

REPORT BY THE BOARD OF DIRECTORS JANUARY 1 – DECEMBER 31, 2008

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 in the body text of this report 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 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 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. Further details on Elcoteq's corporate responsibility activities will be presented in the Corporate Responsibility Report, which will be published as a part of the Annual Report 2008 during the week commencing on March 2, 2009.

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 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 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