



REPORT BY THE BOARD OF DIRECTORS JANUARY 1–DECEMBER 31, 2007

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

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

Market Review

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

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

Financial Year 2007

Elcoteq's 2007 net sales declined slightly on the previous year and amounted to 4,042.9 million euros (4,284.3). Operating income was -96.3 million euros (43.9), representing -2.4% of net sales. Income before taxes was -122.8 million euros (19.2) and net profit was -108.4 million euros (12.1) after the recognition of deferred tax assets. Earnings per share (EPS) amounted to -3.37 euros (0.38). Earnings include 50.2 million euros in restructuring expenses.

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

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

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

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

Fourth-quarter Net Sales and Earnings

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

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

Financing and Cash Flow

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

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

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

Capital Expenditures

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

Personnel

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

nel count. Box build means that products are delivered directly into the customer's distribution channel in consumer packages.

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

Environment

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

Research and Development

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

Trends of the Business Areas

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

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

Terminal Products

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

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

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

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

Communications Networks

Net sales of Communications Networks in 2007 rose by about 7.6% on the previous year and amounted to 831.0 million euros (772.3). The segment's operating income was -17.3 million euros (22.4); excluding restructuring expenses, it was -3.3 million euros. Fourth-quarter net sales in 2007 amounted to 212.5 million euros (206.0) and the segment's operating income to -17.2 million euros (5.7).

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

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

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

Geographical Areas

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

Europe

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

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

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

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

Asia-Pacific

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

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

Americas

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

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

Decisions of the Annual General Meeting

The Annual General Meeting of Elcoteq SE, held on March 22, 2007, elected seven members to the Board of Directors. The composition of the Board remained unchanged. The following persons were re-elected: President Martti Ahtisaari; Mr. Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Dr. Eero Kasanen, Rector of the Helsinki School of Economics; Mr. Antti Piippo, principal owner and founder-shareholder of Elcoteq SE; Mr. Henry Sjöman, founder-shareholder of Elcoteq SE; Mr. Juha Toivola, Master of Arts, and Mr. Jorma Vanhanen, founder-shareholder of Elcoteq SE. The terms of office of the Board members extend until the end of the following Annual General Meeting. Ahtisaari, Horstia, Kasanen and Toivola are independent Board members, and they represent more than half of the Board's members.

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

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

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

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

Furthermore, the Meeting authorized the Board of Directors to purchase at most 1,576,994 of the company's own Series A shares in public trading in order to develop the company's capital structure, to use as consideration in corporate acquisitions or when the company acquires assets related to its business, and as part of the company's personnel incentive scheme, in the manner and scope determined by the Board, and otherwise to dispose of or nullify these shares. The purchase price of the shares to be purchased shall be based on the share price in public trading such that the subscription price corresponds to the fair value of the shares formed in public trading at the time of purchase. The holders of the company's Series K shares have given

their approval to the effect that the decision will not be used to purchase the Series K shares in their possession. The purchase of own shares will reduce the company's distributable funds.

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

Shares and Shareholders

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

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

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

Actions to Improve Cost-effectiveness, Profitability and Competitiveness

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

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

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

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

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

New Incentive Scheme

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

Events after the end of the Review Period – Change of Domicile

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

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

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

Expanding the IEMS Offering

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

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

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

Short-term Risks and Uncertainties

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

Prospects

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

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

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

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

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

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

Board's Dividend Proposal

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

Annual General Meeting 2008

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

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

Luxembourg, February 5, 2008

Board of Directors