

ELCOTEQ



Corporate Responsibility Report 2006

Elcoteq SE is an electronics manufacturing services (EMS) company serving original equipment manufacturers (OEMs) of communications technology products worldwide. The company's services cover the whole lifecycle of its customers' products. Elcoteq is the largest European company in its field and the fourth largest in the world.

An Expert in Communications Technology

Elcoteq's focus on communications technology sets the company clearly apart from its competitors. The company's operations are organized into two business areas: Terminal Products (82%) and Communications Networks (18%).

Terminal Products is divided into two sales and business development organizations: Personal Communications, which comprises mobile phones, their parts, modules and accessories, and Home Communications, which includes consumer electronics such as set-top boxes and electronics for flat-screen televisions.

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

In 2006, companies belonging to the Nokia and Ericsson groups accounted for 66% of Elcoteq's net sales. In addition to these, the top five customers included Research in Motion (RIM), Sony Ericsson and Thomson.

Consistent, Global Service Network Gives an Edge

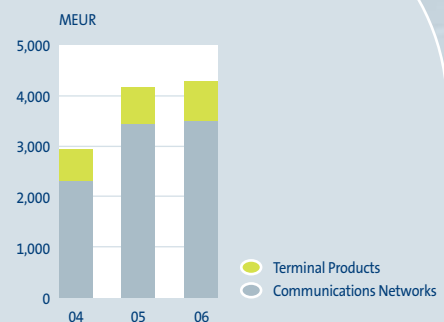
Elcoteq's service network covers 16 countries in Europe, Asia-Pacific and the Americas. All of the company's high-volume plants are located close to the main end markets of customers' products and in low-cost countries: in Hungary, Estonia, China, Mexico, Russia, India and Brazil.

Elcoteq has built most of its manufacturing plants itself, which means that the plant network is extremely consistent.

In Brief

- Net sales in 2006: 4,284.3 million euros (4,169.0 in 2005)
- Operating income: 43.9 million euros (76.5)
- Operations in 16 countries on four continents
- Approximately 23,000 employees
- Listed on the Helsinki Stock Exchange
- Approximately 11,000 shareholders (April 2007)

Net Sales 2004–2006





Contents

CEO's Review	3
Corporate Responsibility at Elcoteq	4
Key Stakeholders	6
Vision, Strategy and Values	8
Corporate Governance and Management Systems	10
Economic Responsibility	12
Social Responsibility	18
Environmental Responsibility	24
Reporting Principles	32
Glossary	33
GRI Content Index	34
Contact Information	37



Offering products that meet the latest environmental requirements and providing services responsibly to our customers in all the main market areas are key elements of our competitiveness.



CEO's Review

Dear Reader,

Elcoteq's business environment has changed and developed during the past few years perhaps more than ever before during the company's 20-year-long history. Pressures for change in our business stem naturally from the development of our customers' markets and competitive situations. Rigorous growth and continuous changes in business models – and even in market areas – also put considerable pressure on all companies in the value chain.

These changes have spurred Elcoteq to expand its service offering from manufacturing to product development and after-sales. We have also taken on responsibility for a larger part of the value chain of our customers' products – this is reflected in our corporate responsibility as well, which in practice means attending to the lifecycle environmental impacts of products, ensuring appropriate working conditions in the supply chain and other such considerations.

Globalization has long set the tone for our day-to-day operations. Production has become centered in low-cost countries – partly due to cost considerations, but mainly because products must be manufactured close to the end markets. Fluctuations in demand in different market areas, the impacts of these fluctuations on the company's personnel needs and operations, and differences in legislation and cultures all pose challenges to companies concerning corporate responsibility. Measures needed to improve the company's profitability and competitiveness – such as decisions on plant closures – are tough to make, but vital for the continuity and profitability of operations.

The positive effects of globalization should be recognized as well. Thanks to companies that internationalize their operations and expand into new markets, many emerging countries enjoy higher standards of living. As a company that has European roots but operates worldwide, Elcoteq can contribute to promoting corporate responsibility in emerging markets, too. To ensure consistent and balanced procedures, we use SA8000 as our corporate responsibility guideline. This international standard is also used by most of our customers.

Environmental legislation on electronic products is constantly evolving, ushering in new challenges for the entire manufacturing chain. Offering products that meet the latest environmental requirements and providing services responsibly to our customers in all the main market areas are key elements of our competitiveness. We will continue to develop responsible operating models proactively with our customers and partners in the years to come.

Another global hot topic in recent years is climate change. Preventing global warming is up to everyone – both companies and individuals. At Elcoteq, we seek to do our own part in reducing the greenhouse gas emissions of our business operations, such as by improving our energy efficiency. Eco-efficiency – for instance, constantly reducing the use of energy and materials in relation to output – is one of our key operational goals.

In 2007, we will focus on upgrading efficiency in our business operations and expanding our service range. This means raising operational efficiency in all of Elcoteq's locations around the world and effectively implementing our action plan for enhancing our profitability and competitiveness. We must also step up and round out our current services into an integrated electronics manufacturing services (IEMS) portfolio, enabling us to offer broader service packages.

We've set our sights on profitable, growing business. To achieve our aim, we must have a competitive service offering and take good care of the various aspects of corporate responsibility. We will keep working towards this in 2007 as well.

Zug, Switzerland, May 2007

Jouni Hartikainen
President and CEO



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. The company knows the requirements set by its stakeholders and legislation, and takes into account the social, economic and environmental effects of its operations.

Communicating about Corporate Responsibility

As the company's operations have expanded and the number of communities affected by them has increased, so have the demands on corporate responsibility reporting risen. Elcoteq informs its stakeholders of corporate responsibility issues in its annual report, in a separate corporate responsibility report and on its website. The purpose of this report is to describe to Elcoteq's stakeholders the principles applied by the company, as well as what it has achieved so far in the various areas of corporate responsibility in 2006.

A Responsible Partner

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

In Elcoteq, responsibility for addressing these three dimensions is integrated in the company's strategy, management systems, corporate governance, and the principles and guidelines that are derived from them. The company and its customers expect all the partners





in the supply chain to comply with international standards and agreements. In other words, these requirements extend beyond the company to the supply chain and other business partners.

Elcoteq is an international company operating in emerging markets which makes it particularly important for Elcoteq to manage corporate responsibility issues flawlessly. Most of Elcoteq's net sales are generated by customers that market consumer products globally. 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 deliver on its value proposition by supporting its customers' businesses as a reliable and responsible partner.

Dimensions of Corporate Responsibility

The economic dimension of corporate responsibility means taking care of the company's profitability and competitiveness in line with the principles of sustainable development. This means meeting the return on investment expectations of shareholders, along with creating well-being in the company and the communities in which it operates. Economic responsibility also includes good business practices. These issues are discussed on pages 12–17 in this report.

One of the greatest challenges facing Elcoteq is the global nature of operations and the business demands this poses to the company. On the one hand, the company must balance the partially contradictory demands of stakeholders for operational flexibility and low manufacturing costs, and on the other hand ensure that the company's operations measure up to stringent standards of environmental and social responsibility.

The social dimension of corporate responsibility concerns the well-being of the company's employees, occupational health and safety, ethical business practices and observing the values and expectations of the company's various stakeholders in decisions and communications as well as product responsibility. One of the challenges facing global companies is the standardization of practices that vary due to cultural values, customs and local legislation.

Elcoteq's aim is to ensure the well-being of its employees, and to respect human rights and local cultures in all its operating locations. The company uses policies and operating methods that encompass all functions with a view to ensuring that the company's management and employees have a shared vision of personnel's well-being and fair treatment. These issues are described in greater detail on pages 18–23.

The environmental dimension covers responsibility for the company's impacts on the environment. The goals of Elcoteq's environmental responsibility activities are compliance with legal regulations and customers' requirements, as well as continuous improvement of its environmental performance. In recent years, the main challenges for Elcoteq have related to the new EU directives concerning electronic products as well as to the monitoring and keeping abreast of the global development of product-specific legislation in all the company's main market areas. Over the long term, the key challenge is climate change – its impacts and the prevention of global warming. For more information on Elcoteq's environmental management, see pages 24–31 of this report.

Development Work Continues

Fostering responsible corporate culture is a long-term effort. Feedback from stakeholders indicates that Elcoteq has met its present requirements. Responsible business practices play a key role at Elcoteq in attending to customer satisfaction, the company's profitability and sustainable growth in the long run.

Elcoteq has been a member of the Kempen/SNS Smallcap SRI (Socially Responsible Investment) Europe index since 2003. Only companies that meet the criteria of the index in all the areas of ethical business conduct, personnel management and environmental protection are admitted to the index. Only 16% of the companies evaluated have measured up to these criteria.

Key Stakeholders

Elcoteq aims at open interaction in various ways with all its stakeholders. The key stakeholders include personnel, customers, capital markets, partners and the media. The company communicates about its operations in an open, fair and timely manner.

Stakeholder Cooperation

Elcoteq operates worldwide and most of its interaction with stakeholders – such as universities, communities and the authorities – takes place at the local level in different countries. Some elements of stakeholder cooperation, such as investor and analyst relations and Group-level communications with the media, are handled on a centralized basis by Group functions.

Stakeholder cooperation is guided by Elcoteq's policies and operating methods. Its aim is to cater to the needs of different stakeholders and treat them equally. Elcoteq engages in continuous interaction and dialogue with stakeholders concerning their expectations for both the company's operations and corporate responsibility management. This ensures that Elcoteq can react and operate correctly in line with the needs and requirements of different stakeholders.

Stakeholder cooperation and the measures and responsibilities involved are presented in the table on page 7.

Cooperation with Companies and Universities

In matters of corporate responsibility, Elcoteq works in cooperation with other international companies, for example by participating in the preparation of legislation and other requirements, promoting the implementation of internationally approved standards and criteria, and participating in development projects of various kinds.

Elcoteq has also worked in cooperation with universities and other institutions of higher education for numerous years. For instance, the company participates in HSE Round Table meetings on corporate responsibility that are hosted by the Helsinki School of Economics in Finland. At these meetings, experts and companies discuss prevailing corporate responsibility issues.

In addition to cooperation between companies and universities, Elcoteq promotes corporate responsibility in the electronics industry. For instance, the company disseminates its experience of the management of corporate responsibility at electronics congresses and other events, and proactively tackles the subject in its customer and personnel magazines, website and other company publications.

Memberships in Industry Organizations

In 2006, Elcoteq became a member of the European Information, Communications and Consumer Electronics Technology Industry Associations (EICTA) and the European Alliance for Corporate Social Responsibility. EICTA's mission includes promoting the development and application of digital technologies and bolstering the competitiveness and business environment of the European information and communications technology and consumer electronics (ICT and CE) sector.

The mission of the European Alliance for Corporate Social Responsibility is to promote socially responsible business by disseminating experiences, information and innovative procedures as well as by launching joint projects between member companies and their stakeholders. The Alliance currently has about 150 companies as members.



Interaction with Stakeholders

This table lists Elcoteq's major stakeholders, their expectations and Elcoteq's ways of meeting the needs of these stakeholders.

Stakeholders	Expectations	Interaction	Corporate Guidelines
Personnel	<ul style="list-style-type: none"> Fair salary levels Occupational health and safety Training and career opportunities Equal and fair treatment Continuous information flow Supportive working environment 	<ul style="list-style-type: none"> Regular performance appraisal discussions Personnel representation Internal communications Training Personnel surveys Occupational safety 	<ul style="list-style-type: none"> Group's strategy Global operating system HR policy HR processes Equality plan SA8000 and OHSAS18001
Customers	<ul style="list-style-type: none"> Understanding customer needs Wide, global service offering Quality and continuous development Cost-efficiency Corporate responsibility Confidentiality 	<ul style="list-style-type: none"> Regular meetings with customers and continuous interaction Customer satisfaction survey Agreement structures Audits Customer magazine, internet, customer releases, exhibitions Co-evolution 	<ul style="list-style-type: none"> Group's strategy Global operating system Corporate responsibility policy Environmental policy Risk management policy Customer requirements
Capital Markets <ul style="list-style-type: none"> Shareholders Analysts Investors Financiers 	<ul style="list-style-type: none"> Profitability and return on investment Creditworthiness Openness Reliable, accurate and up-to-date information 	<ul style="list-style-type: none"> Meetings and continuous interaction Releases and reports Press conferences and Capital Market Days Shareholder meetings Internet 	<ul style="list-style-type: none"> Group's strategy and financial objectives Administrative principles Financial policy and guidelines Principles of investor communications Risk management policy Instructions and recommendations by Helsinki Stock Exchange and FIN-FSA Securities Markets Act
Partners <ul style="list-style-type: none"> Component suppliers Service suppliers Subcontractors Other partners 	<ul style="list-style-type: none"> Networking Operational reliability Ethical conduct of business 	<ul style="list-style-type: none"> Partner meetings Agreement structures Supplier audits 	<ul style="list-style-type: none"> Group's strategy Global operating system Corporate responsibility policy Environmental policy Supply chain management instructions Risk management policy
Media <ul style="list-style-type: none"> Local media International media 	<ul style="list-style-type: none"> Openness Reliable, accurate and up-to-date information 	<ul style="list-style-type: none"> Releases Press conferences Interviews Financial and non-financial reporting Internet 	<ul style="list-style-type: none"> Global operating system Corporate communications policy Instructions and recommendations by Helsinki Stock Exchange and FIN-FSA
Educational Establishments and Research Institutions	<ul style="list-style-type: none"> Joint projects Jobs and work experience opportunities Corporate responsibility Environmental awareness 	<ul style="list-style-type: none"> Research and training cooperation Job and work training opportunities Visits by student groups Lectures and corporate presentations 	<ul style="list-style-type: none"> Global operating system Communications policy HR policy Corporate responsibility policy Environmental policy
Society and Authorities <ul style="list-style-type: none"> The State Local communities Special interest groups 	<ul style="list-style-type: none"> Compliance with laws and regulations Creation of new jobs Regional and local well-being Good corporate citizenship Payment of taxes Safety 	<ul style="list-style-type: none"> Continuous communication and interaction Financial and non-financial reporting 	<ul style="list-style-type: none"> Global operating system International and local laws, regulations and guidelines

Vision, Strategy and Values

Elcoteq's vision is to be the world's leading integrated electronics manufacturing services (IEMS) provider to communications technology companies. Elcoteq believes that serving this specific segment will give the company a clear competitive edge. A strong focus is on improving the competitiveness of customers and continuously exceeding their expectations. This requires persistent development of Elcoteq's operational and financial performance.

Vision

Two main goals are related to achieving the leading position: creating superior value for communications technology customers and driving shareholder value on par with competition and beyond. Elcoteq has formulated three core strategic themes, which are expanding the service offering, focused growth, and operational excellence. These three themes are looked at from the perspective of corporate responsibility in the table below.

In addition, Elcoteq has to ensure that the competencies of its employees, as well as its organizational structures and processes, are at all times correctly dimensioned to the company's business needs.

Implementing the vision and achieving the goals require systematic work and continuous monitoring of results. In the company's strategic management process, the Group's goals are divided into sub-targets for different areas and operations. Selected key indicators are used to monitor regularly how these targets are being met.

In order to achieve its strategic objectives, the company must have a responsible corporate culture. The related objectives have been integrated into the key indicators used in the company's management. For more on Elcoteq's vision, strategy and values, see pages 8–9 of the 2006 Annual Report.

Strategic Focus Areas from a Corporate Responsibility Perspective

EXPANDING THE SERVICE OFFERING

Service offering covering the whole lifecycle of the product	Taking into account environmental perspectives over product lifecycles in product development and the company's service offering.
Developing the service offering through M&A activities, joint ventures and partnerships	Active cooperation with partners and the supply chain to ensure responsible operations and see to it that products measure up to requirements.

FOCUSED GROWTH

Organic growth and selected acquisitions	Corporate responsibility risks posed by different cultures and countries are identified and managed when new functions and units are set up or acquired.
Balancing of the customer structure by gaining new customers, especially from among globally operating companies	Identifying corporate responsibility requirements and continuous dialogue with customers on how to ensure that operations measure up to requirements.
Profitable growth and spreading of risks	Corporate responsibility risks are identified and taken into balanced consideration in business planning alongside the financial objectives.
New product segments within communications technology	Anticipatory monitoring of environmental, health, safety and other requirements related to new products in all the main market areas.

OPERATIONAL EXCELLENCE

Cost-efficiency: optimal resource allocation, volume manufacturing in cost-competitive countries, efficient sourcing and purchasing operations	The management of the environmental impacts of business operations focuses on eco-efficiency. Corporate responsibility comprises part of supply chain management.
Globally consistent service network with uniform procedures, machinery, systems and processes	All Elcoteq units comply with the same international standards of corporate responsibility and the same internal instructions and procedures.

Elcoteq's Values and Corporate Responsibility Policy



Values

Common values guide Elcoteq's operations globally and create a solid foundation for implementing the strategy.

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.

A Strong Vision and Strategy Create a Firm Basis for Corporate Responsibility



Corporate Governance and Management Systems

Elcoteq SE is a European Company (SE, Societas Europaea) that is listed on the Helsinki Stock Exchange. In the administration and management of the company, Elcoteq applies the laws of Finland, the company's Articles of Association, and the rules of procedure of the company's Board of Directors and its committees. Elcoteq also applies the Corporate Governance recommendations for listed companies prepared by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industries, EK.

Attending to Corporate Responsibility Is Key

Attending to corporate responsibility is integrated in the company's strategy, management structures and corporate governance, and the principles, guidelines and systems that are derived from them. Corporate responsibility has been incorporated into the scorecard that is used as a strategic management tool. Elcoteq's global management system is designed to ensure that the company attains its strategic goals and that the same operating principles of corporate responsibility are applied in all the company's units in different countries. Operations must always comply with local legislation. Management at each unit is responsible for implementing these instructions and policies locally.

A Decentralized Organization Fosters Speed and Flexibility

Global operations and rapid changes are business as usual in the communications technology industry. Players in this industry must be flexible and have the ability to react quickly. Responsibili-

ties within Elcoteq are distributed both by business area and by geographical area. Through this decentralized organization the company can react effectively and in a timely manner to the requirements set by its different stakeholder groups. The general meeting of shareholders is the supreme decision-making body. The principal responsibility for the company's administration and operations lies with the Board of Directors and the President and CEO. Elcoteq's Board of Directors comprises seven members, of which the majority is independent of the company and its principal shareholders.

The President and CEO is supported by a Management Team and a Management Conference. The Group's management's responsibilities include executing the company's strategy, steering and supervising the company's operations, developing and maintaining the company's internal operating procedures and guidelines and also its reporting and monitoring systems, and ensuring that the company's activities comply with legal regulations. At the Management Team level, corporate responsibility is handled by the Senior



Vice President, Human Resources. In the Management Conference, environmental issues are the responsibility of the Vice President, Global Operations and Quality, while social responsibility is overseen by the Senior Vice President, Human Resources, and financial responsibility by the Chief Financial Officer (CFO).

The company has organized its business operations into two business areas – Terminal Products and Communications Networks – and three geographical areas – Europe, Asia-Pacific and the Americas. The heads of the business areas are responsible for developing the business operations, service offering and supply chain management in their areas and for ensuring that the business area's operations are globally consistent. The heads of the geographical areas are responsible for sales, production and profitability in their areas.

More information about Elcoteq's corporate governance principles, organization, Board of Directors and management can be found on pages 82–91 of the Annual Report 2006 and on the company's website at www.elcoteq.com > investors.

Regular Audits Support Operations

The policies, principles and procedures for the management system are defined in the Elcoteq Manual. The Manual also describes the key business processes and guidelines. The Elcoteq Manual is available to all employees on the company's intranet. The implementation of the policies and instructions is monitored by both internal and external audits.

Elcoteq's management system is ISO 9001 and ISO 14001 certified worldwide. In addition, Elcoteq has other plant-specific certifi-

New Domicile in Luxembourg

Elcoteq's 2007 Annual General Meeting approved the Board of Directors' proposal to transfer the company's domicile to Luxembourg. Elcoteq SE is the first European Company to transfer its domicile. It is expected that the transfer of domicile will take place on January 1, 2008.

The transfer of domicile is part of Elcoteq's globalization strategy with the aim to create an effective structural basis to ensure the continuous improvement of the company's competitiveness. Luxembourg offers the company a central location and an effective legal and administrative environment. Elcoteq also believes that the transfer will strengthen the company's European image. Following the transfer of domicile, strategic decisions will be taken at the company's head office in Luxembourg, which also will be the principal location for meetings of the company's Board of Directors.

cation, such as OHSAS18001. Elcoteq also uses the SA8000 standard as its guideline for social responsibility worldwide.

Corporate Responsibility Policy Sets the Mode for Operations

Elcoteq has a corporate responsibility policy approved by the Board of Directors that describes how the company manages its operations ethically and in accordance with its values. The policy applies to all the company's units, operations and employees worldwide. Stricter requirements may be set for certain locations, countries or functions, but they also need to be in line with the overall Group policy. If any of the requirements are in conflict with local legislation, local laws take precedence.

Risk Management

The main task of Elcoteq's risk management is to manage the company's strategic, operational, indemnity and financial risks in a comprehensive and forward-looking manner. Risk management is an integral part of the business processes in the whole organization. The company's operative management and in particular the Board's Audit Committee are responsible for the monitoring and supervision of risk management.

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

As an international company that operates in emerging markets, Elcoteq pays particular attention to identifying and managing risks related to corporate responsibility. In practice, this involves measures such as carrying out analyses of country- and company-specific risks when setting up operations in new territories and carrying out acquisitions.

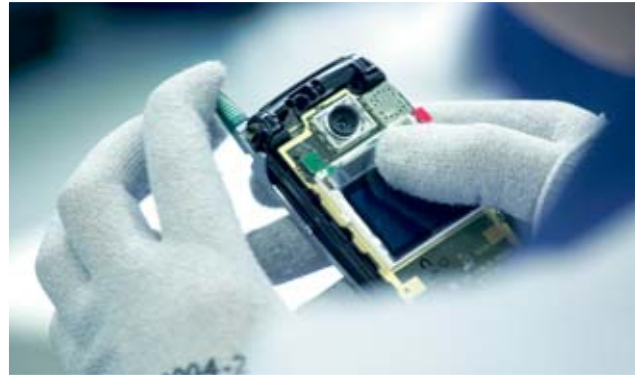
Elcoteq's risk management principles, main risks and risk management are presented on pages 74–76 of the 2006 Annual Report.



Economic Responsibility

At Elcoteq, economic responsibility means ensuring that the company is profitable and competitive in a sustainable manner. At the same time the company needs to ensure that it meets shareholders' expectations for return on their investments and creates well-being for its employees and in the societies in which the company operates. Complying with good business practices, risk management and supporting non-profit organizations are part and parcel of economic responsibility.





Financial Targets

Elcoteq aims to increase the value of the company through profitable and successful business practices. Elcoteq has set itself challenging financial targets for both the short and long term. These targets relate to profit growth, improving profitability and balance sheet structure. The company continuously monitors achievement of these targets, which also form one factor in the company's target-based bonus scheme.

Net Sales and Earnings

In 2006, Elcoteq's net sales grew slightly on the previous year, rising to 4,284.3 million euros (4,169.0). Operating income amounted to 43.9 million euros (76.5), representing 1.0% of net sales.

Net sales fell short of objectives, particularly in the terminal products, but also in the networks business and in all the geographical areas. The modest growth in net sales was largely due to the year-on-year decline in sales to Nokia Corporation companies, owing to an unfavorable product mix and intensified competition. On the other hand, net sales to companies that are not part of the Nokia and Ericsson groups were up 13% on the previous year.

The factors behind the decline in the operating profit margin were underperforming manufacturing volumes, great variation in manufacturing volumes, particularly in Europe and the Americas, tighter competition, and the unsatisfactory capacity utilization of the newest plants.

The trend in Elcoteq's business operations did not measure up to expectations in 2006, and the company did not achieve its key financial targets. Earnings per share declined on the previous year and amounted to 0.38 euros (1.34), and return on investment was down to 9.1% (17.6%). Gearing was 0.4 (0.3) and cash flow after investing activities was -20.8 million euros (24.4).

As Elcoteq fell short of its financial targets in 2006, the company announced in December 2006 that it would begin implementation of an action plan to improve the company's competitiveness and profitability. The plan concerns Elcoteq's functions in Europe and the Americas in particular. As part of this action plan, Elcoteq has decided to close down its Lohja plant in Finland and the Juárez plant in Mexico during 2007.

Customers

Elcoteq focuses on serving communications technology companies with global operations. The company's customer portfolio includes Andrew Corporation, Ericsson, Huawei, Motorola, Nokia Siemens Networks, Philips, RIM, Sony Ericsson and Thomson. Companies belonging to the Nokia and Ericsson groups generated 66% (69%) of Elcoteq's net sales in 2006.

Sales by geographical area in 2006 were as follows: Europe 2,425.4 million euros (2,345.0), Asia-Pacific 1,094.1 million euros (1,069.4) and the Americas 764.8 million euros (754.6).

Personnel

To safeguard its position as an attractive employer, Elcoteq aims to pay competitive wages and salaries that correspond to the level of responsibility and demonstrate fairness within the company. Elcoteq also has other incentive schemes including production and target-based bonuses, stock options, stock bonuses and special cash bonus schemes.

In 2006, Elcoteq paid a total of 205.9 million euros (202.6) in wages, salaries and other personnel expenses. The company employed a total of 23,298 (19,802) persons globally, of whom 17,705 were on its direct payroll.

Partners and Suppliers

In 2006, Elcoteq spent 3,787.5 million euros (3,638.5) on purchasing goods, materials and services. Most of the purchases were components and other materials used in manufacturing.

Shareholders

At the end of 2006, Elcoteq had a total of 11,693 registered shareholders. The total number of nominee- and foreign-registered Series A shares was 8,039,881, representing about 25.5% of the company's share capital and 6.3% of the total number of votes. The largest shareholder group is households, which held about 62% of Elcoteq's shares outstanding at the end of 2006.

The principle underlying Elcoteq's dividend policy is to distribute a dividend corresponding to approximately half of the company's net profit for the year, taking into account the Group's profitability,

Key Financial Targets

- Increasing earnings per share (EPS), EUR
- Return on investment (ROI/ROCE), calculated over 12 months > 20%
- Positive cash flow (after investments), MEUR
- Gearing < 1



financial structure and growth prospects.

The 2007 Annual General Meeting resolved to pay a per-share dividend of 0.20 euros for the 2006 financial year, to a total of 6.3 million euros.

Financiers

Elcoteq's interest-bearing net debt at the end of 2006 was 128.0 million euros (90.3) and gearing was 0.4 (0.3). The company's net financial expenses totaled 23.7 million euros (16.0) in 2006.

At the end of 2006, Elcoteq had unused but immediately available credit limits totaling 293.8 million euros (293.5). Of this total, the 230 million euro syndicated loan is a committed credit limit. There were no open issues of the company's 200 million euro commercial paper program at December 31, 2006.

In March 2006, Elcoteq issued subordinated notes in the nominal amount of 30 million euros and with a maturity of five years. The company is using the notes to extend the average maturity of its loan portfolio and to strengthen its financial structure.

Investments and Divestments

Elcoteq's capital expenditures on fixed assets in 2006 totaled 116.9 million euros (123.6), representing 2.7% of net sales. Investments were primarily earmarked for increasing assembly capacity in Europe and the Americas.

In September 2006, Elcoteq announced that it had made a cooperation agreement with Andrew Corporation. Elcoteq also acquired Andrew's manufacturing operations in Romania, including the plant's equipment, machinery and inventories. About 8 million euros of the acquisition price was paid in September.

In December, Elcoteq sold the property in which its Tallinn manufacturing plant operates for about 10 million euros, recording

a capital gain of 1.7 million euros on the deal. Elcoteq continues to operate in these facilities under an operating lease.

Research and Development

Elcoteq's research and development costs amounted to approximately 6.8 million euros (7.1), which represents 0.15% of net sales in 2006. The company's R&D efforts and expenditures include equipment and process development for production and production testing needs, R&D related to the platforms, software, electronics, mechanics and both testing and verification environments of mobile phones, and the development of radio modules and technologies for mobile phones.

Donations to Non-Profit Groups

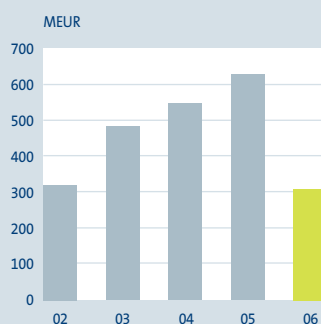
Elcoteq only provides support to non-profit groups and projects that are in line with the company's values. Donations and sponsorships focus especially on children and young people as well as cultural and research projects. The company makes donations only to non-political and non-religious organizations.

Elcoteq's Board of Directors makes all decisions regarding substantial and international support and donations. Sponsorships are handled on a centralized basis by the company's marketing function. Elcoteq's units decide independently on local support and donations.

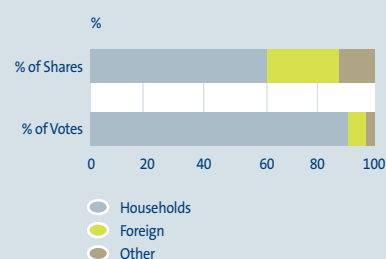
Elcoteq made its largest donations in 2006–2007 to the International Youth Foundation (IYF). The company supports the projects IYF coordinates in India and Russia. Funds are streamed into sites through the Finnish Children and Youth Foundation, which works through local and national organizations, in cooperation with public authorities and other organizations, to improve the conditions and prospects for children and young people.

Elcoteq aims to increase the value of the company through profitable and successful business practices.

Market Capitalization, 2002–2006



Shareholders by Type, December 31, 2006



Major Shareholders, December 31, 2006

	A Shares	K Shares	Shares, %	Votes, %
1. Antti Piippo	1,590,300	5,411,000	22.20	43.95
2. Jorma Vanhanen	604,095	2,583,000	10.11	20.86
3. Henry Sjöman	589,095	2,583,000	10.06	20.85
4. Tapiola Mutual Pension Insurance Company	365,000	-	1.16	0.29
5. State Pension Fund	250,000	-	0.79	0.20
6. Op-Suomi Arvo Mutual Fund	226,600	-	0.72	0.18
7. Abn Amro Finland Mutual Fund	165,600	-	0.53	0.13
8. Erkki Etola	150,000	-	0.48	0.12
9. Ilmarinen Mutual Pension Insurance Company	120,000	-	0.38	0.09
10. Rautaruukki Personnel Fund	111,261	-	0.35	0.09
Total	4,171,951	10,577,000	46.78	86.76

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

Key Figures

	2006	2005	2004	2003	2002
Net sales, MEUR	4,284.3	4,169.0	2,921.8	2,235.7	1,840.2
Operating income, MEUR	43.9	76.5	57.3	30.5	25.5
Income before taxes, MEUR	19.2	59.3	44.9	22.5	18.6
Gross capital expenditures, MEUR	116.9	123.6	128.3	68.1	78.0
Purchases from suppliers (goods, materials and services), MEUR	3,787.5	3,638.5	2,538.0	1,899.9	1,558.4
Interest paid, MEUR	15.4	9.7	4.3	2.5	2.6
Taxes paid, MEUR	8.1	22.7	13.6	1.3	1.9
Wages, salaries and other personnel expenses, MEUR	205.9	202.6	163.9	153.9	129.3
Cash flow after investing activities, MEUR	-20.8	24.4	-80.3	-18.1	77.3
Return on investment (ROI/ROCE), calculated over 12 months	9.1	17.6	19.5	10.2	9.2
Solvency ratio, %	26.1	26.0	30.5	32.6	36.6
Gearing	0.4	0.3	0.4	-0.0	-0.1
Earnings per share (EPS), EUR	0.38	1.34	1.01	0.70	0.54
Dividend per share, EUR	0.20	0.66	0.65	0.90	0.40
Dividends paid, MEUR	6.3	20.6	20.0	27.3	11.8
Personnel at the end of period	17,705	15,751	16,149	13,013	10,176
Personnel on average	16,651	15,242	13,065	11,044	8,127
Net sales/employee*, tEUR	257.3	273.5	223.6	202.4	226.4

* Net sales/employee = net sales/personnel on average
Personnel = people on Elcoteq's direct payroll

The financial statements have been prepared in compliance with the IFRS standards beginning from January 1, 2003.

Examples of Elcoteq's Community Involvement



Estonia

The Tallinn plant has supported the local Voka orphanage since 2000. The plant makes donations and invites the orphans to various annual events, and employees do volunteer work for the orphanage. Each year, a drawing by one of the children is chosen as the Tallinn plant's official Christmas card.



Mexico

The Monterrey plant cooperates with the Integral Education Advanced Center (C.E.I.A.) by donating proceeds from the sale of recyclable waste. C.E.I.A. maintains a school which provides ordinary school education for children with Down's syndrome.



Germany

The Offenburg plant helps local schools by donating computers and organizing traineeships. In 2006, the plant held a Girls' Day that aimed to encourage girls to pursue education in technology.

Hungary

Each Christmas, the Pécs plant arranges musical entertainment at two local children's hospitals and hands out Christmas gifts. The plant also sponsors an annual horseback riding event for youth.



Elcoteq's donations and sponsorships focus especially on children and young people as well as cultural and research projects.



Russia

The St. Petersburg plant supports local educational institutions by donating equipment and organizing traineeships.

In Russia, Elcoteq also sponsors the software club of Petrozavodsk State University. The club teaches coding to impoverished schoolchildren and university students by holding seminars, competitions and a summer school, and by sending young programmers to national and international coding competitions.

China

At the Xingwang industrial zone in Beijing, Elcoteq's personnel has cleaned away unauthorized advertising and planted trees to improve the environment.

The Shenzhen plant makes donations to a local school and a support association for the disabled.

The Dongguan plant supports the local university by means such as donating equipment and granting stipends. In 2006, the plant also assisted the typhoon-ravaged city of Shaoguan with donations and by participating in a tree-planting drive.



Romania

The Arad plant has sponsored the regional Special Olympics with donations. 200 athletes took part in the competitions in March 2007. The events included gymnastics, basketball and table tennis.



India

In India, Elcoteq supports a New Delhi girls' school whose mission is to improve and broaden the educational opportunities and skills of girls. The school primarily seeks to assist girls aged 9–22 who have had to interrupt their studies due to financial or traditional reasons.



Social Responsibility

The objective of social responsibility is to safeguard the well-being of employees and ensure that human rights and local cultures are respected. Elcoteq's instructions on social responsibility are based on the SA8000 standard, which all Elcoteq units are expected to comply with.





Persistent Work Continues

Management of social responsibility, personnel management practices, human rights and working conditions in different cultures and new market areas calls for continuous and persistent work.

Social responsibility includes the well-being and professional competencies of the company's employees, occupational health and safety, human rights, code of conduct and collaboration within the corporate network and relations with local communities. Elcoteq's stakeholders expect good management of social responsibility that is in line with international standards. To this end, for example, customers conduct regular audits of social and environmental responsibility issues at Elcoteq's locations.

Social debate on the effects of globalization and how global companies treat their workforce gathered momentum in 2006. At Elcoteq, this resulted in an increase in stakeholder contacts, queries and inspections. In the electronics industry, one of the main focuses of interest comprised the operations of the subcontractor network and especially its treatment of employees, remuneration and working hours.

Guided by SA8000

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

In 2006, Elcoteq started internal SA8000 audits. The company relied on external auditors to ensure the objectivity of the audits; the selected auditors were not only experienced, but also locals due to language reasons. The audits doubled as occasions to train personnel and increase management's and personnel's knowledge of corporate responsibility.

Elcoteq audited all its plants in Asia-Pacific and Hungary in 2006. The sum total of the employees of these plants represents 61% of Elcoteq's total personnel. The audits were intended to assess whether current practices at Elcoteq's locations measure up to the requirements of the standard. The audits indicated that the compliance of the plants with the company's corporate responsibility policy and the SA8000 standard is largely good. Areas in which

development needs were identified were occupational health and safety, the management of overtime, especially during demand peaks, and supply chain management. On the basis of the audit results, plant-specific development programs have been drafted at Elcoteq and their implementation is monitored regularly.

In addition to the internal development programs, Elcoteq will continue to work with its customers to improve the management of ethical issues throughout the supply chain. In 2006, the focus was on updating Elcoteq's supplier requirements and related assessment methods. Special attention was paid to employee working conditions and to environmentally sound business practices.

Main Tasks of Human Resources

The key task of Elcoteq's Human Resources (HR) function is to ensure that the number of employees, their competencies and remuneration support the company's strategy and business needs.

Elcoteq started a project to assess the competency potential of its employees in 2005. This project continued in 2006 and is geared towards establishing a clear process for mapping the competency potential and for the successor system. A project carried out with CEMS students (Community of European Management Schools) at the Helsinki School of Economics defined the competency areas required by the company. The company's appraisal discussion process was overhauled to match.

Personnel Motivation and Remuneration

It is vital for Elcoteq's business operations that the company is able to recruit and hold on to professionally skilled and motivated employees. Remuneration that is in line with roles and responsibility areas, continuous training and the opportunity to take up new responsibilities in the organization are critical in maintaining the job satisfaction of employees and retaining them, and for the continuity of the company's business operations.

To safeguard its position as an attractive employer, Elcoteq seeks to pay competitive wages and salaries that correspond to the degree of difficulty of the job. The company also has several incentive schemes such as production- and target-based bonuses, stock options, stock bonuses and special cash bonus schemes. The personal targets for each white-collar employee are tied to the company's financial performance. These targets are set and monitored during the appraisal discussions held twice a year. The scheme covers the company's white-collar employees, i.e. almost 20% of the



collected on matters such as efficiency, values, working climate, management methods and personnel motivation in the Elcoteq organization as well as its image as a company and an employer. The survey will be carried out at all of Elcoteq's locations in the local languages.

Level of Education

Some 31% of all employees hold a certificate of education from a secondary school or high school. The largest single group in terms of level of education consists of people with vocational education, representing 41% of all employees. At the end of 2006, 15% of Elcoteq employees had an academic degree.

All new production employees, regardless of their educational background and experience, attend induction training arranged by Elcoteq before they start working at the plants. Elcoteq supports its personnel in learning at work and offers training opportunities to all personnel groups. During 2006, each employee on Elcoteq's direct payroll spent on average 5.6 days at various training events. Manufacturing employees spent on average 5.7 days and white-collar employees approximately 4.2 days per year in training.

Number of Employees

At the end of 2006, Elcoteq employed 23,298 (19,802) people, of whom 705 (869) were in Finland and 22,593 (18,663) in other countries. The geographical distribution of personnel was as follows: Europe 11,682 (9,984), Asia-Pacific 7,409 (6,086) and the Americas 4,207 (3,732). The average number of employees directly employed by Elcoteq during 2006 was 16,651 (15,242). In 2006, Elcoteq started up operations in Romania, which increased the the number of personnel by about 250 people.

Age Structure

Elcoteq's typical employee is a young person at the start of his or her career. In 2006, approximately 56% of employees were less than

total number of people employed directly by the company. The maximum target bonus is 50% of the employee's basic annual salary, depending on the competence requirements of the job.

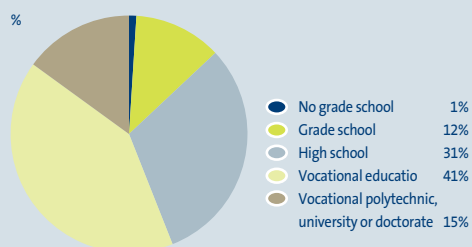
In 2006, Elcoteq paid a total of 205.9 million euros (202.6) in wages, salaries and other personnel expenses.

Employee Surveys

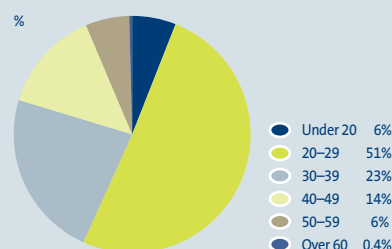
In 2006, local job satisfaction surveys were carried out at Elcoteq's plants in Estonia, Finland and Juárez, Mexico. The surveys examined the level of job satisfaction and motivation, employees' views on unit management, the quality of work, compensation and the efficiency of internal communications.

Elcoteq will again conduct a Group-wide employee survey in 2007, assessing the climate of the company's organization and changes in it since the last survey in 2004. Information will be

Level of Education



Distribution by Age

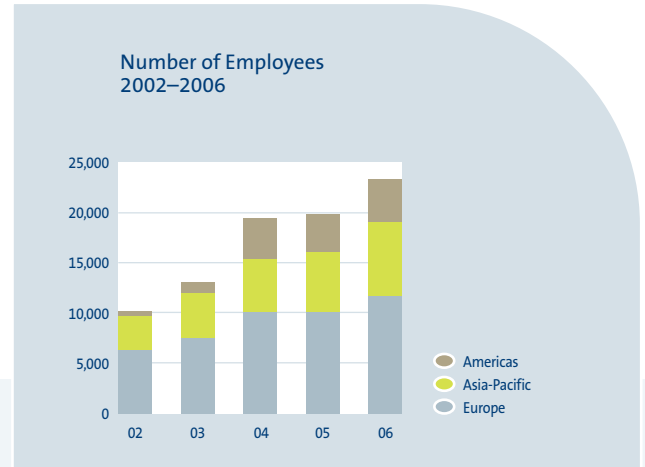


30 years old and about 6% were less than 20 years old. Most of those under 20 are in the range of 18–20, but the company's German plant employs some temporary trainees younger than 18 who are completing traineeships as part of their vocational education. The share of young employees is highest in China, where 89% of the personnel are less than 30 years old.

In 2006, the average age of all Group personnel was 31.8 years. In Europe the average age was 35.0 years, in Asia-Pacific 25.6 years and in the Americas 33.7 years. Only 6.8% of all personnel in the Group are over 50 years of age.

Management Composition

Elcoteq has management teams at different levels of the organization. The Elcoteq Management Team (EMT) comprises six men. In addition to the EMT, the company has a Management Conference, which consists of 21 members: four women and 17 men. The EMT members are also members of the Management Conference. The geographical areas and business units have their own management teams. About 23% of the members of these management teams were women and 77% men in 2006.



Personnel Groups and Employment Relationships

Of the Group's total workforce, some 85.8% are blue-collar workers. The remaining 14.2% are white-collar employees and senior executives. The company employs people under open-ended and fixed-term contracts, as well as part-time employees. In the Asia-Pacific region, for example, all employment relationships are generally fixed-term contracts in all personnel groups, which is why these contracts are not directly comparable to similar contracts in other locations. In practice, however, employment contracts are usually open-ended. Elcoteq also uses leased labor when necessary; in 2006, 24% of the people employed by the Group were leased labor.

Fixed-term and part-time employment relationships are a means for the employer to respond to changing demand. They also offer summer workers and students, for instance, the opportunity to gain work experience that is relevant to their studies. Fixed-term employment varies from a few months in the summer – typical for students – to three years in the case of the manufacturing plants in the Asia-Pacific region.





Personnel Reductions

Due to changes in demand and the reorganization of business operations, Elcoteq must from time to time downscale its personnel, such as by means of redundancies or temporary layoffs. In such cases, the company complies with the periods of notice and other conditions set in local legislation and collective agreements.

In the spring of 2006, Elcoteq began personnel negotiations concerning personnel at the Lohja manufacturing plant, the company's product development unit and the NPI (New Product Introduction) unit in Finland. The negotiations resulted in the termination of 65 work contracts and 15 temporary layoffs on production and financial grounds.

Elcoteq announced in December 2006 that it would begin implementation of an action plan to improve the Group's competitiveness and profitability. As part of the action plan, the company began statutory personnel negotiations in Finland in early 2007, as a result of which the company made 326 employees redundant on production and financial grounds and decided to wind down the Lohja plant by the end of August 2007. After these changes, Elcoteq has about 330 employees in Finland. In addition Elcoteq has announced that it will close its Juárez plant in Mexico by the end of 2007. The production will be mainly transferred to China and partly to the Monterrey plant in Mexico. The Juárez plant employs approximately 2,300 people.

Personnel Representation

At Elcoteq, personnel representation has been organized not only by means of local systems, but also at the European level. When Elcoteq became a European Company (SE, Societas Europea) in 2005, it established a new, Europe-level personnel representative body that now comprises 15 members representing all Elcoteq's European units in the EEA countries. The number of representatives from different countries is in proportion to the total number of

employees. The representatives regularly receive information on the company's development. They convene twice a year with each other and with the company's management to discuss the company's prospects and other separately agreed matters and current issues.

Occupational Health and Safety

Elcoteq seeks to provide all its employees with safe and healthy working conditions. Inspecting the management of occupational health and safety was one of the key focuses of SA8000 audits in 2006. Increasing employee awareness of the importance of the use of personal protection and providing guidelines for contractors working on plant premises were two of the areas of operations designated for development on the basis of the audits.

During 2006, Elcoteq introduced a new, Group-wide procedure for reporting accidents and the resulting absenteeism. That said, there are some differences in the reporting procedures of the plants due to local official requirements. For this reason, in 2007 the company will focus on upgrading reporting to improve the comparability and coverage of information and developing occupational health and safety guidelines for the entire Group. Elcoteq's plants in Estonia and Hungary use an OHSAS 18001-certified occupational health and safety system.

As part of the management of risks and crisis situations, Elcoteq drafted a contingency plan for pandemics in 2006. The plan aims to ensure the continuity of business operations and dampen the negative effects of pandemics. The contingency plan sets the responsibilities of the organizations and special arrangements in the event of a pandemic. For instance, the status of avian flu is monitored on a regular basis both at the Group level in cooperation with the authorities and other international companies, and locally, especially in those countries where there have been incidences of avian flu. Personnel awareness of avian flu and related emergency measures has been improved by reporting on the topic on the Group's intranet.

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 manufac-

Good Enterprise Award in Estonia

Elcoteq's Tallinn plant received the 2006 Good Enterprise award in recognition of excellence in the development of working conditions and especially in accounting for the needs of the disabled. The award was granted by the Estonian Chamber of Disabled People, the Estonian Employers' Confederation and the Estonian Ministry of Social Affairs.

The award is intended to recognize companies that offer equal opportunities to the disabled and thus improve their employment prospects.

Elcoteq's aim is to ensure the well-being of its employees, and to respect human rights and local cultures in all its operating locations.

tures 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.

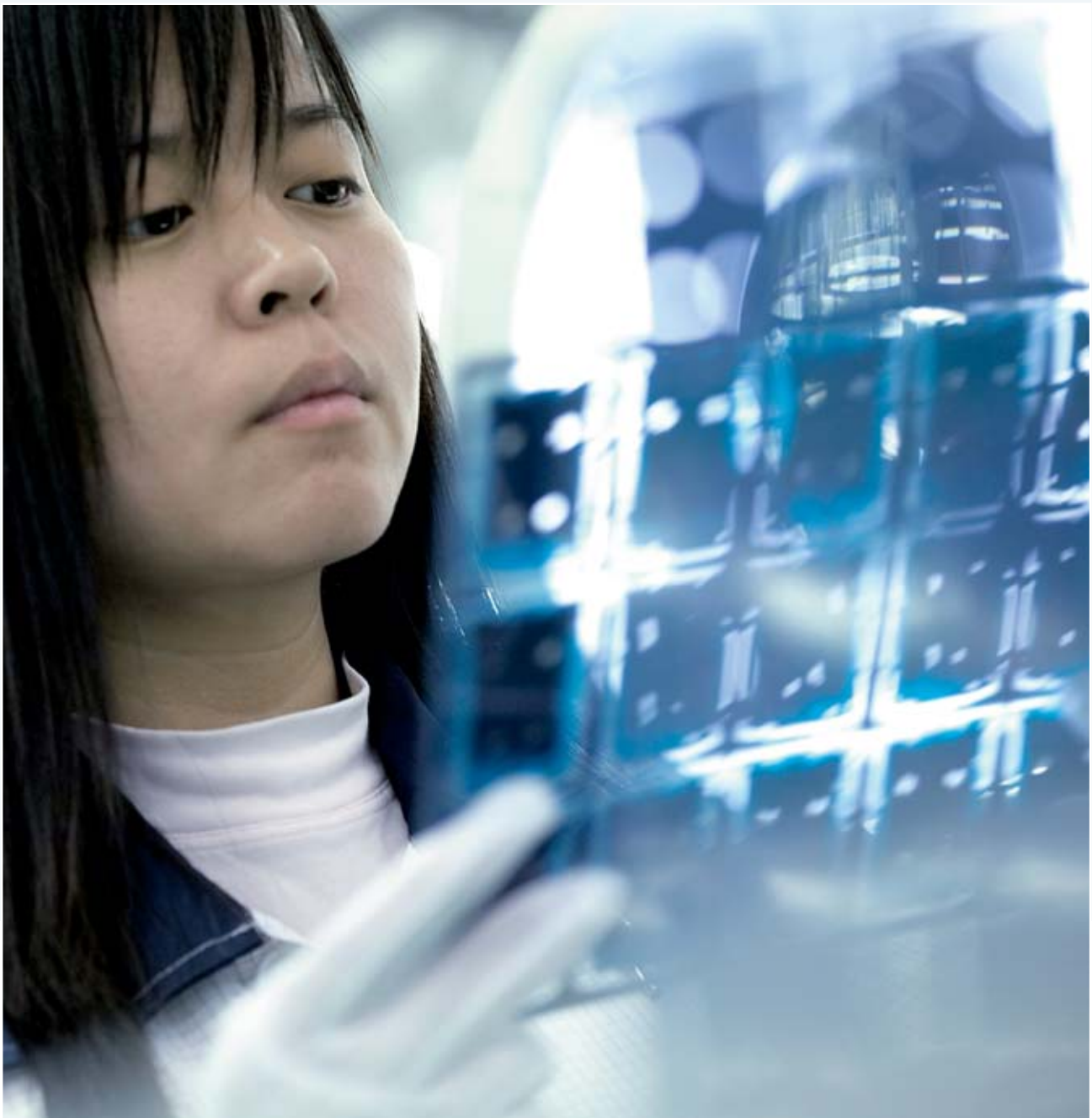
Elcoteq is responsible for the confidentiality, correctness and availability of its information on individual products and customers.

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.



Environmental Responsibility

The European Union's (EU) integrated product policy has shifted the emphasis from management of site-specific environmental impacts to minimizing the environmental impacts of each product throughout its lifecycle. Elcoteq's expanded service offering, along with new legislative obligations and customer requirements, calls for continuous development of environmental management by the company.





Anticipating Future Requirements

The key consideration in the management of environmental impacts over the lifecycle of products is to identify the legislative requirements of each product and market area and to manage them in the entire value chain. Tapping a range of information sources and partnership networks, Elcoteq actively keeps abreast of the development of environmental legislation in Europe, Asia-Pacific and the Americas so that it can offer services that meet the latest requirements throughout the world. The company uses a web information service that provides globally up-to-date analyzed information for companies in the electrical and electronics industries on developments in product-specific environmental legislation in different market areas. The information provided by the service is collected from various commercial databanks and official sources.

Elcoteq also cooperates with international companies by participating in the preparation of legislation and other requirements, promoting the implementation of internationally approved standards and criteria and taking part in various development projects. In 2006, Elcoteq became the first EMS company to be accepted into the European Information, Communications and Consumer Electronics Technology Industry Associations (EICTA). The working groups of the EICTA enable companies to glean information on the preparation of upcoming directives and standards, and discuss their interpretation and possible impacts with other electronics companies.

Product-Specific Environmental Information

The most significant statutory and customer requirements for the products Elcoteq manufactures are based on EU's environmental directives. These apply, for example, to the handling and recycling of waste from electrical and electronic equipment (WEEE), the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS), and the need to observe the lifecycle impacts of energy-using products in the design of such products (EuP). These directives have ushered in new requirements, especially with respect to the collection and management of product-specific environmental information throughout the supply chain, and they also affect Elcoteq's entire manufacturing process, from product development to after-sales services. The company has for several years taken steps to comply with the requirements of new directives, and this work continued in 2006.

Elcoteq employs an application developed for material data management as well as a linked global database containing information

on components and materials used in the products the company manufactures. This tool helps Elcoteq select environmentally benign components, thereby reducing the use of hazardous substances in products. The tool makes reporting on the material content and recyclability of products easier. The data can also be used to prepare product ecoprofiles.

R&D Partnerships

The EU's new environmental directives require the whole lifecycle of a product to be taken into account right from product development. Design for environment (DfE) aims at minimizing environmental impacts during the product lifecycle. Key issues in environmentally benign product development include improving the recycling properties of products and minimizing the use of hazardous substances, energy consumption and quantities of materials needed.

Elcoteq is involved in several networks and is participating in research and development (R&D) projects relating to environmental issues in the electrical and electronic sectors. As part of its preparations to meet the requirements of the EuP directive, Elcoteq has

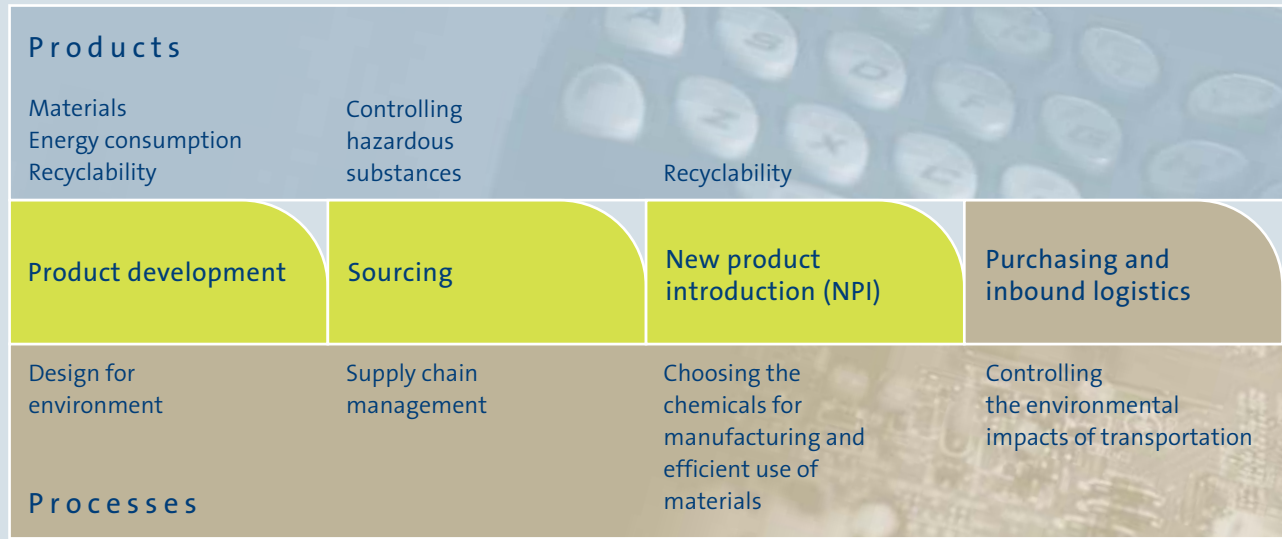
Climate Change Affects Everyone

Climate change or global warming refers to the rise in the average temperature of the earth's atmosphere and oceans in the past decades. The increase in the average temperature since the mid-1900s is largely attributable to growing concentrations of greenhouse gases, such as carbon dioxide (CO₂), from human activity. Greenhouse gases lead to the warming of both the earth's surface and lower atmosphere by absorbing the sun's radiation and thereby strengthening the greenhouse effect. The causes of greenhouse gas emissions include the burning of fossil fuels in energy production and traffic as well as land clearing and agriculture.

The rise in global temperatures has outcomes such as higher water levels and changes in rainfall amounts. These might increase the frequency and severity of extreme weather phenomena, such as floods, droughts, heat waves, hurricanes and tornadoes. Other consequences include changes in arable land, melting ice caps, species extinction and growth in disease carrier populations.

The effects and prevention of climate change as well as related measures and costs are still being heavily debated. Most of the world's nations have ratified the Kyoto Protocol, which aims to prevent global warming by restricting greenhouse gas emissions.

The Environmental Aspects of Elcoteq's Service Offering Regarding Products and Processes



participated in the LIHAS project (Environmental and economic life-cycle modeling of products). This aims to develop a procedure that is easier for companies to use than the current lifecycle assessment and which will reduce the time and resources needed for these assessments. The Helsinki University of Technology is carrying out the research project in partnership with the University of California at Berkeley, the Helsinki School of Economics and Finland's Environmental Administration. The environmental working group set up by KOTEL (Cooperation for Better Electronics, a Finnish cooperative body for electronics research and development) establishes the requirements of new EU directives for managing the materials employed in electrical and electronic products and the lifecycle environmental impacts of the processes and product.

Product-specific environmental legislation is also being drawn up outside Europe, for example in the USA, China, Japan and South Korea. Elcoteq is monitoring developments in environmental legislation in all major market areas and is able to offer its custom-

ers expertise in environmentally sound product development globally. During 2006, Elcoteq's development activities focused on integrating Elcoteq's DfE requirements and practices into the product development processes of international design partners.

NPI Affects the Eco-efficiency of the Entire Process

The environmental impacts of decisions taken during the new product introduction phase affect the manufacturing and end-of-life phases in a product's lifecycle. During new product introduction, Elcoteq aims to maximize the yield from a product and minimize scrap during manufacturing. Chemicals used in the manufacturing process are chosen by taking into account environmental, occupational health and safety aspects.

The new product introduction phase also affects the recyclability of a product when it is taken out of use. It must be possible to dismantle a product in the final stage of its lifecycle so that the components and materials can be recycled effectively. The after-sales

Major New Legal Requirements Concerning the Environmental Compliance of the Electronics Industry

EU RoHS Directive	The directive restricts the use of certain hazardous materials – lead, mercury, cadmium, hexavalent chromium and certain flame retardants – in electronic and electrical equipment. The restrictions apply to new devices brought to market in the EU after July 1, 2006. Similar legislation is in effect or under preparation in Japan, China and some US states.
China RoHS	China's RoHS legislation covers the same hazardous substances as the EU's RoHS directive. China RoHS differs from the EU directive in matters such as labeling, product categories as well as disclosure and testing obligations. China RoHS concerns a wide range of products and components. It will be enforced gradually from March 1, 2007 onwards.
EU WEEE Directive	The WEEE directive concerns the processing and recycling of waste electrical and electronic equipment. The manufacturers of such equipment are responsible for organizing the reuse, recycling and other waste management of their products and the wastes they generate as well as the resulting costs. WEEE came into effect on August 13, 2005. Similar legislation is in effect or under preparation in Japan, China, Taiwan, Korea, Mexico and some US states.
EU EuP Directive	The EuP directive is a framework for setting eco-design requirements for energy-using products. It aims to integrate environmental perspectives and lifecycle thinking in the product design phase. EuP must be implemented into national law by August 11, 2007. Similar legislation is in effect or under preparation in Japan, China, Korea and some US states.
EU REACH Directive	European Parliament and Council directive on the registration, evaluation, authorization and restriction of chemicals. REACH obligates companies that manufacture and import chemicals to assess the risks involved in the use of substances and to provide instructions on the safe use of chemicals. This transfers the responsibility for proof of chemical safety from the authorities to industry. REACH came into force on June 1, 2007.

Controlling hazardous substances

Extending the lifespan of the product
End-of-life treatment

Global manufacturing

Distribution and outbound logistics

After-sales

Energy consumption, waste and chemicals

Controlling the environmental impacts of transportation

Waste and recycling

services offered by Elcoteq, such as repair services, help extend the lifespan of a product, and at the same time can reduce the number of products being taken out of use and their environmental load. To assist effective repair work, it is important that features that simplify the dismantling, recycling and other forms of repair of a product are taken into account in product development and new product introduction.

Corporate Responsibility Entails Cooperation Throughout the Supply Chain

Companies in the electronics sector have to ensure that operations meet corporate responsibility requirements also throughout the whole supply chain. In practice this means communicating environmental and ethical requirements to suppliers, including these requirements in supplier contracts, assessing and auditing suppliers to examine and demonstrate that their operations comply with these requirements, and collecting and analyzing information concerning individual suppliers.

In global sourcing, corporate responsibility entails knowledge of international environmental and ethical requirements as well as local legislation in each country. Elcoteq has for years worked closely with several customers with global operations and through this has built up expertise in managing the supply chain.

During 2006, development of environmental management in the supply chain focused on preparations for the RoHS directive: communicating the requirements and monitoring and making sure that suppliers were developing these capacities. The main priorities were investigating the compatibility of Elcoteq's lead-free manufacturing process and components and ensuring the availability of components that comply with RoHS requirements.





Seeking to Step Up Efficiency in Energy Consumption

The environmental impacts of Elcoteq's manufacturing processes are relatively small compared to those over the entire product life-cycle. Key environmental aspects in manufacturing are energy and chemical usage and waste.

Elcoteq is working to improve the environmental performance of its plants with long-term development work, by raising energy and material efficiency, and by reducing the use of hazardous substances.

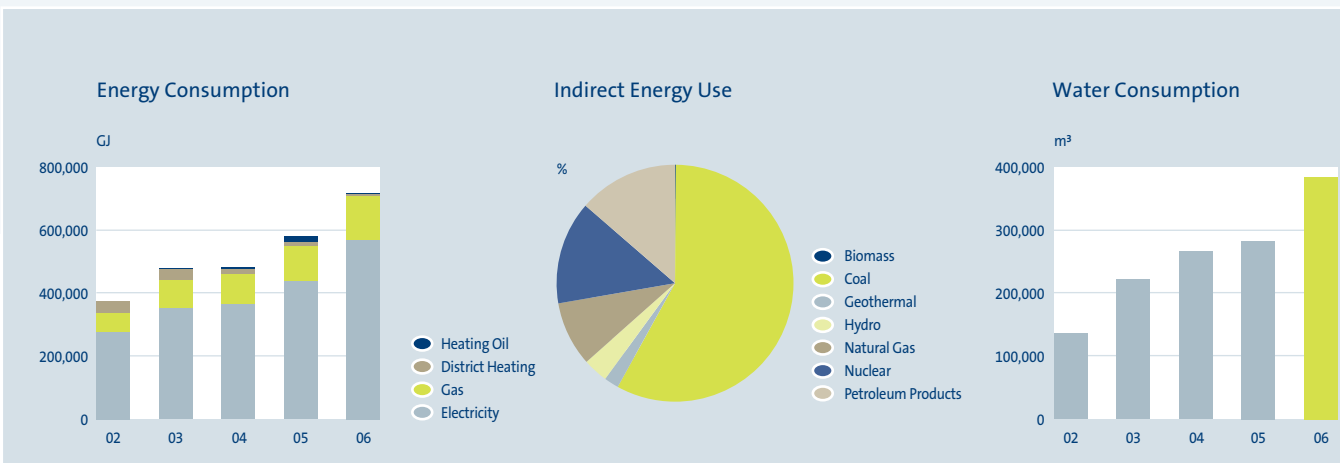
In 2006, the company focused on greater efficiency in energy use. International and national action plans geared towards preventing global warming also have a direct impact on business operations, such as due to rising prices of energy. Elcoteq kicked off an energy efficiency campaign on World Environment Day, June 5, 2006. The company-specific theme chosen for the campaign was climate change. This sought to raise the awareness of personnel on climate change and its consequences as well as means of controlling global warming. At that time, Elcoteq published its own energy conservation policy, which includes instructions and recommendations for increasing energy efficiency at Elcoteq plants. The company has also begun to compare the cost-efficiency of energy consumption at the plants: an indicator of performance in this area is now

included in the company's scorecard.

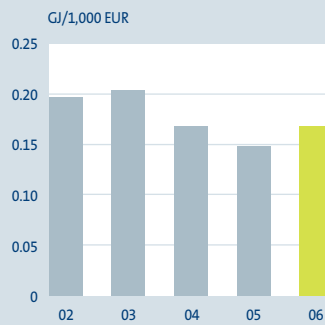
Preventing climate change concerns each and every company, including those in the electronics industry, even though electronics assembly is not an energy-intensive field of industry and thus not in the scope of the EU's emissions trading. Emissions trading aims to prevent global warming by encouraging the use of energy sources, that cause fewer carbon dioxide emissions, such as hydro and wind power. The price of carbon dioxide emissions rights raises the costs of gas and coal in electricity generation. The impacts of climate change and the actions to prevent it are at present mainly reflected in Elcoteq's operations in the form of rising energy costs.

The direct greenhouse gas emissions of Elcoteq's operations in 2006 were 7,870 CO₂Eq.v.t. Indirect greenhouse gases from electricity and heat consumption amounted to 94,855 CO₂Eq.v.t. In the case of electricity, the emissions factors used for indirect greenhouse gas emissions are the country-specific coefficients for the distribution of primary energy for 1998 from the International Energy Agency, and in the case of district heating, the 2002 coefficients.

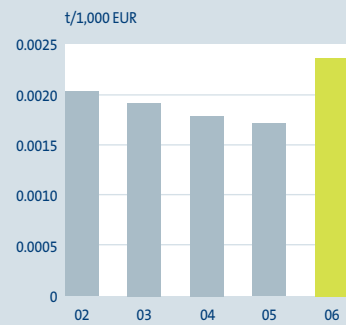
The challenges posed by climate change concern everyone. It is practical to cooperate in spreading and adopting the best practices. In 2006, Elcoteq teamed up with external experts and customers to assess opportunities for stepping up energy use efficiency as well



Energy Consumption/Net Sales



Waste Handling/Net Sales



as to analyze the level of energy efficiency by comparing the energy consumption indicators of the plants. Elcoteq's long-term objective is to continuously raise energy efficiency in its operations by reducing energy consumption relative to net sales.

Management of Chemicals

Elcoteq started up the development of a lead-free manufacturing process in 2002, as soon as the EU made the decision on the RoHS directive. Elcoteq switched gradually to lead-free manufacturing and products that comply in full with the RoHS directive in line with customer requirements before July 1, 2006. Elcoteq has retained its capabilities for manufacturing using lead at its plants. In this way the company can also serve customers to whose products the directive does not apply or who operate in market areas in which requirements similar to those of the RoHS directive do not yet apply.

In early 2006, Elcoteq worked closely with its customers to optimize the phasing in of lead-free soldering product by product. Discussions were held on issues such as the RoHS testing of received materials and the reliability of different measurement methods. Before the directive came into force, the company carried out internal RoHS audits to ensure compliance with the requirements. In the latter half of 2006, efforts focused on monitoring the preparation of China's RoHS legislation.

Elcoteq also constantly monitors changes being prepared to the EU's RoHS directive and similar legislation being prepared in market areas outside the EU. In the near future, Elcoteq will focus, for example, on assessing the impact of China's RoHS legislation, published in March 2006, and on developing the capabilities required by this. In December 2006, Elcoteq participated in a RoHS seminar for EU and Chinese officials in Beijing that aimed to discuss the differences between the EU's and China's RoHS legislation and the practical

effects of the legislation on the electronics industry.

Elcoteq has also prepared itself for the new requirements for chemical and substance management that will be ushered in by the EU's REACH directive. The directive primarily applies to Elcoteq as an end-user of chemicals. The REACH directive came into force on June 1, 2007.

Global Environmental System

Elcoteq units operate within multisite certification for their quality and environmental management systems, apart from the company's newest plant, which was acquired in the fall of 2006 in Romania. The setting up of operating systems at that plant began towards the end of 2006.

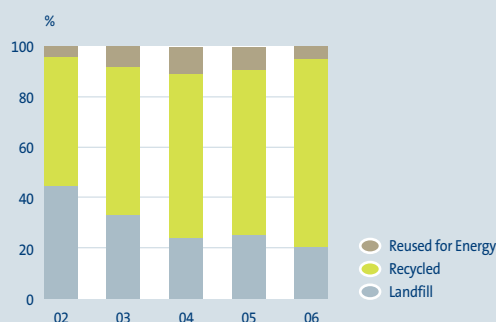
Elcoteq sets global environmental objectives for its functions annually. All business units are individually responsible for continuous improvement of the environmental management of their local operations according to the Group's environmental policy, targets and instructions. The units address local conditions and requirements when defining development priorities.

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

In line with the company's environmental policy, Elcoteq's central environmental objectives are to obtain ISO 14001:2004 certification for all its business units, to continuously improve the environmental performance of the company's business operations, to improve the environmental performance of products in collaboration with customers, to enhance the environmental awareness and expertise of its employees, and to require the company's network of suppliers to apply the principles of environmental responsibility.

Elcoteq has introduced a global environmental reporting system for monitoring environmental management and the current state and development of environmental loads at its plants. The company monitors environmental indicators on a quarterly basis to measure and assess environmental management, the consumption of natural resources, waste management and indirect environmental

Waste Handling





impacts at its plants. The indicators also help to identify and share best practices throughout the Group.

Environmental Reporting

The number of the reporting units may vary from year to year, for example due to company acquisitions and divestments. The figures for 2001 include the plants in Poland and Helsinki, Finland, which the company divested in 2001.

At the end of 2002 Elcoteq acquired IBM's holding in the Chinese GKI joint-venture companies. This expanded the company's service network by two plants, and these have been included in the overall figures from the start of 2003. In 2004 Elcoteq sold off its industrial electronics business in Vaasa and Lohja in Finland and in Baden, Switzerland, and at the end of 2005 the company divested its Überlingen plant in Germany.

At the end of 2004, Elcoteq started manufacturing operations in Manaus, Brazil and made an outsourcing agreement with Thomson, as a result of which Thomson's facility in Mexico was transferred to Elcoteq at the end of 2004. In April 2005, Elcoteq opened a new plant in Bangalore, India. These plants have been included in Elcoteq's global environmental reporting system as from 2006.

In 2006, Elcoteq acquired the business operations of Andrew Corporation's plant in Arad, Romania, in connection with an outsourcing agreement. The plant is not included in the scope of reporting in 2006.

Energy Consumption

In 2006, Elcoteq's total energy consumption amounted to 199.2 GWh (718,637 GJ), up 24% on the previous year. The reasons behind this growth included the rise in production volumes, the expansion of operations into new properties at the existing plants as well as the greater number of plants in the scope of reporting. The Group's energy consumption relative to net sales saw growth, which was primarily due to the fact that some of the plants posted lower net sales than in the previous year. The company has drafted new guidelines for reducing energy consumption. The new guidelines seek to cut the energy consumption of premises and equipment when there is lower demand for production capacity.

Total energy consumption includes the use of electricity, heating oil, gas and district heating, but does not include the energy consumed by vehicles and in other forms of transportation. The air conditioning, heating and lighting of buildings as well as production

equipment and machinery account for most energy consumption. The main form of energy consumed by Elcoteq is electricity, which accounted for 79% of total energy usage in 2006.

Water Consumption

Elcoteq's plants use water mainly as faucet water and in air conditioning. Manufacturing uses only a small amount of water, mainly in the washing of the equipment. In 2006, the total water consumption was 387,244 m³ (municipal water network 343,955 m³, artesian wells 40,819 m³). Water consumption grew by 37% compared with the previous year, which was due, for instance, to the new plants, expansion of operations into new properties and the increase in personnel.

Waste

Elcoteq's goal is to reduce the amount of waste by upgrading the efficiency of its processes and waste management. Elcoteq classifies waste as normal and hazardous waste. These types are sub-classified in accordance with the methods used for handling them: recycled, reused for energy, and landfill.

The total amount of waste in 2006 was 10,082 tons, of which 374 tons comprised hazardous waste. The total amount of waste was up 51% on the previous year, mainly due to the new plants included in reporting and rising production volumes at the older plants.

Elcoteq's units follow Group-wide waste management instructions to ensure that all units apply good waste management practices. Each unit makes its own waste management agreements with local waste management companies, and develops its operations in order to reduce the amount of waste and increase the proportion that is reused or recycled. In 2006, the proportion of waste recycled rose by 12% compared with the previous year.

Environmental Targets for 2007

Elcoteq's focus areas for environmental management in 2007 are preparing for the requirements of the EU's REACH directive and China's RoHS legislation as well as improving energy efficiency.

Elcoteq seeks actively to reduce the environmental impacts of its operations. The global environmental targets set for 2007 aim to improve energy efficiency at the company's plants, reducing the amount of waste and increasing the level of recycling.

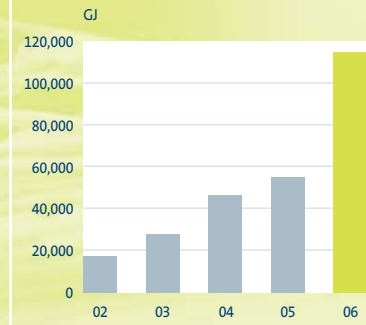
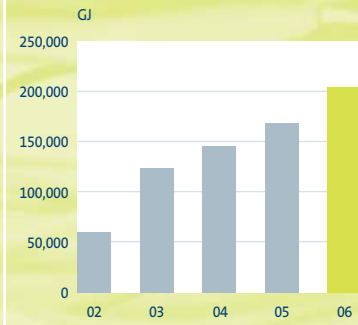
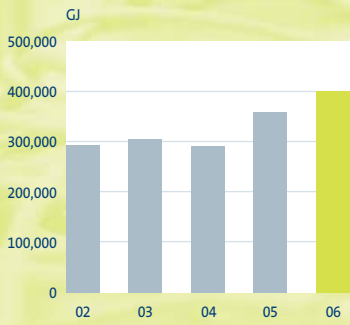
Elcoteq is working to improve the environmental performance of its plants with long-term development work, by raising energy and material efficiency, and by reducing the use of hazardous substances.

Europe

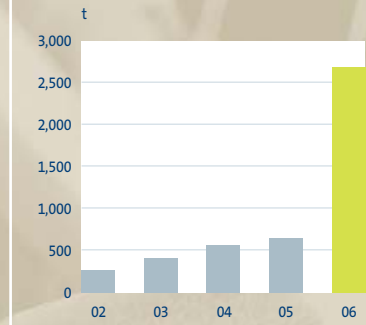
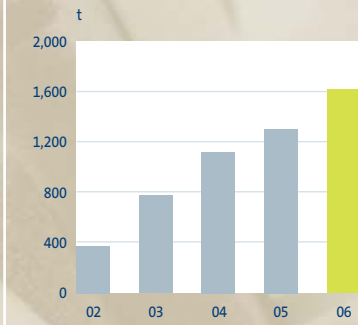
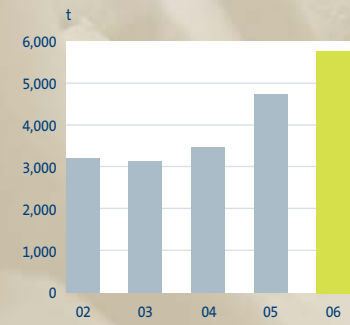
Asia-Pacific

Americas

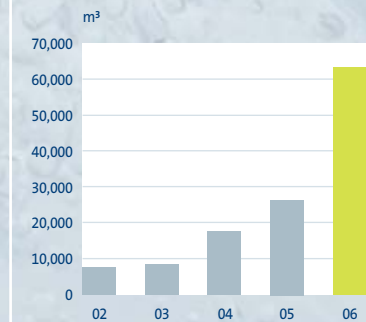
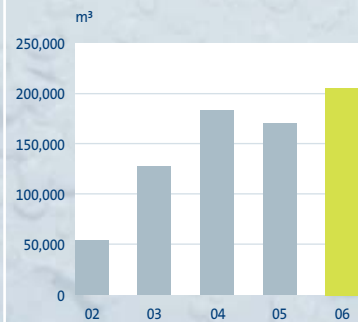
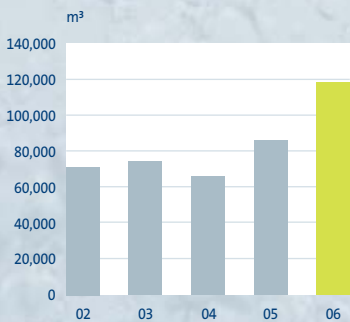
Energy Consumption



Waste



Water Consumption



Reporting Principles

This report presents Elcoteq's key indicators for corporate responsibility. Elcoteq constantly develops its corporate responsibility reporting based on the GRI guidelines. A comparison of the contents of this publication with the GRI guidelines is given on page 34.

Scope of Reporting

The G3 guidelines issued by the GRI in October 2006 are applied in this corporate responsibility report. The key indicators presented herein were chosen by comparing Elcoteq's indicators with the GRI guidelines and the availability of information. The choice of indicators was also affected by the nature of Elcoteq's business and what is of central importance to it. Elcoteq does not report indicators that are non-core or on which information is not available or cannot be obtained by reasonable means.

This report focuses on describing the company's social and environmental management systems and the performance indicators used in them. Reporting of economic responsibility concentrates on the direct financial impacts of the company's operations. The report does not cover the indirect impacts of economic responsibility. The main emphasis in this report is on the results and events of 2006.

The economic and social responsibility sections of this report apply to the entire Group. The environmental section covers the company's manufacturing plants and new product introduction (NPI) centers.

Elcoteq's previous corporate social responsibility report was published in August 2006.

Data Collection

In 2006, all of Elcoteq's operating locations adopted a new corporate responsibility reporting system based on the GRI standard. 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.

The key objective of the introduction of the reporting system was to generate reliable and comparable information for the company's stakeholders. Information fed into the system is verified and closed within a certain timeframe. After this period all revisions are registered separately, which serves to improve the reliability of information.

The information on economic responsibility presented in this

report is based on Elcoteq's financial accounting and official financial statements.

The information on social responsibility is based on Elcoteq's internal human resources reporting.

Elcoteq has operated a global environmental database since 1999. It primarily contains the environmental information reported by the manufacturing plants. The information in this database was transferred into the new corporate responsibility reporting system in 2006. Elcoteq uses this system to monitor its environmental indicators quarterly. The indicators are used to measure and assess environmental management at the plants, their use of natural resources, waste management, and indirect environmental impacts. Environmental responsibility reporting is based on the information contained in this system.

Reliability of Information

The information in this publication has not been independently assured. Elcoteq is continuously developing its internal procedures to ensure the quality and reliability of information.





Glossary

Audit	An inspection carried out by an independent external auditor – for instance, a management system audit.
Carbon dioxide equivalent (CO2Eqv.)	Measures the amount of greenhouse gas emissions. It is used to calculate the global warming potential of different greenhouse gases.
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.
EuP	EU directive on Eco-design of Energy-using Products.
Greenhouses gases	Gases that contribute to climate change when emitted into the atmosphere. The major greenhouse gases are carbon dioxide and methane.
GRI	Global Reporting Initiative – voluntary international reporting guidelines for the development of consistent reporting practices in corporate social responsibility.
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-sales services.
OHSAS 18001	Occupational Health and Safety Management System.
REACH	EU directive on Registration, Evaluation and Authorization of Chemicals.
RoHS	EU directive on Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment.
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.
WEEE	EU directive on Waste Electrical and Electronic Equipment.



GRI Content Index

Strategy and Analysis

1.1	CEO's statement	page	3
-----	-----------------	------	---

Organizational Profile

2.1	Name of organization	inner front cover
2.2	Primary brands, products, and/or services	inner front cover
2.3	Operational structure	inner front cover
2.4	Location of headquarters	10–11
2.5	Countries of operation	1
2.6	Nature of ownership and legal form	10, 15
2.7	Markets served	inner front cover
2.8	Scale of the reporting organization	1
2.9	Significant changes	13, 22, 30
2.10	Awards received	22

Report Profile

3.1	Reporting period	32
3.2	Previous report	32
3.3	Reporting cycle	32
3.4	Contact persons	37
3.5	Process for defining report content	30, 32
3.6	Boundary of the report	32
3.7	Specific limitations on the scope or boundary of the report	
3.8	Reporting on other entities	
3.10	Reasons for re-statements of information	
3.11	Significant changes from previous reporting periods	32
3.12	GRI Content Index	34
3.13	Assurance	32

Governance, Commitments and Engagement

4.1	Governance structure	10–11
4.2	Highest governance body	10–11
4.3	Members that are independent and/or non-executive members	11
4.4	Mechanisms for providing recommendations or direction	11
4.14	Stakeholder groups Reported	6–7
4.15	Identification and selection of stakeholders with whom to engage	6–7

ECONOMIC PERFORMANCE INDICATORS

EC1	Economic value generated and distributed	13–15
EC2	Financial implications due to climate change	28
EC3	Pension plans	
EC4	Financial assistance from the government	
EC6	Locally-based suppliers	
EC7	Local hiring	
EC8	Infrastructure investments and services	

ENVIRONMENTAL PERFORMANCE INDICATORS

EN1	Materials used	
EN2	Use of recycled materials	
EN3	Direct energy consumption	30
EN4	Indirect energy consumption	28
EN8	Water withdrawal	30
EN11	Land owned, leased or managed in or adjacent to areas of high biodiversity value	
EN12	Impacts on biodiversity	
EN16	Direct and indirect greenhouse gas emissions	28
EN17	Other relevant greenhouse gas emissions	
EN19	Emissions of ozone-depleting substances	
EN20	Air emissions	
EN21	Water discharge	
EN22	Waste	30
EN23	Significant spills of chemicals, oil and other substances	29
EN26	Initiatives to mitigate environmental impacts of products and services	
EN27	Reclaimed products and their packaging materials	
EN28	Fines and non-monetary sanctions	29

SOCIAL PERFORMANCE INDICATORS

LA1	Workforce	20–21
LA2	Employee turnover	
LA4	Collective bargaining agreements	
LA5	Operational changes	22
LA7	Lost days and accidents	22
LA8	Education regarding serious diseases	
LA10	Average hours of training	20
LA13	Diversity of governance bodies and breakdown of employees	21
LA14	Salary	
HR1	Investment agreements that include human rights clauses	8
HR2	Suppliers and contractors that have undergone screening on human rights	

HR4	Incidents of discrimination	
HR5	Freedom of association	
HR6	Risk for incidents of child labor	
HR7	Risk for incidents of forced or compulsory labor	
SO1	Impacts of operations on communities	
SO2	Risks related to corruption	
SO3	Anti-corruption training	
SO4	Actions taken in response to incidents of corruption	
SO5	Participation in public policy development and lobbying	
SO8	Fines and non-monetary sanctions for non-compliance with laws and regulations	
PR1	Improving product and service safety over their entire life cycle	22–23
PR3	Product and service information and labeling	22–23
PR6	Adherence to laws, standards and voluntary codes related to marketing communications	
PR9	Fines and non-monetary sanctions concerning products and services	

Names of certain GRI indicators have been shortened.

Reported
Partly reported
Not reported
Not applicable



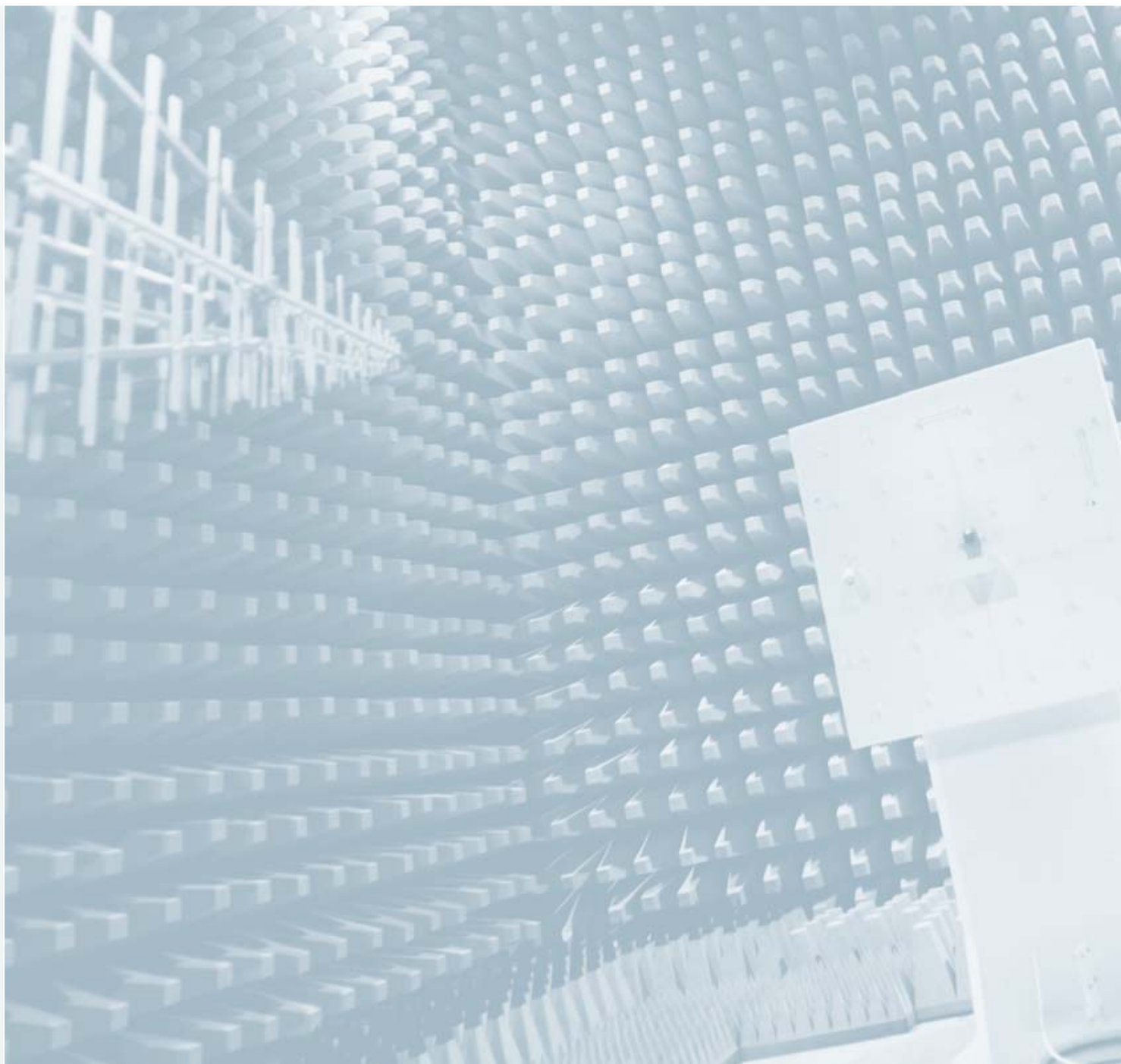
This Corporate Responsibility Report has been self-declared at Application Level C.

GRI Guidelines' Application Levels

Report Application Level		C	C+	B	B+	A	A+
STANDARD DISCLOSURES	G3 Profile Disclosures	Report on: 1.1 2.1–2.10 3.1–3.8, 3.10–3.12 4.1–4.4, 4.14–4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5–4.13, 4.16–4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental		Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental, Human Rights, Labor, Society, Product Responsibility		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission	

* Sector supplement in final version

Responsible business practices play a key role at Elcoteq in attending to customer satisfaction, the company's profitability and sustainable growth in the long run.





Contact Information

Elcoteq SE
Group Office
P.O. Box 8
Sinimäentie 8B
FI-02631 Espoo, Finland
Tel. +358 10 41 311
Fax +358 10 413 1209

Reeta Kaukiainen
Vice President, Communications and
Investor Relations
Tel. +358 10 413 1742
Fax +358 10 413 1938
E-mail: reeta.kaukiainen@elcoteq.com

Sari Sarin
Senior Manager, Corporate Responsibility
Tel. +358 10 413 2024
Fax +358 10 413 1209
E-mail: sari.sarin@elcoteq.com

E-mail:
info@elcoteq.com
(general issues)
environment@elcoteq.com
(corporate responsibility and environmental issues)

Published in June 2007

Contents: Elcoteq SE
Layout: Sininen Arkki Oy
Translation: Oy Dynaline Ltd
Photographs: Jere Hietala, Jussi Hyttinen/Kerosin,
Matti Matikainen, Nokia and RIM
Printing: Libris Oy
Trade Reg. 521.860
Business ID 0861051-6

www.elcoteq.com



www.elcoteq.com