other operating expenses	10	–164,851	–193,830
OPERATING LOSS		**–20,399**	**–96,344**
Financial income, total	11	6,381	3,601
Financial expenses, total	11	–38,784	–29,658
Share of the losses of associated companies	15	–105	–432
LOSS BEFORE TAXES		**–52,908**	**–122,833**
Income taxes	12	–11,109	16,322
NET LOSS		**–64,017**	**–106,511**
ATTRIBUTABLE TO:			
Equity holders of the parent company*		–65,872	–108,381
Minority interests		1,856	1,870
		–64,017	**–106,511**
Earnings per share calculated on profit attributable to equity holders of the parent company	13		
Earnings per share (EPS), A shares EUR		–2.02	–3.37
Earnings per share (EPS), K shares EUR		–	–3.37
Earnings per share (EPS), K founders' shares EUR		–0.20	–

* Net profit reported by the company.

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

EUR 1,000	Note	Jan. 1–Dec. 31, 2008	Jan. 1–Dec. 31, 2007
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss		–64,017	–106,511
Adjustments:			
Depreciation and amortization	8	78,921	79,792
Unrealized foreign exchange gains and losses		10	–12,405
Other non-payment-related income and expenses		631	141
Financial income and expenses	11	39,859	28,352
Taxes	12	11,109	–16,322
Other adjustments		5,343	38,646
Cash flow before change in working capital		71,857	11,693
Change in working capital*:			
Change in non-interest bearing current receivables		20,798	37,782
Change in inventories		128,867	–26,870
Change in non-interest bearing current liabilities		–209,864	32,287
Cash flow from operating activities before financial items and taxes		11,658	54,891
Interest and other financial expenses		–28,825	–24,385
Operations-related interest income		1,240	1,699
Income taxes paid		–6,127	3,026
Cash flow from operating activities		**–22,054**	**35,232**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of tangible and intangible assets		–61,849	–67,114
Proceeds from disposal of tangible and intangible assets		7,846	18,503
Acquisitions of subsidiaries, net of cash acquired	14	–23,941	–
Disposals	14	–	2,306
Repayment of loans receivable		279	5
Cash flow from investing activities		**–77,665**	**–46,300**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues		–	6,733
Redemption of parent company shares		–	–51
Change in current debt		119,696	30,358
Repayment of long-term debt		–20,420	–582
Dividends paid		–2,025	–8,902
Cash flow from financing activities		**97,251**	**27,558**
CHANGE IN CASH AND EQUIVALENTS		–2,469	16,490
Cash and equivalents on January 1		92,691	82,298
Cash and equivalents classified as held for sale		–	–3,154
Effect of exchange rate changes on cash held		4,877	–2,942
Cash and equivalents on December 31		**95,099**	**92,691**

* The change in working capital includes the change in sold accounts receivable. The impact of this change has weakened cash flow by 125.5 million euros during the financial year 2008 and has improved cash flow by 38.8 million euros during the financial year 2007.

CONSOLIDATED BALANCE SHEET (IFRS)

EUR 1,000	Note	Dec. 31, 2008	Dec. 31, 2007
ASSETS			
Non-current Assets	15		
Intangible assets			
Intangible rights		3,731	5,407
Product development costs		73	206
ADP Software		2,235	4,136
Advance payments and construction in progress		96	1,178
Goodwill		21,510	21,745
		27,645	32,672
Tangible assets			
Land and water areas		742	2,252
Buildings		40,397	59,715
Machinery and equipment		125,609	135,862
Advance payments and construction in progress		1,017	2,225
		167,765	200,054
Investments			
Shares and equity interests in associated companies	15, 16	1,637	1,656
Receivables from associated companies	32	87	87
Available-for-sale financial assets	26	513	502
		2,238	2,246
Long-term receivables			
Deferred tax assets	18	32,943	33,530
Other loans receivable		13,408	271
		46,352	33,800
Non-current assets, total		**243,999**	**268,773**
Current Assets			
Inventories	19		
Raw materials		205,524	274,045
Work in progress		10,593	22,329
Finished goods		40,038	59,377
Advance payments		1	5
		256,157	355,756
Current receivables			
Accounts receivable	20	306,107	297,594
Other receivables	21	17,270	22,585
Prepaid expenses and accruals	22	12,048	15,313
Tax assets based on taxable income in year		851	86
		336,276	335,578
Cash and equivalents		95,099	92,691
Current assets, total		**687,532**	**784,025**
Assets classified as held for sale	23	23,898	39,453
ASSETS, TOTAL		**955,429**	**1,092,251**

EUR 1,000	Note	Dec. 31, 2008	Dec. 31, 2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company	24		
Share capital*		13,041	13,041
Additional paid-in capital		225,011	225,011
Other reserves		5,163	7,255
Translation differences		3,227	–7
Retained earnings		–58,086	49,664
Net income for the year		–65,872	–108,381
Equity attributable to equity holders of the parent company, total		**122,484**	**186,584**
Minority interests		12,728	11,307
Total equity		**135,212**	**197,891**
Liabilities	25		
Long-term liabilities			
Subordinated notes		139,517	139,297
Medium-term notes		19,980	39,973
Loans from pension plans		210	631
Other debt		376	406
Deferred tax liability	18	5,253	4,479
		165,336	184,785
Payments due within one year		–386	–20,581
Long-term liabilities, total		164,951	164,204
Current liabilities			
Medium-term notes		–	19,991
Loans from financial institutions		173,647	33,139
Commercial paper program		–	23,951
Loans from pension plans		210	420
Advances received		780	1,053
Accounts payable		422,892	565,231
Other current liabilities	28	11,556	15,583
Accrued expenses	29	37,278	43,106
Tax liabilities based on taxable income in year		1,415	633
Provisions	27	7,488	6,521
Current liabilities, total		655,266	709,630
Liabilities classified as held for sale	23	–	20,526
Liabilities, total		**820,217**	**894,360**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**955,429**	**1,092,251**

* Share capital includes both A-shares listed in Nasdaq OMX Helsinki Exchange and K founders' shares.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders of the parent									
EUR 1,000	Share capital	Additional paid-in capital	Other reserves	Hedging reserve	Translation differences	Reserve for own shares	Retained earnings	Total	Minority interests	Total equity
BALANCE AT JAN. 1, 2008	**13,041**	**225,011**	**8,369**	**–1,047**	**–7**	**–68**	**–58,717**	**186,584**	**11,307**	**197,891**
Equity hedge of subsidiaries					–6,338			–6,338		–6,338
Cash flow hedge*				–2,092				–2,092		–2,092
Translation differences					9,572			9,572	1,591	11,163
Net income recognized direct in equity	**–**	**–**	**–**	**–2,092**	**3,234**	**–**	**–**	**1,142**	**1,591**	**2,733**
Net income							–65,872	–65,872	1,856	–64,017
Share-based payments							631	631		631
Dividends									–2,025	–2,025
BALANCE AT DEC. 31, 2008	**13,041**	**225,011**	**8,369**	**–3,139**	**3,227**	**–68**	**–123,958**	**122,484**	**12,728**	**135,212**
BALANCE AT JAN. 1, 2007	**12,616**	**218,704**	**8,369**	**0**	**–1,864**	**0**	**55,831**	**293,656**	**9,647**	**303,303**
Equity hedge of subsidiaries					2,256			2,256		2,256
Cash flow hedge*				–1,047				–1,047		–1,047
Translation differences					–399			–399	–528	–927
Net income recognized direct in equity	**–**	**–**	**–**	**–1,047**	**1,857**	**–**	**–**	**810**	**–528**	**282**
Net income							–108,381	–108,381	1,870	–106,511
Issue of share capital	425	6,308						6,733	2,822	9,555
Share-based payments							141	141		141
Redemption of parent company shares						–68		–68		–68
Dividends							–6,308	–6,308	–2,504	–8,812
BALANCE AT DEC. 31, 2007	**13,041**	**225,011**	**8,369**	**–1,047**	**–7**	**–68**	**–58,717**	**186,584**	**11,307**	**197,891**

* The Group has applied hedge accounting to derivative instruments related to purchases from June 30,2007 and related to personnel expenses from October 15, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL ACCOUNTING PRINCIPLES

Elcoteq SE is a European Company that, as from January 1, 2008, has been domiciled in the city of Luxembourg in the Grand Duchy of Luxembourg (domiciled in Lohja, Finland, until December 31, 2007). The company's registered address is 19, Rue Eugène Ruppert, L-2453 Luxembourg. Elcoteq is an electronics manufacturing services (EMS) group that focuses on communications technology and serves globally operating original equipment manufacturers of communications technology products. Elcoteq's service network covers 15 countries in Europe, Asia-Pacific and the Americas.

Elcoteq's consolidated financial statements have been prepared using the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as well as their SIC and IFRIC interpretations. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 it.

The financial statements have been authorized for issue by the Board of Directors on March 4, 2009.

In its financial statements for 2008 and the comparative figures for 2007, Elcoteq has applied the standards in force at December 31, 2008.

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

Figures in the tables of the Notes to the Financial Statements are presented in thousands of euros (EUR 1,000) unless stated otherwise.

All figures presented have been rounded and consequently the sum of individual figures may deviate from the presented sum total.

STANDARDS AND INTERPRETATIONS APPLIED AS FROM JANUARY 1, 2008

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

On July 1, 2008, the Group adopted the amendments to IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: Disclosures). Their adoption does not have an impact on the Group.

IASB issued interpretations IFRIC 11 IFRS 2 (Group and Treasury Share Transactions) and IFRIC 12 (Service Concession Arrangements) in November 2006. These interpretations do not have an impact on the Group's reporting.

PRINCIPLES OF CONSOLIDATION

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

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

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

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

TRANSLATION OF ITEMS IN FOREIGN CURRENCIES

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

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

The Group has applied hedge accounting to hedges of net investments in foreign subsidiaries as well as cash flow hedges with respect to purchases and wage and salary expenses in Hungary. When initiating hedge accounting, the Group documents the relationship between the hedged item and hedging instruments as well as the objectives of the Group's risk management and its strategy for initiating hedges. The Group documents and assesses the effectiveness of hedging relationships when initiating hedging and at least in connection with each of its financial statements by examining the ability of the hedging instrument to nullify any changes in the cash flows of the hedged item. In the hedging of cash flow, gains and losses recognized in shareholders' equity are transferred into the income statement during the period when the hedged item is recorded in the income statement.

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

Cash flow hedge accounting has been applied to derivative instruments related to purchases as from June 30, 2007. Hedge accounting can be applied when the derivative instruments are allocated to the hedging of foreign currency denominated items for future periods, typically the subsequent quarter. The effective portion of the changes in fair value is entered into shareholders' equity in the financial statements. The ineffective portion of the hedge, if any, is entered into income statement under financial items. When hedge accounting is not applied, fair value changes in derivative instruments related to purchases are recognized in the income statement as adjustments to purchases.

Hedge accounting has been applied to the hedging of the HUF-denominated wage and salary expenses of the Hungarian company as from October 15, 2008. The functional currency of the company is the euro, and thus wages and salaries in HUF involve exchange rate risks. Hedge accounting can be applied when the derivative instruments are allocated to the hedging of foreign currency-denominated items in future periods, typically the following year. The effective portion of the changes in fair value of hedges is recognized in shareholders' equity in the financial statements. The ineffective portion of the hedge, if any, is entered into income statement under financial items. When hedge accounting is not applied, fair value changes in derivative instruments related to wages and salaries are recognized in the income statement as adjustments to wage and salary expenses.

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

Goodwill arising on the acquisition of foreign units, and the fair value adjustments to the assets and liabilities of these units at the time of acquisition, are treated as the assets and liabilities of the units concerned and translated into euros at the exchange rates prevailing at the balance sheet date. Goodwill and fair value adjustments made before January 1, 2004 are entered in euros.

BUSINESS SEGMENTS

Elcoteq has organized its operations primarily into three business areas: Personal Communications, Home Communications and Communications Networks. Elcoteq reports these business areas as its primary segments, applying IAS 14 (Segment Reporting).

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

REVENUE RECOGNITION

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

TANGIBLE ASSETS

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

Asset Class	Economic life, years
Buildings	25
Building components	15
Machinery and equipment of the building	10
Other machinery and equipment	3–5

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

INTANGIBLE ASSETS

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

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

Research costs are expensed in the income statement. Development costs arising from the design of new or significantly improved products are recognized in the balance sheet as intangible assets from the moment when the product is technically and commercially feasible, and the product is expected to generate future economic benefit. Development costs previously recognized as expenses are not capitalized later. The assets are amortized from the time when they are ready for use. Assets that are not ready for use are tested annually for impairment. The economic lives of capitalized development costs are 2–5 years, during which time the capitalized assets are amortized on a straight-line basis as an expense.

An intangible asset is recognized in the balance sheet only if its acquisition cost can be reliably determined and it is probable that the asset is expected to generate economic benefit to the Group. Patents, trademarks and licenses with a finite economic life are recognized in the balance sheet at acquisition cost and expensed on a straight-line depreciation basis in the income statement over their known or estimated economic lives.

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

Asset Class	Economic life, years
Development costs	2 – 5
Computer software	3 – 5
Other intangible assets	5 – 10

IMPAIRMENTS

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

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

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

INVENTORIES

Inventories are valued at their purchase and manufacturing cost or, if lower, their probable net realizable value, which is the selling price which is obtainable less the estimated costs incurred in bringing the product to its present condition and the necessary selling expenses. 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. Value adjustments have been recognized for obsolete and slow-moving items.

FINANCIAL ASSETS

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

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

LOANS AND OTHER RECEIVABLES

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

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

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

CASH AND EQUIVALENTS

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

FINANCIAL LIABILITIES

In accordance with IAS 39, the Group's financial liabilities are divided into two categories: financial liabilities carried at amortized cost and financial liabilities at fair value through profit or loss.

FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST

The Group's short-term financial liabilities are recognized at the settlement amount received, i.e. the original book value. These financial liabilities are valued at amortized cost using the effective interest rate method.

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

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

LEASE CONTRACTS

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

When a leasing contract does not transfer substantially all the risks and rewards incident to ownership to the Group, the contract is treated as an operating lease. Machinery acquired with operating leases is not included in the Group's non-current assets. Operating leases are entered on a straight-line basis as rental expenses under other operating expenses and the rental commitments are shown in the Notes under Leasing Contracts.

When a leasing contract transfers substantially all the risks and rewards incident to ownership to the Group, the contract is treated as a finance lease. The Group had no production equipment under finance lease on December 31, 2008, nor any other significant finance leases.

An arrangement that does not take the legal form of a lease, but which in accordance with IFRIC 4 does in fact contain a lease falling under IAS 17, will be treated in accordance with IAS 17.

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

Pension plans are classified as either defined benefit plans or defined contribution plans. A defined contribution plan is a post-employment benefit plan under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined for each plan separately using the projected unit credit method. The pension costs are recognized as an expense over the expected service lives of the employees based on calculations made by qualified actuaries. When calculating the present value of the pension obligation, the discount rate used is the market yield of high-quality corporate bonds or the interest rates of government securities.

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

SHARE-BASED PAYMENTS

The Group has applied IFRS 2 (Share-Based Payments) to its share ownership plan. Under this plan, fair value is determined on the basis of the share price on the day when the persons were confirmed as participants in the plan. Expenses related to the share ownership plan are expensed in the periods during which the plan's targets apply.

The Group has also applied IFRS 2 (Share-Based Payments) to all option schemes.

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

PUBLIC GRANTS

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

In some countries, financial assistance is available for investments. Such assistance is allocated to the related non-current assets and the assistance received is entered as a reduction in the acquisition cost.

PROVISIONS

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

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

Provisions related to product warranties are recognized when the product under warranty is delivered to the customer. The amount of the provision is based on the estimated average expenses resulting from product defects during the warranty period.

INCOME TAXES

Income taxes are based on the earnings of the consolidated entities and are calculated in accordance with the local tax regulations of each country. Income taxes consist of taxes paid during the reporting period and tax adjustments for prior periods.

Other direct taxes consist of e.g. various types of profit-based local taxes. Income taxes also include any net changes in deferred tax liabilities and assets.

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

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

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if an amount corresponding to their book value will accrue mainly from their sale. Non-current assets held for sale are valued at the lower of their book value or their fair value less costs arising from their sale and are no longer amortized. Assets and liabilities classified as held for sale on the balance sheet date are shown separately in the balance sheet in compliance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations).

DIVIDENDS

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

MANAGEMENT ESTIMATES

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

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

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

Recognition of provisions requires management estimations because the exact amount of future payments relating to these obligations is not known when preparing the Financial Statements.

The Group's equity-based investments are valued at acquisition cost since no market price for them is available from the securities markets and their fair value cannot be reliably determined in any other way.

Deferred tax assets are recorded only up to the amount that they can probably be used to offset taxes to be paid in future fiscal years.

STANDARDS AND INTERPRETATIONS TO BE APPLIED AFTER 2008

In November 2006, the IASB replaced IAS 14 (Segment Reporting) with a new standard, IFRS 8 (Operating Segments). After the adoption of the standard, the Group reports on its current business segments as operating segments. The adoption of this standard affects the amount of information given on the Group's operating segments in the Notes to the Financial Statements. The Group adopted IFRS 8 on January 1, 2009.

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

The IASB has also approved amendments to the following standards: IAS 1 Revised (Presentation of Financial Statements), IFRS 3 Revised (Business Combinations), IAS 27 Revised (Consolidated and Separate Financial Statements), IFRS 2 Revised (Vesting Conditions and Cancellations), IAS 32 (Financial Instruments: Presentation) and IAS 1 Revised (Presentation of Financial Statements), IAS 39 (Financial Instruments: Recognition and Measurement), IFRS 1 and IAS 27 (Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate). The Group adopted the standards on January 1, 2009 with the exception of the amendments to IFRS 3, IAS 27 and IAS 39, which will be adopted on July 1, 2009. However, the adoption of all said amendments entails that they have been endorsed for application in the EU. The adoption of these standards does not have a material effect on the Group's reporting.

The IASB has also issued the interpretations IFRIC 11 (Group and Treasury Share Transactions) in November 2006, IFRIC 12 (Service Concession Arrangements) in November 2006, IFRIC 13 (Customer Loyalty Programs) in June 2007, IFRIC 15 (Agreements for the Construction of Real Estate) and IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). These interpretations have no effect on the Group's reporting.

2 SEGMENT REPORTING

Since the beginning of 2008, Elcoteq has had three business areas as its primary segments: Personal Communications, Home Communications and Communications Networks. Elcoteq reports these as its primary segments applying the principles defined in IAS 14 (Segment Reporting). Until the end of 2007, Personal Communications and Home Communications were combined in a single business area, Terminal Products.

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

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

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

The segment's liabilities include accounts payable and accrued expenses allocated to them.

NON-ALLOCATED ITEMS

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

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

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

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

BUSINESS AREAS

Personal Communications business area designs and manufactures devices based on the most advanced wireless communications technology such as mobile phones and their parts as well as wireless modules and wireless phones.

Home Communications business area has focused on serving customers in home communications solutions.

The business area's products include cable and satellite set top boxes, flat panel TVs and other home connectivity products such as modems and DVDs.

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

BUSINESS AREAS IN 2008, MEUR	Personal Communications	Home Communications	Communications Networks	Non-Allocated	Total
Net sales	2,222.2	517.3	703.7	–	3,443.2
Depreciation	44.4	14.2	17.8	2.4	78.9
Operating income	19.6	–4.6	1.6	–37.0	–20.4
Restructuring expenses*	–6.0	–2.1	–5.4	–	–13.5
Share of associated companies' results	–	–	–0.1	0.0	–0.1
Assets**	358.1	195.3	248.3	153.7	955.4
Investments in associated companies	–	–	1.6	0.0	1.6
Liabilities	215.4	109.1	133.0	362.7	820.2
Capital expenditures	31.8	31.6	6.7	1.3	71.4
Sold accounts receivable***	12.8	24.2	64.1	–	101.1

* A total of 9.2 million euros in restructuring expenses with no cash flow effect have been recognized, of which 3.4 million euros are included in the restructuring expenses of the Personal Communications business area, 0.9 million euros are included in the restructuring expenses of the Home Communications business area and 5.0 million euros in the restructuring costs of the Communications Networks business area.
** The assets of the segments include a total of 23.9 million euros in available-for-sale assets, of which 2.2 million are allocated to the Personal Communications business area and 21.7 million to the Communications Networks business area.
*** Not included in the segment's assets.

BUSINESS AREAS IN 2007, MEUR	Personal Communications	Home Communications	Communications Networks	Non-Allocated	Total
Net sales	2,777.8	434.2	831.0	–	4,042.9
Depreciation	47.5	8.3	19.9	4.2	79.8
Operating income	–30.2	–10.9	–17.3	–38.0	–96.3
Restructuring expenses*	–26.5	–9.4	–14.0	–0.3	50.2
Share of associated companies' results	–	–	–0.1	–0.3	–0,4
Assets**	516.7	93.5	335.0	147.0	1,092.3
Investments in associated companies	–	–	1.6	0.0	1.7
Liabilities	417.0	50.1	162.2	265.1	894.4
Capital expenditures	30.6	10.7	21.9	4.1	67.2
Sold accounts receivable***	112.6	49.1	64.8	–	226.5

* A total of 31.5 million euros in restructuring expenses with no cash flow effect on non-current assets have been recognized, of which 16.6 million euros are included in the restructuring expenses of the Personal Communications business area, 2.0 million euros are included in the restructuring expenses of the Home Communications business area and 13.0 million euros are included in the restructuring expenses of the Communications Networks business area.
** The assets of the segments include a total of 39.5 million euros in available-for-sale assets, of which 3.2 million are allocated to the Personal Communications business area, 34.5 million to the Communications Networks business area and 1.7 million to non-allocated assets.
*** Not included in the segment's assets.

GEOGRAPHICAL AREAS

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

GEOGRAPHICAL AREAS IN 2008, MEUR	Europe	Asia-Pacific	Americas	Non-Allocated	Total
Net sales	1,665.0	755.1	1,023.2	–	3,443.2
Assets	323.0	199.2	284.4	148.8	955.4
Capital expenditures	36.6	7.1	26.4	1.3	71.4
Sold accounts receivable*	79.4	21.6	–	–	101.1

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

* Not included in the segment's assets

BREAKDOWN OF NET SALES BY MARKET, MEUR	2008	2007
Europe	1,516.5	2,030.2
Americas	1,326.1	999.2
Asia-Pacific	600.6	1,013.5
	3,443.2	4,042.9

3 OTHER OPERATING INCOME

The bulk of Elcoteq's other operating income of 11.2 million euros (8.2) was made up of various types of service charges, gains on the disposal of fixed assets and grants received.

4 PRODUCTION MATERIALS AND SERVICES

EUR 1,000	2008	2007
Materials and supplies	–2,988,366	–3,632,554
External services	–647	–3,314
Production materials and services, total	–2,989,012	–3,635,868

5 PERSONNEL

The Group had on average 17,401 (19,131) employees during the year, distributed geographically as follows.

	At Dec. 31	At Jan. 1	Change	Average
Finland	220	252	–32	239
Brazil	790	361	429	856
Hong Kong	50	57	–7	51
India	885	1,144	–259	1,003
Japan	3	3	0	3
China	4,086	6,392	–2,306	5,356
Luxembourg	4	4	0	4
Mexico	3,633	2,999	634	3,623
Romania	301	327	–26	319
Sweden	7	8	–1	7
Germany	4	410	–406	36
Switzerland	10	7	3	9
Hungary	2,991	2,937	54	3,075
USA	133	163	–30	151
Russia	384	576	–192	475
Estonia	1,992	2,352	–360	2,193
Total	15,493	17,992	–2,499	17,401

On December 31, 2008 the Group employed 18,830 people, of whom 15,493 were on Elcoteq's payroll.

6 PERSONNEL EXPENSES

EUR 1,000	2008	2007
Personnel Expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits, total	151,512	164,286
Share subscription plan	631	–
Fair value of derivative changes	–51	–
Fringe benefits	–674	–778
	151,418	163,508
Indirect personnel expenses		
Defined contribution pensions	6,539	9,253
Defined benefit pensions	313	–177
Compulsory social security contributions	34,712	33,646
Total	41,564	42,722
Personnel expenses in the income statement	192,982	206,230

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

7 INCENTIVE PLANS

IFRS 2 (Share-Based Payments) has been applied to the share ownership plan and the stock option plan.

The Board of Directors of Elcoteq SE decided to approve an incentive plan for the motivation and commitment of the companies' key personnel by means of the share subscription plan. The potential reward from the plan is based on reaching the targets set by the board of directors in the summer 2008 for the Group's consolidated income before taxes for the full year 2008. The benificiary also has to be an employee of Elcoteq when the shares will be distributed to have a right for the shares. Based on the achieved targets the company can during November 2009 issue a maximum of 1,500,000 new Series A shares.

The costs of share subscription plan are expensed in the periods in which the plan is in force.

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

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

The company did not issue new option rights to key employees of Elcoteq Group during 2008.

The option plans are measured at their fair values at the grant date and expensed in equal installments during the vesting period.

The share-based plans generated costs in 2008 totaling 0.6 million euros (0.1). Of this amount, 0.0 million euros (0.0) is shown as debt in the balance sheet at December 31, 2008.

The terms of share subscription plan:

Grant day	Sep. 2, 2008	Sep. 6, 2008	Dec. 19, 2008
Maximum amount of the shares granted	1,076,667	66,748	56,250
Share price of grant date, EUR	4.55	4.30	1.15
Term of force	until Nov. 30, 2009	until Nov. 30, 2009	until Nov. 30, 2009

Share subscription prices for options in 2007 and 2008:

Option right	Ratio	Subscription price per share	Subscription period
2001A	1:1	6.33*	Apr. 1, 2002 – Apr. 30, 2007
2001B	1:1	6.33*	Apr. 1, 2003 – Apr. 30, 2007
2001C	1:1	6.33*	Apr. 1, 2004 – Apr. 30, 2007
2001D	1:1	6.33*	Apr. 1, 2005 – Apr. 30, 2007
2001E	1:1	6.33*	Apr. 1, 2006 – Apr. 30, 2007
2004A	1:1	13.79*	Mar. 1, 2005 – Mar. 31, 2007**
2004B	1:1	13.79*	Mar. 1, 2006 – Mar. 31, 2008**

* Subscription price after deduction of dividends distributed from 2006.
** The share subscription period may not, however, commence with the stock options 2004A, unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros and, in the case of stock options 2004B, at least 27 euros.

Changes in option rights in 2008 and 2007:

Number	2008	2007
Jan. 1	262,000	2,354,100
Exercised	–	1,063,592
Unsubscribed at the end of subscription period	262,000	894,508
Returned by employees	–	134,000
Dec. 31	–	262,000

8 DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

Depreciation and impairments consist of the following:

EUR 1,000	2008	2007
Intangible rights	917	2,179
ADP software	2,654	3,906
Product development costs	876	3,237
Buildings	5,990	8,619
Machinery and equipment	68,486	61,852
Total	78,921	79,792

Impairments in 2008 and 2007 related to restructuring plans have been recognized in restructuring expenses in the income statement. For more information see the note Restructuring expenses.

GOODWILL

Goodwill is is tested for impairment using the recoverable cash flow method.

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

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

Annual sales growth percentages of 0 – 20% are used for the Geographical Areas depending on the area. Market research institutes forecast growth of about 5% for the EMS and ODM businesses in 2009 and 5 – 10% annually after 2009. Elcoteq expects its net sales and operating income to remain at their current level in Asia-Pacific, improve slightly in Europe, and show a clear improvement in the Americas. Turnover of net capital employed is not expected to change significantly from its present level.

The internal interest rate is the weighted average cost of capital before taxes (WACC) specific to each area, which in 2008 was 12 – 13% (12 – 14% in 2007).

Goodwill was amortized in 2008 in the Americas in connection with the Group's restructuring plan, which was launched in the first quarter of 2009 and included the decision to close the production plant in Richardson, USA. Goodwill impairment losses are presented in the 2008 income statement as part of restructuring expenses, in note 9.

In 2007, goodwill impairment losses were recognized on both design operations and Geographical Area Europe in connection with streamlining measures carried out in the Group. The impairment of 3.4 million euros in goodwill on design operations was related to the reorganization and downscaling of resources. Goodwill amortization of 0.5 million euros in Europe was connected to the sale of Elcoteq's subsidiary in Germany to the German company BAVARIA Industriekapital AG in January 2008. Goodwill impairment losses are presented in the 2007 income statement as part of restructuring expenses, in note 9.

Amount of goodwill in cash generating units:

EUR 1,000	2008	2007
Europe	–	–
Design operations	2,981	2,981
Asia-Pacific	18,529	18,529
Americas	–	235
Total	21,510	21,745

9 RESTRUCTURING EXPENSES

During the first quarter of 2009, Elcoteq has launched a restructuring plan that applies to whole Group. The plan targets to prepare the company for the exceptionally uncertain market situation and general economic development. This plan is the next step in the company's drive to increase profitability, cost-efficiency and operational excellence. The plan contains several elements. The first measure is to close the plants in Arad (Romania), Richardsson (USA) and St. Petersburg (Russia) as well as to consolidate the plant in Shenzhen (China) to the plant in Beijing. The second measure consists of the processes of reducing personnel at several plants globally. In addition the company will reduce other operative costs.

The restructuring cost recognized in 2008 are related to the restructuring plan above and consist of fixed assets impairments as well as the personnel reductions executed or commenced in 2008.

The restructuring costs in 2007 are related to the action plans commenced in 2006, that applied especially to the operations in Europe and Americas. As a part of these action plans, the plants in Lohja, Finland, and in Juarez, Mexico, were closed during 2007. Furthermore, according to the action plan announced in October 2007, Elcoteq agreed on selling the subsidiary in Offenburg, Germany, and on the restructuring of the plant in St. Petersburg.

The Group's restructuring expenses, 13,496 thousand euros, comprise the following items:

EUR 1,000	2008	2007
Personnel expenses	2,722	6,486
Impairments	6,074	24,607
Production materials and services	3,170	–
Other operating expenses	1,530	19,138
Restructuring expenses, total	13,496	50,231

Impairments of non-current assets:

EUR 1,000	2008	2007
Intangible rights	–	757
Goodwill	248	3,852
Buildings	1,837	1,570
Machinery and equipment	3,871	7,359
ADP software	118	121
Other financial assets	–	10,949
Impairments, total	6,074	24,607

Impairments of goodwill in 2008 are related to the closing of the Richardsson plant. Impairments of buildings as well as machinery and equipment are primarily due to plant closures.

In year 2007 Impairments of goodwill are related to impairment losses on design operations and German operations. For more information on goodwill impairment, see the section entitled Depreciation and Amortization in the notes. Impairments of buildings as well as machinery and equipment are primarily due to plant closures and the sale of machinery.

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

10 OTHER OPERATING EXPENSES

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

EUR 1,000	2008	2007
Other personnel expenses	8,136	10,913
Rental expenses	43,839	49,763
Transportation	16,243	19,440
Energy expenses	12,832	12,284
Office expenses	5,121	6,634
Travel, marketing and representation expenses	8,919	11,104
Insurance expenses	2,278	3,165
External services	52,132	63,206
Other operating expenses	15,350	17,321
Total	164,851	193,830

The other operating expenses include 0.8 million euros audit fees and 0.8 million euros other services paid to the auditing associations belonging to KPMG Group.

11 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2008	2007
Financial Income		
Foreign exchange gains, designated at fair value through profit or loss	3,728	1,691
Interest income, cash and equivalents	2,211	1,749
Other financial income	442	161
Financial income, total	6,381	3,601
Financial Expenses		
Foreign exchange losses, designated at fair value through profit or loss	–6,596	–655
Interest expenses, valued at amortized cost	–21,362	–17,167
Expenses related to sale of trade receivables	–9,184	–10,387
Other financial expenses	–1,642	–1,448
Financial expenses, total	–38,784	–29,658
Financial income and expenses, total	–32,403	–26,056

Hedge accounting can be applied to derivative instruments related to purchases when the derivative instruments are allocated to the hedging of foreign currency-denominated items in future financial periods. The ineffective part of these hedges 0.2 million euros (0.0) has been entered under financial income or expenses.

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

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

12 INCOME TAXES

EUR 1,000	2008	2007
Income taxes for the current period	–3,732	–2,211
Income taxes for prior periods	–56	1,410
Other direct taxes*	–5,144	–2,467
Change in deferred tax assets/liabilities	–2,177	19,590
Income taxes, total	–11,109	16,322

* Other direct taxes are paid based on other cost base than the income before taxes of the company.

Group tax expenses, EUR 1,000	2008	2007
Income before taxes	–52,908	–122,833
The taxes calculated based on the average tax rate of Group companies	–16,969	–40,946
Change in tax rate	–491	–632
Impact of non-tax-deductable expenses	4,645	12,773
Impact of deferred tax assets left unrecorded	24,101	15,940
Adjustments to taxes in earlier years	–56	–749
Impact of consolidation	–121	–1,693
Impact of deferred tax assets from previous periods left unrecorded	–	–1,015
Group's tax expenses, total	11,109	–16,322

13 EARNINGS PER SHARE

Formula for calculating earnings per share:

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

	2008	2007
Net income A shares	–44,497	–72,756
Net income K shares / K founders' shares	–21,375	–35,625
Net income attributable to the equity holders of the parent, EUR 1,000	–65,872	–108,381
Average number of A shares	22,017,819	21,601,081
Dilution effect of share subscription plan, A shares	194,097	–
Average diluted number of A shares*	22,211,916	21,601,081
Average number of K shares / K founders' shares**	105,770,000	10,577,000
Dilution effect of share subscription plan, K shares / K founders' shares	–	–
Average diluted number of K shares / K founders' shares	105,770,000	10,577,000
Earnings per share (EPS), A shares EUR	–2.02	–3.37
Earnings per share (EPS), K shares EUR	–	–3.37
Earnings per share (EPS), K founders' shares EUR	–0.20	–

* Due to the negative net income of the year dilution effect of the share subscription plan will not be recognized.
** In the transfer of domicile the company K shares were converted into K founders' shares and their number increased ten-fold while at the same time reducing their par value to one-tenth of the par value of the A shares.

14 CASH FLOW STATEMENT

Acquired and divested business operations:

EUR 1,000	2008	2007
Acquired business operations	–23,941	–
Divested business operations	–	2,306

The total acquisition price of business operations acquired in 2008 was 23.9 million euros. Acquired assets and liabilities are shown by balance sheet groups in Impact of Business Combinations on the consolidated financial statements.

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

15 NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR 1,000	Intangible rights 2008	Intangible rights 2007	Product development costs 2008	Product development costs 2007	ADP software 2008	ADP software 2007	Advance payments and construction in progress 2008	Advance payments and construction in progress 2007	Goodwill 2008	Goodwill 2007	Intangible assets, total 2008	Intangible assets, total 2007
Cost basis, Jan. 1	10,877	11,944	9,231	9,231	40,533	40,174	1,178	682	25,597	25,676	87,417	87,707
Additions, Jan. 1–Dec. 31	186	267			482	975	74	922			743	2,163
Additions, business acquisitions, Jan. 1–Dec. 31	457	–									457	–
Transfers between items, Jan. 1–Dec. 31	592	–	742	–	387	161	–1,107	–138			614	23
Transfer to assets classified as held for sale	–1,942	–									–1,942	–
Disposals, Jan. 1–Dec. 31	–5	–854			–18	–582	–52	–288			–75	–1,724
Translation difference	–402	–480			–92	–194	2	–	14	–78	–478	–752
Cost basis, Dec. 31	9,762	10,877	9,973	9,231	41,293	40,533	96	1,178	25,610	25,597	86,737	87,417
Accumulated amortizations, Jan. 1	–5,471	–4,318	–9,025	–5,032	–36,398	–32,993			–3,852	–	–54,745	–42,344
Accumumulated amortizations on disposals	–	761			6	464					6	1,225
Accumulated amortizations on transfers (restucturing expenses)					–	200					–	200
Accumulated amortizations on transfers (assets classified as held for sale)	391	–									391	–
Impairments (represented in restucturing expenses)			–	–757	–117	–322			–248	–3,852	–366	–4,930
Amortization	–	–300			–	–77					–	–377
Translation difference	–35	266			103	159					69	424
Depreciations, Jan. 1–Dec. 31	–917	–1,879	–876	–3,237	–2,654	–3,829					–4,446	–8,944
Depreciations, Dec. 31	–6,031	–5,471	–9,901	–9,025	–39,060	–36,398	–	–	–4,100	–3,852	–59,092	–54,745
Book Value, Dec. 31	3,731	5,407	73	206	2,235	4,136	96	1,178	21,510	21,745	27,645	32,672

Product development costs: The Group´s research and development costs amounted to 1,8 million euros (4,6). Of this total 1,8 million euros (4,2) were entered as expenses and 0,0 million euros (0,4) were capitalized in the balance sheet under construction in progress.

Goodwill: The writedowns made in year 2008 and year 2007 are reported as restructuring expenses.

TANGIBLE ASSETS

EUR 1,000	Land and water areas 2008	Land and water areas 2007	Investment properties 2008	Investment properties 2007	Buildings 2008	Buildings 2007	Machinery and equipment 2008	Machinery and equipment 2007	Advance payments and construction in progress 2008	Advance payments and construction in progress 2007	Tangible assets, total 2008	Tangible assets, total 2007
Cost basis, Jan. 1	2,252	2,611	–	3,264	89,132	94,429	438,497	442,255	2,225	5,005	532,106	547,564
Additions, Jan. 1 -Dec. 31					6,101	5,413	56,704	60,387	1,998	6,682	64,803	72,482
Additions, business acquisitions, Jan. 1–Dec. 31							5,395	–			5,395	–
Transfers between items, Jan. 1–Dec. 31					55	53	4,077	331	–2,589	–407	1,543	–23
Disposals, Jan. 1–Dec. 31	–30	–137			–2,213	–3,587	–35,066	–50,853	–399	–9,039	–37,708	–63,615
Transfer to assets classified as held for sale	–1,305	–163	–	–3,264	–20,065	–5,305	–5,564	–			–26,934	–8,732
Translation difference	–175	–59			–1,350	–1,872	–880	–13,623	127	–16	–2,277	–15,571
Cost basis, Dec. 31	742	2,252	–	–	71,658	89,132	463,165	438,497	1,363	2,225	536,928	532,106
Accumulated depreciations, Jan. 1			–	–1,418	–29,417	–23,177	–302,635	–277,947	–	–	–332,051	–302,542
Accumumulated depreciation on disposals					1,854	773	28,957	35,707			30,812	36,480
Accumulated depreciations on transfers (assets classified as held for sale)			–	1,418	4,258	2,404	5,239	–			9,497	3,822
Accumulated depreciation on transfers (restucturing expenses)					–	9	–	6,815			–	6,824
Impairments (represented in other operating expenses)							–	–505			–	–505
Impairments (represented in restucturing expenses)					–1,837	–1,579	–3,525	–14,174	–346	–	–5,708	–15,753
Amortization, transfer to assets classified as held for sale							–	–716			–	–716
Translation difference					–131	772	2,894	9,321			2,763	10,093
Depreciations, Jan. 1–Dec. 31					–5,990	–8,619	–68,486	–61,136			–74,475	–69,755
Depreciations, Dec. 31	–	–	–	–	–31,262	–29,417	–337,556	–302,635	–346	–	–369,163	–332,051
Book Value, Dec. 31	742	2,252	–	–	40,397	59,715	125,609	135,862	1,017	2,225	167,765	200,054

INVESTMENTS AND LONG-TERM RECEIVABLES	Investments						Long-term receivables			
	Equity in associated companies		Receivables from associated companies		Available-for-sale financial assets		Deferred tax assets		Other loan receivables	
EUR 1,000	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Book Value, Jan. 1	1,656	2,261	87	87	502	11,379	33,530	15,218	271	99
Additions, Jan. 1–Dec. 31	–	125			–	38	2,302	19,013	13,417	177
Disposals, Jan. 1–Dec. 31					–	–63	–2,889	–702	–280	–5
Share of the losses of associated companies, Jan. 1–Dec. 31	–105	–432								
Transfers between items, Jan. 1–Dec. 31	–	–98			–	98				
Impairments (represented in restucturing expences)					–	–10,949				
Translation difference	86	–200			12	–1				
Book Value, Dec. 31	1,637	1,656	87	87	513	502	32,943	33,530	13,408	271

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

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

16 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 50,000	100	100	2,113
Elcoteq Finland Oy, Lohja, Finland	EUR 50,000	100	100	3,964
AS Elcoteq Tallinn, Tallinn, Estonia	EEK 20,500,000	100	100	1,776
Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China	CNY 213,041,100	70	70	10,280
Elcoteq Asia Ltd, Hong Kong, China	HKD 8,600,000	100	100	994
Elcoteq Inc., Dallas, USA	USD 161,781,000	100	–	–
Elcoteq Holding Inc., Dallas, USA	USD 15,701,480	100	100	76,796
Elcoteq JSC, St. Petersburg, Russia	RUB 165,409,426.50	100	100	4,895
Elcoteq Deutschland GmbH, Munich, Germany	EUR 6,442,270.34	100	100	1,350
Elcoteq Hungary Ltd., Pécs, Hungary	EUR 9,120,000	100	100	12,843
Elcoteq Japan Co. Ltd, Tokyo, Japan	JPY 10,000,000	100	100	73
Elcoteq S.A. de C.V., Monterrey, Mexico	USD 50,000	100	–	–
Elcoteq Sweden Ab, Stockholm, Sweden	SEK 200,000	100	100	22
Elcoteq Design Center Oy, Salo, Finland	EUR 3,008,000	100	100	3,008
Beijing Elcoteq Electronics Co. Ltd., Beijing, China	CNY 286,050,300	90	90	39,173
Shenzhen Elcoteq Electronics Co, Ltd., Shenzhen, China	CNY 143,284,065	80	80	16,698
Elcoteq Electronics India Pvt. Ltd, Bangalore, India	INR 1,774,931,000	100	100	29,702
Elcoteq Network S.A, Luxembourg	EUR 531,000	100	100	531
Elcoteq Juarez SA de CV, Juárez, Mexico	USD 4,374.35	100	–	–
PCE Mexicana SA de CV, Juárez, Mexico	USD 453,284.97	100	–	–
Elcoteq da Amazonia Ltda, Manaus, Brazil	0	100	100	–
Elcoteq Romania Srl, Arad, Romania	RON 4,145,443.20	100	100	505
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	EUR 201,000	100	100	1,016
				205,735

				Consolidated book value, EUR 1,000
Associated companies				
Nilistit Oy, Helsinki, Finland	EUR 161,460.41	33	–	11
ISIS Surface Mounting, Inc., California, USA	USD 120,000.00	20	–	1,627
				1,637
Other shares and equity interests held by the parent company				**98**
Other shares and equity interests held by subsidiaries				**415**
Other shares and equity interests, total				**513**

17 IMPACT OF BUSINESS COMBINATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Elcoteq SE signed in September 4, 2008 an agreement to purchase Philips' flat panel TV (FTV) assembly operations in Juarez, Mexico. The deal includes a long-term cooperation agreement with Philips to provide manufacturing services to Philips for its Latin American FTV business and its Philips Business Services business in the Americas. The deal includes also a long term cooperation agreement with Funai Electric Co., Ltd to provide manufacturing services to Funai's FTV business in North America.

The acquisition includes certain fixed assets and inventories of Philips' Juarez manufacturing operation and they will be used in the manufacturing of products to be supplied to Philips. The assets and liabilities were acquired at fair value. The impact of acquisition to the group's net profit in 2008, had the agreement been signed at the beginning of 2008, cannot be reliably determined. The final acquisition price will be confirmed during of 2009 and in year 2008 the balance sheet values used for the acquired business are based on preliminary asset values. Also the purchase allocation based on IFRS standards is prepared, on a provisional basis.

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

Assets and liabilities acquired in business combinations in 2008 and 2007:

	2008		2007	
EUR 1,000	**Fair Value**	**Book Value**	**Fair Value**	**Book Value**
Non-current assets				
Intangible assets	457	–	–	–
Tangible assets	5,395	5,395	–	–
Current assets				
Inventories	15,181	15,181	–	–
Current receivables	7,021	7,021	–	–
Cash and equivalents	406	406	–	–
Assets, total	28,461	28,004	–	–
Liabilities				
Current liabilities	5,033	5,033	–	–
Acquisition cost	23,428	22,971	–	–
Acquisition price paid in cash	24,348	–	–	–
Cash and equivalents of acquired subsidiary	–406	–	–	–
Impact on cash flow	23,941	–	–	–

The acquisition in 2008 was made in US dollars. The acquisition cost was translated into euros using the exchange rate of the acquisition date. The acquisition price paid in cash was translated into euros using the payment date's rate of the acquisition.

18 DEFERRED TAX ASSETS AND LIABILITIES, EUR 1,000

2008	Jan. 1	Items entered in income statement	Items entered in equity	Translation differences	Acquisitions/ divestments of subsidiaries	Dec. 31
Deferred tax assets						
Confirmed losses	25,857	–596	–	–	–	25,261
Depreciation differences	4,237	1,465	11	416	–	6,129
Pension obligations	–	10	–	–	–	10
Impacts of Group merger and eliminations	57	–36	–	–	–	21
Other temporary differences for assets	3,379	–2,151	400	–106	–	1,522
	33,530	–1,308	411	310	–	32,943
Deferred tax liabilities						
Depreciation differences	1,613	79	–	–62	–	1,630
Pension receivable	71	–71	–	–	–	–
Other temporary differences for liabilities	2,794	862	–	4	–37	3,622
	4,479	869	–	–58	–37	5,253

2007						
Deferred tax assets						
Confirmed losses	8,909	16,957	–	–9	–	25,857
Depreciation differences	3,872	957	–	–82	–510	4,237
Pension obligations	–	–	–	–	–	–
Impacts of Group merger and eliminations	75	–18	–	–	–	57
Other temporary differences for assets	2,363	1,099	–	–83	–	3,379
	15,218	18,995	–	–174	–510	33,530
Deferred tax liabilities						
Depreciation differences	1,661	–47	–	–1	–	1,613
Pension receivable	25	46	–	–	–	71
Other temporary differences for liabilities	3,425	–594	–	–37	–	2,794
	5,111	–595	–	–38	–	4,479

25.3 million euros of the deferred tax assets are based on the tax loss carry forward of the companies. The deferred tax assets have been recognized when it is probable that the companies will make profits on taxation in the coming years.

The Group's unrecognized deferred tax assets totaled 56.5 million euros (31.0) and they related mainly to tax assets accrued from losses in subsidiaries.

19 INVENTORIES

Value adjustments of inventories amounted to about 20.3 million euros (12.0), of which amount 17.1 million euros (10.6) are included in the production materials and services in the income statement and 3.2 million euros (1.4) are included in restructuring expenses in the income statement.

20 ACCOUNTS RECEIVABLE

Elcoteq's consolidated accounts receivable of 306.1 million euros (297.6) at balance sheet date exclude cash received from sold accounts receivable totaling 101.1 million euros (226.5). Receivables are sold within the limits of Elcoteq's sale of receivables and securitization facilities. The credit risk related to sold accounts receivable is transferred to the buyer at the time of sale without recourse to Elcoteq. Under the securitization facility a purchase price payable in two installments is established at the time receivables are sold. The second installment is carried in the group´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, 1.5 million euros at Dec. 31, 2008 (2.3), 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.

Elcoteq's credit risk is low. Customer portfolio is wide and biggest volume customers have a good credit rating.

Accounts receivable: Maximum credit risk

EUR 1,000	2008	2007
Not due	258,924	244,022
Due		
1–30 days	45,209	42,641
31–90 days	1,060	8,951
91–180 days	661	2,120
over 180 days	253	–140
Total	306,107	297,594

No impairment losses are expected on receivables that have not fallen due. No accounts receivable have been renegotiated in 2008 nor in 2007.

EUR 1,000	2008	2007
Impairment	478	6,454

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

21 OTHER RECEIVABLES

Other receivables of the Group company consist of the following items:

EUR 1,000	2008	2007
Value Added Taxes	16,077	19,843
Other items	1,193	2,742
Total	17,270	22,585

22 PREPAID EXPENSES AND ACCRUALS

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

EUR 1,000	2008	2007
Prepaid rent	964	2,623
Accrued exchange rate differences of forwards	2,088	2,180
Withholding taxes	441	90
Prepaid tax receivable	10	–
Estimated additional purchase price/ securitization	1,477	2,275
Advance payment	1,806	–
Other items	5,262	8,145
Total	12,048	15,313

23 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets and liabilities classified as held for sale relate to real estates on sale and includes impairment of 2.5 million euros (10.6).

Assets and liabilities classified as held for sale in 2007 related to real estates on sale and to sale of Elcoteq Communications Technology GmbH to Bavaria Industriekapital AG on January 2008.

Assets classified as held for sale:

EUR 1,000	2008	2007
Non-current assets	23,898	4,910
Current assets	–	34,543
Total	23,898	39,453

Liabilities classified as held for sale:

EUR 1,000	2008	2007
Long-term liabilities	–	–
Current liabilities	–	20,526
Total	–	20,526

24 SHAREHOLDERS' EQUITY

The parent company's share capital consists of the following classes of shares

2008	Shares	EUR 1,000
Series A (1 vote per share)	22,025,919	8,810
Series K (1 vote per share)	105,770,000	4,231
Total	127,795,919	13,041

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

The company redeemed a total of 8,100 of its Series A shares in 2007 and shares are still in possession of the company.

Reconciliation of numbers of shares

	Dec. 31, 2007	Change*	Dec. 31, 2008	Holding of parent company shares	Number of shares outstanding Dec. 31, 2008
Number of shares, A shares	22,025,919		22,025,919	–8,100	22,017,819
Number of shares, K shares	10,577,000	–10,577,000	–	–	–
Number of K founders' shares	–	105,770,000	105,770,000	–	105,770,000
	32,602,919	95,193,000	127,795,919	–8,100	127,787,819
Share capital (EUR 1,000)			13,041		
Additional paid-in capital (EUR 1,000)			225,011		
Total (EUR 1,000)			238,053		

* In the transfer of domicile the company K shares were converted into K founders' shares and their number increased ten-fold while at the same time reducing their par value to one-tenth of the par value of the A shares.

	Dec. 31, 2006	Subscription under 2001 options	Dec. 31, 2007	Redemption of parent company shares	Number of shares outstanding Dec. 31, 2008
Number of shares, A shares	20,962,327	1,063,592	22,025,919	–8,100	22,017,819
Number of shares, K shares	10,577,000	–	10,577,000	–	10,577,000
	31,539,327	1,063,592	32,602,919	–8,100	32,594,819
Share capital (EUR 1,000)	12,616	425	13,041		
Additional paid-in capital (EUR 1,000)	218,704	6,307	225,011		
Total (EUR 1,000)	231,320	6,733	238,053		

25 LIABILITIES

EUR 1,000	2008	2007
Long-Term Liabilities		
Interest-bearing		
Medium-term notes	19,980	39,973
Subordinated notes	139,517	139,297
Loans from pension plans	210	631
Other long-term liabilities	376	406
Total	160,083	180,307
Payments due within one year	−386	−20,581
Interest-bearing, total	159,698	159,725
Non-interest-bearing		
Deferred tax liability	5,253	4,479
Non-interest-bearing, total	5,253	4,479
Long-term liabilities, total	164,951	164,204
Current liabilities		
Interest-bearing		
Loans from financial institutions	173,647	33,139
Medium-term notes	–	19,991
Commercial paper program	–	23,951
Loan from pension plans	210	420
Interest-bearing, total	173,857	77,502
Non-interest-bearing		
Account payable	422,892	565,231
Accrued expenses	37,278	43,106
Advances received	780	1,053
Other current liabilities	12,971	16,216
Provisions	7,488	6,521
Non-interest-bearing, total	481,409	632,128
Current liabilities, total	655,266	709,630
Liabilities classified as held for sale*	–	20,526
Interest-bearing liabilities	333,555	237,228
Non-interest-bearing liabilities	486,662	657,133
Liabilities, total	820,217	894,360

* Note 23

The loans include covenants, which the company has met during the accounting period.

BONDS

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

SUBORDINATED NOTES

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

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

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

LOANS FROM PENSION PLANS

The company drew TEL (Employees' Pensions Act) pension plan loan in 1999 that is repayable in equal instalments. The loan runs until June 1, 2009 and has fixed interest rate of 3.85%. The principal of the loan was 0.2 million euros at the balance sheet date.

COMMERCIAL PAPER PROGRAM

Elcoteq SE operates a 200 million euros commercial paper program in Finland, which was used during the period to issue notes with a maximum maturity of three months. At year-end there were no outstanding issues from the program (24.0).

LOANS FROM FINANCIAL INSTITUTIONS

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

REVOLVING LINES OF CREDIT

The company has a 5-year revolving credit facility of 230 million euros that was signed with a bank syndicate in November 2004. Loans under this facility are unsecured and committed. The interest margin on loans under the facility varies between 0.70% and 1.60%. At the balance sheet date 160.0 million euros (0.0) with a remaining maturity of under one month was in use from the facility.

The Group is in process of extending the syndicated credit facility of 230 million euro beyond November 2009. It is foreseen that such credit facility will start in April 2009 with 200 million euro and will have normal customary market terms and conditions as well as include covenants that the Group has assessed to be in a position to comply with based on current market conditions, forecasts and projections. The maturity of the new credit facility will be June 2010.

The Board of Directors believes that the ongoing negotiations with the bank syndicate are proceeding in good faith and lead to the facility extension beyond year 2009. For this reason and in the light of the facility terms and conditions the company continues to adopt the going concern basis in preparing the annual report and accounts.

GEARING

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

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

EUR 1,000	Dec. 31, 2008	Dec. 31, 2007
Interest-bearing debt	333,555	237,228
Cash and equivalents	95,099	92,691
Interest-bearing net debt	238,456	144,537
Shareholders' equity	135,212	197,891
Gearing	1.8	0.7

Gearing has been affected by the financing of extraordinarily high inventories as well as decline in the amount of sold receivables.

Liquidity risk Dec. 31, 2008

EUR 1,000	2009	2010	2011	2012	2013
Loans from pension plans and interest expenses	–214	–	–	–	–
Medium-term notes, nominal value and interest expenses					
Fixed coupon	–	–	–	–	–
Floating rate	–993	–993	–993	–20,495	–
Subordinated notes, nominal value and interest expenses					
Fixed coupon	–4,666	–4,666	–94,666	–	–
Floating rate	–2,764	–52,075	–	–	–
Short-term loans from financial institutions and interest expenses	–174,627	–	–	–	–
Commercial papers and interest expenses	–	–	–	–	–
Accounts payable	–422,892	–	–	–	–
TOTAL	**–606,156**	**–57,734**	**–95,659**	**–20,495**	**–**
Derivative contracts					
Transaction risk					
Positive cashflow	186,120	–	–	–	–
Negative cashflow	–189,883	–	–	–	–
Translation risk					
Positive cashflow	20,243	–	–	–	–
Negative cashflow	–21,062	–	–	–	–
Financial risk					
Positive cashflow	171,589	–	–	–	–
Negative cashflow	–174,664	–	–	–	–
Derivative contracts, interest rate and foreign exchange swap					
Nominal value and interest income	1,545	–	–	–	–
Nominal value and interest expense	–1,347	–	–	–	–
TOTAL	**–613,615**	**–57,734**	**–95,659**	**–20,495**	**–**

Liquidity risk Dec. 31, 2007

EUR 1,000	2008	2009	2010	2011	2012
Loans from pension plans and interest expenses	–441	–214	–	–	–
Medium-term notes, nominal value and interest expenses					
Fixed coupon	–21,025	–	–	–	–
Floating rate	–1,115	–1,112	–1,112	–1,112	–20,554
Subordinated notes, nominal value and interest expenses					
Fixed coupon	–4,666	–4,666	–4,666	–94,666	–
Floating rate	–3,647	–3,637	–52,730	–	–
Short-term loans from financial institutions and interest expenses	–34,005	–	–	–	–
Commercial papers and interest expenses	–24,000	–	–	–	–
Accounts payable	–565,231	–	–	–	–
TOTAL	**–654,130**	**–9,629**	**–58,508**	**–95,778**	**–20,554**
Derivative contracts					
Transaction risk					
Positive cashflow	412,514	–	–	–	–
Negative cashflow	–420,630	–	–	–	–
Translation risk					
Positive cashflow	40,541	–	–	–	–
Negative cashflow	–39,439	–	–	–	–
Financial risk					
Positive cashflow	126,536	–	–	–	–
Negative cashflow	–126,286	–	–	–	–
Derivative contracts, interest rate and foreign exchange swap					
Nominal value and interest income	2,668	1,538	–	–	–
Nominal value and interest expense	–2,696	–1,561	–	–	–
TOTAL	**–660,922**	**–9,652**	**–58,508**	**–95,778**	**–20,554**

The book value of the medium-term notes was about 20.0 million euros and of the subordinated notes about 139.5 million euros at December 31, 2008. The company has the right to redeem 60 million euros subordinated notes maturing 2011 prematurely at six-month intervals from December 22, 2009 onwards.

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

26 BOOK VALUES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

EUR 1,000	Note	Hedge accounting	Financial assets and liabilities designated at fair value	Loans and other receivables	Available-for-sale financial assets	Financial liabilities valued at amortized cost	Book value	Fair value
Balance sheet Dec. 31, 2008								
Long-term financial assets								
Other finanancial assets	15	–	–	–	513	–	513	513
Short-term financial assets								
Accounts receivable	20	–	–	306,107	–	–	306,107	306,107
Other receivables	22	–	–	2,241	–	–	2,241	2,241
Cash and equivalents		–	95,099	–	–	–	95,099	95,099
Derivative contracts	33	372	2,040	–	–	–	2,411	2,411
Book value by categories		**372**	**97,139**	**308,348**	**513**	**–**	**406,371**	**406,371**
Long-term financial liabilities								
Interest-bearing debts	25	–	–	–	–	–159,698	–159,698	–159,698
Derivative contracts	33	–	–	–	–	–	–	–
Short-term financial liabilities								
Interest-bearing debts	25	–	–	–	–	–173,857	–173,857	–173,857
Derivative contracts	33	–4,389	–5,154	–	–	–	–9,543	–9,543
Accounts payable	25	–	–	–	–	–422,892	–422,892	–422,892
Other financial liabilities		–	–	–	–	–	–	–
Book value by categories		**–4,389**	**–5,154**	**–**	**–**	**–756,447**	**–765,990**	**–765,990**

EUR 1,000	Note	Hedge accounting	Financial assets and liabilities designated at fair value	Loans and other receivables	Available-for-sale financial assets	Financial liabilities valued at amortized cost	Book value	Fair value
Balance sheet Dec. 31, 2007								
Long-term financial assets								
Other finanancial assets	15	–	–	–	502	–	502	502
Short-term financial assets								
Accounts receivable	20	–	–	297,594	–	–	297,594	297,594
Other receivables	22	–	–	2,775	–	–	2,775	2,775
Cash and equivalents		–	92,691	–	–	–	92,691	92,691
Derivative contracts	33	1,522	750	–	–	–	2,272	2,272
Book value by categories		**1,522**	**93,441**	**300,369**	**502**	**–**	**395,835**	**395,835**
Long-term financial liabilities								
Interest-bearing debts	25	–	–	–	–	–159,725	–159,725	–159,725
Derivative contracts	33	–	–44	–	–	–	–44	–44
Short-term financial liabilities								
Interest-bearing debts	25	–	–	–	–	–77,502	–77,502	–77,502
Derivative contracts	33	–1,467	–7,507	–	–	–	–8,974	–8,974
Accounts payable	25	–	–	–	–	–565,231	–565,231	–565,231
Other financial liabilities		–	–	–	–	–1,768	–1,768	–1,768
Book value by categories		**–1,467**	**–7,551**	**–**	**–**	**–804,226**	**–813,244**	**–813,244**

27 PROVISIONS

1,000 EUR	2008	2007
Restructuring provisions		
Provisions on Jan. 1	5,223	296
Additions	4,125	11,085
Disposals	–4,212	–6,159
Provisions on Dec. 31	5,137	5,223
Warranty provisions		
Provision on Jan. 1	1,297	1,026
Additions	1,395	742
Disposals	–341	–470
Provisions on Dec. 31	2,351	1,297
Cost provisions		
Provision on Jan. 1	–	494
Additions	–	–
Disposals	–	–494
Provisions on Dec. 31	–	–
Provisions, total		
Provision on Jan. 1	6,521	1,816
Additions	5,520	11,827
Disposals	–4,553	–7,123
Provision on Dec. 31	7,488	6,521

Restructuring provisions in 2008 are primarily related to restructuring program of Elcoteq Group announced in January 2009.

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

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

28 OTHER CURRENT LIABILITIES

The Group's other liabilities consist of the following items:

EUR 1,000	2008	2007
Value Added Taxes	6,373	8,240
Other items	5,183	7,343
Total	11,556	15,583

29 ACCRUED EXPENSES

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

EUR 1,000	2008	2007
Wages and salaries	9,230	13,120
Hedges related to personnel expenses	740	–
Vacation pay	3,306	3,574
Other indirect personnel expenses	3,239	5,935
Interests	1,884	1,768
Exchange rate accruals on forward contracts	9,129	8,290
Transportation expenses	2,140	3,058
Other items	7,610	7,361
Total	37,278	43,106

30 EMPLOYEE BENEFITS

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

Actuarial estimates used to calculate pension liabilities:

%	2008	2007
Discount rate on Dec. 31	5.75	4.90
Expected yield	4.50	4.00
Increase in wages and salaries	4.00	4.00
Estimated inflation rate	2.00	2.00
Terminated employment contracts	0.00	0.00

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

EUR 1,000	2008	2007
Service cost	286	310
Interest cost	174	131
Payments to mutual funds	–510	–574
Income from mutual funds	–115	–103
Effect of settlement	395	–
Actuarial gains (+) / losses (–)	83	59
Total	313	–177

Pension liabilities in the balance sheet:

EUR 1,000	2008	2007	2006	2005
Present value of obligations	1,702	3,267	2,964	2,731
Fair value of plan assets	–1,235	–2,629	–2,290	–1,971
Unrecognized actuarial gains(+)/losses(–)	–822	–911	–770	–687
Effect of settlement	395	–	–	–
Net liability(+)/asset(–) in the balance sheet	40	–273	–96	73

In year 2008 Pension liabilities in the balance sheet is presented in Note 25 Liabilities, other long term liabilities and in year 2007 Pension asset in the balance sheet is presented in Note 15 Other long term receivables.

Change in fair value of plan assets:

EUR 1,000	2008	2007
Fair values of plan assets Jan. 1	2,629	2,290
Expected return on plan assets	115	103
Payment to pension fund	510	574
Effect of settlement	–1,576	–
Actuarial gains(+)/losses(–)	–443	–338
Fair value of plan assets Dec. 31	1,235	2,629

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

Change in pension liability/asset:

EUR 1,000	2008	2007
Obligation Jan. 1	–273	–96
Net costs of fund	823	397
Payments to fund	–510	–574
Obligation Dec. 31	40	–273

31 LEASE CONTRACTS

The Group has leased production equipment under operating leases. In 2008 no new operating lease contracts were made (2007 with an equipment purchase value of approximately 3.4 million euros). The lease payments are fixed for the duration of the leasing period.

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

EUR 1,000	Dec. 31, 2008	Dec. 31, 2007
Under 1 year	7,706	16,098
1–5 years	1,308	10,141
Over 5 years	–	–
Total	9,014	26,239

Operating lease expenses for machinery amounted to 20.7 million euros for the year ended December 31, 2008 and 25.8 million euros for the year ended December 31, 2007.

The future annual lease payments under other leases are as follows:

EUR 1,000	Dec. 31, 2008	Dec. 31, 2007
Under 1 year	8,961	11,445
1–5 years	6,425	7,889
Over 5 years	–	–
Total	15,386	19,334

The Group had no significant finance leases at the end of 2008.

32 RELATED PARTY DISCLOSURES

Related party is related to an entity if:

a) directly, or indirectly through one or more intermediaries, the party
   - controls, is controlled by, or is under common control with, the entity
   - has an interest in the entity that gives it significant influence over the entity or
   - has joint control over the entity

b) the party is an associate of the entity

c) the party is a joint venture in which the entity is a venturer

d) the party is a member of the key management personnel of the entity or its parent

e) the party is a close member of the family of any individual referred to in (a) or (d):

f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Salaries and share-based payments to management*:

EUR 1,000	2008	2007
To parent company President and CEO Jouni Hartikainen		
Salaries and other short-term benefits	674	652
Share-based payments	25	84
To parent company Deputy CEO Jukka Jäämaa**		
Salaries and other short-term benefits	315	374
Share-based payments	–	63
To other Elcoteq Management Team members		
Salaries and other short-term benefits	1,032	1,065
Share-based payments	50	68

* Includes costs of stock options and share incentive plans.

** Elcoteq employee until September 4, 2008.

Fees paid for work for the Board of Directors:

EUR 1,000	2008	2007
Antti Piippo, Chairman of the Board	627	661
Juha Toivola, Deputy Chairman of the Board	180	180
Martti Ahtisaari, member of the Board	60	60
Heikki Horstia, member of the Board	60	60
Eero Kasanen, member of the Board	60	60
Henry Sjöman, member of the Board	60	60
Jorma Vanhanen, member of the Board	60	60
François Pauly, member of the Board	60	–
Salaries to management and share-based payments, total	3,263	3,447

In addition to statutory pension cover, the President and CEO and some members of the Board of Directors are entitled to retire on reaching 60 years of age by virtue of supplementary pension plans. Expenses arising from these supplementary pension plans totaled 0.9 million euros (0.6) in the income statement.

Disclosures related to associated companies:

EUR 1,000	2008	2007
Goods and services sold to associated companies	–	–
Accounts receivable on Dec. 31	87	87

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

The Group's subsidiaries are listed under Shares and Equity Interest in note 16.

Board's Shareholdings on December 31, 2008

Name	A Shares	K founders' shares	Change from 2007
Antti Piippo	1,605,822	54,110,000	11,757
Henry Sjöman	619,617	25,830,000	26,757
Jorma Vanhanen	604,617	25,830,000	–3,243
Martti Ahtisaari	27,492	–	11,757
Heikki Horstia	23,242	–	11,757
Eero Kasanen	24,892	–	11,757
François Pauly	11,757	–	11,757
Juha Toivola	29,742	–	11,757

Share Ownership of the Elcoteq Management Team on December 31, 2008

Name	Number of Shares, A Shares
Jouni Hartikainen	38,132
Vesa Keränen	3,232
Markus Kivimäki	5,000
Tommi Pettersson	1,000
Mikko Puolakka	1,000
Roger Taylor	–

33 ASSETS PLEDGED AND CONTINGENT LIABILITIES

EUR 1,000	2008	2007
Pledged sales receivable	26,901	–
Pledged loan receivables	764	–
On behalf of others		
Guarantees	1,008	8
Leasing commitments		
Operating leases, production machinery (excl. VAT)	9,014	26,239
Rental commitments, real-estate (excl. VAT)	15,386	19,334
Derivative contracts		
Currency forward contracts, transaction risk, hedge accounting not applied		
Nominal value	118,315	223,305
Fair value	–224	–7,069
Currency forward contracts, transaction risk, hedge accounting applied		
Nominal value	69,389	182,754
Fair value	–3,539	–1,047
Currency option contracts, transaction risk, hedge accounting applied, bought options		
Nominal value	17,000	–
Fair value	341	–
Currency forward contracts, translation risk		
Nominal value	20,243	40,541
Fair value	–819	1,102
Currency forward contracts, financial risk		
Nominal value	172,329	126,534
Fair value	–3,116	250
Interest rate and foreign exchange swap contracts		
Nominal value	1,500	4,000
Fair value	225	18

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

OTHER COMMITMENTS

In calculating value-added tax for China in 2008, Elcoteq has applied a method that has so far not received the written approval of the tax authorities. Should this approval not be forthcoming, the effect would be to reduce Elcoteq's result substantially. During previous years Elcoteq has been granted the approval afterwards and therefore the company has estimated the risk to be small and has made no provision.

SHARES AND SHAREHOLDERS

SHARE SERIES AND SHARE CAPITAL

Elcoteq SE has two classes of shares, Series A and Series K founders' shares. Series A shares (ticker symbol ELQAV) are quoted on the Nasdaq OMX Helsinki Exchange and are included in the book-entry system maintained by Euroclear Finland Ltd. All the Series K founders' shares are held by Mr. Antti Piippo, Mr. Henry Sjöman and Mr. Jorma Vanhanen, who were the sole owners of the company before its initial public offering and whose holdings of the Series K founders' shares have not changed since. Elcoteq's Articles of Association stipulate that the number of Series K founders' shares cannot be increased. All of the shares carry one vote at general shareholders' meetings. Elcoteq shares confer financial rights in proportion to their par value. The par value of Series K founders' shares and the financial rights they confer are one-tenth of the par value of the Series A shares and the financial rights they confer.

At the end of 2008, Elcoteq's share capital consisted of altogether 127,795,919 shares divided into 22,025,919 Series A shares and 105,770,000 Series K founders' shares. The par value of each Series A share is 0.40 euros and the par value of Series K founders' shares is 0.04 euros. The company's registered share capital on December 31, 2008 totaled 13,041,167.60 euros. Elcoteq SE held 8,100 of its own Series A shares at the end of 2008.

SHARE INFORMATION, DECEMBER 31, 2008

- Number of Series A shares 22,025,919
- Ticker symbol ELQAV
- Number of Series K founders' shares 105,770,000

BOARD AUTHORIZATIONS

According to Elcoteq's Articles of Association, which came into force on January 1, 2008, the Board of Directors is authorized to increase the issued share capital in whole or in part, from time to time, through issues of Series A shares within the limits of the authorized capital (the maximum capital is 20,000,000.00 euros, including the issued capital). In connection with such increases of capital, the Series A shares shall be issued for compensation in cash or, subject to applicable provision of law, in kind at a price at an amount which shall not be less than the par value and may include such issue premium as the Board of Directors shall decide.

The authorization was not exercised in 2008.

SHAREHOLDER AGREEMENTS

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

SHARE SUBSCRIPTION PLAN 2007

The company has a share subscription plan for the motivation and commitment of the company's key personnel which allows the company to issue a maximum of 1,500,000 new Series A shares in November 2009.

The actual number of shares to be issued is based on the profit before taxes of the full financial year 2008. According to the plan and on the basis of the 2008 results, the company will be issuing approximately 480,000 new Series A shares in November 2009.

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

SHAREHOLDING OF THE CEO AND THE BOARD MEMBERS

At the end of 2008, the members of the company's Board of Directors owned a total of 2,947,181 Series A shares and 105,770,000 Series K shares, which represented 85.0% of the total number of shares registered on December 31, 2008, and 85.0% of the votes outstanding.

At December 31, 2008, Mr. Jouni Hartikainen, Elcoteq's President and CEO, held 38,132 Elcoteq Series A shares, which represent 0.03% of the registered shares and 0.03% of the votes outstanding.

The share and option holdings of Elcoteq's Board of Directors and Elcoteq Management Team are presented on pages 103 and 105. A listing of Elcoteq insiders' share and option holdings is available on the company's website at www.elcoteq.com> Investors.

SHAREHOLDERS

Elcoteq had 9,301 registered shareholders at the end of 2008. There were a total of 6,957,018 nominee-registered or foreign-registered Series A shares, representing some 5.4% of the total number of shares and 5.4% of the votes outstanding.

FREE FLOAT

At December 31, 2008, Elcoteq's free float (the number of Series A shares not held by its three principal owners) totaled 19,195,863 shares, or 87.2% of all Series A shares and 58.9% of the total share capital. Nominee-registered and foreign-registered shares accounted for 36.2% of the free float.

DIVIDEND POLICY

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

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

Distribution of Shares, December 31, 2008

Number of Shares	Number of Holders	% of Total Shares	% of Total Votes
1–100	3,013	0.16	0.16
101–1,000	4,896	1.62	1.62
1,001–10,000	1,260	2.81	2.81
10,001–100,000	109	2.02	2.02
100,001–	23	93.39	93.39

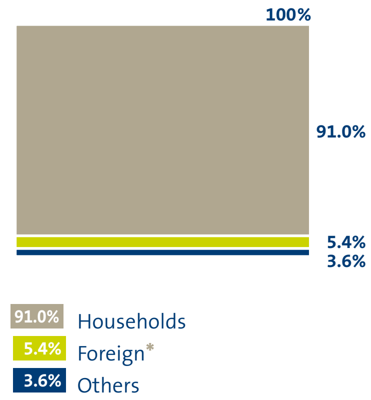
Figures include nominee-registered shareholders. Each nominee is treated as one shareholder.

Shareholders by Type, December 31, 2008

	Number of Holders	% of Total Shares	% of Total Votes
Households	116,350,260	91.04	91.04
Foreign*	6,957,018	5.44	5.44
Companies	1,682,031	1.31	1.31
Public entities	730,090	0.57	0.57
Financial and insurance institutions	1,628,767	1.28	1.28
Non-profit organizations	439,293	0.34	0.34

* includes nominee-registered shareholders.

% OF TOTAL SHARES



* includes nominee-registered shareholders.

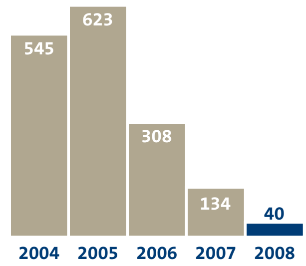
Major Shareholders, December 31, 2008

	A Shares	K Shares	% of Shares	% of Votes
1. Antti Piippo	1,605,822	54,110,000	43.60	43.60
2. Jorma Vanhanen	619,617	25,830,000	20.70	20.70
3. Henry Sjöman	604,617	25,830,000	20.69	20.69
4. Alfred Berg Finland Sijoitusrahasto	869,530		0.68	0.68
5. Alfred Berg Small Cap Sijoitusrahasto	442,430		0.35	0.35
6. Nahkionkosken voimalaitos ky	354,841		0.28	0.28
7. Suomen itsenäisyyden juhlarahasto	344,553		0.27	0.27
8. Alfred Berg Optimal Sijoitusrahasto	308,677		0.24	0.24
9. Simo-Pekka Inkinen	212,185		0.17	0.17
10. Mikko Patojoki	211,000		0.16	0.16
Total	5,573,272	105,770,000	87.14	87.14

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

Performance and Trading of the Series A Shares	2008	2007
Highest price, EUR	7.36	9.98
Lowest price, EUR	1.02	3.58
Average price, EUR	3.87	6.31
Closing price, EUR	1.21	4.06
Trading volume, MEUR	56.4	213.5
Trading volume, shares	13,975,766	34,015,445

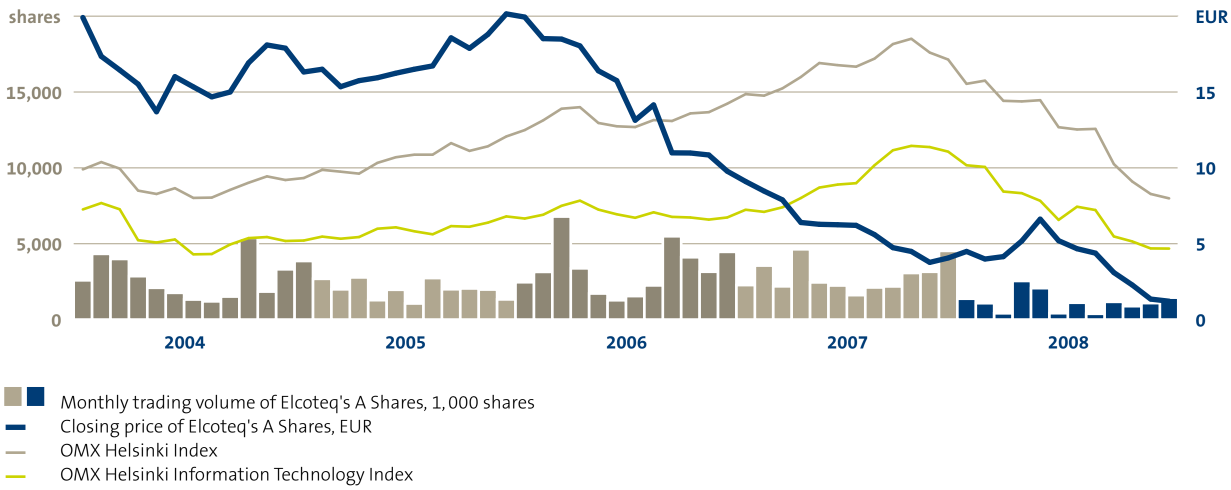
MARKET CAPITALIZATION 2004–2008, MEUR



Market Capitalization, MEUR	2008	2007
Series A Shares	26.7	89.4
Series K Shares	12.8	43.0
Total	39.5	132.4

In 2008, market capitalization is calculated by multiplying all Elcoteq's A shares and one tenth of the total number of K founders' shares by the closing quotation of the year. In 2007, market capitalization is calculated by multiplying all Elcoteq's A shares and K shares by the closing quotation of the year.

TRADING PRICE AND TRADING VOLUMES OF ELCOTEQ'S A SHARE IN 2004–2008



35 RISK MANAGEMENT

Risk management is based on the risk management policy endorsed by Elcoteq's Board of Directors and comprises an integral part of the planning and implementation of the company's strategy. Elcoteq seeks to manage risks in a comprehensive and forward-looking manner and to limit any negative effects should these risks materialize.

TARGETS OF RISK MANAGEMENT

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

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

RISK MANAGEMENT PRINCIPLES

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

The purpose of Elcoteq's risk management function is to support and evaluate the risk management work of the company's different units, and to report key risks to the company's top management. The risk management function is also responsible for insurance coverage and the coordination of insurance policies. Elcoteq's risk management function reports to the CFO.

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

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

RISK ASSESSMENT

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

The risk assessments and their updates are usually carried out by the management teams of Elcoteq's units. The objective of the work is to identify the risks as broadly as possible in the various areas of the company's business operations. In the case of each identified risk, the units assess the probability of the identified risk materializing and its impact on the unit's activities. They draft plans for the major risks in order to ensure continuity should these risks materialize. Risks are prioritized to enable the units to focus on those issues that need the most attention from a business standpoint.

The Group's risk management function has an internal audit system to measure and monitor the level of risk management in its various units.

In 2008, internal audits were executed in the plants in Hong Kong, Mexico and Shenzhen as well as in Group functions.

An internal audit of the Group's risk management was initiated in 2008 and will be completed in the first half of 2009.

Also a risk management tool for Group was developed in 2008 to boost efficiency in the assessment of the Group's strategic risks and the related continuity planning.

In 2008, an insurance company assessed risks at the Chinese, Hungarian and Estonian plants. The insurance company will carry out further risk assessments at Elcoteq units in 2009.

STRATEGIC AND OPERATIONAL RISKS

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

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

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

NEW SERVICES AND BUSINESS MODELS: failure to develop the new services or business models required to meet demand, or failure to offer these profitably, could hamper implementation of the strategy and weaken profits.

Having identified its customers' needs, Elcoteq has set expansion of its service offering as one of its main strategic themes. Examples of this have been the offering of box build and after-market services in the Terminal Products Business Area and final total assembly services of FTVs in the Home Communications Business Area.

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

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

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

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

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

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

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

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

CONDUCTING BUSINESS IN EMERGING MARKETS: legislative, political or financial developments in the economies of emerging markets could have a negative impact on the company's assets and Elcoteq establishes operations in developing countries only after careful consideration and continuously monitors economic and political developments in these countries.

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

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

CASUALTY RISKS

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

FINANCIAL RISKS

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

FOREIGN EXCHANGE RISKS

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

Transaction risk mainly relates to the US dollar (USD) and Japanese yen (JPY). In addition to component and manufacturing costs, Elcoteq's pricing model also considers the foreign exchange rates prevailing at the time of pricing, which forms the basis for hedges in line with forecasted production volumes. Prices are usually agreed for the

FOREIGN EXCHANGE EXPOSURE, TRANSACTION RISK

	Dec. 31, 2008				Dec. 31, 2007			
EUR million	Net flow in balance sheet	Forecasted net flow	Hedging	Total net risk	Net flow in balance sheet	Forecasted net flow	Hedging	Total net risk
USD	–49.3	–68.1	96.7	–20.7	–124.6	–170.9	198.7	–96.7
EUR	–3.8	5.4	–5.3	–3.7	–0.5	1.3	2.0	2.8
JPY	–16.4	–2.0	10.5	–8.0	–58.3	–69.6	122.3	–5.6
HUF	–1.0	–86.6	35.5	–52.0	–1.0	0.0	–0.2	–1.2
Other	–5.3	0.6	3.7	–1.0	–4.1	–13.5	16.3	–1.3

Net foreign exchange risks have been taken into account in the Group level figures in the table presented here when the currency used is not the unit's functional currency. Transaction Risk includes also the estimated amounts of hedged salaries and related hedges.

SENSITIVITY ANALYSIS, TRANSACTION RISK

Effect	Weakening of the currency, 10%				Strengthening of the currency, 10%			
EUR million	Dec. 31, 2008		Dec. 31, 2007		Dec. 31, 2008		Dec. 31, 2007	
	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement
USD	–2.8	2.3	–11.3	4.5	3.4	–2.8	13.8	–5.5
EUR	–	0.8	–	–0.1	–	–1.0	–	0.2
JPY	–0.0	0.7	–4.8	–1.0	0.0	–0.9	5.9	1.3
HUF	–0.0	0.1	–	–0.6	0.0	–0.1	0.7	0.0
Other	–0.0	0.2	–	0.4	0.1	–0.1	–	–0.6

The effect has been calculated from the net risk of each currency without forecasted net flow.

upcoming three months and therefore no long-term items are included in the company's transaction exposure. Approximately 85–95% of Elcoteq's foreign exchange position, which is based on volume forecasts, is hedged at the time prices are agreed, using forward contracts or currency options with a maximum term of six months. The level of hedges is monitored and updated throughout the pricing period. Foreign exchange regulations may hinder hedging activities in certain countries. Furthermore, Elcoteq's ability to execute efficient hedging activities is hindered by the general market situation and the fact that banks are seeking to limit balance sheet usage. Hedging costs have also increased as a consequence.

The foreign exchange risk associated with Group companies' equity-linked net investments denominated in currencies other than the euro, i.e. the translation risk, arises from fluctuations in the calculated euro values of these amounts. The translation risk at the end of 2008 related mainly to the Chinese yuan (CNY). These risks are partly hedged using exchange rate derivative contracts. Approximately 80% of the Group's ownership holdings in these companies are targeted to be hedged and this hedging level is updated during every subsequent month after the financial statements of the subsidiaries for the previous month are completed. 200 million yuans of the equity-linked net investments, based on the situation at the end of the previous month, were hedged on December 31, 2008.

SENSITIVITY ANALYSIS, TRANSLATION RISK

Effect, EUR million	Dec. 31, 2008	Dec. 31, 2007
Strengthening of the euro, 10%	1.9	3.6
Weakening of euro, 10%	–2.3	–4.4

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

Internal funding of Group companies is primarily handled in their functional currency. The parent company hedges the foreign exchange risk with derivative contracts. The level of hedging is about 100%; however, at year-end the Russian ruble was not hedged due to the abnormal situation in the Russian foreign currency market. The calculated +/–10% effect of FX fluctuation on currency differences would be a gain of 2.8 million euros or a loss of 2.3 million euros (0.0 million euros on December 31, 2007).

LIQUIDITY AND REFINANCING RISKS

Liquidity risk is measured through reports based on the Group's cash flow forecasts. The company endeavors to safeguard its good liquidity position under varying market conditions through sufficient cash reserves and credit limit arrangements.

On December 31, 2008 the Group's interest-bearing net debt totaled 238.5 (144.5) million euros. The Group's cash reserves totaled 95.1 (92.7) million euros and interest-bearing debt 333.6 (237.2) million euros. Of the interest-bearing debt, the nominal value of subordinated notes amounted to 140 (140) million euros at the end of 2008.

The company's main unused financing reserve is a syndicated credit facility totaling 70 (230) million euros on December 31, 2008. The company also has a Finnish commercial paper program of 200 million euros. There were no outstanding issues from the program at year end (24 million euros on December 31, 2007). In addition, the company has a securitization facility worth 250 million euros as well as other smaller limits available for the sale of receivables. The company targets to continue to make use of accounts receivable sales when cost-effective.

More detailed information on page 69 (Liquidity Risk).

INTEREST RATE RISK

The Group follows its interest exposure by monitoring in particular the interest payment flow risk. The strategic idea is to balance fixed and floating interest rates portfolios.

On December 31, 2008 the average interest rate of the loan portfolio was 5.0% (6.1%) with an average interest rate re-fixing time of approximately 10 (19) months. Altogether 95.9% (86.1%), or 320.2 (204.6) million euros, of the loan portfolio was denominated in euros.

No derivative contracts were used to hedge the interest rate risk during the period. Rental payments on the company's operating leases for production equipment are based likewise on long-term market interest rates. Approximately 90 (110) million euros of the Group's total interest-bearing debt, which at December 31, 2008 amounted to 333.6 (237.2) million euros, has been agreed to carry a long-term fixed coupon. The remaining 243.6 (127.2) million euros are floating rate short- or long-term loans, to which a market interest rate change of one percentage point would have an approximately 2.1 (1.3) million euro positive or negative effect on annual interest expenses.

Short-term interest rates affect the price that is received from sold accounts receivable. The interest rate risk related to

RISK MANAGEMENT

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

this off-balance sheet item has not been hedged. At year-end, the cash flow from sold accounts receivable totaled 101.1 (226.5) million euros, to which a market interest rate change of one percentage point would have an approximately 1.0 (2.3) million euro positive or negative effect on annual financial expenses. The costs arising from sold accounts receivable are entered under financial expenses.

CREDIT AND COUNTERPARTY RISKS

Primary responsibility for credit risks associated with the company's commercial activities lies with the business areas. Customers are given internal credit ratings. The credit committee, which operates under the Group's Management Team, decides on significant credit limits. In order to minimize credit risk, the company seeks to obtain adequate collateral, if the need for it is indicated by the creditworthiness of a customer. The maximum amount of the credit risk is the book value of accounts receivable. The credit risk related to sold accounts receivable is transferred at the time of sale (see page 66, Accounts Receivable).

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

36 EVENTS AFTER THE CLOSE OF THE PERIOD

On January 15, 2009 The Board of Directors of Elcoteq SE has decided to launch an intense restructuring plan during the first quarter to prepare the company for the exceptionally uncertain market situation and general economic development in 2009. This plan is the next step in the company's drive to increase profitability, cost-efficiency and operational excellence. The restructuring plan does not imply changes in the company's strategy; it merely consists of preparatory measures to adjust to the anticipated changes in the market conditions and to secure profitability in 2009 and beyond.

The plan contains several elements. The first measure is to close the plants in Arad (Romania), Richardson (USA) and St. Petersburg (Russia) as well as to consolidate the plant in Shenzhen (China) to the plant in Beijing (China). Secondly, Elcoteq has started the process of reducing personnel at several plants globally. It is anticipated that these measures together will result in personnel cuts of approximately 5,000 of the 21,000 persons which the company employed in September 2008. Thirdly, the plan consists of several other cost-savings measures, including selling idle machinery and equipment, terminating facility and old machinery lease agreements as well as cutting external services. Even with these measures, Elcoteq will maintain its global footprint and continue manufacturing operations for its customers in Mexico, Brazil, Estonia, Hungary, China and India.

On January 20, 2009 the personnel negotiations concerning Elcoteq SE, Finnish Branch and Elcoteq Finland Oy have been concluded. As a result of these negotiations the companies have decided to make altogether 30 people redundant on financial and production grounds. Out of the total number, 5 are salaried employees and 25 are senior salaried employees. In the beginning of the negotiations, the estimated total number of reductions was 50. After these decisions and previously announced reductions in Salo will become effective, Elcoteq has approximately 160 employees in Finland. The personnel negotiations in Finland were a part of a restructuring plan announced January 15, 2009.

On January 30, 2009 Elcoteq SE, Finnish branch has concluded a property transaction whereby a real estate in Lohja, Finland, was sold. The transaction price was 1.7 million euros. The transaction has no impact on company's financial results.

FORMULAS FOR THE CALCULATION OF KEY FIGURES

Key figure	Numerator	Denominator
Return on equity (ROE) =	Net income × 100	Total equity, average of opening and closing balances
Return on investments (ROI/ROCE) =	(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) × 100	Total assets – non-interest bearing liabilities, average of opening and closing balances
Return on investment (ROI/ROCE) for trailing 12 months =	(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) × 100	Total assets – non-interest-bearing liabilities, average of opening and closing balances
Current ratio =	Current assets + assets classified as held for sale	Current liabilities + liabilities classified as held for sale
Solvency =	Total equity × 100	Total assets – advance payments received
Gearing =	Interest-bearing liabilities – cash and equivalents	Total equity
Equity per share (2004–2007) =	Equity attributable to equity holders of the parent company	Adjusted average number of shares outstanding end of the period
Equity per share (2008) =	Equity attributable to equity holders of the parent company	Adjusted average number of A shares outstanding end of the period+(Adjusted average number of K founders' shares outstanding end of the period/10)
Earnings per share, A shares (EPS) =	Net income attributable to equity holders of the parent, A shares	Adjusted average number of A shares outstanding during the period
Earnings per share, A shares diluted (EPS) =	Net income attributable to equity holders of the parent, A shares	Adjusted average number of A shares outstanding during the period + effect of dilution on the number of shares
Earnings per share, K shares (EPS) = (2004–2007)	Net income attributable to equity holders of the parent, K shares	Adjusted average number of K shares outstanding during the period
Earnings per share, K founders' shares (EPS) = (2008)	Net income attributable to equity holders of the parent, K founders' shares	Adjusted average number of K founders' shares outstanding during 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 × 100	Earnings per share
Dividend yield =	Dividend per share × 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

Operating income before depreciation and amortization (EBITDA) = Net Income + Depreciation and impairments

FIVE YEARS IN FIGURES

		2008	2007	2006	2005	2004*
OPERATIONS						
Net sales	MEUR	3,443.2	4,042.9	4,284.3	4,169.0	2,921.8
of which outside Finland	%	95.2	93.9	89.7	81.4	86.2
Gross capital expenditures	MEUR	71.4	67.2	116.9	123.6	128.3
(does not include operating leases)						
Employees, average		17,401	19,131	16,651	15,242	13,065
PROFITABILITY						
Operating income before depreciation and amortization (EBITDA)	MEUR	58.5	−16.6	126.6	155.0	117.6
Operating income	MEUR	−20.4	−96.3	43.9	76.5	57.3
% of net sales	%	−0.6	−2.4	1.0	1.8	2.0
Income before taxes	MEUR	−52.9	−122.8	19.2	59.3	44.9
% of net sales	%	−1.5	−3.0	0.4	1.4	1.5
Net income **	MEUR	−65.9	−108.4	12.1	41.3	30.7
% of net sales	%	−1.9	−2.7	0.3	1.0	1.1
Return on equity (ROE)	%	−38.4	−42.5	4.8	14.1	15.1
Return on investment (ROCE/ROI)	%	−3.1	−19.6	9.1	17.6	19.5
FINANCIAL RATIOS						
Current ratio		1.1	1.1	1.2	1.2	1.1
Solvency	%	14.2	18.1	26.1	26.0	30.5
Gearing		1.8	0.7	0.4	0.3	0.4
Interest-bearing liabilities	MEUR	333.6	237.2	210.3	191.7	137.4
Interest-bearing net debt	MEUR	238.5	144.5	128.0	90.3	98.2
PER SHARE DATA						
Earnings per share A shares (EPS)	EUR	−2.02	−3.37	0.38	1.34	1.01
Earnings per share K shares (EPS)	EUR	–	−3.37	0.38	1.34	1.01
Earnings per share K founders' shares (EPS)***	EUR	−0.20	–	–	–	–
Diluted earnings per share, A shares (EPS)	EUR	–	−3.37	0.37	1.28	0.96
Shareholders' equity per share ***	EUR	3.76	5.72	9.31	9.55	8.82
Share price at the end of the year	EUR	1.21	4.06	9.78	20.15	17.89
Dividend per share ****	EUR	0.00	0.00	0.20	0.66	0.65
Payout ratio ****	%	0.0	0.0	52.3	49.7	49.6
Dividend yield ****	%	0.0	0.0	2.0	3.3	3.6
P/E ratio		−0.6	−1.2	25.7	15.0	14.1
Adjusted weighted average number of shares in issue during the period						
A shares		22,017,819	21,601,081	20,761,611	20,187,705	19,843,473
K founders' shares***		105,770,000	10,577,000	10,577,000	10,577,000	10,577,000
Adjusted number of shares in issue at the end of the period						
A shares		22,017,819	22,017,819	20,962,327	20,526,577	20,063,877
K founders' shares		105,770,000	10,577,000	10,577,000	10,577,000	10,577,000

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

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

*** In the transfer of domicile the company K shares were converted into K founders' shares and their number increased ten-fold while at the same time reducing their par value to one-tenth of the par value of the A shares.

**** The dividend in 2008 is the proposal of the Board of Directors to the Annual General Meeting.

PARENT COMPANY BALANCE SHEET

EUR 1,000	Note	Dec. 31, 2008	Dec. 31, 2007
ASSETS			
Fixed assets			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights and assets	10	347	556
Goodwill	10	1,525	1,908
Tangible assets			
Land and buildings	11	1,416	1,665
Other fixtures and fittings, tools and equipment	11	430	1,045
Tangible assets in course of construction	11	171	170
Financial assets			
Shares in affiliated undertakings	12,13	205,735	153,588
Loans to affiliated undertakings	12	12,030	4,755
Securities held as fixed assets	12	98	98
Own shares	12	68	68
Fixed assets, total		**221,820**	**163,853**
Current assets			
Debtors becoming due and payable after more than one year			
Owed by affiliated undertakings		49,373	94,584
Debtors becoming due and payable within one year			
Owed by affiliated undertakings		320,978	196,294
Other debtors	14	1,603	3,352
Cash at bank and in hand		5,241	13,879
Current assets, total		**377,195**	**308,109**
Prepayments	15	1,090	2,487
ASSETS, TOTAL		**600,105**	**474,449**

The accompanying notes form an integral part of the annual accounts.

EUR 1,000	Note	Dec. 31, 2008	Dec. 31, 2007
LIABILITIES			
Capital and reserves			
Subscribed capital	16	13,041	13,041
Share premium account	16	225,011	225,011
Profit or loss brought forward	16	10,329	58,440
Profit or loss for the financial year	16	15,446	–48,111
Capital and reserves, total		**263,827**	**248,381**
Subordinated Debts	18	139,517	139,297
Provisions for liabilities and charges			
Other provisions	17	4,285	2,782
Creditors becoming due and payable after more than one year			
Non-Convertible Bonds	18	19,980	19,982
Other creditors	18	–	210
Creditors becoming due and payable within one year			
Non-Convertible Bonds	19	–	19,991
Amounts owed to credit institutions	19	160,000	23,951
Amounts owed to affiliated undertakings	19	9,769	13,255
Tax and social security debts	19	67	66
Other creditors	19	2,660	6,534
Creditors, total		**192,476**	**83,989**
LIABILITIES, TOTAL		**600,105**	**474,449**

The accompanying notes form an integral part of the annual accounts.

PARENT COMPANY PROFIT AND LOSS

EUR 1,000	Note	Jan 1.–Dec. 31, 2008	Jan 1.–Dec. 31, 2007
CHARGES			
Decrease in stocks of finished goods and work in progress		–	32,710
Consumption of goods for resale, raw materials and consumables	3	18	667,674
Other external charges	6	21,877	120,153
Staff costs			
Wages and salaries	4	2,266	2,273
Other personnel expenses	4	754	1,233
Value adjustments in respect of tangible and intangible assets	5	1,007	2,089
Other operating charges		36,624	48,095
Value adjustments in respect of financial assets	5	–	37,350
Interest payable and similar charges			
Concerning affiliated undertakings		199	127
Other interests payable and charges	7	25,622	18,315
Tax on profit or loss	9	1	–441
Profit for the financial year		15,446	–
TOTAL		**103,814**	**929,578**
INCOME			
Net turnover	1	30	662,607
Other operating income	2	59,155	179,335
Other interest receivable and similar income			
Derived from affiliated undertakings		39,082	32,654
Other interests receivable and similar income	7	4,147	2,071
Extraordinary income	8	1,400	4,800
Loss for the financial year		–	48,111
TOTAL		**103,814**	**929,578**

The accompanying notes form an integral part of the annual accounts.

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

GENERAL

Elcoteq SE (the "Company") is a European Company that, as from January 1, 2008, is domiciled in the city of Luxembourg in the Grand Duchy of Luxembourg. The Company was domiciled in Lohja, Finland, until December 31, 2007.

The Company's purpose is to engage in business in the electronics industry and to carry on associated commercial and service activities, either directly or through its subsidiaries and joint venture companies.

The Company may further hold shares and interests, in any form whatsoever, in industrial, commercial and service enterprises and any other form of investment; it may acquire by purchase, subscription or in any other manner, as well as transfer by sale, exchange or otherwise, securities of any kind; and it may administer, control and develop its portfolio.

The Company may further provide administrative and financial services to other group and joint venture companies and guarantee, grant loans or otherwise assist the companies in which it holds a direct or indirect participation or which form part of the same group of companies as the Company.

The Company may raise funds by using any financing instruments available including, but not limited to, the private or public issue of loans, notes, bonds, debentures or other senior or junior instruments and/or equity-linked certificates and convertibles denominated in any currency. The Company may also execute sale-and-leaseback, leasing and asset securitization arrangements and it may pledge part or all of its assets as security for any money so raised as well as execute any other financing or security arrangements. The Company may execute any agreements, undertakings and commitments in order to execute or terminate any financing arrangements.

The Company may, for its own account as well as for the account of third parties, carry out all operations which may be useful or necessary to the accomplishment of its purposes or which are related directly or indirectly to its purpose.

The Company has a Finnish branch in Espoo, Finland.

The registered office of the Company is established at Luxembourg, 19, Rue Eugène Ruppert, L-2453 Luxembourg.

The annual accounts of the Company are prepared in accordance with the generally accepted accounting principles and regulations in force in the Grand Duchy of Luxembourg.

Comparative figures have been restated to comply with Luxembourg accounting principles.

The annual accounts are available at the registered office.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company maintains its books of accounts in conformity with Luxembourg company law and generally accepted accounting principles in the Grand Duchy of Luxembourg.

BASIS OF CONVERSION FOR ITEMS ORIGINALLY EXPRESSED IN FOREIGN CURRENCY

The Company maintains its accounting records in euro ("EUR") and its annual accounts are expressed in this currency. Assets and liabilities denominated in other currencies are translated into euro at the rates prevailing at the balance sheet date with the exception of financial assets which are stated at historic cost. Realized foreign currency gains and losses and negative unrealized exchange rate differences are recognized in the profit and loss account. Positive unrealized exchange rate differences are not recognized. Income and charges denominated in foreign currency are recorded at the rates prevailing on the dates of transactions.

INTANGIBLE AND TANGIBLE ASSETS

Intangible assets are recorded at cost and amortized on a straight-line basis over their useful lives estimated as follows:

Goodwill amortization from 5 to 10 years
Patents and licenses over 3 years

Tangible assets are recorded at cost and depreciated on a straight-line basis over their useful lives estimated as follows:

Buildings over 25 years
Machinery and equipment from 3 to 5 years

FINANCIAL ASSETS

Financial assets are valued at purchase price. Value adjustments are made in respect of financial fixed assets to recognize a permanent reduction in the value of the investments, such reduction being determined and made for each investment individually.

LIABILITIES

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

The Company long-term financial liabilities are recognized at the settlement amount received.

The foreign exchange derivative contracts have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The figures include also the closed positions. The nominal amounts of derivative contracts are not recorded. At the end of each accounting period the derivative contracts are valued and unrealized losses have been recognized. Unrealized gains are not recognized.

THE TRANSFER OF THE REGISTERED OFFICE FROM FINLAND TO LUXEMBOURG AS AT JANUARY 1ST, 2008

Balance as at December 31, 2007 as published in accordance with Finnish legal and regulatory requirements have been restated in accordance with Luxembourg legal and regulatory requirements as follows:

Restatement

	Dec. 31, 2007 Finnish GAAP as published	Reversal of unrealized foreign exchange rate gains	Reversal of deferred tax assets	Own shares	Dec. 31, 2007 Luxembourg GAAP
Capital and reserves					
Subscribed capital	13,041				13,041
Share premium account	225,011				225,011
Profit or loss brought forward	58,962		–590	68	58,440
Profit or loss for the financial year	–40,306	–1,362	–6,443		–48,111
	256,709	–1,362	–7,033	68	248,381

1 BREAKDOWN OF NET TURNOVER

Breakdown of net turnover by market:

EUR 1,000	2008	2007
Finland	30	57,828
Rest of Europe	–	502,357
Americas	–	30,589
Asia-Pacific	–	71,833
Total	30	662,607

From 2007 onwards a new contract and invoicing model has been adopted. The model had full impact in 2008 for which reason the parent company´s net sales declined compared to 2007.

2 OTHER OPERATING INCOME

The bulk of other operating income of 59,155 thousand euros (2007, 179,335) was made up of sales of materials to subsidiaries, service charges to subsidiaries and leasing charges.

3 CONSUMPTION OF GOODS FOR RESALE, RAW MATERIALS AND CONSUMABLES

EUR 1,000	2008	2007
Materials and supplies		
Purchases during the year	18	526,385
Change in raw materials	–	141,289
Total	18	667,674

From 2007 onwards a new contract and invoicing model has been adopted. The model had full impact in 2008 for which reason the parent company´s consumption declined compared to 2007.

4 STAFF COSTS

Company had an average of 18 (2007, 16) employees during the year.

EUR 1,000	2008	2007
Personnel Expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits	2,338	2,360
Fringe benefits	–72	–87
Total	2,266	2,273
Indirect personnel expenses		
Pension expenses	238	495
Other indirect personnel expenses	516	738
Total	754	1,233
Staff costs in the income statement	3,021	3,506

5 DEPRECIATION AND AMORTIZATION

Scheduled depreciation and amortization consists of the following:

EUR 1,000	2008	2007
Intangible rights	29	1,013
Goodwill	382	381
Other long-term expenditures	197	164
Buildings	149	165
Machinery and equipment	250	364
Scheduled depreciation total	1,007	2,089
Value adjustment in respect of financial assets are as follows:		
Associated companies	–	23,246
Shares and equity interests in Group companies	–	3,155
Other shares and equity interests	–	10,949
Total	–	37,350
Depreciation and value adjustments, total	1,007	39,439

6 OTHER EXTERNAL CHARGES

Other external charges of the Company consist of the following items:

EUR 1,000	2008	2007
Rental expenses	18,627	24,275
Transportation	20	1,561
Office expenses	759	687
Travel, marketing and representation expenses	507	722
Other external services	1,965	92,909
Total	21,877	120,153

7 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2008	2007
Other interest and financial income		
Foreign exchange gains	2,567	1,540
Other interest and financial income	1,581	531
Total	4,147	2,071
Financial expenses, other		
Interest expenses	–19,174	–13,990
Foreign exchange losses	–5,172	–686
Other financial expenses	–1,275	–3,638
Total	–25,622	–18,315

8 EXTRAORDINARY INCOME

EUR 1,000	2008	2007
Extraordinary income		
Group contributions gained	1,400	4,800
Extraordinary income, total	1,400	4,800

9 INCOME TAXES

EUR 1,000	2008	2007
Income taxes for prior years	1	–441
Total	1	–441

10 INTANGIBLE ASSETS

EUR 1,000	2008	2007
Intangible Assets		
Intangible rights		
Cost basis, Jan. 1	3,732	4,128
Disposals, Jan. 1–Dec. 31	–	–396
Cost basis, Dec. 31	3,732	3,732
Accum. scheduled amortization, Jan. 1	–3,539	–2,921
Accum. scheduled amortization on disposals	–	396
Scheduled amortization Jan. 1–Dec. 31	–29	–1,013
Net book value, Dec. 31	164	192
Other long-term expenditures		
Cost basis, Jan. 1	18,041	17,872
Additions, Jan. 1–Dec. 31	16	170
Disposals, Jan. 1–Dec. 31	–15	–
Cost basis, Dec. 31	18,042	18,041
Accum. scheduled amortization, Jan. 1	–17,680	–17,516
Accum. scheduled amortization on disposals	15	–
Scheduled amortization Jan. 1–Dec. 31	–197	–164
Net book value, Dec. 31	183	364
Intangible rights and other long-term expenditures, total	347	556
Advance payments and construction in progress		
Cost basis, Jan. 1	–	31
Additions, Jan. 1–Dec. 31	–	18
Disposals, Jan. 1–Dec. 31	–	–48
Advance payments, Dec.31	–	–
Goodwill		
Cost basis, Jan. 1	4,814	4,814
Accum. scheduled amortization, Jan. 1	–2,905	–2,524
Scheduled amortization Jan. 1–Dec. 31	–382	–381
Net book value, Dec. 31	1,525	1,908

11 TANGIBLE ASSETS

EUR 1,000	2008	2007
Land and water areas		
Cost basis, Jan. 1	198	198
Disposals, Jan. 1–Dec. 31	–30	–
Net book value, Dec. 31	168	198
Buildings		
Acquisition cost, Jan. 1	3,299	3,299
Disposals, Jan. 1–Dec. 31	–123	–
Acquisition cost, Dec. 31	3,176	3,299
Accum. scheduled amortization, Jan. 1	–1,832	–1,666
Accum. scheduled amortization on disposals	53	–
Scheduled amortization Jan. 1–Dec. 31	–149	–165
Net book value, Dec. 31	1,248	1,467
Land and buildings, total	1,416	1,665

EUR 1,000	2008	2007
Other fixtures and fittings, tools and equipment		
Cost basis, Jan. 1	12,824	14,016
Additions, Jan. 1–Dec. 31	–	18
Disposals, Jan. 1–Dec. 31	–560	–1,209
Cost basis, Dec. 31	12,264	12,824
Accum. scheduled amortization, Jan. 1	–11,781	–12,136
Accum. scheduled amortization on disposals	194	720
Scheduled amortization Jan. 1–Dec. 31	–249	–364
Net book value, Dec. 31	430	1,045
Tangible assets in course of construction		
Cost basis, Jan.1	170	1,087
Additions, Jan. 1-Dec. 31	1	161
Disposals, Jan. 1-Dec. 31	–	–1,078
Cost basis, Dec. 31	171	170

12 FINANCIAL ASSETS

EUR 1,000	2008	2007
Shares in affiliated undertakings		
Shares, Jan. 1	180,953	130,041
Additions, Jan. 1–Dec. 31	52,147	50,912
Acquisition cost, Dec. 31	233,100	180,953
Accumulated writedowns, Jan. 1	–27,364	–4,118
Writedowns, Jan. 1–Dec. 31	–	–23,246
Net book value, Dec. 31	205,735	153,588
Loans to affiliated undertakings		
Receivables, Jan. 1	11,870	12,430
Additions, Jan. 1–Dec. 31	7,275	–
Disposals, Jan. 1–Dec. 31	–	–560
Cost basis, Dec. 31	19,145	11,870
Accumulated writedowns, Jan. 1	–7,115	–7,115
Net book value, Dec. 31	12,030	4,755
Securities held as fixed assets		
Shares, Jan. 1	11,047	10,949
Transfer to different group	–	98
Cost basis, Dec. 31	11,047	11,047
Writedowns, Jan. 1-Dec. 31	–10,949	–10,949
Net book value, Dec. 31	98	98
Own shares		
Shares, Jan.1	68	–
Additions, Jan. 1-Dec. 31	–	68
Cost basis, Dec. 31	68	68
Net book value, Dec. 31	68	68

13 THE PRINCIPAL HOLDINGS

EUR 1,000	Share Capital	Company ownership, %	Company book value
Group companies			
Elcoteq Lohja Oy, Lohja, Finland	EUR 50,000	100	2,113
Elcoteq Finland Oy, Lohja, Finland	EUR 50,000	100	3,964
AS Elcoteq Tallinn, Tallinn, Estonia	EEK 20,500,000	100	1,776
Dongguan Elcoteq Electronics Co., Ltd., Dongguan, China	CNY 213,041,100	70	10,280
Elcoteq Asia Ltd, Hongkong, China	HKD 8,600,000	100	994
Elcoteq Holding Inc., Dallas, USA	USD 15,701,480	100	76,796
Elcoteq JSC, St. Petersburg, Russia	RUB 165,409,426.50	100	4,895
Elcoteq Deutschland GmbH, München, Germany	EUR 6,442,270.34	100	1,350
Elcoteq Hungary Ltd., Pécs, Hungary	EUR 9,120,000	100	12,843
Elcoteq Japan Co. Ltd, Tokyo, Japan	JPY 10,000,000	100	73
Elcoteq Sweden Ab, Stockholm, Sweden	SEK 200,000	100	22
Elcoteq Design Center Oy, Salo, Finland	EUR 3,008,000	100	3,008
Beijing Elcoteq Electronics Co. Ltd., Peking, China	CNY 286,050,300	90	39,173
Shenzhen Elcoteq Electronics Co. Ltd., Shenzhen, China	CNY 143,284,065	80	16,698
Elcoteq Electronics India Pvt. Ltd., Bangalore, India	INR 1,774,931,000	100	29,702
Elcoteq Network S.A, Luxembourg	EUR 531,000	100	531
Elcoteq Romania Srl, Arad, Romania	RON 4,145,443.20	100	505
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	EUR 201,000	100	1,016
			205,735

Based on the Company's previous practice and in accordance with the article 67-1b of the Luxembourg law of December 19, 2002 on accounting, the Company has decided not to disclose any information concerning capital and reserves and the profit or loss for the latest financial year of the affiliated undertakings.

Loan receivable from affiliated undertakings
Loans to affiliated undertakings are used for financing of subsidiaries and they are interest bearing.
Most of the loans are short term and rolled over as needed but some of the loans are long term.

14 OTHER DEBTORS

EUR 1,000	2008	2007
Current receivables		
Interest-bearing		
Guarantee deposit	798	–
Non-interest-bearing		
Accounts receivable	358	–21
Value-added taxes	447	3,373
Total	1,603	3,352

15 PREPAYMENTS

Prepaid expenses consist of the following items:

EUR 1,000	2008	2007
Prepaid rents	945	2,324
Other items	145	163
Total	1,090	2,487

16 CAPITAL AND RESERVES

EUR 1,000	2008	2007
Share capital		
Share capital, Jan. 1	13,041	12,616
Shares subscribed with 2001 stock options	–	425
Share capital, Dec. 31	13,041	13,041
Share premium		
Share premium, Jan. 1	225,011	218,704
Share premium	–	6,308
Share premium, Dec. 31	225,011	225,011
Profit or loss brought forward		
Profit or loss brought forward, Jan.1	10,329	64,748
Dividend payment	–	–6,308
Profit or loss brought forward, Dec.31	10,329	58,440
Profit or loss for the financial year	15,446	–48,111
Capital and reserves, total	263,827	248,381

The company' s share capital consists of the following classes of shares

	2008	
	Shares	EUR 1,000
Series A (1 vote per share)	22,025,919	8,810
Series K (1 vote per share)	105,770,000	4,231
Total	127,795,919	13,041

The Company remeeded a total of 8,100 of its Series A shares in 2007. At December 31, 2008, the company held a total of 8,100 of its own Series A shares, which have a total par value of 3,240 euros.

17 OTHER PROVISIONS

Provisions at December 31, 2008 are due to staff cuts made in previous years and unrealized foreign exchange rate losses from derivatives. December 31, 2007 provisions are due to warranty provisions, restructuring measures carried out in the Group in 2007, and personnel cuts made in 2001 and 2003.

18 LONG TERM LIABILITIES

EUR 1,000	2008	2007
Long-term liabilities		
Subordinated Debts	139,517	139,297
Interest-bearing		
Non-Convertible Bonds	19,980	19,982
Loans from pension plans	–	210
Total	19,980	20,192
Long-term liabilities, total	159,497	159,489

19 CURRENT LIABILITIES

EUR 1,000	2008	2007
Current liabilities to affiliated undertakings		
Liabilities to affiliated undertakings	9,769	13,255
Total	9,769	13,255
Non-Convertible Bonds		
Bonds	–	19,991
Non-Convertible Bonds, total	–	19,991
Current liabilities to credit institutions		
Loan from financial institutions	160,000	–
Commercial paper program	–	23,951
Interest-bearing, total	160,000	23,951
Tax and social security debts		
Payroll tax on wages and salaries, and social security dues	67	66
Total	67	66
Other creditors		
Vacation pay	193	183
Other indirect personnel expenses	53	130
Other items	2,415	6,221
Total	2,660	6,534
Current liabilities, total	172,496	63,797

SUBORDINATED DEBTS

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

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

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

NON-CONVERTIBLE BONDS

In November 2003 Elcoteq SE issued 20 million euros in private placement notes. These notes run from November 18, 2003 to November 18, 2008 and carry a fixed coupon of 5.125%. These private placement notes were paid in November 2008.

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

LOANS FROM PENSION PLANS

The company drew TEL (Finnish employees' Pensions Act) pension plan loan in 1999 that is repayable in equal instalments. The loan runs until June 1, 2009 and has fixed interest rate of 3,85%. The principal of the loan was 0.2 million euros at the balance sheet date.

COMMERCIAL PAPER PROGRAM

Elcoteq SE operates a 200 million euros commercial paper program in Finland, which was used during the period to issue notes with a maximum maturity of three months. At year-end 2008 there were no out-standing issues from the program (24.0).

LOANS FROM FINANCIAL INSTITUTIONS

The company has bilateral uncommitted loan limit from Financial Institution. The withdrawal from this limit is short-term and the interest rate is tied to short market rate.

REVOLVING LINES OF CREDIT

The company signed a 5-year revolving credit facility of 230 million euros with a bank syndicate in November 2004 with maturity in November 2009. Loans under this facility are unsecured and committed. The interest margin on loans under the facility varies between 0.70% and 1.60%. On the balance sheet date 160.0 million euros (0.0) with a remaining maturity of under one month was in use from the facility.

The company is in process of extending the syndicated credit facility of 230 million euro beyond November 2009. It is foreseen that such credit facility will start in April 2009 with 200 million euro and will have normal customary market terms and conditions as well as include covenants that the company has assessed to be in a position to comply with based on current market conditions, forecasts and projections. The maturity of the new credit facility will be June 2010.

The Board of Directors believes that the ongoing negotiations with the bank syndicate are proceeding in good faith and lead to the facility extension beyond year 2009. For this reason and in the light of the facility terms and conditions the company continues to adopt the going concern basis in preparing the annual report and accounts.

20 LEASE CONTRACTS

The company has leased equipment under operating leases. The lease payments are fixed for the duration of the leasing period. No new operating lease contracts were made in 2008.

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

EUR 1,000	Dec. 31, 2008	Dec. 31, 2007
2008	–	15,910
2009	6,779	7,167
2010	1,308	1,234
Total	8,087	24,311

Rental expenses on operating leases for machinery amounted to 18.5 million euros for the year ended December 31, 2008 and 24.3 million euros for the year ended December 31, 2007.

21 RELATED PARTY DISCLOSURES

Fees paid for work for the Board of Directors:

EUR 1,000	2008	2007
Antti Piippo, Chairman of the Board	627	661
Juha Toivola, Deputy Chairman of the Board	180	180
Martti Ahtisaari, member of the Board	60	60
Heikki Horstia, member of the Board	60	60
Eero Kasanen, member of the Board	60	60
François Pauly, member of the Board	60	–
Henry Sjöman, member of the Board	60	60
Jorma Vanhanen, member of the Board	60	60
Fees to management, total	1,167	1,141

22 COMMITMENTS

EUR 1,000	2008	2007
Pledged loan receivables	764	–
On behalf of group companies		
Guarantees	148,920	198,194
On behalf of others		
Guarantees	1,008	8
Leasing commitments		
Operating leases, machinery and equipment (excl. VAT)	8,087	24,311
Rental commitments, real estate (excl. VAT)	7	7
Derivatives contracts		
Currency forward contracts, transaction risk		
Nominal value	43,279	650
Market value	−277	−1
Currency forward contracts, translation risk		
Nominal value	20,243	40,541
Market value	−819	1,102
Currency forward contracts, financial risk		
Nominal value	172,329	126,534
Market value	−3,116	250

BOARD'S PROPOSAL TO THE ANNUAL GENERAL MEETING

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

Luxembourg, February 10, 2009

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

AUDITORS' REPORTS

TO THE SHAREHOLDERS OF ELCOTEQ SE

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the General Meeting of the Shareholders dated March 25, 2008, we have audited the accompanying consolidated financial statements of Elcoteq SE ("the Company"), which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Elcoteq SE as of December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, March 5, 2009

KPMG Audit S.à r.l.
Réviseurs d'Entreprises
Philippe Meyer

REPORT ON THE ANNUAL ACCOUNTS

Following our appointment by the General Meeting of the Shareholders dated March 25, 2008, we have audited the accompanying annual accounts of Elcoteq SE ("the Company"), which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes. The corresponding figures are presented in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, following the transfer of the Company's domicile from Finland to Luxembourg as from January 1, 2008. The corresponding figures differ from the figures in the prior year financial statements of the Company as at and for the year ended December 31, 2007, which were presented in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations and were audited by another auditor whose report dated February 8, 2008, expressed an unqualified opinion on those statements.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE ANNUAL ACCOUNTS

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of Elcoteq SE as of December 31, 2008, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

Luxembourg, March 5, 2009

KPMG Audit S.à r.l.
Réviseurs d'Entreprises
Philippe Meyer

QUARTERLY FIGURES
(UNAUDITED)

INCOME STATEMENT, MEUR	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
NET SALES	**889.1**	**740.5**	**904.8**	**908.7**	**1,062.4**	**1,059.7**	**968.3**	**952.5**
Change in work in progress and finished goods	–23.9	–4.4	–10.1	2.9	–5.7	23.8	–0.9	1.3
Other operating income	2.2	4.4	3.1	1.6	4.0	2.1	1.0	1.0
Operating expenses	–842.6	–719.7	–878.9	–905.6	–1,050.9	–1,063.5	–964.5	–957.0
Restructuring expenses	–13.5	–	–	–	–15.3	–1.8	–3.1	–30.1
Depreciation and impairments	–23.2	–20.5	–18.2	–17.1	–19.4	–20.4	–19.9	–20.1
OPERATING INCOME	**–11.8**	**0.3**	**0.6**	**–9.5**	**–24.9**	**–0.1**	**–19.0**	**–52.4**
% of net sales	–1.3	0.0	0.1	–1.0	–2.3	0.0	–2.0	–5.5
Financial income and expenses	–13.3	–7.0	–6.1	–6.0	–6.3	–7.3	–6.1	–6.4
Share of profits and losses of assosiates	–	–0.1	–	–	–0.1	0.0	–0.1	–0.3
INCOME BEFORE TAXES	**–25.2**	**–6.8**	**–5.5**	**–15.4**	**–31.2**	**–7.5**	**–25.1**	**–59.0**
Income taxes	–4.0	–4.0	–7.3	4.2	–2.9	1.6	5.3	12.4
NET INCOME FOR THE PERIOD	**–29.2**	**–10.7**	**–12.8**	**–11.3**	**–34.2**	**–5.9**	**–19.8**	**–46.6**
ATTRIBUTABLE TO:								
Equity holders of the parent company	–29.1	–11.5	–13.7	–11.6	–34.5	–6.3	–20.6	–46.9
Minority interests	–0.1	0.8	0.9	0.3	0.4	0.4	0.7	0.3
	–29.2	–10.7	–12.8	–11.3	–34.2	–5.9	–19.8	–46.6

BALANCE SHEET, MEUR	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
ASSETS								
Non-current Assets								
Intangible assets	27.6	28.4	28.5	29.5	32.7	35.0	36.9	38.8
Tangible assets	167.8	190.0	184.0	182.0	200.1	210.5	220.4	227.3
Investments	2.2	2.2	2.1	2.1	2.2	2.4	2.5	2.6
Long-term receivables	46.4	49.2	48.5	47.3	33.8	37.6	34.8	28.6
Non-current assets, total	244.0	269.8	263.2	260.9	268.8	285.5	294.7	297.4
Current assets								
Inventories	256.2	358.2	322.5	321.7	355.8	395.7	365.0	346.4
Current receivables	336.3	326.4	320.0	271.7	335.6	435.3	420.3	390.1
Cash and equivalents	95.1	59.5	50.5	91.9	92.7	65.8	44.4	75.4
Current assets, total	687.5	744.0	692.9	685.3	784.0	896.8	829.8	811.9
Assets classified as held for sale	23.9	28.7	30.5	30.2	39.5	7.9	7.6	6.7
ASSETS, TOTAL	**955.4**	**1,042.6**	**986.6**	**976.4**	**1,092.3**	**1,190.2**	**1,132.0**	**1,116.0**
SHAREHOLDERS' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent company								
Share capital	13.0	13.0	13.0	13.0	13.0	13.0	13.0	12.6
Other shareholders' equity	109.4	139.7	152.4	162.8	173.5	206.1	213.5	228.5
Equity attributable to equity holders of the parent company, total	122.5	152.8	165.4	175.9	186.6	219.2	226.6	241.1
Minority interests	12.7	13.4	12.5	11.3	11.3	11.0	9.8	10.1
Total equity	135.2	166.2	177.9	187.2	197.9	230.2	236.4	251.2
Long-term liabilities								
Long-term loans	159.3	159.4	159.3	159.4	159.3	179.6	179.4	179.6
Other long-term debt	5.6	5.5	5.2	5.0	4.9	5.0	5.1	4.5
Long-term liabilities, total	165.0	164.9	164.5	164.4	164.2	184.6	184.5	184.1
Current liabilities								
Current loans	173.9	187.2	111.2	75.7	77.5	49.8	56.6	64.8
Other current liabilities	473.9	519.9	526.8	544.7	625.6	718.0	647.0	607.3
Provisions	7.5	4.4	4.8	3.7	6.5	7.5	7.5	8.5
Current liabilities, total	655.3	711.5	642.8	624.1	709.6	775.4	711.1	680.6
Liabilities classified as held for sale	–	–	1.4	0.7	20.5	–	–	–
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**955.4**	**1,042.6**	**986.6**	**976.4**	**1,092.3**	**1,190.2**	**1,132.0**	**1,116.0**

	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Personnel on average during the period	17,050	17,304	17,543	17,894	19,131	19,433	19,714	19,065
Gross capital expenditure, MEUR	9.9	17.2	16.6	27.7	27.8	14.8	13.4	11.2
ROI/ROCE from 12 preceding months, %	–3.1	–5.6	–6.2	–10.7	–19.6	–12.0	–9.4	–2.9
Earnings per share (EPS), EUR	–0.89	–0.35	–0.42	–0.35	–1.06	–0.19	–0.64	–1.49
Solvency, %	14.2	15.9	18.0	19.2	18.1	19.4	20.9	22.5

CONSOLIDATED CASH FLOW STATEMENT, MEUR	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Cash flow before change in working capital	21.5	32.8	16.2	1.3	5.2	13.1	–2.3	–4.3
Change in working capital	46.6	–65.2	–66.3	24.7	33.6	33.9	–5.9	–18.4
Financial items and taxes	–13.0	–7.6	–5.6	–7.5	–6.1	–3.8	–1.2	–8.6
Cash flow from operating activities	55.2	–39.9	–55.8	18.4	32.7	43.2	–9.5	–31.2
Purchases of non-current assets	–4.4	–12.8	–24.6	–20.0	–26.2	–18.0	–12.5	–10.4
Acquisitions	–8.4	–15.5	–	–	–	–	–	–
Disposals of non-current assets	4.1	1.5	1.8	0.5	15.4	3.7	1.0	0.7
Cash flow before financing activities	46.6	–66.7	–78.5	–1.1	21.9	28.9	–21.0	–40.9
Proceeds from share issue	–	–	–	–	–	–	6.7	–
Redemption of parent company shares	–	–	–	–	–0.1	–	–	–
Change in current debt	8.9	72.2	36.3	2.4	9.3	–4.5	–8.8	34.4
Repayment of long-term debt	–20.2	–	–0.2	–	–0.2	–	–0.2	–0.2
Dividends paid	–1.0	–1.0	–	–	–	–1.5	–7.4	–
Cash flow from financing activities	–12.3	71.1	36.1	2.4	9.1	–6.0	–9.7	34.3
Change in cash and equivalents	34.2	4.4	–42.4	1.3	30.9	23.0	–30.8	–6.6
Cash and equivalents at the beginning of the period	59.5	50.5	91.9	92.7	65.8	44.4	75.4	82.3
Cash and equivalents classified as held for sale	–	–	0.2	–0.2	–3.2	–	–	–
Effect of exchange rate changes on cash held	1.4	4.6	0.9	–1.9	–0.8	–1.6	–0.2	–0.3
Cash and equivalents at the end of the period	95.1	59.5	50.5	91.9	92.7	65.8	44.4	75.4

BUSINESS AREAS, MEUR	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Net sales								
Personal Communications	465.2	437.6	631.0	688.4	750.1	740.1	628.8	658.8
Home Communications	218.8	126.6	90.5	81.4	99.8	102.8	123.2	108.4
Communications Networks	205.2	176.3	183.3	139.0	212.5	216.8	216.4	185.3
Total	889.1	740.5	904.8	908.7	1,062.4	1,059.7	968.3	952.5
Segment's operating income								
Personal Communications	6.7	1.9	5.6	5.4	–1.9	7.0	–9.4	–25.8
Home Communications	–4.1	–0.9	0.9	–0.5	3.2	–1.0	–2.0	–11.0
Communications Networks	–5.1	7.6	3.3	–4.2	–17.2	2.4	2.2	–4.7
Group's non-allocated expenses/income	–9.3	–8.4	–9.2	–10.1	–9.0	–8.5	–9.8	–10.8
Total	–11.8	0.3	0.6	–9.5	–24.9	–0.1	–19.0	–52.4
Restructuring expenses recognized in segment's operating income								
Personal Communications	–6.0	–	–	–	–1.3	–0.9	–2.9	–21.4
Home Communications	–2.1	–	–	–	–1.3	–1.2	0.0	–6.9
Communications Networks	–5.4	–	–	–	–12.6	0.3	–0.3	–1.4
Group's non-allocated expenses/income	–	–	–	–	0.0	0.0	0.1	–0.4
Total	–13.5	–	–	–	–15.3	–1.8	–3.1	–30.1

GEOGRAPHICAL AREAS, MEUR	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Net Sales								
Europe	419.8	365.4	414.3	465.4	557.5	530.2	481.0	507.6
Asia-Pacific	134.3	173.0	233.4	214.4	293.9	313.7	272.1	231.2
Americas	335.1	202.0	257.1	228.9	211.1	215.7	215.2	213.6
Total	889.1	740.5	904.8	908.7	1,062.4	1,059.7	968.3	952.5

5

Elcoteq SE is a Eur
domiciled in Luxe

CORPORATE GOVERNANCE

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Elcoteq SE is a European Company that is domiciled in Luxembourg. Elcoteq applies primarily the laws of Luxembourg, the company's Articles of Association that came into force on January 1, 2008, and the rules of procedure of the company's Board of Directors and its committees in its corporate governance and management.

Elcoteq's Series A shares are quoted on the Nasdaq OMX Helsinki. Therefore Elcoteq complies, in addition to the laws of Luxembourg, the Finnish Corporate Governance Code 2008 as well as the insider guidelines and the stock exchange rules of the Nasdaq OMX Helsinki and applicable Finnish securities market legislation and recommendations.

GENERAL MEETINGS

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

As from January 1, 2008, the Annual General Meeting will be held on March 23 in the city of Luxembourg at the time and in the venue specified by the Board of Directors in the invitation to the Meeting. If said date falls on a national holiday or bank holiday in Luxembourg or Finland, the Annual General Meeting will be held the second following day.

GROUP ADMINISTRATION

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

The Elcoteq Management Team consists of the President and CEO, the CFO, the Senior Vice President of Group Operations, the Senior Vice President of Legal Affairs and the Presidents responsible for the business areas. As of July 2008, the President and CEO has been responsible for the largest business area in addition to his own duties. The task of the Group's management is to manage the Group in accordance with the strategy endorsed by the Board of Directors. Its main responsibilities include developing and executing the company's strategy, monitoring and ensuring the company's financial performance, steering and supervising the company's operations, developing and maintaining the company's internal operating procedures and guidelines and also its reporting and monitoring systems, and ensuring that the company's activities comply with legal regulations.

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

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

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

CORPORATE GOVER

NANCE

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 ten members who are elected by a General Meeting.

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

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

The Board's Rules of Procedure stipulate that a majority of the Board members must be independent of the company and at least two of this majority must be independent of the company's principal shareholders. Five of the eight Board members elected by the Annual General Meeting (AGM) in 2008 are independent of the company and its principal shareholders.

The term of office of the Board members expires at the close of the first AGM following their election. After the close of the Annual General Meeting, the new Board elects a chairman and a deputy chairman from among its members and decides on the establishment of its committees and their members.

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

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

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

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

The Board of Directors has eight members during the term of office ending at the 2009 Annual General Meeting. Since the Annual General Meeting in 2008, the Chairman of the Board has been Mr. Antti Piippo and the Deputy Chairman Mr. Juha Toivola.

The Board of Directors met 13 times during 2008. The attendance of its members at these meetings averaged 97%.

THE BOARD'S COMMITTEES

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

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

WORKING COMMITTEE

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

During the 2008–2009 period, the Working Committee was chaired by Mr. Antti Piippo, and the members were Mr. Henry Sjöman, Mr. Juha Toivola and Mr. Jorma Vanhanen. The Committee met 17 times during 2008.

AUDIT COMMITTEE

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

During the 2008–2009 period the Audit Committee was chaired by Mr. Juha Toivola, and its other members were Mr. Martti Ahtisaari, Mr. Heikki Horstia, Mr. Eero Kasanen and Mr. François Pauly. The Committee met five times during 2008.

COMPENSATION COMMITTEE

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

During the 2008–2009 period the Compensation Committee was chaired by Mr. Juha Toivola, and its other members were Mr. Martti Ahtisaari, Mr. Heikki Horstia, Eero Kasanen and Mr. François Pauly. The Committee met five times during 2008.

NOMINATION COMMITTEE

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

During the 2008–2009 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 three times during 2008.

FEES PAID TO THE BOARD OF DIRECTORS

As decided by the Annual General Meeting held in the spring of 2008, the Board members are each paid an annual fee for their Board work amounting to 60,000 euros, 60% of which is paid in cash and 40% in shares. In 2008, with respect to the latter payment, the Elcoteq shares were acquired between November 3 and November 5, 2008 within the limits set by the rules governing insider trading. The acquired shares may not be surrendered before the following Annual General Meeting unless the individual's membership of the Board ends earlier.

The Annual General Meeting in 2008 decided to pay an additional monthly fee of 45,000 euros to the full-time Chairman of the Board and an additional monthly fee of 10,000 euros to the Deputy Chairman of the Board. The salaries, fees and fringe benefits paid to the Board of Directors for their Board work in 2008 totaled approximately 1,167,000 euros.

In addition to the statutory pension cover, additional pension arrangements allow some of the Board members to retire at the age of 60. The members of the company's Board of Directors do not participate in Elcoteq's stock option plans.

BOARD'S FEES APPROVED BY THE ANNUAL GENERAL MEETING ON MARCH 25, 2008	
Chairman	60,000 euros/year + 45,000 euros/month
Deputy Chairman	60,000 euros/year + 10,000 euros/month
Other members	60,000 euros/year

THE PRESIDENT AND CEO

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

Since January 1, 2004, the President and CEO of the company has been Mr. Jouni Hartikainen, M.Sc. (Eng.). The COO and Deputy CEO Mr. Jukka Jäämaa, L.Sc (Eng.), resigned from the company as of September 5, 2008.

PRESIDENT AND CEO'S REMUNERATION

The President and CEO's monthly salary is 87,356 Swiss francs, i.e. approximately 55,045 euros, and he also receives the usual fringe benefits. In addition to his monthly salary, the President and CEO receives a performance-based bonus in accordance with the incentive scheme in force to a maximum amount of 50% of his basic annual salary. The salary, other short-term benefits and share-based payments paid to the President and CEO in 2008 totaled some 699,000 euros.

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.

MANAGEMENT REMUNERATION AND INCENTIVE SCHEMES

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

The company operates a bonus system under which a part of the bonus is based on achievement of the Group's financial targets and a part on achievement of each director's individual targets. The Board of Directors determines the criteria for the financial targets based on a proposal by the Compensation Committee. Individual targets are determined during performance appraisal discussions. The maximum amount to be paid to members of the Management Team for 2008 is 50% of their basic annual salaries.

The company also has other incentive plans. In 2007, Elcoteq's Board of Directors decided on a share subscription plan for the commitment and motivation of key employees in the Group's middle to senior level management.

Further information on the incentive schemes is given under Shares and Shareholders on page 74. Further information on the share and stock option holdings of the Management Team is given on page 105.

INTERNAL CONTROL

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

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

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

INSIDER MATTERS

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

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

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

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

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

THE AUDITOR

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

Elcoteq SE's auditors are the firm of authorized public accountants KPMG Audit S.à.r.l, under the supervision of Principal Auditor Philippe Meyer. In 2008, the auditing associations belonging to the KPMG Group were paid approximately 802,000 euros in auditing fees and approximately 798,000 euros for other consultation assignments. Other consultation assignments mainly consisted of consultation related to the business development projects, taxation consulting and internal auditing.

SALARIES AND SHARE-BASED PAYMENTS TO THE MANAGEMENT TEAM, EUR 1,000

	Salaries and other Short-Term Benefits 2008	Salaries and other Short-Term Benefits 2007	Share-Base Payments* 2008	Share-Base Payments* 2007	Total 2008	Total 2007
President and CEO	674	652	25	84	699	736
Deputy CEO**	315	374	–	63	315	437
Other Management Team members***	1,032	1,065	50	68	1,082	1,133

* Includes costs of stock options and share incentive plans.
** The Deputy CEO resigned from the company as of September 5, 2008.
*** The number of other Management Team members was 3–4 persons in 2007 and 5–8 persons in 2008.

MARTTI AHTISAARI

HEIKKI HORSTIA

EERO KASANEN

FRANÇOIS PAULY

MARTTI AHTISAARI, born 1937, Teacher Training Course Graduate, University of Oulu

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

Work experience: Mr. Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. Mr. Ahtisaari was President of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts. In 2008, Mr. Ahtisaari was awarded with the Nobel peace prize. He also holds honorary doctorates from a number of universities.

Other key posts: Board chairman of Crisis Management Initiative

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

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

Work experience: Mr. Horstia has previously worked in Bank of Helsinki in 1972–1976. He has had a career in the financial management of industrial enterprises (Teollisuuden Voima Oy, Oy Lohja Ab, Metra Corporation) since 1976, and has occupied management and board positions in the electronics industry since 1983.

EERO KASANEN, born 1952,
DBA Rector of the Helsinki School of Economics and Professor of Finance

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

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

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

FRANÇOIS PAULY, born 1964, Graduate from ESCP-E.A.P. Paris, Oxford, Berlin
General Manager of Sal. Oppenheim jr. & Cie S.C.A

Independent member of Elcoteq's Board of Directors since 2008; member of the Audit and Compensation Committees

Work experience: Mr. Pauly has long experience on international financial markets and has held different management positions at Dexia Banking Group, both in Luxembourg and Italy.

Other key posts: Mr. Pauly is Chairman of the Board at Pharma w/Health Management Company S.A. and a board member of several companies: La Luxembourgeoise, Cobepa, BIP Investment Partners and Management & Capitali S.p.A.

BOARD OF DIRECTO


ANTTI PIIPPO


HENRY SJÖMAN


JUHA TOIVOLA


JORMA VANHANEN

RS

ANTTI PIIPPO, born 1947, B.Sc. (Eng.)
Founder and principal shareholder of Elcoteq

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

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

Other key posts: Supervisory board member of Varma Mutual Pension Insurance Company and chairman of the board of Piippo Oy, Gallery Kalhama & Piippo Contemporary Oy, Nordic Solutions Oy , Bossa Kulttuuriravintola Oy and Member of the Board of Trustees, Savonlinna Opera Festival Patron's Association.

HENRY SJÖMAN, born 1950, B.Sc. (Eng.)
Founder-shareholder of Elcoteq

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

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

JUHA TOIVOLA, born 1947, Master of Arts

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

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

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

JORMA VANHANEN, born 1959, M.Sc. (Eng.)
Founder-shareholder of Elcoteq

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

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

BOARD'S SHAREHOLDINGS ON DECEMBER 31, 2008

Name	A Shares	K founders' shares	Change 2007
Antti Piippo	1,605,822	54,110,000	+11,757
Henry Sjöman	619,617	25,830,000	+26,757
Jorma Vanhanen	604,617	25,830,000	-3,243
Martti Ahtisaari	27,492	–	+11,757
Heikki Horstia	23,242	–	+11,757
Eero Kasanen	24,892	–	+11,757
François Pauly	11,757	–	+11,757
Juha Toivola	29,742	–	+11,757

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

JOUNI HARTIKAINEN

VESA KERÄNEN

MARKUS KIVIMÄKI

JOUNI HARTIKAINEN, born 1961, M.Sc. (Eng.)
President and CEO

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

Area of responsibility: Developing and implementing the strategy. Since July 2008, Mr. Hartikainen has also been responsible for Personal Communications business area. In addition to Elcoteq Management Team members, the following functions report directly to the President and CEO: legal affairs, marketing and communications, human resources and corporate development.

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

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

VESA KERÄNEN, born 1970, M.Sc. (Eng.)
President, Home Communications business area

Joined Elcoteq in 1997; member of the Management Team since 2001

Areas of responsibility: Home Communications business area

Work experience: Mr. Keränen has worked in various business development and strategy planning positions in Elcoteq since 1997. Prior to his current position, Mr. Keränen was in charge of sales and business development, as well as the Terminal Products business area. Before joining Elcoteq, Mr. Keränen held positions in various international companies in Finland and Germany.

MARKUS KIVIMÄKI, born 1973, LL.M.
Senior Vice President, Legal Affairs.

Has worked for Elcoteq in 2000–2003 and again since November 2007; member of the Management Team since April 2008

Areas of responsibility: Group legal affairs

Work experience: Mr. Kivimäki returned to Elcoteq from Aldata Solution Oyj, where he held a position of Vice President, Corporate Legal Affairs during 2003–2007. Before that he worked at Elcoteq in different positions during 2000–2003, most recently as the Senior Legal Counsel. Prior to joining Elcoteq, he has worked for example at Fortum Oil and Gas Oy and at the legal affairs of Finnish Post Oy.

MANAGEMENT TEA

TOMMI PETTERSSON

MIKKO PUOLAKKA

ROGER TAYLOR

TOMMI PETTERSSON, born 1968, M.Sc. (Electrical Engineering)
President, Communications Networks Business Area

Has worked in Elcoteq since 2005; member of the Management Team since January 2008

Areas of responsibility: Communications Networks Business Area

Work experience: Prior to his current role, Mr. Pettersson was Vice President for Strategic Account Management in the Communications Networks business area. Mr. Pettersson has been working for Elcoteq since February 2005 as Account Director for certain strategic customers. Before joining Elcoteq, he has held several sales and marketing and senior management positions in software and electronics design companies such as Mobile Innovation Finland Oy, Synopsys Inc and Smartech Oy.

MIKKO PUOLAKKA, born 1969, M.Sc. (Econ.)
Chief Financial Officer (CFO)

Joined Elcoteq in 2001; member of the Management Team since August 2007

Areas of responsibility: business control, treasury, investor relations, corporate responsibility, corporate relations, risk management and security

Work experience: Prior to his current role, Mr. Puolakka worked as Controller of Elcoteq's geographical area Europe. Before this he was Controller of the Industrial Electronics and Communications Networks business areas and Elcoteq's Swiss and German production units. Before joining Elcoteq, Mr. Puolakka worked in Treasury, Business Unit Finance and Operations Controlling for Huhtamäki Corporation in Finland, Switzerland and Poland.

ROGER TAYLOR, born 1960
Senior Vice President, Group Operations

Joined Elcoteq in October 2008, when he was appointed to the Management Team

Areas of responsibility: Group Operations

Work experience: Mr. Taylor has wide experience in management of manufacturing and supply chain operations within communication technology OEMs like Nokia and Motorola. He has also gained international experience in management of production and supply functions in Hong Kong and the USA. Prior to his current position, Mr. Taylor worked as an independent consultant in numerous overseas assignments for EMS companies.

SHARE OWNERSHIP OF THE ELCOTEQ MANAGEMENT TEAM ON DECEMBER 31, 2008

Name	Number of Shares
Jouni Hartikainen	38,132
Vesa Keränen	3,232
Markus Kivimäki	5,000
Tommi Pettersson	1,000
Mikko Puolakka	1,000
Roger Taylor	–

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

IR PRINCIPLES

Elcoteq's IR policy is to provide information about the company's activities, financial position and goals, as well as conditions in its operating environment, in a timely, open, accurate and objective manner. The IR function's aim is to enable the capital markets to form a true and fair view of the company. IR seeks to increase awareness of Elcoteq's strategy and activities, thereby enhancing interest in Elcoteq as an investment.

INVESTOR MEETINGS

Elcoteq arranges press conferences for analysts, investors, financiers and financial journalists on the publication of its interim and full-year results. One may also participate by teleconferencing. Conferences can be viewed as real-time webcasts or recordings on the company's website. The conferences provide participants with the opportunity to hear the company's views and to address questions to its top management. The company may also arrange Capital Market Days for investors, analysts and financiers. Recordings of press conference webcasts and the material presented at these events are available on the company's website.

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

Private investors are invited to meet representatives of the company's management at the Annual General Meeting in the spring. As from the beginning of 2008, AGM will be held in Luxembourg due to the change of the company's domicile. Shareholders can also participate in the shareholder information meeting in Helsinki, Finland.

SILENT PERIOD

Elcoteq observes a silent period from the closing of its interim or annual accounts to the date on which its results are published. During this period Elcoteq's representatives do not meet investors or comment on the company's results.

PROSPECTS

Elcoteq operates in an industry where business volumes can vary considerably even in the short term. Further on, these changes may have a substantial effect on the company's previously stated forecasts. For this reason Elcoteq does not include precise figures on net sales and profits in its forecasts, preferring instead to provide a mainly verbal description of its prospects in its financial statements bulletins and interim reports.

INVESTOR RELATION

Elcoteq's IR function seeks to increase investors' awareness of Elcoteq and enhance interest in the company as an investment.

FINANCIAL REPORTING IN 2009

- Financial Statements Bulletin for 2008, February 11, at 9:00 am (EET)
- Annual Report, week commencing on March 2
- Interim Report January–March, April 29, at 9:00 am (EET)
- Interim Report January–June, July 22, at 9:00 am (EET)
- Interim Report January–September, October 28, at 9:00 am (EET)

Elcoteq's annual reports, corporate responsibility reports, interim reports, and releases are published both in English and Finnish. They are available on the company's website at www.elcoteq.com.

To order these publications, please visit the company's website, send an e-mail to info@elcoteq.com or contact Group Communications at Elcoteq SE, Finnish Branch, P.O. Box 8, FI-02631 Espoo, Finland.

CHANGES OF ADDRESS

Shareholders are kindly asked to notify any changes of address either to the bank holding their book-entry account or to Euroclear Finland Ltd, if the book-entry account is registered there.

ANNUAL SUMMARY 2008

Elcoteq's releases, interim reports and financial statements bulletin from the year 2008 can be found on the company's website at www.elcoteq.com.

INVESTOR RELATIONS CONTACTS

MINNA AILA
Director, Investor Relations and Corporate Responsibility
Tel. +358 10 413 1908
E-mail: minna.aila@elcoteq.com

SATU JAATINEN
Communications Manager
Tel. +358 010 413 2092
E-mail: satu.jaatinen@elcoteq.com

ANALYSTS COVERING ELCOTEQ

The investment analysts listed below actively monitor Elcoteq's performance. Elcoteq takes no responsibility for any evaluations or recommendations published by them.

S (IR)

Brokerage House	Analyst	Telephone	E-mail
ABG Sundal Collier	Magnus Innala	+46 8 5662 8633	magnus.innala@abgsc.se
Carnegie Investment Bank AB, Finland Branch	Ilkka Haavisto	09 61 871 231	Ilkka.haavisto@carnegie.fi
Danske Markets Equities	Ilkka Rauvola	010 236 4712	ilkka.rauvola@danskebank.com
Deutsche Bank AG, Helsinki Branch	Jussi Uskola	09 2525 2551	jussi.uskola@db.com
eQ Bank Ltd	Jari Honko	09 6817 8647	jari.honko@eQ.fi
FIM	Michael Schröder	09 6134 6311	michael.schröder@fim.com
Handelsbanken Capital Markets	Pekka Mikkonen	010 444 2483	pekka.mikkonen@handelsbanken.fi
Pohjola Bank Plc	Hannu Rauhala	010 252 4392	hannu.rauhala@pohjola.fi

ANNUAL GENERAL MEETING

Elcoteq SE's Annual General Meeting 2009 (AGM) will be held in Luxembourg on Monday, March 23, 2009 at 12.00 CET (13.00 EET).

The Meeting will be held at Elcoteq's premises at 19, Rue Eugène Ruppert, L-2453 Luxembourg. The language of the meeting is English.

Shareholders who are in the company's shareholder register maintained by Euroclear Finland Ltd. on March 13, 2009 shall have the right to participate in the AGM.

Shareholders wishing to attend the AGM are requested to notify the company no later than at 16.00 CET (17.00 EET) on March 18, 2009. Registration by mail and powers of attorney, if any, should arrive at the below address before the notification period expires.

SHAREHOLDER INFORMATION MEETING

Company will arrange an information meeting for the shareholders on Wednesday, March 18, 2009 at 13.00 EET, at Nordic I cabinet of the Hotel Scandic Continental (Mannerheimintie 46, Helsinki, Finland). The language of the shareholder information meeting is Finnish.

In the shareholder information meeting Elcoteq's management will present the company's development in 2008, the strategies for the future and the most important matters on the agenda of the AGM. Shareholders will have the possibility to ask questions from the members of the Board of Directors and the company management in the meeting. In addition, the shareholders who do not wish to attend to the AGM held in Luxembourg will have the possibility to authorize independent representative to attend and vote on their behalf in the AGM.

Shareholders wishing to attend the information meeting are requested to notify the company no later than on March 13, 2009.

ENROLLMENT

Shareholders wishing to attend the AGM and/or the shareholder information meeting shall notify the company at latest on the dates and times set forth above either:

- On the company's website at www.elcoteq.com;
- In writing to Elcoteq SE, Finnish Branch, Ms. Katri Kemppinen, P.O. Box 8, FI-02631 Espoo, Finland;
- By fax at +358 10 413 1804/ Katri Kemppinen;
- By telephone at +358 10 413 2081 between 8.00 and 10.00 CET (9.00 and 11.00 EET) and between 12.00 and 15.00 CET (13.00 and 16.00 EET)/Ms. Katri Kemppinen; or
- In the Shareholder information meeting (AGM only).

All shareholders registering to participate in the meeting(s) are requested to provide their name, address and telephone number, as well as to indicate whether they will participate in the AGM in Luxembourg and/or the Shareholder information meeting in Helsinki.

Additional information on the Annual General Meeting can be found on the company's website at www.elcoteq.com.

DIVIDEND PROPOSAL

The Board of Directors proposes to the Annual General Meeting that no dividend will be distributed for the financial year 2008.

GLOSSARY

BOX BUILD
Business model in which an EMS company delivers finished products in consumer packages directly to the customers' distribution channel.

DfE
Design for Environment or "ecodesign". This approach examines a product's entire lifecycle and proposes changes to how the product is designed to minimize its environmental impact during its lifetime.

EMS
Electronics Manufacturing Services. An EMS company provides services to original equipment manufacturers (OEMs) with OEMs' own brands.

FTV
Flat panel TV

GRI
Global Reporting Initiative – voluntary international reporting guidelines for the development of consistent reporting practices in corporate social responsibility.

IEMS
Integrated Electronics Manufacturing Services. As an IEMS company Elcoteq adds expertise in mechanics-related technologies to its electronics manufacturing and product development services.

IPR
Intellectual Property Rights

ISO 14001
International standard for the environmental management systems

NPI
New Product Introduction. The purpose of the NPI process is to ensure cost-efficient manufacturing and rapid product launch. This phase includes testing for production lines and manufacturing prototypes.

ODM
Original Design Manufacturing. In Elcoteq's service offering the term ODM refers to all the services covering the entire value chain of customers' products – from product development to after market services.

OEM
Original Equipment Manufacturer which is the brand owner

OHSAS 18001
Occupational Health and Safety Management System Standard

PCBA
Printed Circuit Board Assembly

REACH
EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals

SA8000
Social Accountability 8000 is an international social accountability standard. The standard is based on the UN Universal Declaration of Human Rights and International Labor Organization (ILO) conventions.

WIMAX
Wireless broadband technology

ELCOTEQ SE
19, Rue Eugène Ruppert
L-2453 Luxemburg
Tel. +352 248 331
Trade registry number:
B 134554

ELCOTEQ SE,
Finnish Branch
P.O.Box 8
Sinimäentie 8B
FI-02631 Espoo, Finland
Tel. +358 10 41 311
Business ID: 2146811-2

E-mails
info@elcoteq.com
responsibility@elcoteq.com
purchasing@elcoteq.com
sales@elcoteq.com

CONTACT INFORMATION

www.elcoteq.com

Other Addresses
Contact information of all Elcoteq sites is available at www.elcoteq.com.
Contact information can also be obtained by e-mail: info@elcoteq.com.

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