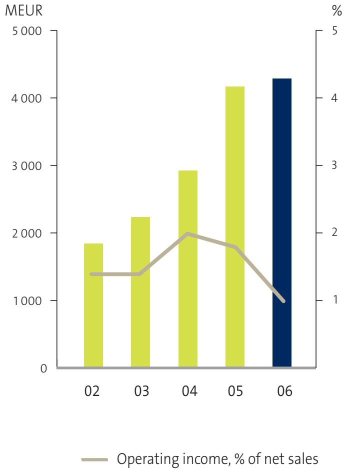
ELCOTEQ

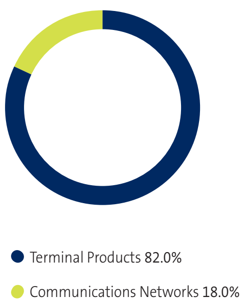
Annual Report 2006

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

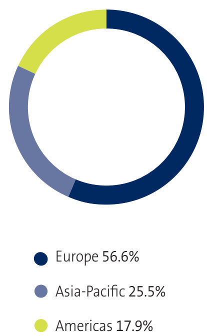
Net Sales and Operating Income
2002–2006



Net Sales
by Business Area
2006



Net Sales
by Geographical Area
2006



Elcoteq SE is a leading electronics manufacturing services (EMS) company that focuses on communications technology customers and products. The company provides globally services that cover the entire lifecycle of customers' products – from product development to after-sales. These products include mobile phones and their parts, set-top boxes, base stations and microwave systems.

- EMS provider since 1984
- Independent company since 1991
- Largest European company in its field and the fourth largest in the world
- Net sales 4,284 million euros in 2006
- Approximately 23,000 employees
- Operations in 16 countries on four continents
- Listed on the Helsinki Stock Exchange since 1997
- 20,962,327 listed A shares and 10,577,000 non-listed K-shares (Dec. 31, 2006)

Contents

Elcoteq in Brief

Elcoteq SE is an electronics manufacturing services (EMS) company that focuses on communications technology. 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.

Serving Global OEMs

Most of Elcoteq's customers are globally operating original equipment manufacturers (OEMs) of communications technology products. Elcoteq's focus on communications technology sets the company clearly apart from its competitors.

Elcoteq's operations are organized into two business areas: Terminal Products and Communications Networks. In 2006 Terminal Products contributed 82% and Communications Networks 18% to the Group's net sales.

The main product group for Terminal Products is mobile phones, their parts, modules and accessories. In recent years Elcoteq has expanded towards home communications and manufactures set-top boxes and electronics for flat-screen televisions, for example.

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. Elcoteq also has other leading communications technology companies among its customers, such as Andrew Corporation, Siemens and Philips.

Global Service Network

Elcoteq's service network covers altogether 16 countries in Europe, Asia-Pacific and Americas. It includes high-volume manufacturing plants, units specializing in smaller series, as well as product development units and new product introduction (NPI) centers.

All of the company's high-volume plants are located close to the main end-markets of customers' products and in 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. For customers this translates into a consistently uniform, flexible, and high-quality service.

Timeline 2006

- Feb. 9: Financial Statements 2005
- March 1: Guidance remains unchanged
- March 7: Issuance of subordinated notes worth MEUR 30
- March 8: Elcoteq to start personnel negotiations in Finland
- March 23: Decisions of the AGM
- March 29: Renewal of participation in the Kempen/SNS Smaller SRI Europe Index
- April 24: Elcoteq to manufacture antennas for PCTEL in St. Petersburg
- April 25: Personnel negotiations concluded – reductions smaller than expected
- April 27: Interim report January–March

All Elcoteq's releases are posted in full on the company's website at www.elcoteq.com.

The Year 2006

Elcoteq held the same market position in 2006 as the year before. Net sales grew slightly on the previous year and amounted to 4,284.3 million euros (4,169.0). Operating income was 43.9 million euros (76.5).

Key Figures

	2006	2005	Change, %
Net sales, MEUR	4,284.3	4,169.0	3
Operating income, MEUR	43.9	76.5	–43
% of net sales	1.0	1.8	
Income before taxes, MEUR	19.2	59.3	–68
Net profit, MEUR*	12.1	41.3	–71
Capital employed, MEUR	513.6	495.6	4
Return on capital employed (ROI/ROCE), %	9.1	17.6	
Cash flow, MEUR	–20.8	24.4	
Interest-bearing net debt, MEUR	128.0	90.3	42
Gearing	0.4	0.3	
Solvency ratio, %	26.1	26.0	
Earnings per share, EUR	0.38	1.34	–72
Gross capital expenditures, MEUR	116.9	123.6	–5
Personnel on December 31	23,298	19,802	18

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

May 10 – Relocation of facilities in Brazil and Mexico

July 26 – Interim report January–June

Sept. 14 – Elcoteq expands co-operation with Andrew Corporation and acquires a plant in Romania; Elcoteq revises its Q3 and full-year forecast downwards

Sept. 27 – Phil Brown appointed President of GA Americas

Oct. 25 – Interim report January–September

Nov. 30 – Tallinn plants receive the Estonian Excellence Award

Dec. 22 – The company's Board proposes transfer of domicile to Luxembourg

Dec. 22 – Elcoteq revises its Q4 forecast downwards

A Company's Competitiveness Depends on Its Ability to Innovate and Generate Competitive Products and Services

CEO's Review

Dear Elcoteq Shareholders,

2006 was in many ways a promising year even though our financial performance failed to meet targets. We were successful in reaching one of our main targets, balancing the company's customer base. We grew with some customers and also gained new ones despite intense international competition. Our communications networks business expanded in volume and developed, notwithstanding some temporary setbacks caused by consolidation among certain customers. Demand for home communications products is also growing clearly.

Last year, though, was undeniably a disappointment at the same time: our growth rate slowed and profitability weakened, especially in the second half of the year. Although we reported a profit for the year, we cannot be satisfied. We were still investing in additional capacity and increasing our production resources even during the latter six months as our customers' forecasts indicated substantial growth. That did not materialize, however, and delivered volumes to certain terminal products customers ended up being well below the forecasts we had used to dimension our manufacturing capacity, with the result that our net sales and, above all, our profits fell heavily short of targets.

All in all, we must face the fact that our cost-efficiency, and our competitiveness that depends on it, were not good enough, especially in the case of terminal products. This does not mean, however, that our commitment to serving the customers we have chosen is changing – on the contrary. Our customers are feeling the pressure of intensifying competition in their own businesses and, like us, seeking solutions to raising their own efficiency and profitability. Continuously shortening product lifecycles and declining product prices are a fact of life for all players in our sector. It has been no easy task to match the power of the network economy and the ability to improve continuously with current market conditions, and as a result vertical integration has been seen as a simple solution. In order to respond effectively and promptly to this challenge, we must ensure that our own operations are efficient and profitable. In other words, we must be able to offer our customers the services they need competitively – and in a form they can use.

This is the background to the action plan we have launched, to enhance our competitiveness and profitability. The plan applies to all our operations and units worldwide. The target cost savings, roughly 20 million euros, are only one part of this program. Parallel with the structural changes it calls for, development also includes the need to reorganize our operations. We also believe that the Board's proposal to transfer our domicile to Luxembourg, and the introduction of new administrative procedures and contract models, are also measures that will support our development.

Our strategy is still to focus on communications technology. Many of our competitors have sought growth and profitability from component manufacturing and, indeed, have enjoyed some success in this – at least in the short term. The fact is, however, that in the longer term a company's competitiveness depends on its ability to innovate and generate competitive products and services – together with world-class technology and component suppliers.

For Elcoteq, specialization is a choice. We are continuously developing our own knowhow and service offering and supplementing these with the help of our partners. This policy must continue also in the future. Despite our temporary difficulties, we have an outstanding global service network and portfolio of customers. Our future success will depend on how well we put into effect the measures we agree on and how effectively we innovate new services for our customers. Intense pressure on prices will continue to be a fact of life for us in the future but price is not the only deciding factor. Quality, reliability and speed of delivery, and technological expertise are still decisive in the choice of partner. What our customers want above all are competitive partners that can help make them more competitive while at the same time operating in a responsible and ethically acceptable manner.

I thank our customers, shareholders, employees and all our partners for 2006. Elcoteq will continue to develop vigorously during 2007 and in that context I call on our employees to continue the good development work we have started with resolution and enthusiasm, and to serve our customers competitively, as becomes a company that is a leader in its business.

Zug, Switzerland, February 2007

Jouni Hartikainen
President and CEO

Market Review

The market for electronics manufacturing services grew by almost 15% in 2006, driven by an increase in outsourcing and growth in the mobile phone market, especially in developing countries in Asia-Pacific. Growth is expected to remain strong in the years to come.

Solid Growth Continued

The electronics market amounted to roughly 1,300 billion US dollars in 2006. The communications technology segment represented some 300 billion US dollars of this total.

The value of the electronics manufacturing services (EMS) and original design manufacturing (ODM) market in 2006 was around 250 billion US dollars, according to marketing intelligence corporation iSuppli. This figure includes all the electronics segments, not only communications technology. iSuppli estimates that this market grew by nearly 15% in 2006 and forecasts further annual growth of over 10% until 2010.

The traditional EMS business grew by about 13% in 2006 to roughly 155 billion US dollars. The largest product segments outsourced to EMS companies were, as in previous years, computers, communications systems and mobile phones. iSuppli forecasts annual EMS growth of about 10% for the years ahead.

The ODM market, according to iSuppli, amounted to over 90 billion US dollars in 2006, which represents growth of about 15% on the previous year. The largest product segments in the ODM sector are computers and mobile phones. The ODM market is forecast to continue growing faster than the traditional EMS market although the annual growth rate is expected to level off at around 13%.

Elcoteq Holds Its Market Position

Communications technology accounted for some 30%, or some 70 billion US dollars, of the total EMS market in 2006 according to the research institute Gartner. There is more than 10% growth on the previous year.

Elcoteq maintained its market position in the communications technology segment of the EMS market in 2006. With a market share of 7%, the company is the world's fourth largest EMS provider to communications technology companies and the largest European EMS company.

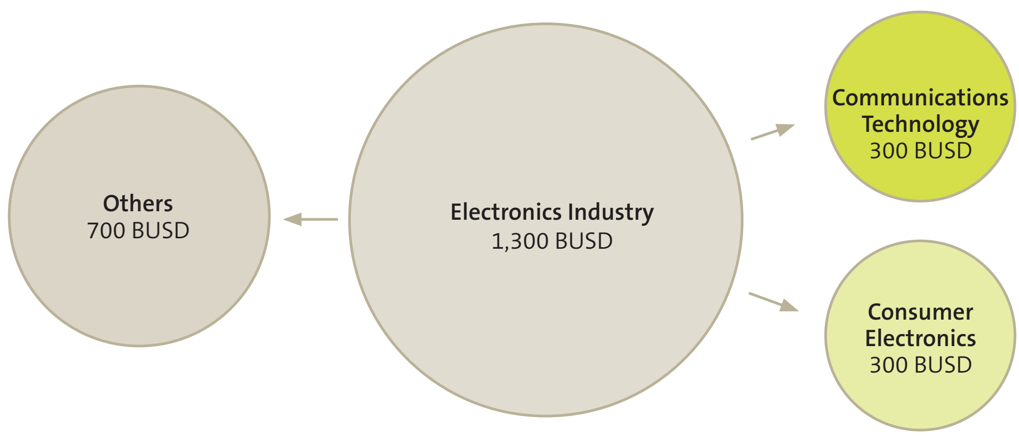
Elcoteq's position is particularly strong in mobile phone manufacturing, where the company is the world's third largest EMS provider with a market share of 13%. Other global EMS companies include Celestica, Flextronics, Hon Hai Precision Industry, Jabil Circuit, Sanmina-SCI and Solectron. The largest ODM companies in terminal products are the Taiwanese companies Arima Communication, Compal Communication and High Tech Computer.

Mobile Phones Continue to Drive End-Product Market Growth

Demand for mobile phones remained good in 2006, which spurred growth in the communications technology EMS business. Gartner estimates that more than 980 million mobile phones were sold in 2006, an increase of some 20% compared to 2005. This figure was distinctly higher than the previous year's forecasts. The investment bank UBS Warburg forecasts that mobile phone sales will rise by 10% in 2007 in terms of number sold, but in US dollars will remain at the 2006 level as average phone prices are falling.

Concentration continued in the mobile phone market in 2006, as the largest mobile phone manufacturers, headed by Nokia and Motorola, further increased market share while some of the smaller players pulled out of the market. The five largest mobile phone producers accounted for roughly 85% of the market at the end of 2006. The same trend is expected to continue in the years ahead.

The Size of the Electronics Industry in 2006



Source: iSuppli

Mergers Redefine Competition in Communications Networks

According to UBS Warburg, sales of communications network equipment totaled roughly 150 billion US dollars in 2006, marking growth of about 7% from one year earlier. Of this amount, mobile phone networks represented approximately 65 billion US dollars. UBS Warburg forecasts roughly 9% growth in communications network equipment for 2007. The market for 3G mobile phone networks (W-CDMA) was about 19 billion US dollars in 2006, according to research company SG Cowen's estimate, with 40% growth envisaged for 2007.

The wireless networks market grew in 2006 both in developing markets and owing to the construction of 3G networks. A major factor driving growth in the market for fixed wireline networks was demand for broadband services.

Two significant corporate moves changed the competitive situation in the communications network equipment market: Alcatel and Lucent merged at the end of 2006, while Nokia and Siemens agreed in the summer on the merger of their communications network units in early 2007.

Alongside mobile phones and network equipment, home communications electronics such as set-top boxes and electronics for flat-screen televisions have emerged as an increasingly important product area for Elcoteq. Sales of set-top boxes in 2006 grew worldwide by more than 20% to roughly 56 million units. The largest manufacturers in this segment are Thomson, Motorola and Cisco Systems. Analysts estimate that sales of set-top boxes will reach approximately 70 million units in 2007.

Building Partnerships

In the mobile phone segment, the ODM market has grown substantially faster than the traditional EMS market during the current decade. This has also meant more intense competition as providers seek to expand their services, and the ODM business is increasingly regarded today as an extension of the traditional EMS model.

A second trend evident in 2006 was the growing vertical integration of EMS companies, meaning that the EMS company manufactures components itself rather than sourcing them from partners specialized in manufacturing them. Several acquisitions were seen during the year in which EMS companies broadened their service offerings to include component manufacturing.

Elcoteq has not wanted to follow this trend as the company does not believe that vertical integration will be a sustainable operating model in the long-term. Rather, Elcoteq prefers to work alongside partners and to manage the entire supply chain. When Elcoteq is involved in both product design and the choice of component suppliers, it is able in the long term to better fulfill customer needs and find the best and most cost-effective solutions for these customers without jeopardizing its own profitability.

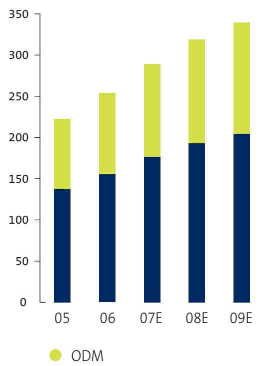
Growth in India and Eastern Europe

EMS companies are increasingly concentrating on volume manufacturing in low-cost countries owing to growth in outsourcing of electronics manufacturing and ever more intensive competition on price. A further reason is the attractive size of new emerging markets and their growth potential. China has already long been regarded as the most interesting low-cost country for manufacturing services, while in recent years India in particular has become more prominent as an important manufacturing country alongside China. With China and India together accounting for about 40% of the world's population, their growth potential is enormous.

Of the largest EMS companies Elcoteq is the only one that has all its volume production in low-cost countries. During 2006 many other EMS providers cut capacity severely, especially in Western Europe. At the same time investments in low-cost countries increased, notably in Eastern Europe in addition to Asian countries.

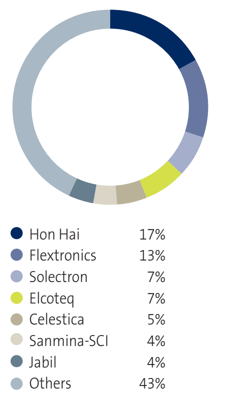
Elcoteq expanded its network of manufacturing plants in 2006 with an addition in Romania. Elcoteq's globally consistent service network now covers 16 countries. These are in the end-product markets of most importance to its customers and in the most promising growth areas.

EMS and ODM Market Growth
2005–2009



Source: iSuppli
E=estimate

Market Shares of EMS Providers
in Communications Technology
in 2006



Source: Information from the companies' publications and analyst estimates compiled by Elcoteq

Vision, Strategy and Values

Elcoteq's vision is to be the world's leading electronics manufacturing services provider to communications technology companies. Elcoteq believes that serving this specific segment will give the company a clear competitive edge. The implementation of the strategy is based on expanding the service offering, focused growth and operational excellence.

Vision

For Elcoteq, being the world's leading electronics manufacturing company means that customers consider it to be a top-ranking and reliable company in its field; one that is capable of providing them with the widest service offering in the business from product development to after-sales. It also means that Elcoteq is valued as a technology leader able to anticipate customers' future needs. Leadership will ensure that Elcoteq is included in the most important tenders in its sector.

Two main goals are linked to the vision: creating superior value for communications technology customers and driving shareholder value on par with competition and beyond.

Strategy

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

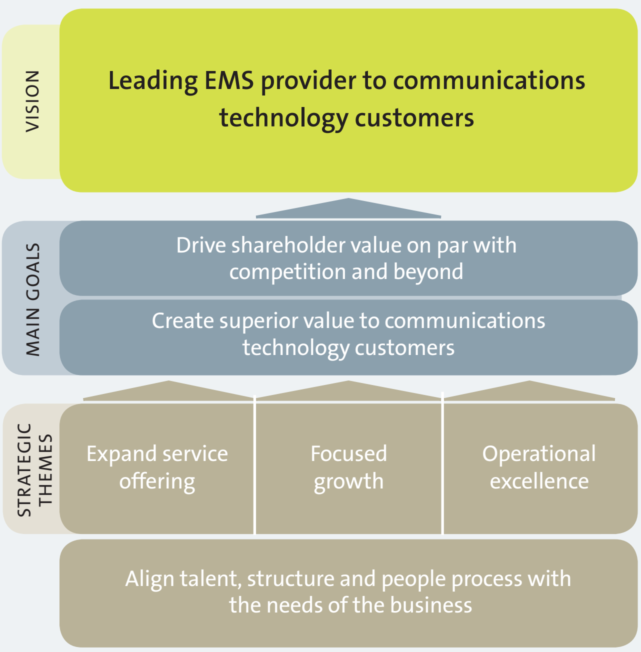
Expanding the service offering starts with the customer's need to outsource not only manufacturing but other functions as well. Elcoteq offers a comprehensive range of services throughout the product lifecycle and is continuously strengthening its expertise.

Elcoteq is also targeting focused growth, both organically and through acquisitions. The essential aspects of this plan are to broaden the customer base and to increase the share of the Communications Networks business area of the Group's net sales. Operational excellence, in turn, is a prerequisite of success.

Alongside these strategic themes, the company also recognizes the importance of ensuring that the competencies of its employees, and its organizational structures and processes, are at all times correctly aligned to the company's business needs.

Reaching the vision requires 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 achieved.

Elcoteq's Vision and Strategy



Expand Service Offering

- Service offering from product development to after-sales covering the whole lifecycle of the products
- Strengthening the service offering through a partnership network

Focused Growth

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

Operational Excellence

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

Values

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

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

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

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

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

Competitive Advantages — Elcoteq's 7 Cs

Concentration
- Focus on terminal products and communications network equipment

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

Co-Evolution
- Superb customer service
- Confidentiality and close co-operation

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

Cost-Efficiency
- 100% of volume manufacturing capacity in low-cost countries
- Sourcing power

Coverage
- Global operations
- Full service range from product development to after-sales

Continuous Development
- Continuously competitive and unique service offering

Key Financial Targets

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

	2006	2005	2004	2003	2002
Increasing earnings per share (EPS), EUR	0.38	1.34	1.01	0.70	0.54
Return on investment (ROI/ROCE), trailing 12 months > 20%	9.1	17.6	19.5	10.2	9.2
Positive cash flow, MEUR	–20.8	24.4	–80.3	–18.1	77.3
Gearing < 1	0.4	0.3	0.4	–0.0	–0.1

Unique Operational Model

Enables Consistent and Flexible Services and On-Time Deliveries

Service Offering

Elcoteq provides global manufacturers of terminal products and communications network equipment with services that cover the entire lifecycle of products, from product development to after-sales. The company's core competitive advantages are its focus on communications technology, long experience, a global service network, and globally consistent machinery, systems and processes.

Development of the Service Offering Continues

The core of Elcoteq's business is traditional electronics manufacturing services (EMS) — the manufacture of terminal products and communications network equipment. Due to the increasing interest shown by customers in product development and new product introduction (NPI) services, Elcoteq has expanded its service offering and can provide complete ODM services. In this model, the EMS provider is more broadly involved in the product's lifecycle from product development to after-sales. Globally operating EMS providers are well equipped to expand their service offerings to better meet customer demand and needs.

The use of ODM services is common especially in mobile phones but also manufacturers of home communications products and communications network equipment now expect their EMS partners to provide an increasingly broader range of services throughout the product's lifecycle.

In addition to product development and manufacturing, Elcoteq also offers its customers sourcing, NPI, logistics and after-sales services.

Elcoteq started to offer product development services in 2002. The company also supplements its own service offering through collaboration with companies specialized in design and component technologies. Working with partners gives Elcoteq the flexibility it needs to respond rapidly to changes in demand and technology.

In 2006 Elcoteq reorganized its Terminal Products business area into two sales and business development organizations: Personal Communications and Home Communications. This change is intended to enable the company to respond more effectively to the needs of its different customers, to intensify its global sales actively, and to broaden its customer base faster.

Flexibility and Efficiency Through Co-operation

Characteristic of the communications electronics business is its rapid pace, along with intense competition and large fluctuations in business volumes, all of which makes forecasting challenging in this sector. Demand for mobile phone models, for example, is very difficult to predict. Mobile phone manufacturers are bringing new products to market at an ever faster pace at the same time as the features offered by phones increase in both number and complexity. Therefore OEMs increasingly need external partners to supplement their own resources and ensure their competitiveness.

Outsourcing enables customers to concentrate on their core business, such as customer relations, brand management, and developing more sophisticated and innovative products. By outsourcing part of its operations the customer no longer needs to invest in building and maintaining a design and manufacturing network or recruit more personnel. Co-operation with an EMS partner creates flexibility, allowing the customer to put their own capacity to more effective use and bring more products to market successfully at the optimal time.

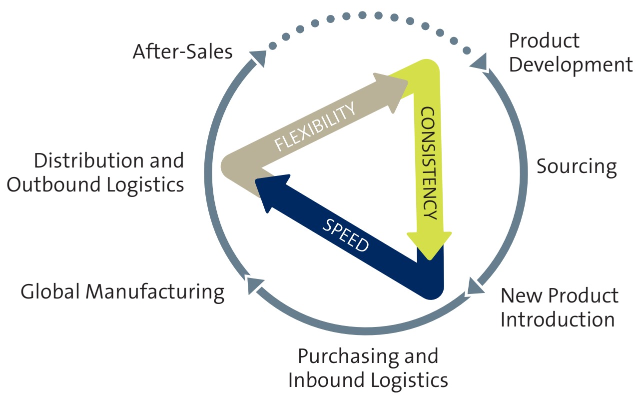
Consistent Service Network Creates a Solid Basis

Elcoteq maintains a comprehensive and consistent global service network. The consistency is a result of the fact that the company has built most of its manufacturing plants itself. All the high-volume manufacturing plants are in low-cost countries.

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

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

Elcoteq's ODM Services



Product Development

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

Alongside these partners Elcoteq also has its own product development organization operating in Finland, Russia and China with roughly 150 professionals at the end of 2006. Elcoteq is also a minority shareholder in Cellon International, an independent wireless design and development house.

Customers of the Communications Networks business area also expect to receive an ever broader array of services. Also in this segment, Elcoteq's aim is to forge close ties with its customers and enhance the process bridging product development and manufacturing.

EMS in the traditional sense is typically a business of low margins in which Elcoteq is compensated according to the extensiveness and complexities of the work completed. ODM services offer both the customer and the EMS company more added value. For the EMS company the ODM model is a way to increase margins because in this case it also undertakes product development and sourcing decisions on the customer's behalf. At the same time, however, its responsibilities and risks are larger.

The compensation Elcoteq earns from ODM services always depends on the operating model agreed with the customer. The compensation is determined by the extent to which Elcoteq takes responsibilities for product projects, as well as technology choices, product definition and agreements on immaterial rights. By offering ODM services Elcoteq wants to serve its current customers better, gain new customers, boost growth and improve profitability.

Sourcing

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

- selecting components and suppliers
- selecting appropriate technologies in close co-operation with the product development function
- designing logistical models
- price and contract negotiations, and
- creating the platform for quality management and logistics.

Right at the product development and NPI stages Elcoteq works closely with selected key suppliers to ensure that the service it offers is as cost-efficient and technically sound as possible.

Elcoteq is continuously enhancing its sourcing and purchasing operations in order to take more responsibility for all the tasks that these activities require.

New Product Introduction

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

- design, sourcing, assembly and testing for production lines, production tools and testing systems
- prototype manufacturing
- sourcing of materials for the NPI process
- quality assurance
- management of product development and NPI projects, and
- project management allowing for simultanious product ramp-ups in various locations and continents.

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

Manufacturing

Elcoteq derives most of its net sales from manufacturing services. These include:

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

Elcoteq has high-volume manufacturing capacity in Europe, Asia and Americas — close to the main end-product markets of customers' products. The company's largest plants are in Hungary, Estonia, China, Mexico and Russia. Elcoteq also has manufacturing plants in India and Brazil. In Europe Elcoteq has units for low-volume and prototype manufacture. The aggregate floor space of all Elcoteq's manufacturing plants totals 232,700 square meters.

GLOBAL MANUFACTURING

DISTRIBUTION AND OUTBOUND LOGISTICS

AFTER-SALES

Purchasing, Distribution and Logistics

Purchasing is based on the principles and operating models formulated at the sourcing stage. A typical feature of purchasing is rapid response to changing needs. It is critical at this stage to maintain a balance between customer needs, capacity utilization and materials management. This function includes the following aspects:

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

In addition to purchasing, Elcoteq helps its customers to manage and develop their supply chains. Elcoteq is also able to take total responsibility for managing a customer's sourcing, purchasing and logistics functions.

After-Sales

Elcoteq offers after-sales services for OEMs of both terminal products and communications network equipment. In addition to repair services, this includes product upgrades, as well as spare parts and logistics services.

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

What Is Outsourcing?

In the communications technology business, outsourcing refers to a situation where an OEM purchases the design or manufacture of their products from an EMS or ODM company.

OEMs can purchase services from product development to after-sales. They can purchase a single service, a selection of services, or a complete ODM service package. For example, Elcoteq can design and manufacture parts and accessories for mobile phones, or complete phones delivered in consumer packages to the customer. Correspondingly, Elcoteq can also supply its customers with complete communications network elements. The products are always sold under the customer's brand.

Customer Benefits:

- Flexibility
- Shorter time-to-market
- Fast response to changes in demand
- Sharing of business risks
- Savings in costs and resources
- Concentration on core business
- EMS company's experience
- Global service network

Electronics for Philips' Flat-Screen TVs

In recent years Elcoteq has been manufacturing flat-screen TV PCBAs for Philips, which is among the market leaders globally. Elcoteq is Philips' strategic supplier for this segment.

Co-operation started ten years ago. In addition to electronics for flat-screen TVs, the products have included PCBAs for automotive CD players, DVD players, portable MP3 and HDD players.

"In a fast-growing, dynamic and seasonal consumer electronics market we need to ramp up fast, have flexible supplies, excellent quality and resources committed for growth. Elcoteq has managed this with Philips in several regions and in several product introductions," states Mr Johan van der Knokke, Strategic Outsourcing Manager of Philips Outsourcing and Operations.

In 2006, for example, Elcoteq's Shenzhen plant was selected to serve Philips' increasing demand for flat-screen TVs in the North American region by supplying PCBAs.

"The challenge was to start new platforms, set up a materials supply chain and manage bigger than expected growth. This was done with great success and having 100% score on supply commitment and quality. The success lies within Elcoteq's employees and the company culture."

Mr van der Knokke considers it possible to start discussions on extending co-operation into new product areas and new services, such as early involvement in product development.

"At Philips we think long-term and are aligning our roadmaps for growth. We have clearly identified the trends in the EMS industry moving into the ODM space. We are exploring this on different levels of services provided by Elcoteq."

Helping Andrew in Filter Manufacturing

In September 2006 Elcoteq signed a strategic long-term supply agreement with Andrew Corporation, which is a global leader in communications systems and products. For Andrew this marks the beginning of its use of an EMS company for the turnkey manufacture of filters and combiners in Europe and North America.

Andrew has acquired multiple companies and more than doubled its sales over the past four years. Owing to rapid growth in its filter business the company is now focusing on enhancing supply chain efficiency. Elcoteq was selected as the strategic partner based on its global capacity, consistency in systems and processes, proven manufacturing capabilities, experience in RF testing, and the ability to scale between global and local operations.

Elcoteq also acquired Andrew's plant in Arad, Romania through this agreement. In the future Andrew will purchase filter products from Elcoteq, which will manufacture them in low-cost areas of Europe. In the Americas Elcoteq manufactures Andrew's products in Juárez, Mexico.

"Our strategy is to simplify our supply chain by consolidating our supplier base and partnering with tier-one EMS companies. This will allow us to have volume manufacturing within a small but competitive supplier base, as well as to reduce our costs," says Mr Matthew Douglas, Vice President of Operations at Andrew Corporation.

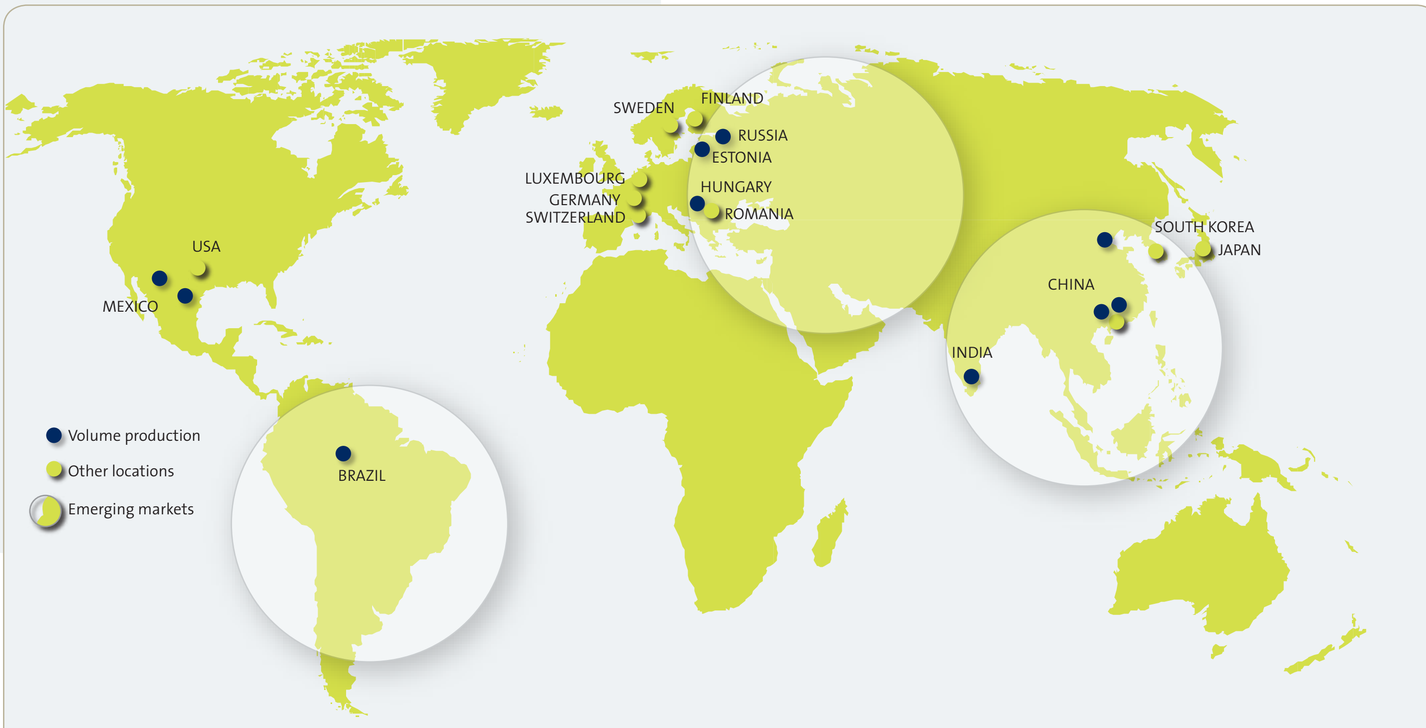
In the coming years Andrew is targeting to continue growing faster than the market.

"Streamlining our supply chain will make us more responsive to our global customers with reduced lead times. Elcoteq is a critical partner in our overall global supply chain simplification strategy," Mr Douglas concludes.

Service Network

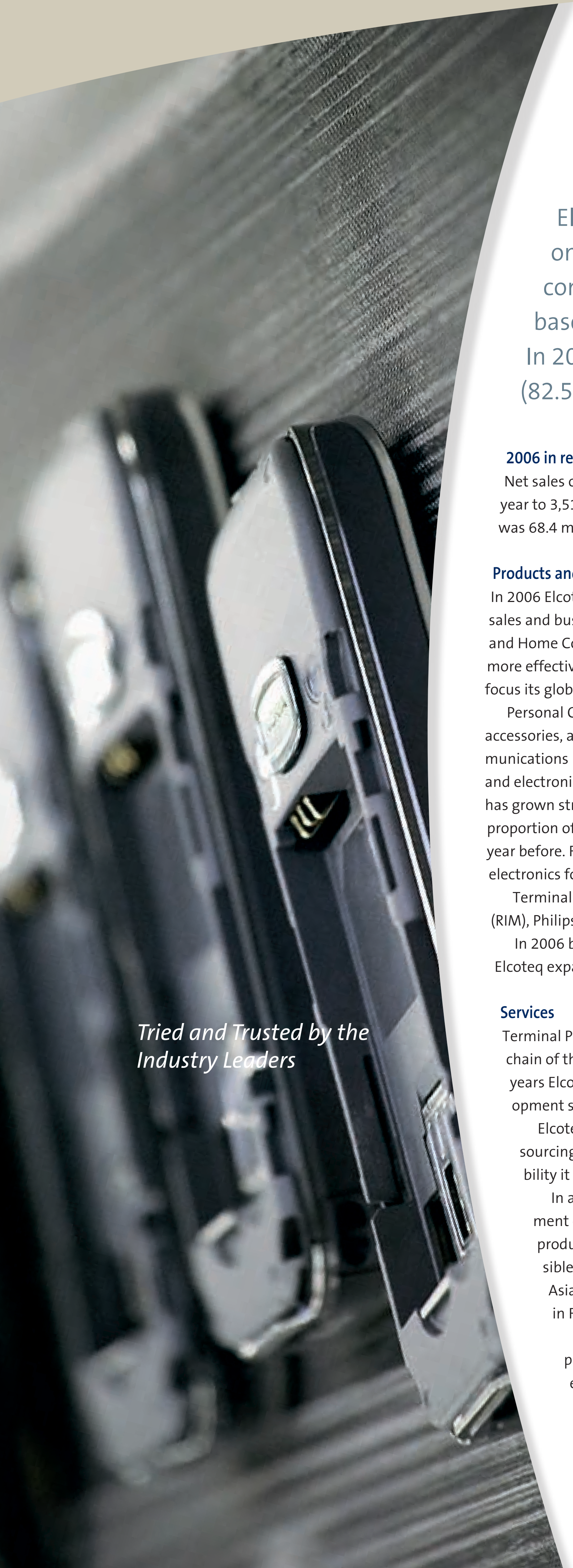
Location	Activities and Services	Floor Space, m²
Europe		
Espoo, Finland	Group office, sales and technical support	
Espoo and Lohja, Finland	NPI center, after-sales services	8,700
Salo and Turku, Finland	Product development services	
Kista, Sweden	Office, sales and technical support	
Tallinn, Estonia	High-volume production, NPI center	42,000
Budapest, Hungary	Office, sales and technical support	
Pécs, Hungary	High-volume production, NPI center, after-sales services, system integration	53,000
St. Petersburg, Russia	High-volume production, NPI center	14,700
St. Petersburg, Russia	Product development services	
Offenburg, Germany	NPI center, after-sales services, system integration	14,500
Arad, Romania	Final assembly, tuning and testing	2,500
Luxembourg	Office	
Zug, Switzerland	International office	
Europe, total		**135,400**
Asia-Pacific		
Dongguan, China	Medium to high-volume production	13,000
Beijing, China	High-volume production, NPI center	24,700
Beijing, China	Product development services	
Shenzhen, China	High-volume production	12,600
Bangalore, India	Medium to high-volume production, after-sales services	7,500
Hong Kong, China	Office, sales and technical support	
Seoul, Korea	Office, sales and technical support	
Tokyo, Japan	Office, sales and technical support	
Asia-Pacific, total		**57,800**
Americas		
Dallas, USA	Office, NPI center, sales and technical support	2,500
Monterrey, Mexico	High-volume production, after-sales services	18,300
Juárez, Mexico	High-volume production, NPI center	13,700
Manaus, Brazil	Medium to high-volume production	5,000
Americas, total		**39,500**
The Group, total		**232,700**

Elcoteq's Global Service Network



Terminal Products

Elcoteq's Terminal Products business area focuses on serving mainly global OEMs, for whom the company designs and manufactures products based on a variety of communications technologies. In 2006 Terminal Products accounted for 82.0% (82.5%) of Elcoteq's consolidated net sales.



2006 in review

Net sales of the Terminal Products business area rose 2% on the previous year to 3,512.1 million euros (3,439.0). The segment's operating income was 68.4 million euros (95.0) or 1.9% of net sales.

Products and Customers

In 2006 Elcoteq divided its Terminal Products business area into two new sales and business development organizations: Personal Communications and Home Communications. This change enables the company to respond more effectively to the needs of its different customers, to intensify and focus its global sales more sharply, and to broaden its customer base faster.

Personal Communications covers mobile phones and their parts and accessories, as well as wireless modules and wireless phones. Home Communications handles home communications products such as set-top boxes and electronics for flat-screen televisions. The home communications market has grown strongly in recent years. In fact, these products grew clearly as a proportion of Terminal Products' total net sales in 2006 compared with the year before. For Thomson Elcoteq manufactures set-top boxes and for Philips electronics for flat-screen televisions.

Terminal Products customers include Aastra, Nokia, Research in Motion (RIM), Philips, Sony Ericsson, Sumitomo, Thomson and ZTE.

In 2006 business grew especially with RIM and Philips. In addition, Elcoteq expanded its service offering notably in after-sales to Sony Ericsson.

Services

Terminal Products offers its customers services covering the entire value chain of their products, from product development to after-sales. In recent years Elcoteq has given particular priority to enhancing its product development services, in response to customer needs and industry trends.

Elcoteq supplements the scope of its product development and sourcing services with partners. This model gives the company the flexibility it needs to respond rapidly to changes in demand and technology.

In addition to partners, Elcoteq also has its own product development organization. In 2006 the company launched a new unit for the product development services organization in Beijing, China, responsible for meeting the ODM needs of terminal products customers in Asia-Pacific. Elcoteq also has its own product development facilities in Finland and Russia.

Elcoteq manufactures terminal products at its high-volume plants in Europe, Asia-Pacific and Americas. The products are made either box-built or as subassemblies. In the latter case Elcoteq supplies the finished parts and modules to its customers' plants for further processing. Box-built products are delivered directly to the customers' own supply chain in consumer packages.

Enhancing product development, sourcing operations and product lifecycle management will continue to receive heavy emphasis in the Terminal Products business area. The company is developing its sourcing operations by deepening collaboration with selected technology and component suppliers.

Prospects in 2007

Market research institutions forecast that there will be a roughly 10% increase in the number of mobile phones sold in 2007. The market value is expected to remain at the previous year's level owing to a continuous decline in average mobile phone prices. For home communications products growth prospects seem good. Correspondingly, annual growth of over 10% is also forecast for the EMS and ODM markets.

Intensifying competition, along with an increasing variety of products and the features they contain, means that OEMs will more and more need partners for both designing and manufacturing their products. With its comprehensive service network, Elcoteq is able to serve customers globally also in all growth regions such as India, Brazil, Russia and China.

Elcoteq expects net sales of its Terminal Products business area to increase in 2007 at the same pace as the EMS market. The company's primary goals are to broaden and balance its customer base and to raise profitability especially in the manufacturing of home communications products. The aim is to increase the range of product development services in Asia. Elcoteq is also interested in new product areas that suit its operational model, service network and expertise.

Terminal Products

- 82% of the Group's net sales
- Net sales 3,512.1 million euros in 2006
- The world's third largest EMS company in mobile phone manufacturing
- Service offering covers the entire value chain of products
- Personal Communications: mobile phones and their parts and accessories, wireless modules and wireless phones
- Home Communications: home communications electronics such as set-top boxes and electronics for flat-screen televisions
- Personal Communications customers include Aastra, Nokia, RIM, Sony Ericsson, Sumitomo and ZTE
- Home Communications customers include Philips and Thomson

Quarterly Figures, MEUR

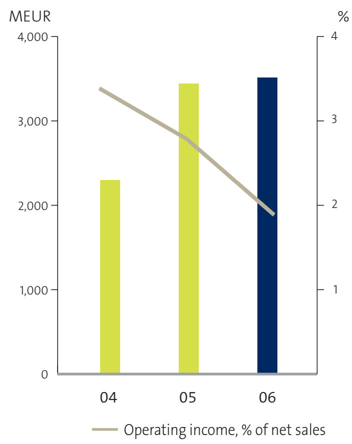
	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Net sales	898.6	967.9	837.6	808.0	999.5	999.3	795.0	645.2
Segment's operating income	13.2	18.6	20.7	15.9	32.2	26.6	19.4	16.9
% of net sales	1.5	1.9	2.5	2.0	3.2	2.7	2.4	2.6

Key Indicators, MEUR

	2006	2005	Change, %
Net sales	3,512.1	3,439.0	2
Segment's operating income	68.4	95.0	–28
% of net sales	1.9	2.8	
Assets	710.8	737.7	–4
Liabilities	470.6	491.9	–4
Capital expenditures	85.4	88.5	–4

More information on key indicators is available in the Notes to the consolidated financial statements on page 46.

Net Sales and Operating Income 2004–2006



Communications Networks

Elcoteq's Communications Networks business area serves global manufacturers of wireless and wireline infrastructure and enterprise networks. In 2006 the business area accounted for 18.0% (18.5%) of Elcoteq's consolidated net sales.

2006 in Review

Net sales of the Communications Networks business area rose by roughly 6% to 772.3 million euros (730.1). The segment's operating income was 22.4 million euros (23.2) or 2.9% of net sales.

Products and Customers

The Communications Networks business area manufactures wireless and wireline infrastructure products and enterprise networks. For wireless infrastructure the range includes cellular base stations, microwave systems and plug-in units for mobile base stations, and for wireline infrastructure ADSL multiplexers and other broadband network products. Typical enterprise network products are switches for data networks.

Communications Networks' customers include manufacturers of complete systems, as well as suppliers of subsystems. Its largest customers are Ericsson, Nokia and Siemens with other customers including Andrew Corporation, Avocent, Huawei, NEC, Motorola and PCTEL.

In 2006 Elcoteq strengthened its relationships with its long-term customers and started to serve several new ones. As an example, Elcoteq strengthened its position as a strategic partner to Andrew Corporation in both Europe and Americas through a long-term manufacturing supply agreement. Elcoteq is now responsible for consolidating and managing the whole supply chain of Andrew's filter business in Europe. As a result of the agreement Elcoteq also acquired a new plant in Romania, a logical step towards broadening the manufacturing plant network in low-cost countries. Elcoteq has also begun manufacturing of Andrew's products in St. Petersburg, Russia.

The communications networks business has grown in Asia-Pacific and in Americas. The service portfolio was further expanded, concentrating in particular on system assembly and diverse logistics and supply chain management services.

Services

Elcoteq has systematically expanded its service offering to communications network customers and improved the geographical coverage. In 2006 the company expanded its system assembly services also to Mexico and India. The company is moving increasingly from producing individual modules and plug-in units to providing entire network elements such as complete base stations, transmission systems and switches. Alongside manufacturing, Elcoteq is also closely involved in product development, new product introduction, sourcing of components and mechanical parts, and supply chain management. Elcoteq thus offers its customers a wide range of services tailored to their needs throughout the product lifecycle.

In the future Elcoteq's aim is to forge even closer co-operation with its customers and key suppliers especially in providing turnkey manufacturing, system integration and logistics services. This will enable customers to focus even more on their markets, customers, services and new technologies while trusting Elcoteq to manage the daily deliveries of their products.

Prospects in 2007

The Communications Networks business area aims to expand business volumes with its existing customers and to further broaden its customer base. Elcoteq's goal is to improve this business area's profitability and clearly increase the business area's share of the Group's net sales.

The end-product market for communications networks is forecast to grow by about 9% in 2007. In wireless products growth will be driven largely by the building of 3G mobile phone networks, although 2G networks are still being built in developing countries. The building of WiMAX networks, likewise, is expected to start growing. In wireline products, growth is based on the increasing prevalence of broadband connections coupled with technological changes to core systems. In enterprise networks the main drivers will be the increasing volume of digital communications and the transfer of phone traffic to data networks.

Elcoteq expects net sales of the Communications Networks business area to grow clearly and its market position to strengthen during 2007.

Communications Networks

- 18% of the Group's net sales
- Net sales 772.3 million euros in 2006
- Among the top ten EMS companies in manufacturing of communications network equipment
- Products: wireless, wireline and enterprise system products and plug-in units such as base station products, transmission systems and broadband network products
- Customers include Andrew Corporation, Avocent, Ericsson, Huawei, Motorola, NEC, Nokia, PCTEL and Siemens

Quarterly Figures, MEUR

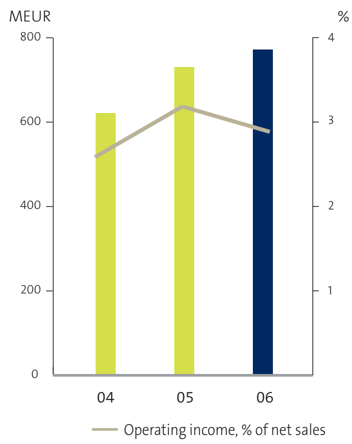
	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Net sales	206.0	201.2	192.0	173.1	182.6	195.4	187.1	165.1
Segment's operating income	5.7	8.8	3.2	4.6	2.9	9.7	8.0	2.6
% of net sales	2.8	4.3	1.7	2.7	1.6	5.0	4.3	1.5

Key Indicators, MEUR

	2006	2005	Change, %
Net sales	772.3	730.1	6
Segment's operating income	22.4	23.2	–3
% of net sales	2.9	3.2	
Assets	322.3	277.7	16
Liabilities	145.4	129.1	13
Capital expenditures	23.5	30.9	–24

More information on key indicators is available in the Notes to the consolidated financial statements on page 46.

Net Sales and Operating Income 2004–2006



Geographical Areas

Elcoteq has three geographical areas: Europe, Asia-Pacific and Americas. The acquisition of Andrew Corporation's manufacturing plant in Romania in 2006 added the 16th country into Elcoteq's service network. All Elcoteq's high-volume manufacturing takes place in low-cost countries in the world's strongest growth areas.

Net Sales

Europe is Elcoteq's largest geographical area. Its net sales in 2006 totaled 2,425.0 million euros (2,345.0). Asia-Pacific's net sales were 1,094.1 million euros (1,069.4) and Americas' net sales 764.8 million euros (754.6). Europe contributed 57%, Asia-Pacific 25% and Americas 18% of the Group's net sales.

Europe

Net sales of Elcoteq's geographical area Europe rose only slightly due to fact that the product mix of terminal products was geared towards products for which demand did not match the company's forecasts, as well as due to intensified competition.

Home communications as a product area developed especially positively in Europe and growth prospects for this business are bright. For example, Elcoteq strengthened its co-operation with Thomson in manufacturing of set-top boxes, and with Philips in producing electronics for flat-screen televisions. All in all, the company also succeeded in broadening its customer base in Europe.

In the fall Elcoteq and Andrew Corporation signed a global, long-term manufacturing supply agreement which further strengthens Elcoteq's position as a strategic partner to Andrew Corporation in Europe and Americas. Elcoteq is now responsible for co-ordinating and managing the whole supply chain of Andrew's filter business in Europe.

At the same time Elcoteq acquired Andrew's 1,500 square meter manufacturing unit in Arad, Romania. Located in leased premises, the plant provides final assembly, tuning and testing services for network equipment products, mainly filters. Romania is a competitive location in the middle of the European market. The plant was expanded to 2,500 square meters in 2006 and the plan is to develop and expand it in the coming years to serve also other customers.

As a result of the new deal Elcoteq has begun manufacturing Andrew's products also in St. Petersburg, Russia, where Elcoteq started to produce base station antennas for PCTEL Antenna Products Group, as well.

Most of Elcoteq's manufacturing capacity is in Europe, where its plants have an aggregate floor space of 135,400 square meters. Customers value Europe as a manufacturing location especially due to short delivery times and flexibility.

Elcoteq's largest plants are in Hungary and Estonia and their total floor space corresponds to around 40% of the Groups' entire capacity. In addition to its high-volume plants and NPI centers, Elcoteq has smaller units in Finland and Germany that mainly specialize in meeting the needs of communications network equipment customers.

In 2006 Elcoteq expanded its capacity in Pécs, Hungary by leasing roughly 7,000 square meters of new storage and manufacturing space. At the end of 2006 Elcoteq's European units employed altogether 11,682 (9,984) people.

Asia-Pacific

Elcoteq's Asia-Pacific net sales increased only modestly on the previous year, although manufacturing volumes rose clearly.

Positive aspects of the year in Asia-Pacific were a balancing of the customer base and an increase in manufacturing volumes of communications network equipment, as required

Quarterly Net Sales, MEUR

	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Europe	635.8	659.4	599.7	530.5	641.6	686.5	550.9	466.0
Asia-Pacific	260.3	307.2	272.8	253.8	344.7	321.0	226.6	177.1
Americas	208.5	202.4	157.1	196.8	195.8	187.1	204.5	167.2

by the company's strategy. Also the proportion of home communications in Asia-Pacific's net sales grew according to plan. As an example, Philips chose Elcoteq's Shenzhen plant to supply flat-screen TV PCBAs for the North-American market.

Elcoteq has three plants in China: one in Beijing in the north of the country, and two in southern China, in Shenzhen and Dongguan. During 2006 Elcoteq expanded its plants in Beijing, China and Bangalore, India. Manufacturing volumes at the Indian plant developed positively likewise, although they had still not reached the target level by the end of the year. The aggregate floor space of these plants is 57,800 square meters, which corresponds to roughly one-fifth of Elcoteq's total capacity.

Additionally Elcoteq has sales and technical support units in Hong Kong, China, in Tokyo, Japan, and in Seoul, Korea, as well as a unit for the product development services organization in Beijing, China. At the end of 2006 Elcoteq's units in Asia-Pacific had altogether 7,409 (6,086) employees.

Americas

Net sales of the Americas remained at the previous year's level. When considering customers, business grew especially with RIM. Elcoteq expanded its service offering particularly in after-sales to both RIM and Sony Ericsson.

In 2006 Elcoteq's co-operation with Andrew Corporation expanded also in Americas, when it began the manufacture and system assembly of network products in Mexico. During 2006 also NPI services experienced growth in Americas.

Elcoteq's plants in Americas are located in Manaus, Brazil, and in Juárez and Monterrey in Mexico. Elcoteq also has an NPI center in Dallas, USA. These units have an aggregate floor space of 39,500 squares meters. At the end of 2006 Elcoteq employed 4,207 (3,732) people in Americas.

Responsible Citizenship Calls for Commitment and Collaboration with All Partners

Corporate Responsibility

Corporate responsibility in Elcoteq means actively applying the principles of sustainable development. Elcoteq knows the requirements set by its stakeholders and the law, and takes into account the environmental, social and economic impacts of its activities. Responsibility for addressing corporate responsibility is integrated in the company's management structures and corporate governance, and the principles, guidelines and systems that are derived from them.

Corporate Responsibility Reporting

Elcoteq provides its stakeholders with information on the principles it follows, and the actions it takes, in the various areas of corporate responsibility through its Annual Report and a separate Corporate Responsibility Report. The Annual Report provides a summary of the corporate responsibility issues of most importance to the company's strategy and operations. The Corporate Responsibility Report to be published in 2007 will describe these issues in greater detail. Elcoteq's reporting on corporate responsibility is based on the Global Reporting Initiative (GRI) guidelines for international sustainable development.

A new corporate responsibility reporting system was launched in Elcoteq in 2006 to gather information from all the company's units required for environmental and human resources management. The new system makes it possible, for instance, to compare different operating sites and time series, which is necessary for continuous operational improvement and for sharing best practices. The system also supports the external reporting procedures based on the GRI guidelines. An important aim in introducing the reporting system is also to generate reliable and comparable information for the company's stakeholders.

Elcoteq Awarded in Estonia

Elcoteq's Tallinn manufacturing plant in Estonia received the Good Enterprise Award in 2006 in recognition of the company's achievements in developing the working environment and especially taking into account the needs of the disabled. The award was granted by the Estonian Chamber of Disabled People, the Estonian Employers' Confederation and Estonia's Ministry of Social Affairs. The purpose of the award is to give public recognition to companies offering equal work opportunities to disabled people, and to improve the work opportunities available to the disabled.

Memberships

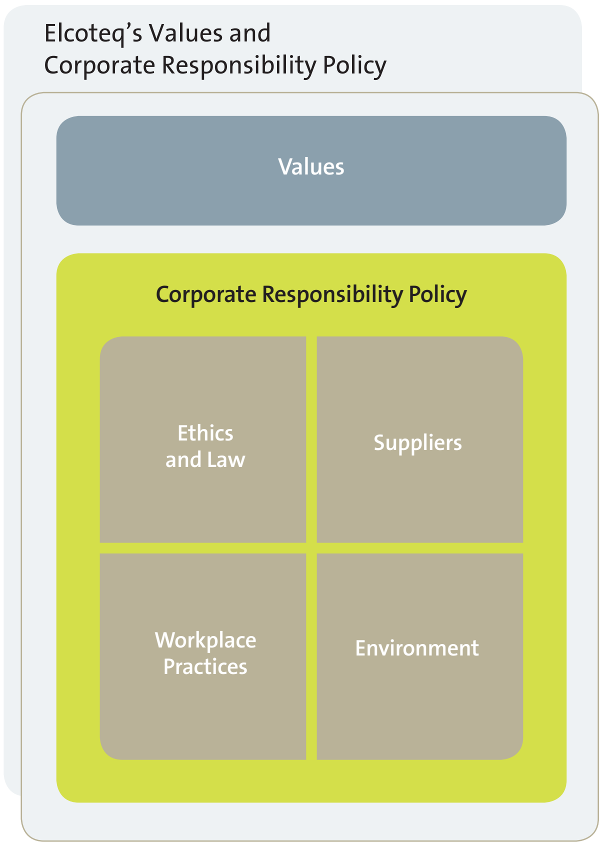
Elcoteq has been a member of the Kempen/SNS Smallcap SRI (Socially Responsible Investment) Europe index since 2003.

Elcoteq has also joined the European Corporate Social Responsibility alliance, the purpose of which is to promote corporate responsibility through the exchange of experiences, information and innovative working processes, and by initiating joint projects involving the network's member companies and their stakeholders. The CSR alliance currently has about 130 members.

Targets for 2007

Elcoteq's main targets in the area of corporate responsibility are meeting the requirements of the new EU directives, improving the energy efficiency of the manufacturing plants, and SA8000 development work.

Where social responsibility is concerned, the principal targets involve mapping of the competence potential of the company's employees, continuing job evaluation work and developing occupational health and safety issues.



Social Responsibility

As a company operating internationally, and particularly in growth markets, Elcoteq gives high priority to social responsibility and especially to the management of human rights and working conditions.

SA8000 as a Guideline

Social responsibility covers the well-being and professional competencies of the company's employees, occupational health and safety, human rights, the company's code of conduct and collaboration within the corporate network, product liability, relations with local communities, and support for good causes. Elcoteq's customers and other stakeholders are giving ever higher priority to the company's management of its social responsibilities, for example by regular auditing of social and environmental responsibility practices at Elcoteq's sites.

In its operations Elcoteq uses as a guideline the SA8000 standard of Social Accountability International, the main aspects of which relate to preventing 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 Labour Organization (ILO), and on the United Nations' Declaration of Human Rights and the convention on the rights of the child, among others.

An audit covering personnel management at Elcoteq's manufacturing plants in Asia-Pacific was started in spring 2006 with the assistance of external SA8000 experts. The aim of the audits was to establish how well current practice at these Elcoteq sites complied with the requirements of the standard. The audit showed that the plants for the most part operate in compliance with good corporate responsibility practice and the SA8000 standard. Scope for development was identified in the areas of occupational health and safety, overtime management especially at times of peak demand, and supply chain management.

Supply Chain Management

Elcoteq works with its customers to improve management of ethical issues in the supply chain. The priority in 2006 was updating Elcoteq's supplier requirements and their assessment methods. Special attention was also paid to employee rights and working conditions and to environmentally sound business practices.

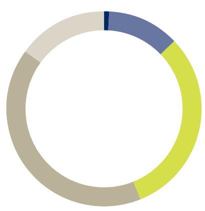
HR's Role in Supporting the Corporate Strategy

The primary task of Elcoteq's Human Resources (HR) function is to align the number of employees, their competencies and remuneration with the company's business objectives.

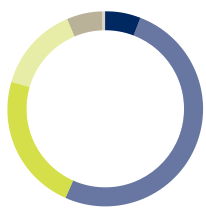
In 2006 the HR function focused on:

- defining the global competencies expected from employees
- defining responsibilities and evaluating roles in Europe
- laying down the information technology foundations to map talent and plan succession
- aligning the organizational structure with the company's business needs, and
- auditing Elcoteq's effectiveness in promoting a responsible corporate culture.

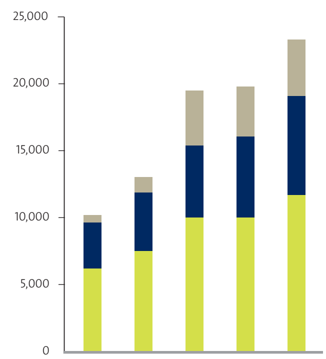
Level of Education



Distribution by Age



Number of Personnel in 2002–2006



Employee Motivation

From the business point of view, it is vital for Elcoteq to be able to recruit and hold on to professionally skilled and motivated employees. Accurately benchmarked compensation based on a clear evaluation of roles, as well as focused training and promotion opportunities, are all critical in maintaining the job satisfaction of employees and thus keeping them in the company.

In 2005 Elcoteq started a project to define the roles and responsibilities within its organization and to evaluate the jobs using external benchmarking tools. This project continued throughout 2006 with the aim of establishing a clear talent mapping and succession planning process for Elcoteq. In a joint project with CEMS students from the Helsinki School of Economics, Elcoteq defined what competencies are required in the company and adapted the company's appraisal processes accordingly. Elcoteq has also taken into use new IT software and systems to support stronger internal recruitment especially to the senior management positions critical to the company's business operations.

Surveys

In 2006, Elcoteq conducted local job satisfaction surveys focusing on those locations where significant changes had taken place: in Tallinn, Estonia, Lohja, Finland and Juárez, Mexico. The aim of these surveys was to assess the level of job satisfaction and motivation at these sites as well as employees' views on the management of the company, quality of work, remuneration and the effectiveness of internal communication.

Elcoteq will carry out its next group-wide employee satisfaction survey in 2007. The survey will measure the organizational climate at Elcoteq and changes that have taken place in it since the previous survey in 2004. It will also provide information about the effectiveness of Elcoteq's organization, its values, the working atmosphere and communications, the level of personnel motivation and commitment, management procedures and the efficiency of operations, as well as the employer and corporate image from the viewpoint of the entire personnel. The study will be carried out in all Elcoteq units in their local languages.

Employee Involvement

Employee involvement in Elcoteq is organized through both national systems and at the European level. A European Representative Body (RB) was established after Elcoteq became a European Company in October 2005. This body comprises 13 members from all Elcoteq's European units in the EEA countries. The number of representatives from different countries is balanced to be in proportion with the total number of employees.

The representatives regularly receive information on the company's progress and development. The group meets twice a year both among themselves and with the company's management, which provides an open and meaningful forum to discuss the company's prospects and other current issues of interest.

Number of Personnel

At the end of 2006 Elcoteq employed altogether 23,298 (19,802) people in 16 countries. The number of personnel increased the most in Hungary, India, China and Mexico. Elcoteq also entered a new country, Romania, in 2006 and this expansion added some 250 people to Elcoteq's workforce.

Environmental Responsibility

The EU's integrated product policy has shifted emphasis from management of site-specific environmental impacts to minimizing the environmental impacts of products throughout their lifecycles. The most important area of environmental management for Elcoteq is preparation for the EU's new environmental directives on electrical and electronic products.

Management of Environmental Aspects

Elcoteq's broad service offering, along with new legislative obligations and customer requirements, calls for continuous development of environmental management by the company.

All Elcoteq units operate within a multisite certificate for quality and environmental management. The company's environmental management system corresponds with the requirements of the new ISO 14001:2004 standard. Under this system, Elcoteq sets annual environmental targets for specific operations globally. Despite the global multisite certificate and targets the business units remain responsible for the continuous improvement of environmental management within their spheres of operation, to ensure that local conditions are taken into account in the development.

Elcoteq monitors environmental indicators on a quarterly basis to measure and assess environmental management at its plants, the consumption of natural resources, waste management and indirect environmental impacts. Further details on these indicators and environmental management in Elcoteq will be presented in the company's Corporate Responsibility Report to be published in 2007.

Product-Specific Environmental Information

The most significant environmental requirements of the products manufactured by Elcoteq are based on EU directives that apply, among other things, 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 these products (EuP). These directives have added new requirements especially with respect to the collection and management of product-specific environmental information throughout the supply chain.

Elcoteq has already spent several years preparing itself to meet the requirements of these directives and this work continued during 2006. Elcoteq anticipates legislative changes in line with these directives in countries outside Europe in order to offer its customers throughout the world product development and manufacturing services that comply with these new stipulations.

New Chemicals Management Requirements

Elcoteq started to develop a lead-free manufacturing process already in 2002, as soon as the EU ratified the RoHS directive. Elcoteq shifted to lead-free manufacturing and products that comply in full with the RoHS directive in stages according to customer requirements by July 1, 2006. During the first half of 2006 Elcoteq worked closely with its customers to optimize the phasing in of lead-free soldering product by product. During the latter part of the year the focus was on monitoring the preparation of China's RoHS legislation.

The design and manufacturing process is affected by the requirements of the EuP and WEEE directives that concern environmentally sound design and product-specific information collection consistent with lifecycle thinking. In 2006 development work was concentrated on integrating environmentally sound design practices into the product process and on training Elcoteq's design partners.

Elcoteq has also actively followed the drafting of the EU's REACH (Registration, Evaluation and Authorization of Chemicals) directive, and prepared itself for the new requirements concerning the management of chemicals and substances. The REACH directive comes into force on July 1, 2007.

Economic Responsibility

Economic responsibility means ensuring that the company is profitable and competitive in a sustainable way, so that it is able to meet its shareholders' result expectations while simultaneously safeguarding the welfare of its employees and operating environment. This in turn means good corporate governance practice, risk management and the ethical conduct of business.

Financial Targets

Financial success is essential for any company that wants to create added value for its various stakeholders and manage their welfare effectively. Elcoteq's main stakeholders are its shareholders, customers, employees, partners, authorities, the media and local communities.

Elcoteq has set itself challenging short- and long-term financial targets. The company continuously monitors fulfillment of these targets, which also form one component in Elcoteq's target-based bonus scheme. The financial targets are presented on page 9 and the company's risk management is described on page 74.

Remuneration

To safeguard its position as an attractive employer, Elcoteq seeks to pay competitive wages and salaries corresponding to the degree of difficulty of the employees' jobs and wages that are also internally fair. The company applies the same principle in all its operating sites around the world. Elcoteq also has several incentive schemes such as production and target-based bonuses, and also share-based schemes. The latter are described under Shares and Shareholders on page 70.

In the company's target-based bonus scheme each employee's personal targets are tied to the company's financial development. 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. roughly 20% of the total number of people employed directly by the company. The maximum target bonus is 50% of the employee's basic annual salary according to the competence requirements of the job.

Elcoteq paid 205.9 million euros (202.6) in wages, salaries and personnel expenses in 2006.

Donations

Elcoteq gives financial support only to good causes and projects that are consistent with the company's core values. Elcoteq's units in different countries decide independently on any local support they give.

The largest recipient of Elcoteq's support in 2006–2007 is the International Youth Foundation (IYF). Elcoteq is supporting IYF-coordinated projects in India and Russia. The funds are channeled to these projects via the Finnish Children and Youth Foundation, which collaborates with officials and other organizations in various countries to improve the conditions and prospects for children and young people.

In India the support is going to a girls' school in New Delhi. The aim of this project is to strengthen and broaden the opportunities for education and skills training for girls. The support is targeted in particular at girls between 9 and 22 years of age who have had to interrupt their schooling for financial or cultural reasons.

The support program in Russia offers education in mathematics and information technology to talented students, especially those with limited means, by increasing the activities of the software club of Petrozavodsk University. The club provides software training to schoolchildren and university students by organizing lectures, competitions and summer school camps.

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
Personnel at year end	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
Wages, salaries and personnel costs**, MEUR	205.9	202.6	163.9	153.5	129.3

* Net sales/employee = net sales/employees on average
Personnel = people on Elcoteq's direct payroll
** More information on wages, salaries and other personnel expenses is available in the Notes to the consolidated financial statements on page 48.

Competence in Communications Technology

Report by the Board of Directors and Financial Statements

Contents

Report by the Board of Directors January 1–December 31, 2006

Elcoteq SE's net sales in 2006 increased by roughly 3% on the previous year to 4,284.3 million euros (4,169.0 million euros in 2005). Operating income was 43.9 million euros (76.5). Cash flow for the full year amounted to –20.8 million euros (24.4).

In preparing the financial statements for 2006 Elcoteq SE has applied the recognition and measurement principles of the International Financial Reporting Standards (IFRS), which Elcoteq adopted at the beginning of 2004.

Market Review

The electronics manufacturing services (EMS) market continued to grow also in 2006, with total growth reaching almost 15%. According to research company iSuppli, the original design manufacturing (ODM) segment grew by approximately 15% in 2006 and the traditional EMS business by about 13%, the main drivers being an increase in outsourcing and strong growth in the mobile phone market, especially in Asia's growth markets China and India. Roughly one billion new mobile phones were sold worldwide during 2006, which was some 20% more than one year earlier. The communications networks market increased by approximately 7% in 2006.

Despite its modest increase in net sales, Elcoteq retained its position as the world's fourth largest EMS provider to communications technology companies in 2006 with a market share of roughly 7%.

Financial Year 2006

Elcoteq's 2006 net sales showed a slight increase on the previous year to 4,284.3 million euros (4,169.0). Operating income amounted to 43.9 million euros (76.5), or 1.0% of net sales. Income before taxes was 19.2 million euros (59.3) and net profit was 12.1 million euros (41.3). Earnings per share (EPS) were 0.38 euros (1.34).

Net sales were below target especially in terminal products, but also in the networks business and in all the geographical areas. The modest growth in net sales was to a great extent due to lower sales to companies within the Nokia group compared with the previous year, owing to an unfavorable product mix and intensified competition. Net sales to other customers than companies belonging to the Nokia and Ericsson groups grew 13% compared with 2005.

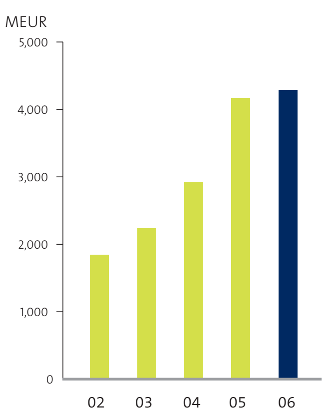
Operating income in 2006 did not reach the previous year's level and the operating margin declined owing to lower than forecast production volumes, strong fluctuations in volumes especially in Europe and the Americas, tougher competition, and the still weak level of capacity utilization in the newest manufacturing plants. The strong fluctuations in volumes and the intensification of competition weakened especially the profitability of the Terminal Products business area.

The Group's net financial expenses amounted to 23.7 million euros (16.0). Roughly half of the increase in financial expenses was the result of higher interest rates in both the euro and foreign currencies. Financial expenses were also increased by average growth in Elcoteq's debt portfolio and the sale of accounts receivable.

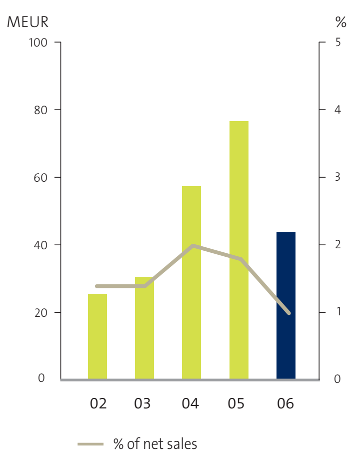
Fourth-Quarter Net Sales and Result

Fourth-quarter net sales were slightly below the third quarter's level and totaled 1,104.6 million euros (1,182.0 in the fourth quar-

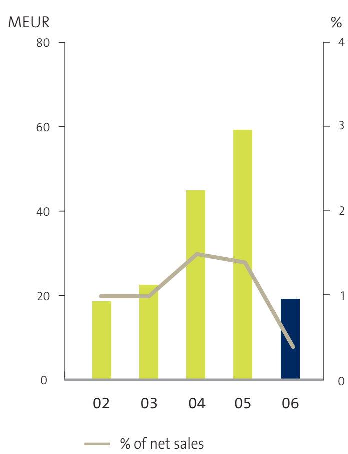
Net Sales



Operating Income



Income before Taxes



ter of 2005 and 1,169.1 in the third quarter of 2006). The slight decrease on the previous quarter was attributable to lower production volumes for Terminal Products in Europe and Asia-Pacific.

Operating income in the fourth quarter was 6.9 million euros (25.5 in the fourth quarter of 2005 and 16.6 in the third quarter of 2006) and income before taxes amounted to –0.8 million euros (19.7). The profitability of Terminal Products weakened compared to the third quarter owing to lower production volumes especially in Europe. The performance of the Communications Networks business area declined as a result of changes in the product mix and costs arising from the ramp-up of certain new products.

Financing and Cash Flow

Liquidity was good throughout the review period. At the end of December Elcoteq had unused but immediately available credit limits totaling 293.8 million euros (293.5 million euros at the end of the third quarter and 293.5 million euros at the end of 2005). 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.

Interest-bearing net debt at the end of December amounted to 128.0 million euros (90.3), and gearing stood at 0.4 (0.3). The solvency ratio was 26.1% (26.0%). Cash flow from sold accounts receivable was 187.7 million euros (148.8 at the end of 2005 and 183.0 at the end of the third quarter in 2006). Return on capital employed was 9.1% (17.6%).

In March Elcoteq issued subordinated notes in the nominal amount of 30 million euros and with a maturity of five years. The notes carry a fixed annual coupon of 5.55%. The company is using the notes to extend the average maturity of its loan portfolio and to strengthen its financial structure.

Cash flow after investing activities was –20.8 million euros (24.4) for the full year 2006, and 41.2 million euros (5.5) for the fourth quarter. Despite the modest growth in net sales, cash flow in 2006 was negative owing to weaker income flow, the relatively high level of investments and to a slight weakening of turnover of working capital. The average turnover of working capital at the end of 2006 was roughly ten days. Turnover improved slightly during the fourth quarter compared with the third quarter but was weaker than one year earlier, due particularly to fluctuations in production volumes.

Capital Expenditures

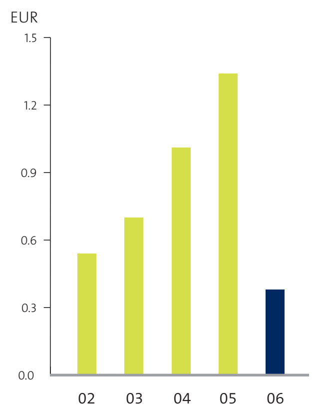
Gross capital expenditures on fixed assets in 2006 totaled 116.9 million euros (123.6) or 2.7% of net sales. Depreciation amounted to 82.7 million euros (78.2) or 1.9% of net sales. Investments were allocated to increases in assembly capacity, mainly in Asia-Pacific and Europe. Capital expenditures in the final quarter amounted to 32.3 million euros (35.4).

Elcoteq has also increased its manufacturing capacity through operating leases worth roughly 26.8 million euros (25.2) in 2006.

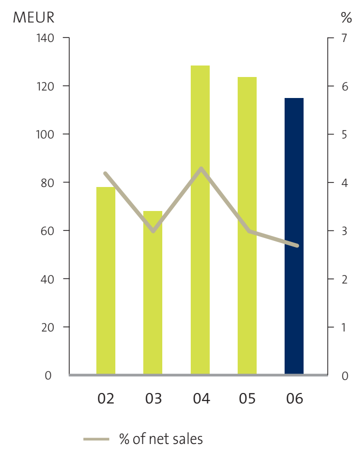
Personnel

At the end of December the Group employed 23,298 (19,802) people: 705 (869) in Finland and 22,593 (18,933) in other countries. The geographical distribution of the workforce was

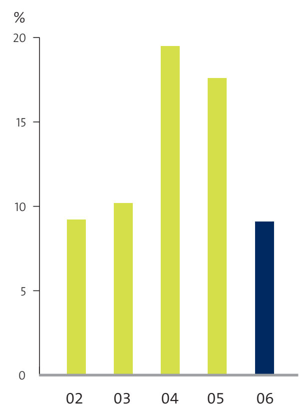
Earnings per Share (EPS)



Gross Capital Expenditures



Return on Investment (ROI/ROCE)



as follows: Europe 11,682 (9,984), Asia-Pacific 7,409 (6,086) and Americas 4,207 (3,732). The average number of employees directly employed by the company during 2006 was 16,651 (15,242).

Wages, salaries and other personnel expenses in 2006 amounted to 205.9 million euros (202.6).

In March 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 were completed in April and resulted in the termination of 65 work contracts and 15 temporary lay-offs on production and financial grounds.

Environment

Elcoteq has a certified quality and environmental system covering all its units. The main environmental projects affecting the company's operations relate to the European Union's new environmental directives on electrical and electronic equipment. Elcoteq shifted to lead-free manufacturing and products that comply in full with the RoHS directive in stages as its customers required, completing this process by July 1, 2006. The company's environmental performance is described in more detail in a separate Corporate Responsibility Report to be published in 2007.

Research and Development

Elcoteq's research and development costs in 2006 totaled approximately 6.8 million euros (7.1) or 0.15% of net sales. 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.

Business Area Performance

Elcoteq has two business areas: Terminal Products and Communications Networks. In 2006 Terminal Products contributed 82% (82.5%) and Communications Networks 18% (17.5%) of Elcoteq's consolidated net sales.

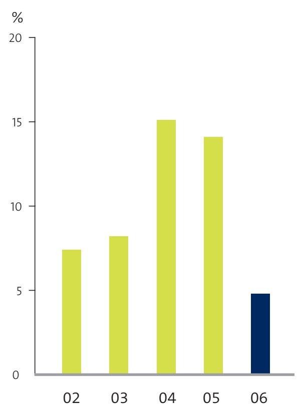
In 2006 companies belonging to the Nokia and Ericsson groups accounted for altogether 66% (69%) of Elcoteq's net sales. In addition to these companies, Elcoteq's top five customers include RIM, Sony Ericsson and Thomson.

Terminal Products

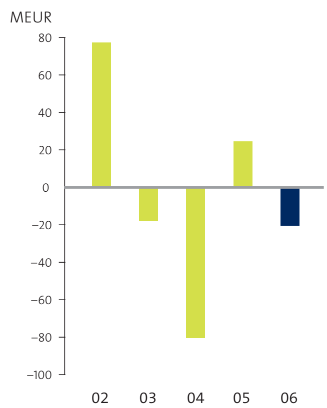
Net sales of the Terminal Products business area in 2006 grew roughly 2% on the previous year to 3,512.1 million euros (3,439.0). The segment's operating income was 68.4 million euros (95.0) or 1.9% of net sales. Net sales in the final quarter of the year totaled 898.6 million euros (999.5) and the segment's operating income was 13.2 million euros (32.2). Home communications products grew clearly as a proportion of Terminal Products' total net sales compared with 2005. Concerning customers, development was particularly positive with RIM and Philips.

In order to respond more effectively to the needs of its different customers and to boost its global sales and business development, Elcoteq has established two new sales and business development organizations within Terminal Products. These are Personal Communications, which includes mobile phones, and Home Communications, which covers products such as set-top boxes and electronics for flat-screen TVs.

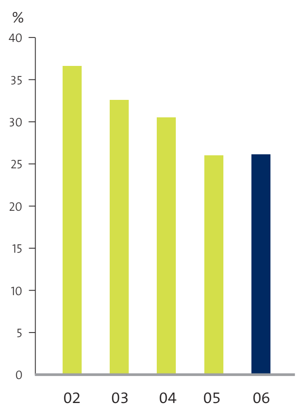
Return on Equity (ROE)



Cash Flow after Investing Activities



Solvency Ratio



The central goal of Terminal Products in 2007 is to broaden and balance its customer base, and to raise profitability especially in the manufacturing of home communications products. Elcoteq expects that net sales of its Terminal Products business area will grow at the same pace as the EMS market during 2007.

Communication Networks

Net sales of the Communications Networks business area in 2006 rose roughly 6% on the year before to 772.3 million euros (730.1). The segment's operating income was 22.4 million euros (23.2) or 2.9% of its net sales. Net sales in the fourth quarter of 2006 amounted to 206.0 million euros (182.6) and the segment's operating income was 5.7 million euros (2.9).

Elcoteq and Andrew Corporation signed a global long-term manufacturing supply agreement which further strengthens Elcoteq's position as a strategic partner to Andrew Corporation in Europe and the Americas. The agreement is expected to raise Elcoteq's net sales by some 80 million euros in 2007. As part of the agreement Elcoteq acquired Andrew's manufacturing operations in Arad, Romania, along with the plant's machinery, equipment and inventories. Roughly 8 million euros of the acquisition price was paid in September. The remainder of the acquisition price could be substantially lower than the 15 million euros estimated at the time of acquisition.

Elcoteq expects net sales of the Communications Networks business area to grow clearly and its market position to strengthen during 2007. Elcoteq intends to raise the profitability of Communications Networks and increase its business volume so that its contribution to the Group's net sales in clearly higher than at present.

Geographical Areas

Elcoteq has three geographical areas: Europe, Asia-Pacific and Americas. In 2006 the geographical areas contributed to the Group's net sales as follows: Europe 57% (56%), Asia-Pacific 25% (26%) and Americas 18% (18%).

Europe

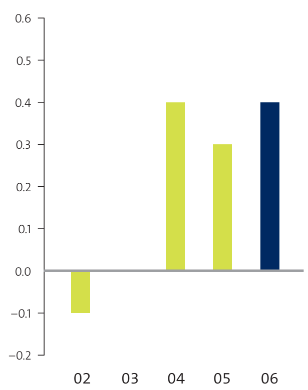
Net sales from the geographical area Europe totaled 2,425.4 million euros (2,345.0).

To simplify its corporate structure Elcoteq SE incorporated some of its operations in Finland into two subsidiaries on October 1, 2006: one is principally responsible for the Group's support functions and the other for the Lohja manufacturing plant and the Finnish New Product Introduction (NPI) center. Incorporation did not change Elcoteq's organizational structure based on business and geographical areas, or the status of its employees or reporting responsibilities in Finland or elsewhere.

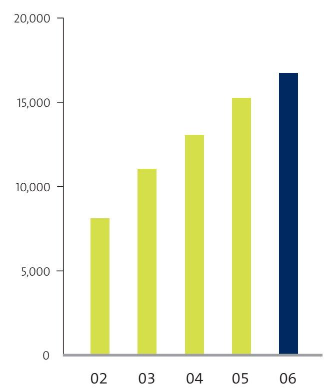
Elcoteq increased its capacity in Pécs, Hungary, by leasing a further 7,000 square meters of storage and production space. The extra capacity raised the number of employees in Hungary by roughly 10%. The company also expanded into Romania, following the agreement with Andrew Corporation, and began the manufacture of products for Andrew Corporation and PCTL at its plant in St. Petersburg, Russia.

In December Elcoteq sold the property in which its Tallinn manufacturing plant operates to an Estonian investment company 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.

Gearing



Employees on Average



Asia-Pacific
Net sales from the Asia-Pacific geographical area totaled 1,094.1 million euros (1,069.4). Manufacturing volumes increased clearly more than sales. With respect to the plants in China, a positive development in 2006 was balancing of the customer base and an increase in manufacturing volumes of communications networks and home communications products. Manufacturing volumes at the Indian plant developed positively likewise, although they had still not reached the target level by the end of the year.

A new unit for the product development services organization was set up in Beijing, China in 2006 in order to further increase Elcoteq's product development services offering in the Asia-Pacific region.

Americas
Net sales from the Americas geographical area amounted to 764.8 million euros (754.6).

Elcoteq's manufacturing plants in Manaus, Brazil, and in Juárez, Mexico, moved into new premises in May. This is resulting in more efficient use of the production and office premises and improving the level of service to existing and future customers in the Americas.

Elcoteq expanded co-operation with Andrew Corporation in Mexico, where the company began the manufacturing and system assembly of network products. Business with Terminal Products' customer RIM developed well.

Decisions of the Annual General Meeting

The Annual General Meeting of Elcoteq SE, held on March 23, 2006, 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, MSc, 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 Mr Sjöman, Mr Vanhanen and Mr Toivola as this committee's other members. Mr Piippo was elected chairman of the Working Committee and Mr Sjöman, Mr Vanhanen and Mr Toivola as this committee's other members. Mr Toivola was elected chairman of the Compensation Committee and President Ahtisaari, Mr Horstia and Mr Kasanen as this committee's other members. The Board elected Mr Toivola chairman of the Audit Committee and President Ahtisaari, Mr Horstia and Mr Kasanen as this committee's other members.

The Annual General Meeting re-appointed the firm of authorized public accountants KPMG Oy Ab under the supervision of principal auditor Mr Mauri Palvi (APA) as the company's auditors.

The Annual General meeting authorized the Board of Directors to float one or several convertible bonds and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue within one year from the Annual General Meeting. When issuing convertible bonds, stock options or new shares the Board shall be entitled to issue at most 6,234,315 new Series A shares of nominal value 0.40 euros per share for subscription. However, the valid and unexercised authorizations of the Board of Directors concerning the total number of share capital increases and the votes carried by the new shares issued shall not exceed one-fifth of the Company's total registered share capital and aggregate number of votes carried by the shares at the time of the authorization and the Board's decision to raise the share capital.

The Meeting also authorized the Board of Directors within one year from the Annual General Meeting to purchase or dispose of the Company's own shares to the extent that the nominal value of the purchased shares and the votes carried by these shares shall not exceed five (5) percent of the company's share capital and the aggregate number of votes conferred by all the shares.

These authorizations are in force until March 23, 2007.

Shares and Shareholders

At the end of 2006 the company's share capital totaled 12,615,730.80 euros and there were altogether 31,539,327 shares comprising 20,962,327 Series A shares and 10,577,000 Series K shares. All the K shares are held by the company's three principal owners. During 2006 altogether 435,750 new A shares were subscribed under the 2001 stock options scheme.

Elcoetq had 11,693 shareholders on December 31, 2006. There were 8,039,881 nominee-registered and foreign-registered shares, which represented 25.5% of the total number of shares and 6.3% of the votes outstanding.

Board's Proposal to Transfer the Domicile to Luxembourg

Elcoteq SE's Board of Directors will propose to the Annual General Meeting on March 22, 2007 that Elcoteq's domicile and registered office be transferred to Luxembourg. The purpose underlying the transfer of domicile is to implement Elcoteq's globalization strategy and to create an effective structural basis for ensuring the continuous improvement of the company's competitiveness.

The Board of Directors has, as of December 21, 2006, prepared a Transfer Proposal, a Report and proposed new Articles of Association, which have been registered and published in the manner required by Finnish law. Should the AGM carry the Board's proposal the transfer could take place on January 1, 2008.

Action Plan to Improve Competitiveness and Profitability

Elcoteq announced in December 2006 that it would begin implementation of an action plan to accelerate improvements to the company's competitiveness, profitability and cost-efficiency. The target is to achieve annual savings in the amount of 20 million euros. The action plan could contain, among other things, reorganizations and structural changes especially in Europe and the Americas. The company will begin personnel negotiations with employee representatives in Finland in February 2007. The need for possible personnel reductions in Finland is estimated to be at most roughly 500 people.

The company estimates that the action plan will incur one-time costs in the order of 20 million euros in 2007. Most of the one-time costs will probably be recognized in the first-quarter's result.

Most of the impact of the plan will start to become visible in Elcoteq's result in the latter part of 2007.

In addition to the aforementioned action plan, Elcoteq is also undertaking several other measures designed to raise its profitability and competitive efficiency. These include a global program of production efficiency enhancing measures at all the company's manufacturing plants and the adoption of a new contract and invoicing model in Europe. The Board's proposal to transfer the company's domicile is likewise part of the measures aimed at improving competitiveness.

Prospects

Market research institutes forecast more than 10% annual growth in the EMS and ODM markets in the years ahead, and an approximate 10% increase in sales of mobile phones during 2007. The market value is expected to remain at the previous year's level owing to a continuous decline in average mobile phone prices. The end-product market for communications networks is forecast to grow by about 9% in 2007. The major growth areas are the developing countries of Asia-Pacific and Latin America, where the number of mobile phone users is increasing rapidly.

Elcoteq's strategy is to focus on serving communications technology companies. The company is developing an end-to-end ODM service chain for precisely the needs of these customers. Elcoteq supplements its own service portfolio by working in co-operation with various design companies and component suppliers.

Balancing of the customer base and expansion into new product areas that suit the company's operating model and manufacturing processes will continue to be key goals alongside strengthening of the service offering.

Net sales in the first quarter of 2007 are forecast to be at the same level as one year earlier. The operating income, before the possible one-time costs arising from the action plan, is expected to be a loss owing to the company's heavy cost structure with respect to market conditions and weak capacity utilization. The cost structure will be rectified with the action plan and capacity utilization at the manufacturing plants will be improved through more intensive sales efforts. Most of the impacts of these measures will be visible in the company's result in the latter part of 2007.

Elcoteq forecasts that its net sales in 2007 will increase in pace with the EMS market in general and that its operating income, excluding one-time items, will improve compared with 2006.

Board's Dividend Proposal

The Board of Directors proposes to the Annual General Meeting on March 22, 2007 that a dividend of 0.20 euros per share be paid on the financial year 2006, i.e. roughly half of the company's net profit.

Annual General Meeting 2007

Elcoteq's Annual General Meeting will be held in Helsinki on March 22, 2007. 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.

Espoo, Finland
February 6, 2007

Board of Directors

Consolidated Income Statement (IFRS)

EUR 1,000	Note	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005
NET SALES	1	**4,284,333**	**4,169,046**
Change in work in progress and finished goods		17,339	–11,163
Other operating income	2	6,970	5,809
Production materials and services	3	–3,787,467	–3,638,528
Personnel expenses	5	–205,871	–202,596
Depreciation	7	–82,701	–78,238
Writedowns		-	–279
Depreciation and writedowns, total		–82,701	–78,517
Other operating expenses	8	–188,700	–167,565
OPERATING INCOME		**43,902**	**76,486**
Financial income, total	9	3,165	4,788
Financial expenses, total	9	–26,847	–20,751
Share of the losses of associated companies		–985	–1,178
INCOME BEFORE TAXES		**19,237**	**59,346**
Income taxes	10	–4,651	–18,442
NET INCOME		**14,586**	**40,904**
ATTRIBUTABLE TO:			
Equity holders of the parent company *		12,065	41,271
Minority interests		2,521	–367
		14,586	**40,904**
Earnings per share calculated on profit attributable to equity holders of the parent company	11		
Earnings per share (EPS), EUR		0.38	1.34
Earnings per share (EPS), diluted, EUR		0.37	1.28

* Net profit reported by the company.

Consolidated Cash Flow Statement (IFRS)

EUR 1,000	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxes	19,237	59,345
Adjustments:		
Scheduled depreciation and amortization	82,701	78,517
Unrealized foreign exchange gains and losses	–11,427	13,629
Other non-payment-related income and expenses	1,275	831
Financial income and expenses	26,703	19,439
Other adjustments	–4,266	768
Cash flow before change in working capital	114,223	172,530
Change in working capital*:		
Change in non-interest-bearing current receivables	3,807	–122,088
Change in inventories	–39,558	–9,986
Change in non-interest-bearing current liabilities	19,690	115,222
Cash flow from operating activities before financial items and taxes	98,162	155,677
Interest and other financial expenses	–21,443	–16,140
Operations-related interest income	2,055	2,725
Income taxes paid	–13,813	–14,018
Cash flow from operating activities	**64,961**	**128,244**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	–101,279	–126,626
Proceeds from disposal of tangible and intangible assets	17,173	20,630
Acquisitions	–7,619	-
Disposals	6,001	2,146
Repayment of loans receivable	1	17
Cash flow from investing activities	**–85,724**	**–103,834**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	2,890	3,369
Change in current debt	–7,459	–25,757
Issuance of long-term debt	29,839	79,529
Repayment of long-term debt	–466	–4,450
Dividends paid	–20,573	–19,959
Cash flow from financing activities	**4,231**	**32,731**
CHANGE IN CASH AND EQUIVALENTS	–16,532	57,141
Cash and equivalents on January 1	101,351	39,239
Effect of exchange rate changes on cash held	–2,521	4,972
Cash and equivalents on December 31	**82,298**	**101,351**

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve cash flow by 38.9 million euros during the reporting period 1–12/2006 and to weaken cash flow by 15.2 million euros during 1–12/2005.

Consolidated Balance Sheet (IFRS)

EUR 1,000	Note	Dec. 31, 2006	Dec. 31, 2005
ASSETS			
Non-current assets	13		
Intangible assets			
Intangible rights		7,625	6,439
Product development costs		4,199	1,889
ADP Software		7,182	7,629
Advance payments and construction in progress		682	5,731
Goodwill		10,578	10,615
Goodwill on consolidation		15,098	15,098
		45,365	47,400
Tangible assets			
Land and water areas		2,611	3,952
Investment properties		1,846	2,042
Buildings		71,252	79,033
Machinery and equipment		164,307	149,621
Advance payments and construction in progress		5,005	10,085
		245,021	244,734
Investments			
Shares and equity interests in associated companies		2,261	2,426
Receivables from associated companies		87	262
Other shares and equity interests		11,379	11,399
		13,728	14,087
Long-term receivables			
Deferred tax assets	16	15,218	10,010
Other loans receivable		99	4
		15,317	10,014
Non-current assets, total		**319,431**	**316,235**
Current assets			
Inventories			
Raw materials		286,646	270,368
Work in progress		32,727	24,678
Finished goods		39,031	33,304
Advance payments		620	12
		359,025	328,362
Current receivables			
Accounts receivable	17	348,305	352,713
Loans receivable		2,188	7,976
Other receivable		26,242	44,312
Prepaid expenses and accruals	18	18,784	16,441
Tax assets based on taxable income in year		7,346	-
		402,865	421,442
Cash and equivalents		82,298	101,351
Current assets, total		**844,187**	**851,155**
ASSETS, TOTAL		**1,163,618**	**1,167,390**

Consolidated Balance Sheet (IFRS)

EUR 1,000	Note	Dec. 31, 2006	Dec. 31, 2005
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company	19		
Share capital		12,616	12,441
Additional paid-in capital		218,704	215,988
Other reserves		8,369	8,369
Translation differences		–1,864	–2,883
Retained earnings		43,767	21,794
Net income for the year		12,065	41,271
Equity attributable to equity holders of the parent company, total		**293,656**	**296,980**
Minority Interests		9,647	6,885
Total equity		**303,303**	**303,865**
Liabilities	20		
Long-term liabilities			
Subordinated notes		139,087	108,978
Medium-term notes		39,966	39,956
Loans from pension plans		1,213	1,678
Other debt		64	628
Deferred tax liability	16	5,111	3,062
		185,440	154,302
Payments due within one year		–605	–702
Long-term liabilities, total		184,835	153,600
Current liabilities			
Loans from financial institutions		30,096	40,691
Loans from pension plans		462	465
Advances received		518	216
Accounts payable		578,774	582,602
Other current liabilities		12,444	11,262
Accrued expenses	21	49,193	64,211
Tax liabilities based on taxable income in year		2,179	7,698
Provisions	20	1,816	2,780
Current liabilities, total		675,480	709,925
Liabilities, total		**860,315**	**863,525**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**1,163,618**	**1,167,390**

Calculation of Changes in Shareholders' Equity (IFRS)

EUR 1,000	Share capital	Additional paid-in capital	Other reserves	Translation differences	Retained earnings	Total	Minority interests	Total equity
	Attributable to equity holders of the parent							
BALANCE AT JAN. 1, 2006	**12,441**	**215,988**	**8,369**	**–2,883**	**63,065**	**296,980**	**6,885**	**303,865**
Issue of share capital	174	2,716				2,890		2,890
Equity hedge of subsidiaries				1,935		1,935		1,935
Translation differences				–915		–915	240	–675
Share-based payments					1,275	1,275		1,275
Dividends					–20,573	–20,573		–20,573
Net income					12,065	12,065	2,521	14,586
BALANCE AT DEC. 31, 2006	**12,616**	**218,704**	**8,369**	**–1,864**	**55,831**	**293,656**	**9,647**	**303,303**
BALANCE AT JAN. 1, 2005	**12,256**	**212,226**	**8,354**	**–2,687**	**40,116**	**270,265**	**6,575**	**276,840**
Issue of share capital	185	3,184				3,369		3,369
Transfer to translation difference		578		–578		-		-
Increase in other reserves			15	–15		-		-
Equity hedge of subsidiaries				–2,602		–2,602		–2,602
Translation differences				2,999		2,999	330	3,329
Share-based payments					1,637	1,637		1,637
Ownership change of Group companies						-	348	348
Dividends					–19,959	–19,959		–19,959
Net income					41,271	41,271	–367	40,904
BALANCE AT DEC. 31, 2005	**12,441**	**215,988**	**8,369**	**–2,883**	**63,065**	**296,980**	**6,885**	**303,865**

Accounting Principles Used in the Consolidated Financial Statements

General Accounting Principles

Elcoteq SE is a European Company registered in Lohja, Finland. Elcoteq's consolidated financial statements have been prepared using the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as well as their SIC and IFRIC interpretations. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The Elcoteq Group has applied IFRS accounting principles since 2004 and therefore the IFRS transition date was January 1, 2003. In the transition to IFRS the company has applied the IFRS 1 standard on first-time adoption. In its financial statements for 2006 and the comparison figures for 2005 Elcoteq has applied the standards in force at December 31, 2006.

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

Principles of Consolidation

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

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

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

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

Translation of Items in Foreign Currencies

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

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

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

Hedge accounting is not applied to derivative instruments related to sales and purchases; instead these instruments are recognized in the income statement at their fair values as adjustments to the corresponding items. Nor is hedge accounting applied to derivative instruments used to hedge financial items; the change in the spot value of these forward contracts is entered in the income statement as an exchange rate difference under financial items and the impact of the interest rate differential is recognized as interest.

The nominal and fair values of the derivative contracts at the balance sheet date are shown under "Assets Pledged and Contingent Liabilities" in the Notes to the consolidated financial statements.

Since January 1, 2005 goodwill arising on the acquisition of foreign units, and the fair value adjustments to the assets and liabilities of these units at the time of acquisition, are treated as the assets and liabilities of the units concerned and translated into euros at the exchange rates prevailing at the close of the period. Goodwill and fair value adjustments made before January 1, 2005 are entered in euros.

Business Segments

Elcoteq has organized its operations into two business areas: Terminal Products and Communications Networks. Elcoteq reports these business areas as its primary segments applying IAS 14 (Segment Reporting).

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

Revenue Recognition

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

Under IAS 11 (Construction Contracts) revenue and costs from long-term contracts are recognized in proportion to their stage of completion during the reporting year (the percentage of completion method). This applies to fixed-price contracts, the outcome of which can be estimated reliably. If the outcome cannot be estimated reliably, no profit is recognized. When determining the stage of completion of a contract, the contract costs for work performed are compared to the estimated total costs of the contract. At the end of 2006 Elcoteq had no significant items requiring recognition according to this standard.

Tangible Assets

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

Asset Class	Years
Buildings	25
Building components	15
Machinery and equipment of the buildings	10
Other machinery and equipment	3–5

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

Intangible Assets

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

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

Research and Development Costs

Research costs are expensed in the income statement. Development costs arising from the design of new or significantly improved products are recognized in the balance sheet as intangible assets from the moment when the product is technically and commercially feasible, and the product is expected to generate future economic benefit. Development costs previously recognized as expenses are not capitalized later. The assets are depreciated from the time when they are ready for use. Assets that are not ready for use are tested annually for impairment.

The economic lives of capitalized development costs are 3–5 years, during which time the capitalized assets are amortized on a straight-line basis as an expense. An intangible asset is recognized in the balance sheet only if its acquisition cost can be reliably determined and it is probable that the asset is expected to generate economic benefit to the company. Patents, trademarks and licenses with a finite economic life are recognized in the balance sheet at acquisition cost and expensed on a straight-line depreciation basis in the income statement over their known or estimated economic lives.

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

Asset Class	Years
Development costs	2–5
Computer software	3–5
Other intangible assets	5–10

Impairments

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

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

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

Inventories

Inventories are valued at their purchase and manufacturing cost or their probable net realizable value, if lower. Elcoteq uses an average cost approach, which is almost equivalent to the FIFO principle due to the rapid turnover of the products.

The cost of finished goods and work in progress consists of materials, wages and salaries, employee benefits, subcontracting expenses, other variable expenses, and allocated production overhead. Inventories are shown net of deductions for obsolete and slow-moving items.

Financial Assets

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

Financial Assets Designated at Fair Value through Profit or Loss

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

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

Available-for-Sale Financial Assets

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

Loans and Other Receivables

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

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

The Group's accounts receivable do not contain realized cash flow from sold accounts receivable. The credit risk related to sold accounts receivable is transferred at the time of sale. The costs arising from the sale of accounts receivable are entered under other financial expenses. More detailed information on accounts receivable is given in the Note "Accounts Receivable".

Cash and Equivalents

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

Financial Liabilities

The Group's short-term financial liabilities are recognized as the settlement amount received, i.e. the original book value.

The Group's long-term financial liabilities are recognized at the settlement amount received less transaction costs. These liabilities are subsequently valued at amortized cost using the effective interest rate method.

Lease Contracts

When a leasing contract transfers substantially all the risks and rewards incident to ownership to the Group, the contract is treated as a finance lease in accordance with IAS 17 (Leases). Non-current assets acquired under finance leases are recognized as non-current assets in the consolidated balance sheet and are depreciated over their expected economic lives. Conversely, liabilities related to these assets are shown as long-term loans from financial institutions. The Group had no production equipment under finance leases on December 31, 2006, nor any other significant finance leases.

Machinery acquired with operating leases is not included in the Group's non-current assets. Operating leases are entered as rental expenses under other operating expenses and the rental commitments are shown in the Notes under both "Leasing Contracts" and "Assets Pledged and Contingent Liabilities".

On January 1, 2006 the Group adopted IFRIC 4 (Determining Whether an Arrangement Contains a Lease), issued by the IASB in December 2004. IFRIC 4 contains guidelines on how to determine if an arrangement that does not take the legal form of a lease in fact contains a lease that should be treated in accordance with IAS 17 (Leases). Adoption of the IFRIC 4 interpretation had no significant impact on the Group.

Employee Benefits

Pension Obligations

Pension plans are classified as either defined benefit plans or defined contribution plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined for each plan separately using the projected unit credit method. The pension costs are recognized as an expense over the expected service lives of the employees based on calculations made by qualified actuaries. When calculating the present value of the pension obligation, the discount rate used is the market yield of high-quality corporate bonds or the interest rates of government securities.

On the transition date to IFRS standards, January 1, 2003, all accumulated actuarial gains and losses are entered in shareholders' equity in the opening balance sheet as permitted by the exemption in IFRS 1. All actuarial gains and losses after this date are recognized as an expense over the expected average remaining service lives of the employees to the extent that they exceed the higher of the following: 10% of the pension obligation or 10% of the fair value of the plan assets.

Share-Based Payments

The Group has applied IFRS 2 (Share-Based Payments) to all option schemes in which option rights have been granted after November 7, 2002, but on which the rights were not vested until January 1, 2005 (the vesting period). Option scheme expenses predating this period are not recognized in the income statement.

Option rights are measured at their fair value on the date they were granted and are expensed in the income statement on a straight-line basis during the vesting period. The expense determined on the granting date is based on the Group's estimate of the number of options expected to generate a right at the end of the vesting period.

The fair value is determined using the Black-Scholes option pricing model. The Group updates its estimate of the final number of options at each balance sheet date. Changes in these estimates are recognized in the income statement. When option rights are exercised, cash payments received as a result of share subscriptions (adjusted for any transaction costs) are entered under share capital (nominal value) and additional paid-in capital.

The Group has also applied IFRS 2 (Share-Based Payments) to the company's share ownership plan and to the reward plan, which is based on the company's share price. In both cases fair value is determined based on the share price on the balance sheet date. Costs related to the share ownership plan are expensed in the period during which the plan's targets apply. Costs related to the reward plan are expensed in the periods during which the plan is in force.

Grants

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

Provisions

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

Taxes

Income taxes are based on the earnings of the consolidated entities and are calculated in accordance with the local tax regulations of each country. Income taxes consist of taxes paid during the reporting period and tax adjustments for prior periods. Other direct taxes consist of e.g. various types of profit-based local taxes. Income taxes also include any net changes in deferred tax liabilities and assets.

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

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

Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets are classified as held for sale if an amount corresponding to their book value will accrue mainly from their sale. Non-current assets held for sale are valued at the lower of their book value or their fair value less costs arising from their sale.

Assets and liabilities classified as held for sale on the balance sheet date are shown separately in the balance sheet in compliance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). According to this standard Elcoteq had no assets classified as held for sale at the end of either 2006 or the comparison year 2005.

Dividends

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

Management Estimates

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

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

Testing for impairment requires estimating the recoverable amount of the asset in question. Further information on the estimates and their principles used to test for impairment of goodwill and goodwill on consolidation are given in the Note "Depreciation and Amortization".

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

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

Figures in Thousands of Euros

Unless otherwise specified, all euro-denominated figures in the Notes to the financial statements are given in thousands of euros (EUR 1,000).

New Standards and Interpretations

On January 1, 2007 the Group adopted IFRS 7 (Financial Instruments: Disclosures) and the changes to IAS 1 (Presentation of Financial Statements) issued by the IASB in August 2005. IFRS 7 introduces certain new requirements for presenting financial instruments and puts all the presentation requirements for financial instruments into one standard. This standard mainly affects the Notes to the financial statements. The changes to IAS 1 that are linked to the company's capital management targets, affect only the Notes to the financial statements.

On January 1, 2007 the Group adopted IFRIC 10 (Interim Financial Reporting and Impairment), issued by the IASB in July 2006. IFRIC 10 contains guidelines on the recognition of asset impairments. Its adoption had no impact on the Group.

In November 2006 the IASB replaced IAS 14 (Segment Reporting) with a new standard, IFRS 8 (Operating Segments), which has not yet been approved as a standard applicable in the EU. Adoption of this standard will affect the amount of information given on the Group's segments in the Notes to the financial statements. The Group will adopt IFRS 8 no later than on January 1, 2009.

Notes to the Consolidated Financial Statements

1. SEGMENT REPORTING

Elcoteq has organized its business operations into two business areas: Terminal Products and Communications Networks. Elcoteq reports these as its primary segments applying the principles defined in IAS 14 (Segment Reporting).

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

Segment reporting is based on the company's internal reporting system.

Accounting Principles

There are no intersegment sales between the primary segments.

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

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

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

The segment's liabilities are its accounts payable and allocatable accrued expenses.

Non-Allocated Items

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

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

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

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

Business Areas

The Terminal Products business area designs and manufactures terminal devices based on the most advanced wireless communications technology. Its products include mobile phones and their accessories, cordless phones and set-top boxes.

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

BUSINESS AREAS IN 2006, MEUR	Terminal Products	Communication Networks	Non-Allocated	Total
Net sales	3,512.1	772.3	-	4,284.3
Depreciation	56.0	22.1	4.6	82.7
Operating income	68.4	22.4	–46.8	43.9
Share of associated companies' results	0.0	0.0	–1.0	–1.0
Assets	710.8	322.3	130.5	1,163.6
Investments in associated companies	0.2	1.7	0.3	2.3
Liabilities	470.6	145.4	244.3	860.3
Capital expenditures	85.4	23.5	7.9	116.9
Sold accounts receivable*	131.7	56.0	-	187.7

BUSINESS AREAS IN 2005, MEUR	Terminal Products	Communication Networks	Non-Allocated	Total
Net sales	3,439.0	730.1	-	4,169.1
Depreciation	55.1	18.9	4.6	78.5
Operating income	95.0	23.2	–41.7	76.5
Share of associated companies' results	0.0	–0.3	–0.9	–1.2
Assets	737.7	277.7	152.1	1,167.4
Investments in associated companies	0.2	1.9	0.3	2.4
Liabilities	491.9	129.1	242.6	863.5
Capital expenditures	88.5	30.9	4.2	123.6
Sold accounts receivable*	96.1	52.7	-	148.8

* Not included in the segment's assets.

Geographical Areas

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

GEOGRAPHICAL AREAS IN 2006, MEUR	Europe	Asia-Pacific	Americas	Non-Allocated	Total
Net sales	2,425.4	1,094.1	764.8	-	4,284.3
Assets	618.3	263.1	164.0	118.1	1,163.6
Capital expenditures	49.4	40.5	19.0	7.9	116.9
Sold accounts receivable*	152.7	29.3	5.7	-	187.7

GEOGRAPHICAL AREAS IN 2005, MEUR	Europe	Asia-Pacific	Americas	Non-Allocated	Total
Net sales	2,345.0	1,069.4	754.6	-	4,169.0
Assets	541.8	291.6	184.2	149.9	1,167.4
Capital expenditures	72.2	37.8	9.5	4.2	123.6
Sold accounts receivable*	132.0	-	16.8	-	148.8

* Not included in the segment's assets.

BREAKDOWN OF NET SALES BY MARKET, MEUR	2006	2005
Europe	2,342.5	2,857.4
Americas	905.7	767.4
Asia-Pacific	1,036.2	544.3
	4,284.3	4,169.0

2. OTHER OPERATING INCOME

The bulk of Elcoteq´s other operating income of 7.0 million euros (5.8) was made up of various types of service charges and gains on the disposal of fixed assets.

3. PRODUCTION MATERIALS AND SERVICES

EUR 1,000	2006	2005
Materials and supplies	–3,784,585	–3,634,362
External services	–2,882	–4,166
Production materials and services, total	–3,787,467	–3,638,528

4. PERSONNEL

The Group had on average 16,651 (15,242) employees during the year, distributed geographically as follows.

	At Dec. 31	At Jan. 1	Change	Average
Finland	668	789	–121	737
Brazil	176	204	–28	214
Hong Kong	60	52	8	47
India	777	299	478	568
Japan	4	4	-	4
China	5,323	5,255	68	5,247
Luxembourg	1	-	1	1
Mexico	3,138	2,353	785	2,744
Romania	201	-	201	55
Sweden	7	7	-	7
Germany	453	419	34	428
Switzerland	9	8	1	8
Hungary	3,311	2,523	788	2,774
USA	157	103	54	121
Russia	483	281	202	351
Estonia	2,937	3,454	–517	3,345
Total	17,705	15,751	1,954	16,651

On December 31, 2006 the Group employed 23,298 people, of whom 17,705 were on Elcoteq's payroll.

5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

EUR 1,000	2006	2005
Personnel expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits, total	167,555	169,930
Fringe benefits	–1,696	–4,957
	165,858	164,973
Indirect personnel expenses		
Other pension expenses	8,844	9,949
Defined benefit pensions	–169	–520
Other indirect personnel expenses	31,338	28,194
Total	40,013	37,623
Personnel expenses in the income statement	205,871	202,596

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

6. INCENTIVE PLANS

IFRS 2 (Share-Based Payments) has been applied to the stock option plan, share ownership plan and the reward plan (which is based on the share price) for the Group's key employees.

Under the terms of the 2001 stock option plan, options A–E may be exercised to subscribe for shares until 30 April 2007. The share subscription price following the payment of dividend in 2006 has been 6.53 euros per share. A total of 435,750 new A shares were subscribed under these options in 2006.

Under the 2004 stock option plan, stock options 2004A may be exercised to subscribe for shares until March 31, 2007 and options 2004 B until March 31, 2008. However, the share subscription period may not commence with the stock options 2004A unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros and, in the case of stock options 2004B, at least 27 euros. Stock options 2004C have not been issued to personnel. Subscriptions for shares under the 2004 options was not possible during 2006.

The company did not issue new option rights to key employees of Elcoteq Group during 2006.

The option plans are measured at their fair values at the grant date and expensed in equal installments during the vesting period. The costs related to the share ownership plan are expensed in the period for which the plan's targets have been set. The costs related to the reward plan are expensed in the periods in which the plan is in force.

The share-based plans generated costs in 2006 totaling 1.1 million euros (2.5). Of this amount, 0.0 million euros (0.9) is shown as debt in the balance sheet at December 31, 2006.

Share subscription prices for options in 2006:

Option right	Ratio	Subscription price per share	Subscription period
2001A	1:1	6.53 *	1.4.2002–30.4.2007
2001B	1:1	6.53 *	1.4.2003–30.4.2007
2001C	1:1	6.53 *	1.4.2004–30.4.2007
2001D	1:1	6.53 *	1.4.2005–30.4.2007
2001E	1:1	6.53 *	1.4.2006–30.4.2007
2004A	1:1	13.99 *	1.3.2005–31.3.2007 **
2004B	1:1	13.99 *	1.3.2006–31.3.2008 **

* Subscription price after deduction of dividends distributed from 2005.
** The share subscription period may not, however, commence with the stock options 2004A unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros and, in the case of stock options 2004B, at least 27 euros.

Changes in option rights in 2006 and 2005:

Number	2006	2005
Jan. 1	2,917,850	2,481,550
Issued	-	899,000
Exercised	435,750	462,700
Returned by employees	128,000	-
Dec. 31	2,354,100	2,917,850

7. DEPRECIATION AND AMORTIZATION

Scheduled depreciation and write-downs consist of the following:

EUR 1,000	2006	2005
Intangible rights	1,529	1,269
Goodwill	-	279
Goodwill on consolidation	-	-
ADP software	4,822	5,458
Product development costs	3,890	1,142
Buildings	7,140	6,751
Machinery and equipment	65,320	63,618
Total	82,701	78,517

Goodwill and Goodwill on Consolidation

Goodwill and goodwill on consolidation are not amortized on a straight-line basis but are tested for impairment using the recoverable cash flow method.

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

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

Annual sales growth percentages of 5–20% are used for the Geographical Areas depending on the area. Market research institutes forecast annual growth of 10–15% for the EMS and ODM businesses. Elcoteq expects its operating income and operating margin to remain at their current levels or to improve slightly in Asia-Pacific and Europe, and to show a clear improvement in the Americas. Turnover of net working capital employed is expected to remain at its present level in all areas.

The internal interest rate is the weighted average cost of capital before taxes (WACC) specific to each area, which in 2006 was 10–13%.

Tests for impairment of goodwill and goodwill on consolidation in 2006 did not reveal any impairment losses. Significant changes, for example a 0–2 percentage point change in the interest rates used for testing or a 0–20% lower recoverable cash flow in the Geographical Areas would not require impairment losses. In the case of design operations, the management needs to make more estimates owing to the nature of this business, especially with respect to the volume and profitability of future projects and the success of the company's own product platforms. For this reason the results of impairment tests on the design operations are less reliable and more sensitive to the outcome of single projects than in the case of the Geographical Areas, and smaller changes in these estimates can make it necessary to recognize an impairment loss.

In 2005 goodwill impairment charges totaled 0.3 million euros. The impairment charge arose from the removal of a customer's business from Elcoteq´s production in 2005.

Amount of goodwill and goodwill on consolidation in cash-generating units:

EUR 1,000	2006	2005
Europe	452	452
Design operations	6,381	6,381
Asia-Pacific	18,531	18,531
Americas	313	349
Total	25,676	25,714

8. OTHER OPERATING EXPENSES

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

EUR 1,000	2006	2005
Other personnel expenses	11,705	15,672
Rental expenses	45,047	37,385
Transportation	14,969	9,400
Energy expenses	12,725	9,962
Office expenses	9,017	7,154
Travel, marketing and representation expenses	13,287	14,012
Insurance expenses	2,879	3,062
External services	59,862	57,622
Other operating expenses	19,209	13,296
Total	188,700	167,565

9. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2006	2005
Financial Income		
Foreign exchange gains	1,086	2,652
Other financial income	2,080	2,136
Financial income, total	3,165	4,788
Financial Expenses		
Interest expenses	–15,445	–9,657
Foreign exchange losses	–1,646	–1,836
Other financial expenses	–9,755	–9,258
Financial expenses, total	–26,847	–20,751
Financial income and expenses, total	–23,681	–15,962

Hedge accounting is applied when hedging the foreign exchange risks of equity-based net investments made to foreign subsidiaries. The ineffective portion of the hedge, 0.1 (0.0) million euros, is entered under financial income and expenses.

10. INCOME TAXES

EUR 1,000	2006	2005
Income taxes for the current period	–7,195	–18,621
Income taxes for prior periods	759	–2,707
Other direct taxes	–1,696	–1,328
Change in deferred tax assets/liabilities	3,481	4,213
Income taxes, total	–4,651	–18,442

Group tax expenses, EUR 1,000	2006	2005
Income before taxes	19,237	59,346
Taxes at parent company´s tax rate 26%	5,002	15,430
Impact of foreign subsidiaries´ tax rates that differ from the parent company´s tax rate	–6,969	–1,646
Change in tax rate	808	–1,806
Impact of non-tax-deductable expenses	1,524	1,905
Impact of deferred tax assets left unrecorded	3,955	4,596
Adjustments to taxes in earlier years	289	2,707
Impact of consolidation	881	–1,013
Impact of deferred tax assets from previous periods left unrecorded	–839	–1,731
Group´s tax expenses, total	4,651	18,442

The Group´s unrecognized tax assets totalled 22.0 million euros (21.8) and they related mainly to tax assets accrued from losses in subsidiaries.

11. EARNINGS PER SHARE

Formula for calculating earnings per share:

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

	2006	2005
Net income attributable to the equity holders of the parent, EUR 1,000	12,065	41,271
Average number of shares	31,338,611	30,764,705
Dilution effect of options	1,006,142	1,392,469
Average diluted number of shares	32,344,753	32,157,174
Earnings per share (EPS)	0.38	1.34
Earnings per share (EPS), diluted	0.37	1.28

12.CASH FLOW STATEMENT

Acquired and divested business operations:

EUR 1,000	2006	2005
Acquired business operations	–7,619	-
Divested business operations	6,001	2,146

The total acquisition price of business operations acquired in 2006 was 8.0 million euros. No new business operations were acquired in 2005. Acquired assets and liabilities are shown by balance sheet group in Impact of Business Combinations on the consolidated financial statements.

Cash flow from divested business operations in 2006 relates to business transactions with Enics AG in earlier years.

13. NON-CURRENT ASSETS

EUR 1,000	2006	2005
Intangible assets		
Intangible rights		
Cost basis, Jan. 1	9,287	8,229
Additions, Jan. 1 – Dec. 31	964	530
Transfers between items Jan. 1 – Dec. 31	2,189	-
Disposals, Jan. 1 – Dec. 31	–8	–110
Translation difference	–488	638
Cost basis, Dec. 31	11,944	9,287
Accum. scheduled amortization, Jan. 1	–2,848	–1,569
Translation difference	59	–10
Scheduled amortization, Jan. 1 – Dec. 31	–1,529	–1,269
Book value, Dec. 31	7,625	6,439
Product development costs		
Cost basis, Jan. 1	1,889	–
Additions, Jan. 1 – Dec. 31	6,200	3,031
Scheduled amortization, Jan. 1 – Dec. 31	–3,890	–1,142
Book value, Dec. 31	4,199	1,889

The Group´s research and development costs amounted to 6.8 million euros (7.1). Of this total, 6.5 million euros (3.6) were entered as expenses and 0.3 million euros (3.5) were capitalized in the balance sheet under construction in progress. The value of projects completed in 2006, 6.2 million euros (3.0), has been transferred from projects in progress to development costs. The amount of development costs included under advance payments and construction in progress in the balance sheet is 0.3 million euros (3.8).

EUR 1,000	2006	2005
ADP software		
Cost basis, Jan. 1	36,246	30,164
Additions, Jan. 1 – Dec. 31	5,147	6,185
Disposals, Jan. 1 – Dec. 31	–638	–330
Transfers between items Jan. 1 – 31. Dec.	–344	-
Translation difference	–237	227
Cost basis, Dec. 31	40,174	36,246
Accum. scheduled amortization, Jan. 1	–28,617	–23,538
Accum. scheduled amortization on disposals	304	475
Translation difference	142	–96
Scheduled amortization, Jan. 1 – Dec. 31	–4,822	–5,458
Book value, Dec. 31	7,182	7,629
Advance payments and construction in progress		
Advance payments, Jan. 1	5,731	4,601
Additions, Jan. 1 – Dec. 31	3,745	8,660
Disposals, Jan. 1 – Dec. 31	–8,794	–7,530
Advance payments, Dec. 31	682	5,731
Goodwill		
Cost basis, Jan. 1	10,615	10,798
Additions, Jan. 1 – Dec. 31	-	62
Disposals, Jan. 1 – Dec. 31	-	-
Translation difference	–37	34
Writedowns, Jan. 1 – Dec. 31	-	–279
Book value, Dec. 31	10,578	10,615
Goodwill on consolidation		
Cost basis, Jan. 1	15,098	15,216
Additions, Jan. 1 – Dec. 31	-	-
Disposals, Jan. 1 – Dec. 31	-	–118
Book value, Dec. 31	15,098	15,098
Tangible Assets		
Land and water areas		
Cost basis, Jan. 1	3,952	3,663
Additions, Jan. 1 – Dec. 31	-	137
Disposals, Jan. 1 – Dec. 31	–1,307	-
Translation difference	–33	152
Book value, Dec. 31	2,611	3,952

EUR 1,000	2006	2005
Investment properties		
Cost basis, Jan. 1	3,264	3,264
Additions, Jan. 1 – Dec. 31	-	-
Disposals, Jan. 1 – Dec. 31	-	-
Translation difference	-	-
Cost basis, Dec. 31	3,264	3,264
Accum. scheduled amortization, Jan. 1	–1,222	–1,073
Scheduled amortization, Jan. 1 – Dec. 31	–196	–149
Book value, Dec. 31	1,846	2,042

The Group owns a property which, in conjunction with the divestment of the Industrial Electronics business, was leased to a company outside the Group. The carrying value of the property is 1.8 million euros. The property has been measured at its acquisition cost less depreciation, because the fair value for the property cannot be reliably determined.

EUR 1,000	2006	2005
Buildings		
Cost basis, Jan. 1	100,204	68,474
Additions, Jan. 1 – Dec. 31	10,480	34,969
Transfers between items Jan 1. – Dec. 31	–1,709	-
Disposals, Jan. 1 – Dec. 31	–12,846	–4,871
Translation difference	–1,700	1,632
Cost basis, Dec. 31	94,429	100,204
Accum. scheduled amortization, Jan. 1	–21,171	–15,151
Accum. scheduled amortization on disposals	4,420	958
Translation difference	521	–350
Scheduled amortization, Jan. 1 – Dec. 31	–6,947	–6,628
Book value, Dec. 31	71,252	79,033
Machinery and equipment		
Cost basis, Jan. 1	391,835	310,521
Additions, Jan. 1 – Dec. 31	92,993	78,134
Transfers between items Jan. 1 – Dec. 31	–136	-
Disposals, Jan. 1 – Dec. 31	–26,387	–21,509
Translation difference	–16,050	24,689
Cost basis, Dec. 31	442,255	391,835
Accum. scheduled amortization, Jan. 1	–242,213	–178,644
Accum. scheduled amortization on disposals	18,745	13,508
Translation difference	10,838	–13,485
Scheduled amortization, Jan. 1 – Dec. 31	–65,317	–63,592
Book value, Dec. 31	164,307	149,621

EUR 1,000	2006	2005
Advance payments and construction in progress		
Advance payments and construction in progress, Jan. 1	10,085	14,745
Additions, Jan. 1–Dec. 31	6,821	48,547
Disposals, Jan. 1–Dec. 31	–10,633	–53,945
Transfers between items Jan. 1–Dec. 31	–1,230	-
Translation difference	–38	738
Advance payments, Dec. 31	5,005	10,085
Investments		
Equity in associated companies		
Shares, Jan. 1	2,426	2,748
Additions, Jan. 1–Dec. 31	1,045	525
Share of the losses of associated companies, Jan. 1–Dec. 31	–985	–1,178
Translation difference	–225	331
Book value, Dec. 31	2,261	2,426

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

EUR, 1,000	2006	2005
Receivables from associated companies		
Receivables, Jan. 1	262	87
Additions, Jan.1–Dec. 31	870	175
Disposals, Jan. 1–Dec. 31	–1,045	-
Book value, Dec. 31	87	262
Other shares and equity interests		
Shares, Jan. 1	11,399	11,535
Additions, Jan. 1–Dec. 31	21	26
Disposals, Jan. 1–Dec. 31	–34	–146
Transfer to subsidiary shares Jan. 1–Dec. 31	-	–17
Translation difference	–6	1
Book value, Dec. 31	11,379	11,399

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

EUR 1,000	2006	2005
Long-term receivables		
Deferred tax assets		
Deferred tax assets, Jan. 1	10,010	6,375
Additions, Jan. 1–Dec. 31	7,289	7,418
Disposals, Jan. 1–Dec. 31	–2,081	–3,782
	15,218	10,010
Other loans receivable		
Other loans receivable, Jan. 1	4	7,665
Additions, Jan. 1–Dec. 31	96	-
Disposals, Jan. 1–Dec. 31	–1	–7,661
	99	4
Summary of non-current assets		
Cost basis, Jan. 1	591,810	468,786
Additions, Jan. 1–Dec. 31	116,850	123,599
Disposals, Jan. 1–Dec. 31	–42,205	–28,279
Translation difference	–18,776	27,704
Cost basis, Dec. 31	647,679	591,810
Accum. scheduled amortization, Jan. 1	–301,666	–224,148
Accum. scheduled amortization on disposals	23,469	14,941
Scheduled amortization, Jan. 1–Dec. 31	–82,701	–78,517
Translation difference	11,559	–13,942
Book value, Dec. 31	298,340	290,144
Advance payments and construction isn progress	5,687	15,816
Loans receivable	87	262
Long-term receivables	15,317	10,014
Book value, Dec. 31	319,431	316,235

14. SHARES AND EQUITY INTERESTS

	Share capital	Consolidated ownership, %	Parent company ownership, %	Parent company book value EUR 1,000
Group companies				
Elcoteq Arvopaperit Oy, Lohja, Finland	EUR 168,000	100	100	168
Elcoteq Helsinki Oy, Helsinki, Finland	EUR 168,000	100	100	814
Elcoteq Parkki Oy, Lohja, Finland	EUR 8,000	100	100	8
Elcoteq Lohja Oy, Lohja, Finland	EUR 50,000	100	100	2,113
Elcoteq Finland Oy, Lohja, Finland	EUR 50,000	100	100	2,974
AS Elcoteq Tallinn, Tallinn, Estonia	EEK 20,500,000	100	100	1,776
Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China	CNY 115,811,500	70	70	3,705
Elcoteq Asia Ltd, Hong Kong, China	HKD 8,600,000	100	100	994
Elcoteq Inc., Dallas, USA	USD 81,781,000	100	-	-
Elcoteq Holding Inc., Dallas, USA	USD 15,701,480	100	100	18,740
Elcoteq JSC, St. Petersburg, Russia	RUB 165,409,426.50	100	100	4,895
Elcoteq Communications Technology GmbH, Offenburg, Germany	EUR 700,000	100	-	-
Elcoteq Deutschland GmbH, Offenburg, Germany	EUR 6,442,277.70	100	100	13,742
Elcoteq Hungary Ltd., Pécs, Hungary	EUR 6,000,000	100	100	9,846
Elcoteq Japan Co. Ltd, Tokyo, Japan	JPY 10,000,000	100	100	73
Elcoteq S.A. de C.V., Monterrey, Mexico	USD 50,000	100	-	-
Elcoteq Sweden Ab, Stockholm, Sweden	SEK 200,000	100	100	22
Elcoteq Design Center Oy, Salo, Finland	EUR 3,008,000	100	100	3,008
Immolease Kereskedelmi Kft., Pécs, Hungary	HUF 790,000,000	100	100	2,997
Beijing GKI Electronics Co. Ltd., Beijing, China	CNY 286,050,300	90	90	39,173
Shenzhen Elcoteq Electronics Co, Ltd., Shenzhen, China	CNY 99,609,465	70	70	12,624
Elcoteq Electronics India Pvt. Ltd, Bangalore, India	INR 352,471,000	100	100	6,202
Elcoteq Network S.A, Luxembourg	EUR 531,000	100	100	531
Elcoteq Juárez SA de CV, Juárez, Mexico	USD 4,374.35	100	-	-
Elcoteq da Amazonia Ltda, Manaus, Brazil	0	100	100	-
Andrew Romania Srl, Arad, Romania	RON 4,145,443.20	100	100	505
Kiinteistö Oy Piiharju, Lohja, Finland	EUR 168,187.93	100	-	-
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	EUR 201,000	100	100	1,016
				125,923

				Consolidated book value EUR 1,000
Associated companies				
Nilistit Oy, Helsinki, Finland	EUR 161,460.41	33	-	30
Imbera Electronics Oy, Helsinki, Finland	EUR 222,600.00	50	50	295
ISIS Surface Mounting, Inc., California, USA	USD 120,000.00	20	-	1,936
				2,261
Other shares and equity interests held by the parent company				
Cellon International Holding Corporation				10,949
				10,949
Other shares and equity interests held by subsidiaries				430
Other shares and equity interests, total				11,379

15. IMPACT OF BUSINESS COMBINATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Elcoteq signed a manufacturing supply agreement with Andrew Corporation in September 2006 under which Elcoteq took over Andrew's subsidiary in Arad, Romania, as well as the machinery, equipment and inventories related to the acquired operations. The assets and liabilities were acquired at fair value and will be used in the manufacture of products to be supplied to Andrew Corporation. The impact of this supply agreement on the company's result in 2006, assuming that the agreement had been signed at the beginning of 2006, cannot be reliably determined because the pricing method for the production operation transferred to Elcoteq as a result of the agreement was not the same as before the agreement took effect.

Elcoteq did not acquire new businesses in 2005.

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

Assets and liabilities acquired in business combinations in 2006 and 2005:

EUR 1,000	2006 Fair value	2006 Book value	2005 Fair value	2005 Book value
Non-current assets				
Intangible assets	1	1	-	-
Tangible assets	2,831	2,831	-	-
Current assets				
Inventories	5,122	4,864	-	-
Current receivables	824	824	-	-
Cash and equivalents	406	406	-	-
Assets, total	9,184	8,926	-	-
Liabilities				
Current liabilities	1,159	1,159	-	-
Acquisition cost	8,025	7,767	-	
Acquisition price paid in cash	8,025			
Cash and equivalents of acquired subsidiary	–406			
Impact on cash flow	7,619			

Elcoteq did not sell any operations in 2006.

In 2005 Elcoteq sold Elcoteq Electronic GmbH in Überlingen, Germany to Rafi GmbH and a small part of its business operation in Beijing GKI Electronics CO. Ltd to Enics Electronics Beijing Limited.

Assets and liabilities sold in business combinations in 2006 and 2005:

EUR 1,000	2006 Book value	2005 Book value
Non-current assets		
Intangible assets	-	142
Tangible assets	-	1,933
Long-term receivables	-	620
Current assets		
Inventories	-	4,053
Current receivables	-	3,463
Cash and equivalents	-	883
Assets, total	-	11,094
Liabilities		
Current liabilities	-	8,871
Liabilities, total	-	8,871
Difference between carrying values of disposals and their sales price	-	806
Sales price	-	3,029
Acquisition price received in cash		3,029
Cash and equivalents of sold subsidiary		883
Impact on cash flow		2,146

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

2006	Jan. 1	Items entered in income statement	Translation differences	Acquisi-tions/divest-ments of subsidiaries	Operations sold and available for sale	Dec. 31
Deferred tax assets						
Confirmed losses	1,698	7,219	−8	-	-	8,909
Depreciation differences	3,858	−57	70	-	-	3,872
Other appropriations	1,018	−757	−3	-	-	258
Pension obligations	19	−19	-	-	-	-
Impacts of Group merger and eliminations	134	−60	-	-	-	75
Other taxable temporary differences	3,283	−788	−390	-	-	2,105
	10,010	5,539	−331	-	-	15,218
Deferred tax liabilities						
Depreciation differences	1,309	360	−8	-	-	1,661
Pension receivable	-	25	-	-	-	25
Other taxable temporary differences	1,753	1,674	−1	-	-	3,425
	3,062	2,059	−9	-	-	5,111
2005						
Deferred tax assets						
Confirmed losses	1,783	427	63	-	−575	1,698
Depreciation differences	2,856	767	235	-	-	3,858
Other appropriations	412	617	−11	-	-	1,018
Pension obligations	256	−237	-	-	-	19
Impacts of Group merger and eliminations	97	37	-	-	-	134
Other taxable temporary differences	971	2,185	127	-	-	3,283
	6,375	3,796	414	-	−575	10,010
Deferred tax liabilities						
Depreciation differences	1,171	−139	-	276	-	1,309
Other taxable temporary differences	2,097	−278	−66	-	-	1,753
	3,268	−417	−66	276	-	3,062

17. ACCOUNTS RECEIVABLE

The Group’s 2006 consolidated accounts receivable of 348.3 million euros (352.7) excludes cash received from sold accounts receivable totaling 187.7 million euros (148.8). Receivables are sold within the limits of Elcoteq´s sale of receivables and securitization facilities. The credit risk related to sold accounts receivable is transferred to the buyer at the time of sale without recourse to Elcoteq. Under the securitization facility a purchase price payable in two installments is established at the time receivables are sold. The second installment is carried in the company´s accounts receivable until the related payment is received. This installment is not subject to any credit risk either. In addition to the original purchase price Elcoteq may also receive an additional payment, the magnitude of which depends on the payment performance of its customers. This additional payment is estimated monthly and recorded in the balance sheet under prepaid expenses and accruals. Expenses related to the sale of receivables are recognized under other financial expenses.

18. PREPAID EXPENSES AND ACCRUALS

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

EUR 1,000	2006	2005
Prepaid rent	2,870	3,877
Periodized exchange rate differences of forwards	1,232	2,725
Withholding taxes	488	574
Prepaid tax receivable	250	-
Estimated additional purchase price/securitization	2,331	2,192
Other items	11,614	7,072
Total	18,784	16,441

19. SHAREHOLDERS´ EQUITY

DISTRIBUTABLE FUNDS IN SHAREHOLDERS´ EQUITY ON DEC. 31

EUR 1,000	2006	2005
Retained earnings	43,767	21,794
Net income for the year	12,065	41,271
Share issue costs recognized under additional paid-in capital	–2,433	–2,433
Accumulated depreciation and amortization difference recorded in shareholders´ equity	–35	–87
Distributable funds in shareholders´ equity	53,363	60,544

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

	2006	
	Shares	EUR 1,000
Series A (1 vote per share)	20,962,327	8,385
Series K (10 votes per share)	10,577,000	4,231
Total	31,539,327	12,616

RECONCILIATION OF NUMBERS OF SHARES

	Dec. 31, 2005	Subscription under 2001 options	Dec. 31, 2006
Number of shares	31,103,577	435,750	31,539,327
Share capital (EUR 1,000)	12,441	174	12,616
Additional paid-in capital (EUR 1,000)	215,988	2,716	218,704
Total (EUR 1,000)	228,429	2,890	231,320

	Dec. 31, 2004	Subscription under 2001 options	Dec. 31, 2005
Number of shares	30,640,877	462,700	31,103,577
Share capital (EUR 1,000)	12,256	185	12,441
Additional paid-in capital (EUR 1,000)	212,226	3,762	215,988
Total (EUR 1,000)	224,482	3,947	228,429

20. LIABILITIES

EUR 1,000	2006	2005
Long-term liabilities		
Interest-bearing		
Medium-term notes	39,966	39,956
Subordinated notes	139,087	108,978
Loans from pension plans	1,213	1,678
Defined benefit plans	-	73
Other long-term liabilities	64	555
Total	180,329	151,240
Payments due within one year	–605	–702
Interest-bearing, total	179,724	150,538
Non-interest-bearing		
Deferred tax liability	5,111	3,062
Non-interest-bearing, total	5,111	3,062
Long-term liabilities, total	184,835	153,600

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

EUR 1,000	2006	2005
Current liabilities		
Interest-bearing		
Loans from financial institutions	30,096	40,691
Loan from pension plans	462	465
Interest-bearing, total	30,557	41,156
Non-interest-bearing		
Account payable	578,774	582,602
Accrued expenses	49,193	71,909
Advances received	518	216
Other current liabilities	14,623	11,262
Provisions	1,816	2,780
Non-interest-bearing, total	644,923	668,769
Current liabilities, total	675,480	709,925
Interest-bearing liabilities	210,281	191,694
Non-interest-bearing liabilities	650,034	671,831
Liabilities, total	860,315	863,525

EUR 1,000	2006	2005
Provisions		
Restructuring provisions		
Provisions on Jan. 1	624	635
Additions	25	-
Disposals	–353	–11
Provisions on Dec. 31	296	624
Warranty provisions		
Provision on Jan. 1	2,156	900
Additions	482	1,256
Disposals	–1,612	-
Provisions on Dec. 31	1,026	2,156
Cost provisions		
Provisions on Jan. 1	-	-
Additions	494	-
Provisions on Dec. 31	494	-
Provisions, total		
Provisions on Jan. 1	2,780	1,535
Additions	1,001	1,256
Disposals	–1,965	–11
Provisions on Dec. 31	1,816	2,780

Restructuring provisions relate mainly to the personnel reductions that the parent company carried out during 2001 and 2003.

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

Bonds

In November 2003 Elcoteq SE issued 20 million euros in private placement notes. These notes run from November 18, 2003 to November 18, 2008 and carry a fixed coupon of 5.125%. The notes are unsecured. The bond has been valued at amortized cost using the effective interest rate method.

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

Subordinated Notes

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

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

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

Loans from Pension Plans

The company has TEL (Employees' Pensions Act) pension plan loans, whose repayment schedules and interest rates are regulated by Finnish law. The loan raised in 1999 is repayable in equal installments over 10 years. Pension plan loan interest rates range from 3.85% to 6.50%.

Loans from Financial Institutions

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

Commercial Paper Program

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

Committed Lines of Credit

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

Maturity of the long-term loans:

EUR 1,000	2007	2008	2009	2010	2011	2012–
Loans from pension plans	463	429	218	7	6	90
Bonds, nominal value						
Fixed coupon	-	20,000	-	-	-	-
Floating rate	-	-	-	-	-	20,000
Subordinated notes, nominal value						
Fixed coupon	-	-	-	-	90,000	-
Floating rate	-	-	-	50,000	-	-

The book value of the bonds was about 40.0 million euros and of the subordinated notes about 139.1 million euros at December 31, 2006. The company has the right to redeem 60 million euros of the subordinated notes maturing in 2011 prematurely at six-month intervals from December 22, 2009 onwards.

21. ACCRUED EXPENSES

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

EUR 1,000	2006	2005
Wages and salaries	12,695	19,260
Vacation pay	5,617	6,679
Other indirect personnel expenses	11,004	13,850
Interest	1,706	517
Income taxes	559	5,411
Exchange rate accruals on forward contracts	5,299	4,366
Transportation expenses	2,426	1,188
Other items	9,887	20,638
Total	49,193	71,909

22. EMPLOYEE BENEFITS

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

Actuarial estimates used to calculate pension liabilities:

%	2006	2005
Discount rate on Dec. 31	4.00	4.00
Expected yield	4.00	4.00
Increase in wages and salaries	4.00	4.00
Estimated inflation rate	2.00	2.00
Terminated employment contracts	0.00	0.00

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

EUR 1,000	2006	2005
Service cost	327	209
Interest cost	122	87
Payments to mutual funds	–582	–550
Income from mutual funds	–82	–88
Reduction of the obligation	46	–178
Total	–169	–520

Pension liabilities in the balance sheet:

EUR 1,000	2006	2005	2004
Present value of obligations	2,964	2,731	3,780
Fair value of plan assets	–2,290	–1,971	–1,069
Unrecognized actuarial gains (+) / losses (–)	–770	–687	758
Reduction of the obligation	-	-	–2,876
Net liability (+) / assets (–) in the balance sheet	–96	73	593

Changes in fair values of plan assets:

EUR 1,000	2006	2005
Fair values of plan assets Jan. 1	1,971	1,069
Expected return on plan assets	82	88
Payments to pension fund	582	550
Actuarial gains (+) / losses (–)	–345	264
Fair values of plan assets Dec. 31	2,290	1,971

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

Change in balance sheet:

EUR 1,000	2006	2005
Obligation Jan. 1	73	593
Net costs of fund	413	30
Payments to fund	–582	–550
Obligation Dec. 31	–96	73

23. LEASE CONTRACTS

The Group has leased production equipment under operating leases. In 2006 new operating lease contracts were made with an equipment purchase value of approximately 26.8 million euros. The lease payments are fixed for the duration of the leasing period.

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

EUR 1,000	Dec. 31, 2006	Dec. 31, 2005
2006	-	19,622
2007	22,552	16,464
2008	16,339	8,634
2009	7,957	900
2010	1,307	-
Total	48,155	45,620

Rental expenses on operating leases for machinery amounted to 23.7 million euros for the year ended December 31, 2006 and 15.4 million euros for the year ended December 31, 2005.

The Group had no significant finance leases at the end of 2006.

24. RELATED PARTY DISCLOSURES

Salaries and share-based payments to management*

EUR 1,000	2006	2005
To parent company President and CEO Jouni Hartikainen		
Salaries and other short-term benefits	935	1,098
Share-based payments	197	208
To parent company Deputy CEO Jukka Jäämaa		
Salaries and other short-term benefits	571	454
Share-based payments	151	194
To other Elcoteq Management Team members		
Salaries and other short-term benefits	1,131	744
Share-based payments	346	469

* Includes costs of stock options and share incentive plans.

Fees paid for work for the Board of Directors

EUR 1,000	2006	2005
Antti Piippo, Chairman of the Board	597	457
Juha Toivola, Deputy Chairman of the Board	174	135
Martti Ahtisaari, member of the Board	60	45
Heikki Horstia, member of the Board	60	45
Eero Kasanen, member of the Board	60	45
Henry Sjöman, member of the Board	60	45
Jorma Vanhanen, member of the Board	60	45
Salaries to management and share-based payments, total	4,402	3,984

In addition to statutory pension cover, the President and CEO, the Deputy CEO and some members of the Board of Directors are entitled to retire on reaching 60 years of age by virtue of supplementary pension plans. Expenses arising from these supplementary pension plans totaled 0.4 million euros (0.2) in the income statement.

Management holding in the company are shown under Shares and Shareholders.

Disclosures related to associated companies:

EUR 1,000	2006	2005
Goods and services purchased from associated companies	-	-
Goods and services sold to associated companies	93	176
Accounts receivable on Dec. 31	10	73
Accounts payable on Dec. 31	-	-

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

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

25. ASSETS PLEDGED AND CONTIGENT LIABILITIES

EUR 1,000	2006	2005
ON BEHALF OF OTHERS		
Guarantees	8	8
LEASING COMMITMENTS		
Operating leases, production machinery (excl. VAT)	48,155	45,620
Rental commitments, real-estate (excl. VAT)	27,612	25,898
DERIVATIVE CONTRACTS		
Currency forward contracts, transaction risk		
Nominal value	275,444	378,905
Fair value	–5,101	–1,358
Currency forward contracts, translation risk		
Nominal value	35,533	28,857
Fair value	285	–129
Currency forward contracts, financial risk		
Nominal value	131,085	98,143
Fair value	–46	–996
Interest rate and foreign exchange swap contracts		
Nominal value	4,000	2,500
Fair value	117	–180

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

OTHER COMMITMENTS

In calculating value-added tax for China in 2006, Elcoteq has applied a method that has so far not received the written approval of the tax authorities. Should this approval not be forthcoming, the effect would be to reduce Elcoteq´s result substantially. During previous years Elcoteq has been granted the approval afterwards and therefore the company has estimated the risk to be small and has made no provision.

Group companies are engaged in certain court cases. These are not expected to have a significant effect on its result.

26. EVENTS AFTER THE CLOSE OF THE PERIOD

In December 2006 Elcoteq announced that it would initiate an action plan aimed at accelerating measures consistent with its strategy to improve its competitiveness, profitability and cost-efficiency. The target set was to achieve annual savings of 20 million euros.

The action plan announced on February 7, 2007 will require structural changes such as the reorganization and streamlining of operations, processes and personnel resources especially in Europe and the Americas. Elcoteq is evaluating the various alternatives for implementing these changes.

The company is preparing for one-time costs of roughly 20 million euros from the action plan in 2007, most of which are likely to be recognized during the first quarter of the year. The action plan had no effect on the result for 2006.

The savings gained by the program will start to become visible in the company's result in the second half of 2007.

Parent Company Income Statement

EUR 1,000	Note	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005
NET SALES	**1**	**2,327,097**	**2,218,451**
Change in stock of work in progress and finished goods		8,509	–10,237
Other operating income	2	43,231	42,423
Production materials and services	3	–2,233,747	–2,052,302
Personnel expenses	5	–24,156	–39,795
Depreciation and writedowns	6	–6,502	–9,387
Other operating expenses	7	–75,310	–64,849
OPERATING INCOME		**39,122**	**84,304**
Financial income, total	8	20,177	24,394
Financial expenses, total	8	–21,959	–22,939
INCOME BEFORE EXTRAORDINARY ITEMS		**37,341**	**85,759**
Extraordinary items	9	–17,690	–20,150
INCOME BEFORE APPROPRIATIONS AND TAXES		**19,651**	**65,609**
Income taxes	10	–6,880	–14,591
NET INCOME		**12,771**	**51,018**

The income statement does not correspond to the official format for FAS (Finnish Accounting Standards) income statements.

Parent Company Cash Flow Statement

EUR 1,000	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005
CASH FLOW FROM OPERATING ACTIVITIES		
Income before extraordinary items	37,341	85,759
Adjustments:		
Scheduled depreciation and amortization	6,502	9,387
Unrealized foreign exchange gains and losses	–11,297	9,920
Other non-payment-related income and expenses	-	4,114
Financial income and expenses	19,504	–566
Other adjustments	–2,672	–7,118
Cash flow before change in working capital	49,377	101,496
Change in working capital*:		
Change in non-interest-bearing current receivables	–4,893	–16,456
Change in inventories	–26,705	17,730
Change in non-interest-bearing current liabilities	22,019	32,346
Cash flow from operating activities before financial items and taxes	39,798	135,116
Interest and other financial expenses	–19,731	–13,680
Operations-related dividend income	10,769	8,386
Operations-related interest income	9,918	2,708
Income taxes paid	–11,930	–11,521
Cash flow before extraordinary items	28,825	121,009
Cash flow (net) from extraordinary items related to operations	–17,690	–20,150
Cash flow from operating activities	**11,135**	**100,859**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	–23,827	–10,021
Proceeds from disposal of tangible and intangible assets	2,950	14,502
Acquisition of subsidiary	–505	–9,000
Disposals	6,001	3,673
Loans made	–41,697	–58,373
Repayment of loans receivable	10,791	3,530
Cash flow from investing activities	**–46,287**	**–55,689**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	2,890	3,369
Change in current debt	–5,581	–45,957
Issuance of long-term debt	29,839	79,269
Repayment of long-term debt	–466	–471
Dividends paid	–20,573	–19,959
Cash flow from financing activities	**6,108**	**16,252**
CHANGE IN CASH AND EQUIVALENTS	**–29,043**	**61,423**
Cash and equivalents on January 1	**68,234**	**6,812**
Cash and equivalents on December 31	**39,191**	**68,234**

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve cash flow by 20.8 million euros during the reporting period 1–12/2006 and to weaken it by 32.1 million euros during 1–12/2005.

Parent Company Balance Sheet

ASSETS , EUR 1,000	Note	Dec. 31, 2006	Dec. 31, 2005
Non-current assets	11		
Intangible assets			
Intangible rights		1,206	1,947
Other long-term expenditures		358	4,033
Advance payments and construction in progress		31	1,896
Goodwill		2,289	2,670
		3,883	10,546
Tangible assets			
Land and water areas		198	1,108
Buildings		1,633	2,124
Machinery and equipment		1,881	4,246
Advance payments and construction in progress		1,087	3,830
		4,799	11,307
Investments			
Shares and equity interests in Group companies		125,923	96,922
Receivables from Group companies		5,315	5,934
Shares in associated companies		3,128	2,147
Receivables from associated companies		-	262
Other shares and holdings		10,949	11,291
		145,315	116,555
Non-current assets, total		**153,996**	**138,409**
Current assets			
Inventories			
Raw materials		141,014	122,422
Work in progress		11,647	6,953
Finished goods		21,338	17,918
		173,999	147,293
Long-term receivables			
Deferred tax assets		590	2,574
Loans receivable from Group companies		94,263	99,266
		94,853	101,840
Current receivables			
Accounts receivable		186,877	142,717
Receivables from Group companies			
Accounts receivable		21,166	43,212
Loans receivables		146,529	104,832
Other receivables	13	-	6,300
Accrued income	14	1,190	3,418
Other receivables	13	-	20,118
Other loan receivables		2,188	7,976
Prepaid expenses and accruals	14	16,149	8,187
		374,100	336,760
Cash and equivalents		39,191	68,234
Current assets, total		**682,142**	**654,128**
ASSETS, TOTAL		**836,138**	**792,537**

Parent Company Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec. 31, 2006	Dec. 31, 2005
Shareholders' equity	15		
Share capital		12,616	12,441
Additional paid-in capital		218,704	215,988
Retained earnings		52,567	22,122
Net income for the year		12,771	51,018
Total shareholders' equity		**296,657**	**301,570**
Provisions	16	**779**	**2,744**
Liabilities	17		
Long-term liabilities			
Subordinated notes		139,087	108,978
Medium-term notes		39,966	39,956
Loans from pension plans		1,213	1,678
		180,265	150,612
Payments due within one year		–462	–465
Long-term liabilities, total		179,803	150,147
Current liabilities			
Loans from pension plans		462	465
Accounts payable		312,602	275,947
Debt to Group companies			
Accounts payable		33,385	33,111
Other current liabilities	18	1,708	7,289
Accrued expenses	19	10	478
Other current liabilities	18	2,982	3,257
Accrued expenses	19	7,749	17,530
Current liabilities, total		358,899	338,076
Liabilities, total		**538,702**	**488,224**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**836,138**	**792,537**

Notes to the Parent Company's Financial Statements

Accounting Principles of the Parent Company

The financial statements of Elcoteq SE have been prepared in accordance with the requirements of the Finnish Accounting Act and other Finnish regulations ("Finnish GAAP"). The consolidated financial statements have been prepared in accordance with the IFRS standard. Also the financial statements of the parent company have been prepared in accordance with the IFRS standards, whenever possible. However, the accounting principles of the parent company differ from the accounting principles of the consolidated financial statements in the following issues.

Defined Benefit Pension Commitments

Defined benefit pension commitments as described in IFRS are not reported as liabilities under Finnish accounting legislation.

Parent Company Goodwill

Parent company goodwill is amortized an a straight-line basis over the expected useful life of the asset. The amortization period is 5–10 years.

Other Long-Term Expenses

Other long-term expenses in intangible fixed assets include the refurbishment costs of leased properties. In the consolidated financial statements, these costs are entered under non-current assets as required by IFRS.

Elcoteq SE incorporated a part of its operations in Finland into two wholly owned subsidiaries on October 1, 2006: Elcoteq Finland Oy and Elcoteq Lohja Oy. The purpose of incorporation was to simplify and harmonize Elcoteq Group's corporate structure and global operating models. Owing to the incorporation, the figures for the comparison year, 2005, are not in all respects comparable with the 2006 figures.

Notes to the Parent Company Financial Statements

1. BREAKDOWN OF NET SALES

Breakdown of net sales by market:

MEUR	2006	2005
Finland	409.7	745.9
Rest of Europe	1,528.2	1,406.4
Americas	113.5	16.0
Asia-Pacific	275.6	50.2
	2,327.1	2,218.5

2. OTHER OPERATING INCOME

The bulk of other operating income of 43.2 million euros (42.4) was made up of service charges to subsidiaries and leasing charges.

3. PRODUCTION MATERIALS AND SERVICES

EUR 1,000	2006	2005
Materials and supplies		
Purchases during the year	2,051,841	1,881,525
Change in raw materials	–18,591	7,493
Total	2,033,250	1,889,018
External services	200,497	163,284
Production materials and services, total	2,233,747	2,052,302

4. PERSONNEL

The parent company had an average of 467 (655) employees during the year.

5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

EUR 1,000	2006	2005
Personnel expenses		
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits	20,575	35,834
Fringe benefits	–341	–4,643
Total	20,234	31,191
Indirect personnel expenses		
Pension expenses	2,946	6,282
Other indirect personnel expenses	976	2,321
Total	3,922	8,603
Personnel expenses in the income statement	24,156	39,795

Salaries and bonuses paid to key management personnel are shown under Related Party Disclosures in the Notes to the Consolidated Financial Statements.

6. DEPRECIATION AND AMORTIZATION

Scheduled depreciation consists of the following:

EUR 1,000	2006	2005
Intangible rights	738	740
Goodwill	381	348
Other long-term expenditures	2,551	3,012
Buildings	208	214
Machinery and equipment	2,624	5,073
Total	6,502	9,387
Depreciation and amortization, total	6,502	9,387

7. OTHER OPERATING EXPENSES

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

EUR 1,000	2006	2005
Other personnel expenses	1,047	1,490
Rental expenses	25,984	19,433
Transportation	5,922	4,778
Energy expenses	529	620
Office expenses	3,190	1,944
Travel, marketing and representation expenses	3,296	4,892
Insurance expenses	557	976
External services	11,096	17,427
Other operating expenses	23,688	13,288
Total	75,310	64,849

8. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2006	2005
Financial income		
Interest income from long-term investments		
From Group companies	4,346	3,356
Other interest and financial income		
From Group companies	12,796	17,888
Foreign exchange gains	1,991	1,553
Other interest and financial income	1,045	1,597
Total	20,177	24,394
Financial expenses		
Interest and financial expenses to Group companies	–89	–247
Interest expenses	–13,016	–7,292
Foreign exchange losses	–618	–3,974
Writedowns of long-term borrowings	-	–4,115
Other financial expenses	–8,236	–7,311
Total	–21,959	–22,939
Financial income and expenses, total	–1,781	1,455

9. EXTRAORDINARY ITEMS

EUR 1,000	2006	2005
Extraordinary expenses		
Group contributions paid	–17,690	–20,150
Extraordinary expenses, total	–17,690	–20,150
Extraordinary items, total	–17,690	–20,150

10. INCOME TAXES

EUR 1,000	2006	2005
Income taxes for the year	4,924	13,792
Income taxes for prior years	–28	2,129
Change in deferred taxes	1,984	–1,330
Total	6,880	14,591

11. FIXED ASSETS

EUR 1,000	2006	2005
Intangible Assets		
Intangible rights		
Cost basis, Jan. 1	4,139	4,139
Transfer/Incorporation, Oct. 1	–11	-
Cost basis, Dec. 31	4,128	4,139
Accum. scheduled amortization, Jan. 1	–2,191	–1,451
Transfer/Incorporation, Oct. 1 accum. scheduled amortization	8	-
Scheduled amortization, Jan. 1–Dec. 31	–738	–740
Book value, Dec. 31	1,206	1,947
Other long-term expenditures		
Cost basis, Jan. 1	24,101	21,673
Additions, Jan. 1–Dec. 31	2,542	2,428
Disposals, Jan. 1–Dec. 31	–6	-
Transfer/Incorporation, Oct. 1	–8,765	-
Cost basis, Dec. 31	17,872	24,101
Accum. scheduled amortization, Jan. 1	–20,069	–17,057
Accum. scheduled amortization on disposals	1	-
Transfer/Incorporation, Oct. 1 accum. scheduled amortization	5,103	-
Scheduled amortization, Jan. 1–Dec. 31	–2,551	–3,012
Book value, Dec. 31	358	4,033
Advance payments and construction in progress		
Cost basis, Jan. 1	1,896	1,100
Additions, Jan. 1–Dec. 31	1,990	4,164
Disposals, Jan. 1–Dec. 31	–1,942	–3,368
Transfer/Incorporation, Oct. 1	–1,913	-
Advance payments, Dec. 31	31	1,896

EUR 1,000	2006	2005
Goodwill		
Cost basis, Jan. 1	4,814	4,814
Accum. scheduled amortization, Jan. 1	–2,143	–1,795
Scheduled amortization, Jan. 1–Dec. 31	–381	–348
Book value, Dec. 31	2,289	2,670
Tangible Assets		
Land and water areas		
Cost basis, Jan. 1	1,108	1,108
Disposals, Jan. 1–Dec. 31	–910	-
Book value, Dec. 31	198	1,108
Buildings		
Cost basis, Jan. 1	3,813	3,813
Disposals, Jan. 1–Dec. 31	–494	-
Transfer/Incorporation, Oct. 1	–20	-
Cost basis, Dec. 31	3,299	3,813
Accum. scheduled amortization, Jan. 1	–1,690	–1,476
Accum. scheduled amortization on disposals	221	–
Transfer/Incorporation, Oct. 1 accum. scheduled amortization	10	–
Scheduled amortization, Jan. 1–Dec. 31	–208	–214
Book value, Dec. 31	1,633	2,124
Machinery and equipment		
Cost basis, Jan. 1	38,702	36,970
Additions, Jan. 1–Dec. 31	4,704	3,034
Disposals, Jan. 1–Dec. 31	–1,432	–1,302
Transfer/Incorporation, Oct. 1	–27,958	-
Cost basis, Dec. 31	14,016	38,702
Accum. scheduled amortization, Jan. 1	–34,456	–29,383
Accum. scheduled amortization on disposals	633	–
Transfer/Incorporation, Oct. 1 accum.scheduled amortization	24,311	–
Scheduled amortization, Jan. 1–Dec. 31	–2,624	–5,073
Book value, Dec. 31	1,881	4,246
Advance payments and construction in progress		
Advance payments and construction in progress, Jan.1	3,830	5,937
Additions, Jan. 1–Dec. 31	2,667	20,197
Disposals, Jan. 1–Dec. 31	–4,958	–22,304
Transfer/Incorporation, Oct. 1	–452	–
Advance payments, Dec. 31	1,087	3,830

EUR 1,000	2006	2005
Investments		
Shares and equity interests in the Group companies		
Shares, Jan. 1	101,040	87,542
Additions, Jan. 1–Dec. 31	29,169	13,538
Disposals, Jan. 1–Dec. 31	-	–57
Transfer from other group	-	17
Transfer/Incorporation, Oct. 1	–168	-
Cost basis, Dec. 31	130,041	101,040
Accumulated writedowns, Jan.1	–4,118	–4,118
Book value, Dec. 31	125,923	96,922
Receivables from the Group companies		
Receivables, Jan. 1	13,049	12,254
Additions, Jan. 1–Dec. 31	-	795
Disposals, Jan. 1–Dec. 31	–619	-
Cost basis, Dec. 31	12,430	13,049
Writedowns, Jan. 1–Dec. 31	-	–4,115
Accumulated writedowns, Jan. 1	–7,115	–3,000
Cost basis, Dec. 31	5,315	5,934
Equity in associated companies		
Shares, Jan.1	2,147	1,622
Additions, Jan. 1–Dec. 31	1,045	525
Transfer/Incorporation, Oct. 1	–64	-
Cost basis, Dec. 31	3,128	2,147
Receivables from associated companies		
Receivables, Jan. 1	262	87
Additions, Jan. 1–Dec. 31	870	175
Disposals, Jan. 1–Dec. 31	–1,045	-
Transfer/Incorporation, Oct. 1	–87	-
Book value, Dec. 31	-	262
Other shares and equity interests		
Shares, Jan.1	11,291	11,308
Transfer to different group	-	–17
Transfer/Incorporation, Oct. 1	–342	-
Cost basis, Dec. 31	10,949	11,291

EUR 1,000	2006	2005
Summary of fixed assets		
Cost basis, Jan. 1	191,155	172,989
Additions, Jan. 1–Dec. 31	37,460	19,525
Disposals, Jan. 1–Dec. 31	–2,842	–1,359
Transfer/Incorporation, Oct. 1	–37,328	-
Cost basis, Dec. 31	188,445	191,155
Accum. scheduled depr. and amort., Jan.1	–64,668	–55,281
Accum. scheduled depr. and amort. on disposals	855	-
Transfer/Incorporation, Oct. 1 accum. scheduled amortization	29,432	-
Scheduled depr. amort. and writedowns, Jan.1–Dec.31	–6,502	–9,387
Book value, Dec. 31	147,562	126,487
Advance payments and construction in progress	1,118	5,726
Loans receivable	5,315	6,196
Book value, Dec. 31	153,996	138,409

12. SHARES AND EQUITY INTERESTS

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

13. OTHER RECEIVABLES

EUR 1,000	2006	2005
Current receivables		
Interest-bearing		
Transfer from intra-group receivables	-	2,414
Non-interest-bearing		
Transfer from intra-group receivables	-	2,414
Value-added taxes	-	15,290
Dividend income	-	6,300
Total	-	26,418

14. PREPAID EXPENSES AND ACCRUALS

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

EUR 1,000	2006	2005
Prepaid rent	2,754	1,119
Periodized exchange rate differences of forwards	1,232	2,725
Withholding taxes	477	259
Income taxes	7,006	-
Estimated additional purchase price/securitization	2,331	2,192
Other items	3,538	5,308
Total	17,339	11,604

15. SHAREHOLDERS’ EQUITY

EUR 1,000	2006	2005
Share capital		
Share capital, Jan. 1	12,441	12,256
Shares subscribed with 2001 stock options	174	185
Share capital, Dec. 31	12,616	12,441
Additional paid-in capital		
Additional paid-in capital, Jan. 1	215,988	212,804
Additional paid-in capital	2,716	3,184
Additional paid-in capital, Dec. 31	218,704	215,988
Retained earnings		
Retained earnings, Jan. 1	73,140	42,081
Dividend payment	–20,573	–19,959
Retained earnings, Dec. 31	52,567	22,122
Net income for the year	12,771	51,018
Shareholders´equity, total	296,657	301,570

DISTRIBUTABLE FUNDS IN SHAREHOLDERS´EQUITY ON DEC. 31

EUR 1,000	2006	2005
Retained earnings	52,567	22,122
Net income for the year	12,771	51,018
Share issue costs recognized under additional paid-in capital	–2,433	–2,433
Distributable funds in shareholders´equity	62,904	70,707

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

	Shares	2006 EUR 1,000
Series A (1 vote per share)	20,962,327	8,385
Series K (10 votes per share)	10,577,000	4,231
Total	31,539,327	12,616

16. PROVISIONS

The loss provisions are related to warranty provisions and personnel reductions carried out during 2001 and 2003.

17. LIABILITIES

EUR 1,000	2006	2005
Long-term liabilities		
Interest-bearing		
Subordinated notes	139,087	108,978
Medium-term notes	39,966	39,956
Loans from pension plans	1,213	1,678
Total	180,265	150,612
Payments due within one year	–462	–465
Interest-bearing, total	179,803	150,147
Long-term liabilities, total	179,803	150,147
Current liabilities		
Interest-bearing		
Liabilities to Group companies	1,708	7,289
Loans from pension plans	462	465
Interest-bearing, total	2,170	7,754
Non-interest-bearing		
Accounts payable	312,602	275,947
Accrued expenses	7,749	17,530
Liabilities to Group companies	33,396	33,590
Other current liabilities	2,982	3,257
Non-interest-bearing, total	356,730	330,323
Current liabilities, total	358,899	338,076
Interest-bearing liabilities	181,973	157,901
Non-interest bearing liabilities	356,730	330,323
Liabilities, total	538,702	488,224

More detailed information on loans can be found in the consolidated financial statements, under the note ‘Liabilities’.

18. OTHER CURRENT LIABILITIES

The company´s other current liabilities include the following principal items:

EUR 1,000	2006	2005
Payroll tax on wages and salaries, and social security dues	77	1,154
Payment received on behalf of another Group company	-	2,103
Value-added taxes	2,905	-
Group internal liabilities	1,708	7,289
Total	4,690	10,546

19. ACCRUED EXPENSES

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

EUR 1,000	2006	2005
Wages and salaries	-	3,585
Vacation pay	196	3,441
Other indirect personnel expenses	57	1,864
Interest	1,683	291
Income taxes	-	2,413
Exchange rate accruals on forward contracts	5,299	4,366
Other items	523	2,047
Total	7,759	18,008

20. LEASE CONTRACTS

The company has leased equipment under operating leases. In 2006, new operating lease contracts were made with an equipment purchase value of approximately 26.8 million euros. The lease payments are fixed for the duration of the leasing period.

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

EUR 1,000	Dec. 31, 2006	Dec. 31, 2005
2006	-	19,622
2007	22,552	16,464
2008	16,339	8,634
2008	7,957	900
2010	1,307	-
Total	48,155	45,620

Rental expenses on operating leases for machinery amounted to 22.9 million euros for the year ended December 31, 2006 and 15.1 million euros for the year ended December 31, 2005. The Group had no significant finance leases at the end of 2006.

21. ASSETS PLEDGED AND CONTINGENT LIABILITIES

EUR 1,000	2006	2005
ON BEHALF OF GROUP COMPANIES		
Guarantees	103,787	145,688
ON BEHALF OF OTHERS		
Guarantees	8	8
LEASING COMMITMENTS		
Operating leases, machinery and equipment (excl. VAT)	48,155	45,620
Rental commitments, real estate (excl. VAT)	2,725	2,964
DERIVATIVES CONTRACTS		
Currency forward contracts, transaction risk		
Nominal value	246,612	336,890
Market value	–4,672	–1,150
Currency forward contracts, translation risk		
Nominal value	35,533	28,857
Market value	285	–129
Currency forward contracts, financial risk		
Nominal value	131,085	98,143
Market value	–46	–996

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

Shares and Shareholders

Share Series and Share Capital

Elcoteq SE has two classes of shares, Series A and Series K. Series A shares (ticker symbol ELQAV) are quoted on the Helsinki Stock Exchange and are included in the book-entry system maintained by the Finnish Central Securities Depository Ltd. All the K shares are held by Mr Antti Piippo, Mr Henry Sjöman and Mr Jorma Vanhanen, who were the sole owners of the company before its initial public offering and whose holdings of the K shares have not changed since. Elcoteq's Articles of Association stipulate that the number of K shares cannot be increased. Each Elcoteq A share carries one vote and each K share ten votes at general shareholders' meetings. Both classes of shares carry the same dividend rights.

At the end of 2006, Elcoteq's share capital consisted of altogether 31,539,327 shares divided into 20,962,327 A shares and 10,577,000 K shares. The nominal value of each share is 0.40 euros. The company's registered share capital on December 31, 2006 totaled 12,615,730.80 euros. Elcoteq SE does not hold any of its own shares.

Share Information (December 31, 2006)

Number of A shares	20,962,327
Ticker symbol	ELQAV
Number of K shares	10,577,000

Board Authorizations

The Annual General meeting held on March 22, 2006 authorized the Board of Directors to float one or several convertible bonds and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue within one year from the Annual General Meeting. When issuing convertible bonds, stock options or new shares the Board shall be entitled to issue at most 6,234,315 new Series A shares of nominal value 0.40 euros per share for subscription. However, the valid and unexercised authorizations of the Board of Directors concerning the total number of share capital increases and the votes carried by the new shares issued shall not exceed one-fifth of the Company's total registered share capital and aggregate number of votes carried by the shares at the time of the authorization and the Board's decision to raise the share capital.

The Meeting also authorized the Board of Directors within one year from the Annual General Meeting to purchase or dispose of the Company's own shares, of nominal value 0.40 euros per share, to the extent that the nominal value of the purchased shares and the votes carried by these shares shall not exceed five (5) percent of the Company's share capital and the aggregate number of votes conferred by all the shares.

The authorizations will remain in force for one year until March 23, 2007. The authorizations were not exercised during 2006.

Shareholder Agreements

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

Stock Option Plan 2001

Elcoteq issued a stock option plan for key employees in 2001. The options not allocated to key employees were issued to Elcoteq Lohja Oy, renamed Elcoteq Arvopaperit Oy. A total of 2,685,000 options (A–E) were issued that entitle their holders to subscribe for a maximum of 2,685,000 new A shares. At the end of 2006, this plan covered 170 employees, who together held 687,525 options. At the end of 2006, Elcoteq Arvopaperit Oy held 264,600 options.

The options (A–E) may be exercised to subscribe for at most 537,000 new A shares annually over a five-year period from April 1, 2002 until April 30, 2007. The Series A options became exercisable on April 1, 2002, the Series B options on April 1, 2003, the Series C options at the earliest on April 1, 2004, Series D options at the earliest on April 1, 2005 and Series E options on April 1, 2006. After the dividend payment in 2006, the share subscription price has been 6.53 euros per share and will be adjusted downward for any dividends paid after the issue of the options.

No options issued pursuant to this option plan were exercised in 2002. In 2003, a total of 600 options were exercised under this option plan. In 2004 the number of exercised options was altogether 202,850, in 2005 altogether 462,700 and in 2006 altogether 435,750. On December 31, 2006 there were a total of 1,583,100 unexercised option rights to subscribe for A shares.

Options issued under the 2001 stock option plan are traded on the Helsinki Stock Exchange. The ticker symbol is ELQAVEW101. The option scheme expires on April 30, 2007.

Incentive Plans 2004

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

Stock Option Plan 2004

The Board of Directors decided to issue stock options to the Group's key personnel and to Elcoteq Arvopaperit Oy. At most 1,350,000 options were issued and they entitle to subscription of 1,350,000 new A shares.

The stock options are divided into 2004A, 2004B and 2004C stock options with 450,000 stock options in each stock option class. This stock option plan covers all members of the Management Conference and the aggregate number of 2004A and 2004B options held by them is 899,000. The 2004C options have not yet been allocated. The share subscription price for all options after the dividend payment in 2006 has been 13.99 euros. The share subscription price of the stock options shall be reduced by the amount of any dividend decided after August 3, 2004 and paid before the share subscription, as per the record date for each dividend payment.

The share subscription period for stock option 2004A is March 1, 2005–March 31, 2007, for stock option 2004B March 1, 2006–March 31, 2008 and for stock option 2004C March 1, 2007– March 31, 2009. The share subscription period shall not, however, commence with the stock options 2004A, unless the trade volume weighted average quotation of the Elcoteq A share during any quarter of a year has been at least 21 euros, with stock options 2004B at least 27 euros, and with stock options 2004C at least 33 euros.

Share Ownership Plan

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

It is prohibited to transfer the shares corresponding to the gross annual salary of a key person as long as his/her employment in the Group continues. The President and CEO of the company is not allowed, without the consent of the Board of Directors, to transfer his A shares as long as he is in the service of the company.

The potential reward from the plan in 2006 is based on the development of the Group's earnings per share and net sales. Since the Group did not reach its profit and net sales targets in 2006, no reward will be paid under the share ownership plan.

Reward Plan 2004

The reward plan is directed at the Group's key personnel not covered by the stock option plan 2004 and the share-based incentive plan. The potential reward from the plan will be based on the growth of the market value of the company's shares. A person belonging to the plan has a possibility to earn a maximum reward equivalent to nine-month gross salary. The Board of Directors can require that 40% of the earned gross reward will be used to acquire Elcoteq A shares.

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

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

Shareholdings of the CEO, Deputy CEO and the Board Members

At December 31, 2006, the members of the company's Board of Directors owned a total of 2,826,770 A shares and 10,577,000 K shares, which represented 42.5% of the total number of shares and 85.7% of the votes outstanding.

At December 31, 2006, Mr Jouni Hartikainen, Elcoteq's President and CEO, held 8,132 Elcoteq A shares and Mr Jukka Jäämaa, COO and Deputy CEO, altogether 5,596 Elcoteq A shares. These 13,728 shares represent 0.04% of the shares and 0.01% of the votes outstanding.

At December 31, 2006, Mr Jouni Hartikainen, President and CEO, held 150,000 options issued under the 2001 option program and 120,000 options under the 2004 option program. Mr Jukka Jäämaa, COO and Deputy CEO, held 10,000 options issued under the 2001 option program and 91,000 options under the 2004 option program. The President and the COO could exercise these options to subscribe for a maximum of 371,000 new A shares, which would represent 1.16% of the share capital and 0.29% of the votes outstanding after such exercise. If all the other unexercised options on December 31, 2006 were also exercised, Elcoteq's CEO, Deputy CEO and the members of the Board of Directors would collectively hold 40.0% of the total share capital and 84.0% of the total votes outstanding.

The share and option holdings of Elcoteq's Board of Directors and top management are presented on pages 89 and 92.

A listing of Elcoteq insiders' share and option holdings is available on the company's website at www.elcoteq.com>Investors.

Shareholders

Elcoteq had 11,693 registered shareholders at the end of 2006. There were a total of 8,039,881 nominee-registered or foreign-registered A shares, representing some 25.5% of the total number of shares and 6.3% of the votes outstanding.

Free Float

At December 31, 2006 Elcoteq's free float (the number of A shares not held by its three principal owners) totaled 18,178,837 shares, or 86.7% of all A shares and 57.6% of the total share capital. Nominee-registered and foreign-registered shares accounted for 44.2% of the free float.

Dividend Policy

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

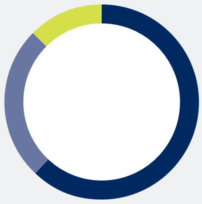
The following tables describing the company's shareholders by type and size of holdings treat all shareholder register entries as independent holdings. Holdings belonging to the same control group or sphere of influence have not been combined.

Distribution of Shares, December 31, 2006

Number of Shares	Number of Holders	% of Total Shares	% of Total Votes
1–100	3,829	0.84	0.21
101–1,000	6,441	8.37	2.08
1,001–10,000	1,312	11.05	2.75
10,001–100,000	95	7.11	1.77
100,001–	16	72.63	93.19

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

% of Total Shares



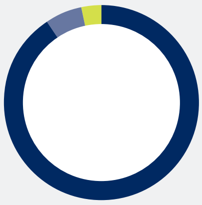
* Includes nominee-registered shares.

Shareholders by Type, December 31, 2006

	Number of Shares	% of Total Shares	% of Total Votes
Households	19,600,258	62.15	90.58
Foreign*	8,039,881	25.49	6.34
Corporations	1,607,410	5.10	1.27
Public entities	1,121,577	3.56	0.88
Financial and insurance institutions	831,666	2.64	0.66
Non-profit organizations	338,535	1.07	0.27

* Includes nominee-registered shares.

% of Total Votes



* Includes nominee-registered shares.

Series A Share Performance and Trading

	2006	2005
Highest price, EUR	21.30	20.35
Lowest price, EUR	9.40	14.50
Average price, EUR	14.75	16.92
Closing price, EUR	9.78	20.15
Trading volume, MEUR	585.3	435.0
Trading volume, shares	39,779,437	25,718,873

Performance and Trading of the 2001 Options

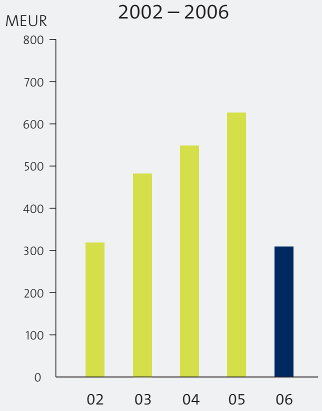
	2006	2005
Highest price, EUR	14.00	13.08
Lowest price, EUR	2.86	4.13
Average price, EUR	8.25	10.39
Closing price, EUR	3.23	12.78
Trading volume, MEUR	15.5	20.4
Trading volume, options	1,891,348	1,960,850

Market Capitalization, MEUR

	2006	2005
Series A shares	205.0	413.6
Series K shares	103.4	213.1
Total	308.4	626.7

Market capitalization is calculated by multiplying all Elcoteq A and K shares by the closing quotation of each year.

Market Capitalization
2002 – 2006



Major Shareholders, December 31, 2006

	A Shares	K Shares	% of Shares	% of 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-Sijoitusrahasto	226,600	-	0.72	0.18
7. Sijoitusrahasto Abn Amro Finland	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. Rautaruukin Henkilöstörahasto Hr	111,261	-	0.35	0.09
Total	4,171,951	10,577,000	46.78	86.76

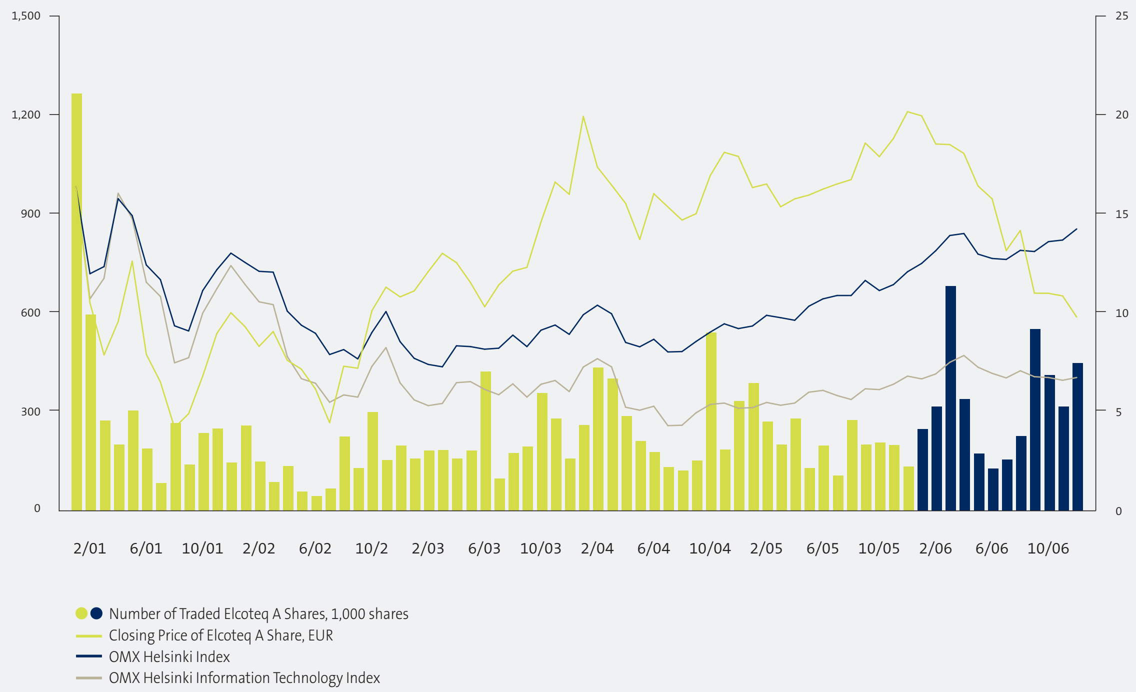
A monthly updated list of Elcoteq's 100 largest shareholders is available on the company's website at www.elcoteq.com.

Possible Impact of Unexercised Option Rights on Elcoteq's Share Capital on December 31, 2006

	Number of Shares	% of Shares	Share Capital, EUR	% of Votes
Option scheme 2001	+1,583,100	+5.0	+633,240	+1.2
Option scheme 2004	+1,350,000	+4.3	+540,000	+1.1
Total	+2,933,100	+9.3	+1,173,240	+2.3

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

Trading Prices and Volumes of Elcoteq A Shares in 2002–2006



Risk Management

Risk management at Elcoteq is based on the company's risk management policy, endorsed by the Board of Directors. This policy classifies risks into strategic, operational, casualty, and financial risks. Elcoteq seeks to manage these risk areas in a comprehensive and forward-looking manner, and to limit any negative effects should these risks materialize.

Risk Management Principles

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

Elcoteq defines a risk as an external or internal uncertainty factor that could hamper implementation of the company's strategy, its business activities and achievement of its goals. A risk can also be considered to be a factor that endangers the company's property or employees.

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

The purpose of Elcoteq's risk management function is to support and evaluate the risk management work of the company's different units, and to report key risks to the company's top management. Elcoteq's risk management function reports to the CFO. In addition to the company's operative management, supervision of risk management is one of the responsibilities specifically assigned to the Board's Audit Committee, which reports on risk management to the Board.

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

Risk Assessment and Monitoring 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.

The risk assessments and their updates are usually carried out by the management teams of Elcoteq's units. The objective of the work is to identify the risks as broadly as possible in the various areas of the company's business operations. For each identified risk the units assess the probability of the identified risk occurring, its impact on the unit's activities, and the level of risk management required. The points awarded against each risk for each of these aspects are then summed to provide a risk class indicating the gravity of the risk. The risk classification is used in risk management to prioritize those issues that need the most attention.

Elcoteq introduced an internal audit system at the end of 2005 to measure and monitor the level of risk management in its various units. During 2006 audits were performed at Elcoteq's manufacturing plants in China, Hungary, Germany and Russia. Further audits will be performed in 2007 in Mexico and Europe.

Business Continuity Planning

At the end of 2005 Elcoteq introduced a business continuity planning system that supplements risk management in the Group. Using this system, Elcoteq's manufacturing plants and the organizations in its geographical areas jointly identify areas of critical importance to business continuity, assess the risks associated with these areas, and draw up action plans to be adopted in the event of incidents causing major damage, catastrophes and other significant risks.

During 2006 the company reviewed, together with insurance companies, the most important threats to the operational continuity of its largest manufacturing plants, mainly from the perspective of risks associated with property and business interruption. These threats have also been assessed in the risk assessments performed by the insurance companies.

Strategic and Operational Risks

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

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

A key element of Elcoteq's strategy is focused growth, i.e. broadening the customer portfolio and reducing dependency on individual customers. Action taken to achieve this includes strengthening the sales organization, concentrating sales efforts on obtaining new customers, and acquisitions.

New Services and Operating Models: failure to develop the new services or operating models required to meet demand, or failure to offer these profitably, could hamper implementation of the strategy and weaken profits.

Having identified its customers' needs, Elcoteq has set expansion of its service offering as one of its main strategic themes. The most significant examples of this have been investments in product development services especially in the Terminal Products business area.

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

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

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

Elcoteq manages the risks associated with materials using sophisticated information systems, supplier and supply chain management (including inventories), and also through agreement structures with component suppliers and customers.

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

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

Credit Risks: credit losses resulting from accounts receivable or the materials for which a customer is responsible could significantly weaken the company's profits.

The company seeks to limit credit risks associated with its commercial activities through short payment terms as well as requiring collateral that protects Elcoteq's position, should the creditworthiness of a customer make this necessary. Significant credit limits are decided by Elcoteq's Management Team, or the credit committee which reports to it.

Conducting Business in Emerging Markets: legislative, political or financial developments in the economies of emerging markets could have a negative impact on the company's assets and business activities in these countries.

Elcoteq establishes operations in developing countries only after careful consideration and continuously monitors economic and political developments in these countries.

Acquisitions and Divestments: unsuccessful valuation of an acquisition, or unsuccessful integration of an acquired company into Elcoteq, could result in financial losses or hamper implementation of the company's strategy.

Elcoteq reduces the potential risk associated with acquisitions by performing a thorough due diligence analysis before the acquisition takes place, using the services of outside experts when needed.

Casualty Risks

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

Financial Risks

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

Foreign Exchange Risk

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

Transaction risks mainly relate to the US dollar (USD) and Japanese yen (JPY). In addition to component and manufacturing costs, Elcoteq's pricing model also considers the foreign exchange rates prevailing at the time of pricing, which forms the basis for hedges in line with forecast production volumes. Prices are usually agreed for the upcoming three months and therefore no significant long-term items are included in the company's transaction exposure. Approximately 95% of Elcoteq's net foreign exchange position, which is based on volume forecasts, is hedged at the time prices are agreed, using forward contracts or currency options with a maximum term of six months. The level of hedges is monitored throughout the pricing period. Foreign exchange regulations may hamper hedging activities in certain countries, in Brazil for example.

The foreign exchange risk associated with subsidiaries' equity-linked net investments denominated in currencies other than the euro, i.e. the translation risk, arises from fluctuations in the calculated euro values of these amounts. The translation risk in 2006 related mainly to the Chinese yuan (CNY), the US dollar (USD) and the Russian ruble (RUB). These risks are partly hedged using exchange rate derivative contracts. Roughly 80% of the consolidated ownership holdings in these companies is hedged and this level is updated during every subsequent month after the financial statements of the subsidiaries for the previous month are completed. On December 31, 2006 roughly 70% of the equity-based net investments denominated in CNY and USD was hedged at the end of the previous month.

Note "Assets Pledged and Contingent Liabilities" in the Notes to the Consolidated Financial Statements shows the year-end nominal and fair values of derivatives contracts. The principles applied in entering these items are described in the accounting principles.

Liquidity and Refinancing Risks

Liquidity risk is measured through reports based on the Group's cash flow forecasts. The company endeavors to safeguard its good liquidity position under varying market conditions through sufficient cash reserves and credit facility arrangements. On December 31, 2006 the Group's interest-bearing net debt totaled 128.0 million euros. The Group's cash reserves totaled 82.3 million euros and interest-bearing debt 210.3 million euros.

The company's financing reserves consisted of unused credit limits that on December 31, 2006 totaled 293.8 million euros. Altogether 230 million euros of the total is a syndicated and committed credit facility. The company also has a domestic commercial paper program of 200 million euros, of which no issues were open at December 31, 2006. In addition, the company has a securitization facility worth 250 million euros as well as other smaller limits available for the sale of receivables. The company will continue to make use of accounts receivable sales whenever cost-effective.

Elcoteq issued subordinated notes totaling 30 million euros in March 2006 to strengthen is financial structure. At the end of 2006 the nominal value of the company's subordinated notes totaled 140 million euros.

Interest Rate Risk

The Group follows its interest exposure by monitoring in particular the interest payment flow risk. On December 31, 2006 the average interest rate of the loan portfolio was 5.7% with the average interest rate re-fixing time approximately 28 months. Altogether 86.2%, or 181.2 million euros, of the loan portfolio was denominated in euros and 131.1 million euros of this amount was converted through foreign exchange swap contracts, mainly into US dollars.

No derivatives contracts were used to hedge the interest rate risk during the period. The average interest rate refixing time was extended in March 2006 by agreeing 30 million euros in five-year subordinated notes with a fixed interest rate. Rental payments on the company's operating leases for production equipment are based likewise on long-term market interest rates. Roughly 110 million euros of the Group's total interest-bearing debt, which at December 31, 2006 amounted to 210.3 million euros, has been agreed to carry a long-term fixed coupon. The remaining 100.3 million euros is a floating rate short- or long-term loan, to which a market interest rate increase of one percentage point would increase annual interest expenses by roughly 1.0 million euros. Further information on the company's floating and fixed interest rate loans is given in the table "Maturity of Long-Term Loans" in the Note "Liabilities".

Short-term interest rates also affect the price that is received from sold accounts receivable. The interest rate risk related to this off-balance sheet item has not been hedged. At yeat-end cash flow from sold accounts receivable totaled 187.7 million euros, to which a market interest rate increase of one percentage point would increase annual financial expenses by roughly 1.9 million euros. The costs arising from sold accounts receivable are entered under Other financial expenses.

Credit and Counterparty Risks

Primary responsibility for credit risks associated with the company's commercial operations lies with the geographical areas. In order to minimize credit risk, the company seeks to obtain adequate collateral, if the need for it is indicated by the creditworthiness of a customer. The credit risk related to sold accounts receivable is transferred at the time of sale.

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

Risk Management

Risk Area Risk	Management Tool	Main Responsibility
Strategic risks, such as	Strategy, business plans	Group management, business areas
• Customer dependency		
• New services and business models		
• Acquisitions		
• Competition		
• Market trends		
Operational risks, such as		Geographical areas
• Political risks	Risk management policy	Geographical areas, risk management function
• Product liability and R&D risks	Risk management policy	Geographical areas, business areas
• Technology risks	Risk management policy	Geographical areas, business areas
• Personnel risks	HR policy	Geographical areas, HR function
• Environmental risks	Environmental policy and systems	Geographical areas, environmental management function
• Materials management	Sourcing policy	Geographical areas, sourcing and supply chain management functions
• Credit risks	Treasury policy	Geographical areas, treasury function
Casualty risks	Risk management policy and guidelines, insurances	Risk management function
• Data security risks	Data security principles	Information management
• Product liability and security	Risk management policy	Geographical areas, risk management function
• Occupational health and safety	HR policy, safety and security instructions	Geographical areas, HR management
Financial risks, such as	Treasury policy	Geographical areas, treasury function
• Foreign exchange risks		
• Credit risks		

Formulas for the Calculation of Financial Ratios

$$\text{Return on equity (ROE)} = \frac{\text{Net income x 100}}{\text{Total equity, average of opening and closing balances}}$$

$$\text{Return on investments (ROI/ROCE)} = \frac{\text{(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) x 100}}{\text{Total assets – non-interest-bearing liabilities, average of opening and closing balances}}$$

$$\text{Return on investment (ROI/ROCE) for trailing 12 months} = \frac{\text{(Income before taxes + interest and other financial expenses + income from discontinued operations before taxes and financial expenses) x 100}}{\text{Total assets – non-interest-bearing liabilities, average of opening and closing balances}}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Solvency} = \frac{\text{Total equity x 100}}{\text{Total assets – advance payments received}}$$

$$\text{Gearing} = \frac{\text{Interest-bearing liabilities – cash and equivalents}}{\text{Total equity}}$$

$$\text{Earnings per share (EPS)} = \frac{\text{Net income attributable to equity holders of the parent}}{\text{Adjusted average number of shares outstanding during the period}}$$

$$\text{Earnings per share, diluted (EPS)} = \frac{\text{Net income attributable to equity holders of the parent}}{\text{Adjusted average number of shares outstanding during the period + effect of dilution on the number of shares}}$$

$$\text{Dividend per share} = \frac{\text{Dividends paid for the fiscal year}}{\text{Adjusted number of shares outstanding at the end of the period}}$$

$$\text{Payout ratio} = \frac{\text{Dividend per share x 100}}{\text{Earnings per share}}$$

$$\text{Dividend yield} = \frac{\text{Dividend per share x 100}}{\text{Average share price at the end of the period}}$$

$$\text{P/E-ratio} = \frac{\text{Average share price at the end of the period}}{\text{Earnings per share (EPS)}}$$

Five Years in Figures

		2006	2005	2004*	2003	2002
OPERATIONS						
Net sales	MEUR	4,284.3	4,169.0	2,921.8	2,235.7	1,840.2
of which outside Finland	%	89.7	81.4	86.2	81.0	77.5
Gross capital expenditures	MEUR	116.9	123.6	128.3	68.1	78.0
(does not include operating leases)						
Employees, average		16,651	15,242	13,065	11,044	8,127
PROFITABILITY						
Operating income before depreciation and amortization (EBITDA)	MEUR	126.6	155.0	117.6	88.1	74.7
Operating income	MEUR	43.9	76.5	57.3	30.5	25.5
% of net sales	%	1.0	1.8	2.0	1.4	1.4
Income before taxes	MEUR	19.2	59.3	44.9	22.5	18.6
% of net sales	%	0.4	1.4	1.5	1.0	1.0
Net income ***	MEUR	12.1	41.3	30.7	20.7	16.1
% of net sales	%	0.3	1.0	1.1	0.9	0.9
Return on equity (ROE)	%	4.8	14.1	15.1	8.2	7.4
Return on investment (ROI/ROCE)	%	9.1	17.6	19.5	10.2	9.2
FINANCIAL RATIOS						
Current ratio		1.2	1.2	1.1	1.2	1.2
Solvency	%	26.1	26.0	30.5	32.6	36.6
Gearing		0.4	0.3	0.4	–0.0	–0.1
Interest-bearing liabilities	MEUR	210.3	191.7	137.4	63.3	42.6
Interest-bearing net debt	MEUR	128.0	90.3	98.2	–0.4	–33.4
PER SHARE DATA						
Earnings per share (EPS)	EUR	0.38	1.34	1.01	0.70	0.54
Diluted earnings per share (EPS)	EUR	0.37	1.28	0.96	0.67	–
Shareholders' equity per share ***	EUR	9.31	9.55	8.82	8.46	8.40
Share price at the end of the year	EUR	9.78	20.15	17.89	15.98	10.80
Dividend per share **	EUR	0.20	0.66	0.65	0.90	0.40
Payout ratio **	%	52.3	49.7	49.6	131.0	73.5
Dividend yield **	%	2.0	3.3	3.6	5.6	3.7
P/E ratio		25.7	15.0	14.1	22.9	19.7
Adjusted weighted average number of shares in issue during the period		31,338,611	30,764,705	30,420,473	29,572,826	29,491,652
Adjusted number of shares in issue at the end of the period		31,539,327	31,103,577	30,640,877	30,190,527	29,491,652

* The key figures for the income statement and earnings per share are calculated on continuing operations. Other key figures include the impact of the discontinued operation.
** The dividend in 2006 is the proposal of the Board of Directors to the Annual General Meeting.
*** Amount attributable to equity holders of the parent company. The net income for 2004 does not include the income of the discontinued operation.

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

Board's Proposal to the Annual General Meeting

The Group's distributable funds on the balance sheet date totaled 53,363,165.28 euros. The parent company recorded a net profit of 12,770,617.25 euros for the year. Retained earnings from previous years, adjusted for the share issue costs entered in the additional paid-in capital, amounted to 50,133,801.74 euros. Therefore the parent company's distributable funds totaled 62,904,418.99 euros.

The Board will propose to the Annual General Meeting that the parent company distribute a dividend of 0.20 euros per share, or 6,307,865.40 euros, on the financial year. After this, unused retained earnings will amount to 56,596,553.59 euros in the parent company and 47,055,299.88 euros in the Group.

Espoo, Finland, February 6, 2007

Antti Piippo
Chairman of the Board

Martti Ahtisaari

Heikki Horstia

Eero Kasanen

Henry Sjöman

Juha Toivola

Jorma Vanhanen

Jouni Hartikainen
President and CEO

Auditors' Report

To the Shareholders of Elcoteq SE

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Elcoteq SE for the period January 1 – December 31, 2006. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies Act.

Consolidated Financial Statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent Company's Financial Statements, Report of the Board of Directors and Administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

Opinion

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Espoo, Finland, February 7, 2007

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Quarterly Figures (Unaudited)

INCOME STATEMENT, MEUR	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
NET SALES	1,104.6	1,169.1	1,029.6	981.1	1,182.0	1,194.7	982.1	810.3
Change in work in progress and finished goods	−8.1	19.4	−6.5	12.6	2.1	1.7	−9.8	−5.2
Other operating income	3.2	1.0	1.1	1.7	1.2	1.1	1.8	1.7
Operating expenses	−1,070.9	−1,151.0	−991.9	−968.2	−1,137.8	−1,150.5	−940.1	−780.3
Depreciation and writedowns	−22.0	−21.8	−20.1	−18.9	−22.1	−21.4	−18.0	−17.0
OPERATING INCOME	6.9	16.6	12.2	8.3	25.5	25.6	15.9	9.5
% of net sales	0.6	1.4	1.2	0.8	2.2	2.1	1.6	1.2
Financial income and expenses	−7.4	−6.2	−5.0	−5.1	−5.6	−4.4	−3.2	−2.8
Share of profits and losses of associates	−0.3	−0.2	−0.2	−0.3	−0.2	−0.2	−0.6	−0.2
INCOME BEFORE TAXES	−0.8	10.1	7.0	2.9	19.7	21.0	12.1	6.5
Income taxes	1.6	−3.4	−2.0	−0.8	−4.6	−7.4	−3.8	−2.7
NET INCOME FOR THE PERIOD	0.8	6.7	5.0	2.1	15.1	13.7	8.3	3.8
ATTRIBUTABLE TO:								
Equity holders of the parent company	−0.3	5.9	4.4	2.1	14.9	13.7	8.3	4.4
Minority interests	1.1	0.8	0.6	−0.0	0.2	0.0	−0.0	−0.6
	0.8	6.7	5.0	2.1	15.1	13.7	8.3	3.8

BALANCE SHEET, MEUR	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
ASSETS								
Non-current Assets								
Intangible assets	45.4	47.8	49.4	48.2	47.4	47.5	46.6	43.9
Tangible assets	245.0	263.6	242.1	238.2	244.7	245.4	215.1	206.7
Investments	13.7	14.0	14.0	14.0	14.1	14.1	14.1	14.4
Long-term receivables	15.3	14.2	11.2	10.6	10.0	9.8	16.2	16.5
Non-current assets, total	319.4	339.6	316.7	311.0	316.2	316.8	292.0	281.4
Current assets								
Inventories	359.0	407.4	366.1	339.6	328.4	363.4	323.2	331.5
Current receivables	402.9	518.1	447.9	425.7	421.4	487.5	462.8	388.6
Cash and equivalents	82.3	102.4	41.0	143.5	101.4	106.7	60.5	70.2
Assets classified as held for sale	-	-	-	-	-	1.7	-	-
Current assets, total	844.2	1,028.0	854.9	908.9	851.2	959.3	846.5	790.3
ASSETS, TOTAL	1,163.6	1,367.6	1,171.7	1,219.9	1,167.4	1,276.0	1,138.5	1,071.7
SHAREHOLDERS' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent company								
Share capital	12.6	12.6	12.6	12.5	12.4	12.3	12.3	12.3
Other shareholders' equity	281.0	279.9	272.9	267.1	284.5	267.1	252.8	243.3
Equity attributable to equity holders of the parent, total	293.7	292.5	285.4	279.5	297.0	279.4	265.1	255.6
Minority interests	9.6	7.9	7.0	6.7	6.9	7.3	6.9	6.7
Total equity	303.3	300.4	292.5	286.3	303.9	286.7	272.0	262.3
Long-term liabilities								
Long-term loans	179.7	179.9	179.9	180.0	149.9	150.4	101.1	72.3
Other long-term debt	5.2	4.3	4.1	3.7	3.7	4.0	4.2	4.9
Long-term liabilities, total	184.8	184.3	184.0	183.7	153.6	154.3	105.3	77.1

	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Current liabilities								
Current loans	30.6	92.0	26.2	38.7	41.2	53.4	69.8	135.9
Other current liabilities	643.1	788.3	666.3	708.9	666.0	778.9	686.6	594.3
Provisions	1.8	2.5	2.7	2.5	2.8	2.7	4.8	2.1
Current liabilities, total	675.5	882.9	695.2	750.0	709.9	835.0	761.2	732.2
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	1,163.6	1,367.6	1,171.7	1,219.9	1,167.4	1,276.0	1,138.5	1,071.7
Personnel on average during the period	17,431	16,930	16,581	15,748	15,903	15,162	15,030	14,560
Gross capital expenditures, MEUR	32.3	38.5	30.1	16.0	35.4	48.8	17.8	21.6
ROI/ROCE from 12 preceding months, %	9.1	12.1	15.7	16.0	17.6	17.5	17.7	16.8
Earnings per share (EPS), EUR	–0.01	0.19	0.14	0.07	0.48	0.44	0.27	0.14
Solvency ratio, %	26.1	22.0	25.0	23.5	26.0	22.5	23.9	24.5

CONSOLIDATED CASH FLOW STATEMENT, MEUR	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Cash flow before change in working capital	23.8	36.8	28.4	25.2	47.3	47.1	48.4	29.7
Change in working capital	30.7	13.7	–73.1	12.6	–11.4	21.6	26.6	–53.7
Financial items and taxes	–11.6	–7.7	–6.6	–7.3	–10.3	–8.1	–5.7	–3.3
Cash flow from operating activities	43.1	42.6	–51.3	30.6	25.6	60.6	69.3	–27.3
Cash flow from investing activities	–1.8	–47.3	–20.3	–16.3	–20.1	–47.1	–22.3	–14.3
Cash flow before financing activities	41.2	–4.7	–71.5	14.2	5.5	13.5	47.0	–41.6
Proceeds from share issue	0.5	0.5	1.4	0.5	2.4	0.1	0.1	0.8
Change in current debt	–60.9	65.4	–10.3	–1.7	–12.7	–16.8	–67.3	71.0
Issuance of long-term debt	-	-	-	29.8	-	49.4	30.2	-
Repayment of long-term debt	–0.2	–0.1	–0.2	-	–1.1	–0.5	–2.1	–0.7
Dividends paid	-	-	–20.6	-	-	-	–20.0	-
Cash flow from financing activities	–60.6	65.9	–29.7	28.6	–11.5	32.1	–58.9	71.0
Change in cash and equivalents	–19.3	61.1	–101.1	42.8	–6.1	45.7	–11.9	29.4
Cash and equivalents at the beginning of the period	102.4	41.0	143.5	101.4	106.7	60.5	70.2	39.2
Effect of exchange rate changes on cash held	–0.8	0.4	–1.4	–0.7	0.7	0.5	2.3	1.5
Cash and equivalents at the end of the period	82.3	102.4	41.0	143.5	101.4	106.7	60.5	70.2

BUSINESS AREAS, MEUR	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Net sales								
Terminal Products	898.6	967.9	837.6	808.0	999.5	999.3	795.0	645.2
Communications Networks	206.0	201.2	192.0	173.1	182.6	195.4	187.1	165.1
Total	1,104.6	1,169.1	1,029.6	981.1	1,182.0	1,194.7	982.1	810.3
Segment´s operating income								
Terminal Products	13.2	18.6	20.7	15.9	32.2	26.6	19.4	16.9
Communications Networks	5.7	8.8	3.2	4.6	2.9	9.7	8.0	2.6
Group´s non-allocated expenses/income	–12.1	–10.8	–11.6	–12.3	–9.6	–10.7	–11.5	–10.0
Total	6.9	16.6	12.2	8.3	25.5	25.6	15.9	9.5

GEOGRAPHICAL AREAS, MEUR	Q4/2006	Q3/2006	Q2/2006	Q1/2006	Q4/2005	Q3/2005	Q2/2005	Q1/2005
Net sales								
Europe	635.8	659.4	599.7	530.5	641.6	686.5	550.9	466.0
Asia-Pacific	260.3	307.2	272.8	253.8	344.7	321.0	226.6	177.1
Americas	208.5	202.4	157.1	196.8	195.8	187.1	204.5	167.2
Total	1,104.6	1,169.1	1,029.6	981.1	1,182.0	1,194.7	982.1	810.3

Evolving with the Market, Serving Customers Where They Are Present

Corporate Governance

Elcoteq SE, the parent company of the Group, is a European Company registered in Finland and domiciled in Lohja, Finland. 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. Elcoteq also applies the insider guidelines of the Helsinki Stock Exchange.

General Meetings

The general meeting of shareholders is the supreme decision-making body in Elcoteq and the forum in which its shareholders exercise their voting rights. Shareholder meetings consider the matters stipulated by Finnish legislation and the company's Articles of Association. Elcoteq's Annual General Meeting is held before the end of May on a date set by the Board of Directors. Extraordinary shareholder meetings are convened at the discretion of the Board of Directors or if otherwise required for legal reasons.

Group Administration

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

Elcoteq's top management consists of the President and CEO, the Chief Operating Officer and Deputy CEO, and the other members of the Management Team and Management Conference. The overall task of the Group's management is to manage the Group in accordance with the strategy endorsed by the Board of Directors. Its responsibilities include developing and executing the company's strategy, steering and supervising the company's operations, developing and maintaining the company's internal operating procedures and guidelines and also its reporting and monitoring systems, and ensuring that the company's activities comply with legal regulations.

The Elcoteq Management Team comprises the President and CEO, the COO, the CFO, and the three Senior Vice Presidents responsible respectively for sales and business development, product development services, and human resources. The members of the Management Team report to the President and CEO. The Management Team meets at least once a month. Its main tasks are developing and implementing the strategy and assuring and monitoring the company's financial performance.

The company also has a Management Conference which, in addition to the Management Team, includes 13 senior managers responsible for key Group functions. The Management Conference convenes at the discretion of the President and CEO 3–4 times a year. The purpose of the Management Conference meetings is to provide a senior management forum for planning the company's operations and sharing information.

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

The Board of Directors

Responsibility for the management of the company and the appropriate organization of its operations lies with the Board of Directors, which comprises at least four and at most eight members who are elected by a General Meeting.

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

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

The Board's Rules of Procedure stipulate that a majority of the Board members must be independent of the company and at least two of this majority must be independent of the company's principal shareholders. Four of the seven Board members elected by the Annual General Meeting (AGM) in 2006 are independent of the company and its principal shareholders. The term of office of the Board members expires at the close of the first AGM following their election. After the close of the Annual General Meeting the Board elects a chairman and a deputy chairman from among its members and decides on the establishment of its committees and their members.

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

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

In addition to the matters stipulated in the Companies Act and Elcoteq's Articles of Association, the Board of Directors also

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

The Board of Directors has seven members during the term of office ending at the 2007 Annual General Meeting. Since the Annual General Meeting in 2006 the Chairman of the Board has been Mr Antti Piippo and the Deputy Chairman Mr Juha Toivola.

The Board of Directors met 11 times during 2006. The attendance of its members at these meetings averaged 95%.

The Board's Committees

The Board of Directors has four committees: a Working Committee, Audit Committee, Compensation Committee and Nomination Committee.

The Board can also establish other committees for specific purposes. The tasks of each committee are stipulated in their own rules of procedure which are approved by the Board of Directors. The committees report on their work to the Board at the Board's meetings.

Working Committee

The Working Committee prepares matters for the Board related to the company's business operations, particularly matters concerning the company's strategy and business development. The Working Committee consists of at least three members and it is convened by its chairman. During the 2006–2007 period the Working Committee was chaired by Mr Antti Piippo, and the members were Mr Henry Sjöman, Mr Juha Toivola and Mr Jorma Vanhanen. The Committee met twice during 2006.

Audit Committee

The Audit Committee supervises and prepares for the Board matters related to financial reporting, external auditing, the internal audit and risk management. It also supervises and enhances these functions in the company. The Committee consists of at least three independent Board members, who must have sufficient financial expertise for the task. The Committee meets regularly and at least four times during its term of office. The Committee is in regular contact with the company's auditors. During the 2006–2007 period the Audit Committee was chaired by Mr Juha Toivola, and its other members were Mr Martti Ahtisaari, Mr Heikki Horstia and Mr Eero Kasanen. The Committee met four times during 2006.

Compensation Committee

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

During the 2006–2007 period the Compensation Committee was chaired by Mr Juha Toivola, and its other members were Mr Martti Ahtisaari, Mr Heikki Horstia and Mr Eero Kasanen. The Committee met three times during 2006.

Nomination Committee

The Nomination Committee prepares matters related to the nomination and remuneration of the Board members, and seeks suitable individuals for nomination to the Board. The Committee consists of at least three members and it is convened as necessary by its chairman. During the 2006–2007 period the Nomination Committee was chaired by Mr Antti Piippo, and its other members were Mr Henry Sjöman, Mr Juha Toivola and Mr Jorma Vanhanen. The Committee met once during 2006.

Fees Paid to the Board of Directors

As decided by the Annual General Meeting held in the spring of 2006, the Board members are each paid an annual fee for their Board work amounting to 60,000 euros, 60% of which is paid in cash and 40% in shares. In 2006, with respect to the latter payment, the Elcoteq shares were acquired between April 28 and May 12 within the limits set by the rules governing insider trading. The acquired shares may not be surrendered before the following Annual General Meeting unless the individual's membership of the Board ends earlier.

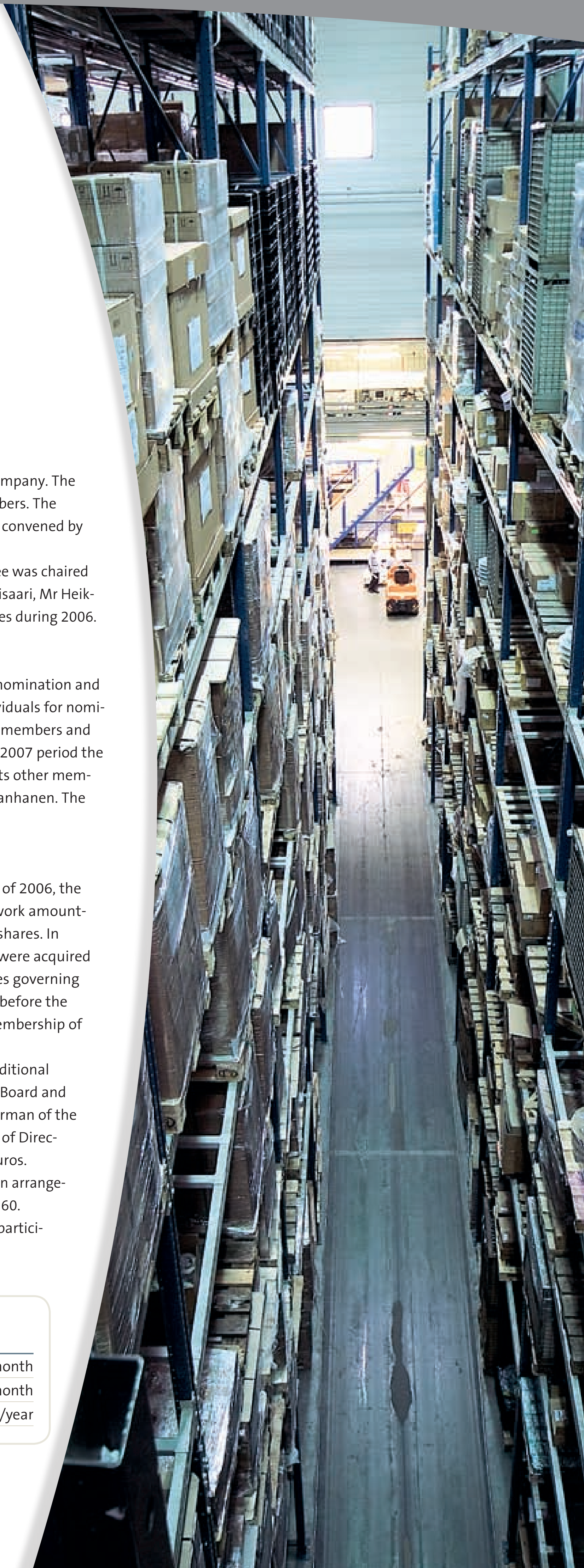
The Annual General Meeting in 2006 decided to pay an additional monthly fee of 45,000 euros to the full-time Chairman of the Board and an additional monthly fee of 10,000 euros to the Deputy Chairman of the Board. The salaries, fees and fringe benefits paid to the Board of Directors for their Board work in 2006 totaled roughly 1,071,000 euros.

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

The members of the company's Board of Directors do not participate in Elcoteq's stock option schemes.

Board's Fees Approved by the Annual General Meeting on March 23, 2006

Chairman of the Board	60,000 euros/year + 45,000 euros/month
Deputy Chairman	60,000 euros/year + 10,000 euros/month
Other members	60,000 euros/year



The President and CEO

The Board of Directors appoints a President who is responsible for overall management of the company as required by Finnish legislation and in accordance with the instructions and stipulations of the Board of Directors. Since January 1, 2004, the President and CEO of the company has been Mr Jouni Hartikainen, MSc (Eng.) and the COO and Deputy CEO Mr Jukka Jäämaa, LSc (Eng.).

President and CEO's Remuneration

The President and CEO's monthly salary is 87,356 Swiss francs, i.e. approximately 54,400 euros, and he also receives the usual fringe benefits. In addition to his monthly salary, the President and CEO receives a performance-based bonus in accordance with the incentive scheme in force to a maximum amount of 50% of his annual salary. The salary, other short-term benefits and share-based payments paid to the President and CEO in 2006 totaled some 1,132,000 euros.

In addition to the statutory pension cover, additional pension arrangements allow the President and CEO and the Deputy CEO to retire at the age of 60.

The CEO's notice period is six months. In the event that the CEO's employment contract is terminated by the company without proper cause, the CEO will be paid severance compensation equivalent to 12 months' monetary salary.

Management Remuneration and Incentive Schemes

The Board of Directors decides on the fees and remuneration schemes applicable to the members of the Management Team based on a proposal by the Compensation Committee. The level and competitiveness of the salaries is reviewed on the basis of comparison data obtained from international evaluation systems.

The company operates a bonus system under which a part of the bonus is based on achievement of the Group's financial targets and a part on achievement of each director's individual targets. The Board of Directors determines the criteria for the financial targets based on a proposal by the Compensation Committee. Individual targets are determined during performance appraisal discussions. The maximum amount to be paid to members of the Management Conference for 2006 is 50% of their basic annual salaries.

The company also has other incentive plans. The 2001 option scheme covers members of the Management Conference and other key personnel. The option scheme expires on April 30, 2007.

In 2004 Board of Directors agreed on the motivation and commitment of the management and key personnel of the Group by means of a stock option plan, a share ownership plan and a reward plan. The stock option and share ownership plans cover the members of the Management Conference.

The reward plan is intended for key employees not covered by the stock option and share ownership plans. Further information on the reward plan is given under Shares and Shareholders on page 70. Further information on the stock option schemes of the Management Team and Management Conference is given on page 92.

Internal Control

Elcoteq employs a reporting system to monitor its business performance in which corporate sales are reported daily and results are reported monthly. Forecasts for the following 12 months are drawn up monthly. The results and forecasts include an income statement, a balance sheet and key financial indicators.

The company monitors fulfillment of its strategic goals in quarterly strategy meetings. The meetings review the key indicators that describe the business plan targets. Elcoteq updates its business plan once a year for a three-year period.

In 2005 the company outsourced its internal audit to KPMG Oy Ab Risk Advisory Services. The internal audit is coordinated by Elcoteq's risk management function. The internal audit reports administratively to the CFO but in matters related to the internal audit directly to the Audit Committee of the Board of Directors. The Audit Committee also decides annually the areas that the internal audit will focus on in the following year. The internal audit function is independent of the company's external auditors.

Elcoteq performed several audits with KPMG Oy Ab Risk Advisory Service during 2006 to establish, among other things, the functionality of certain preselected processes and the adequacy and efficacy of controls in various units. The most important observations resulting from the audits were reported in detail to the management of each unit in question and a summary of the audits was submitted to the Audit Committee.

Insider Matters

The Insider Rules endorsed by the Board of Directors and adopted by the company on March 1, 2000 fully comply with and exceed the requirements of the guidelines recommended by the Helsinki Stock Exchange. The Insider Rules are available to all the company's employees through the company's intranet.

Under the company's Insider Rules, insiders may engage in trading in the company's shares only at times when the market has the fullest possible knowledge of matters that could influence the share value. For this reason Elcoteq's permanent insiders are not permitted to trade in the company's shares for 21 days before the release of its interim or annual financial results.

Elcoteq's Insider Rules and insider registers were updated at the beginning of 2006 due to changes to the provisions of the Securities Markets Act. Henceforth Elcoteq maintains a public insider register that comprises the members of the Board of Directors, the President and CEO, the COO, the members of the Management Conference and the auditor. Individuals who by virtue of their duties regularly receive information regarded as insider information are included in the company's non-public insider register. Elcoteq also maintains project-specific insider registers.

The insider registers are maintained by Elcoteq's legal affairs department, which also updates the information on Elcoteq's insiders in the register maintained by the Finnish Central Securities Depository Ltd. The company's public insider register can be viewed on the company's website.

The Auditor

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

Elcoteq SE's auditors are the firm of authorized public accountants KPMG Oy Ab, under the supervision of Principal Auditor Mauri Palvi, APA. In 2006 the auditing associations belonging to the KPMG Group were paid approximately 596,000 euros in auditing fees and approximately 911,000 euros for other consultation assignments. Other consultation assignments mainly consisted of consultation on taxation matters and consultation related to the company's globalization projects.

Salaries to the Management Team and Share-Based Payments, EUR 1,000

	Salaries and Other Short-Term Benefits 2006	Salaries and Other Short-Term Benefits 2005	Share-Based Payments* 2006	Share-Based Payments* 2005	Total 2006	Total 2005
President and CEO	935	1,098	197	208	1,132	1,306
Deputy CEO	571	454	151	194	722	648
Other Management Team members**	1,131	744	346	469	1,477	1,213

* Includes costs of stock options and share incentive plans.
** The number of other Management Team members increased to five in November 2005. Since June 2006, the number of the other Management Team members has been four.

Board of Directors

Board of Directors, from the left: Jorma Vanhanen, Juha Toivola, Martti Ahtisaari, Antti Piippo, Heikki Horstia, Eero Kasanen and Henry Sjöman.

Martti Ahtisaari,
born 1937, Teacher Training Course Graduate, University of Oulu

Independent member of Elcoteq's Board of Directors since 2000; member of the Audit and Compensation Committees

Work experience: Mr Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. Mr Ahtisaari was President of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts. Mr Ahtisaari also holds honorary doctorates from a number of universities.

Other key posts: board member of UPM-Kymmene, board chairman of Crisis Management Initiative and Special Envoy of the UN Secretary-General for the future status process for Kosovo.

Heikki Horstia,
born 1950, BSc (Econ.)
Vice President, Group Treasurer of Wärtsilä Corporation

Independent member of Elcoteq's Board of Directors since 1991; member of the Audit and Compensation Committees

Work experience: Mr Horstia has had a career in the financial management of industrial enterprises (Teollisuuden Voima Oy, Oy Lohja Ab, Metra Corporation) since 1976, and has occupied management and board positions in the electronics industry since 1983.

Eero Kasanen,
born 1952, DBA
Rector of the Helsinki School of Economics and Professor of Finance

Independent member of Elcoteq's Board of Directors since 2001; member of the Audit and Compensation Committees

Work experience: Professor of the Helsinki School of Economics since 1989

Other key posts: Dr Kasanen is a board member of several companies, for example Kaleva Mutual Insurance Company. He is also chairman of the boards of directors of the Helsinki School of Economics Holding Ltd and Finland Post Corporation.

Antti Piippo,
born 1947, BSc (Eng.)
Founder and principal shareholder of Elcoteq

Chairman of Elcoteq's Board of Directors since 1991 and Chairman of the Board of Directors again since 2003. Chairman of the Working and Nomination Committees.

Work experience: Mr Piippo has held management positions in the electronics industry since 1971, first in Aspo Oy (1971–1984) and then in Oy Lohja Ab (1984–1991). He was head of the electronics divisions of both companies.

Other key posts: supervisory board member of Varma Mutual Pension Insurance Company and chairman of the board of Piippo Oy.

Board's Shareholdings on December 31, 2006

Name	A Shares	K Shares	Change from 2005
Antti Piippo	1,590,300	5,411,000	+2,000
Henry Sjöman	589,095	2,583,000	+1,370
Jorma Vanhanen	604,095	2,583,000	+1,370
Martti Ahtisaari	11,970	-	+1,370
Heikki Horstia	7,720	-	+1,370
Eero Kasanen	9,370	-	+1,370
Juha Toivola	14,220	-	+1,370

Up-to-date information of the public insiders' shareholdings is available at www.elcoteq.com>Investors.

Henry Sjöman,
born 1950, BSc (Eng.)
Founder-shareholder of Elcoteq

Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees

Work experience: Mr Sjöman has worked in the electronics industry since 1974 and has held various management positions in Elcoteq and its predecessors since 1984.

Juha Toivola,
born 1947, MSc

Independent member of Elcoteq's Board of Directors since 1997; Deputy Chairman of the Board in 1997–2001 and again since 2003; Chairman of the Board in 2001–2003.
Chairman of the Audit and Compensation Committees, member of the Working Committee

Work experience: Mr Toivola has over 30 years of experience from both Finnish and international industrial corporations and the insurance sector. Between 1971 and 1995 Mr Toivola worked for Fiskars Corporation, and between 1996 and 2001 he was Managing Director of Industrial Insurance Company Ltd and Deputy Managing Director of the Sampo Group.

Other key posts: Mr Toivola is a board member or board chairman of several companies. He is also a member of the Association of Finland's Board Professionals.

Jorma Vanhanen,
born 1959, MSc (Eng.)
Founder-shareholder of Elcoteq

Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees

Work experience: Mr Vanhanen has held various management positions in Elcoteq and its predecessors since 1985.

Elcoteq Management Team

Jouni Hartikainen,
born 1961, MSc (Eng.)
President and CEO

Joined Elcoteq in 2000; member of the Management Team since 2000 and President and CEO since 2004

Area of responsibility: overall management of the Elcoteq Group

Work experience: Mr Hartikainen has previously worked in Elcoteq as the head of the geographical area Asia-Pacific, the Communications Networks business area and global sales and customer service. Before joining Elcoteq, Mr Hartikainen held several positions in Tecnomen Corporation. He has also worked several years in Canada and Malaysia.

Key posts: board member of Technology in Finland (Teknologiateollisuus ry)

Jukka Jäämaa,
born 1965, LSc (Eng.)
Chief Operating Officer (COO) and Deputy CEO

Joined Elcoteq in 1998; member of the Management Team since 1998 and Deputy CEO since 2004

Areas of responsibility: geographical areas, operations, account management, sourcing, supply chain management, and information management

Work experience: Previously in Elcoteq Mr Jäämaa has headed the geographical area Europe, the Communications Networks business area and the Industrial Electronics business area, as well as Europe's sales and account management. Prior to Elcoteq, Mr Jäämaa held a variety of positions in Perlos Corporation since 1990.

John-James Farquharson,
born 1956, MA, MBA
Senior Vice President, Human Resources

Joined Elcoteq and the Management Team in 2004

Areas of responsibility: human resources and corporate responsibility

Work experience: Mr Farquharson joined Elcoteq from Hayes Lemmerz International in Germany, where he worked as Vice President, Human Resources. Prior to this, he has experience in managing a manufacturing site, with sales and marketing responsibilities in Japan, Canada, Germany, Switzerland and the UK in the BASF Group and BP Oil International.

Vesa Keränen,
born 1970, MSc (Eng.)
Senior Vice President, Sales and Business Development

Joined Elcoteq in 1997; member of the Management Team since 2001

Areas of responsibility: sales to new customers, marketing, business development, mergers and acquisitions, corporate strategy planning and the Terminal Products business area

Work experience: Mr Keränen has worked in various business development and strategy planning positions in Elcoteq since 1997. Prior to joining Elcoteq he held positions in various international companies in Finland and Germany.

Anssi Korhonen,
born 1965, MSc (Electrical Engineering)
Senior Vice President, Product Development Services

Has worked in Elcoteq in 1992–1995 and again since 1997; member of the Management Team since November 2005

Areas of responsibility: development of Elcoteq's ODM service offering and strategic partnerships

Work experience: Prior to his current position Mr Korhonen has worked in Elcoteq as Senior Vice President, Terminal Products. Earlier he has held various project, product line, account management and business development positions since 1997 and worked as Development Engineer in 1992–1995. During 1995–1997 Mr Korhonen worked for Ericsson Mobile Communications AB's R&D site in Sweden.

Teo Ottola,
born 1968, MSc (Econ.)
Chief Financial Officer (CFO)

Joined Elcoteq in 1996; member of the Management Team since 2000

Areas of responsibility: business control and accounting, treasury, communications and investor relations, legal affairs and risk management

Work experience: Mr Ottola has held various finance and accounting positions in the company since 1996. Before joining Elcoteq, he worked in Rautaruukki Corporation's treasury department.

Management Conference

In addition to the Management Team, Elcoteq also has a Management Conference consisting of the members of the Management Team and the following people:

Phil Brown, President, Americas
Bruno Cathomen, Vice President, Communications Networks
Tuula Hatakka, Senior Vice President, Treasury
Reeta Kaukiainen, Director, Communications and Investor Relations
Hannu Keinänen, President, Asia-Pacific
Sari Kolu, Director, General Counsel, Corporate Legal Affairs
Petteri Laaksomo, Vice President, Global Operations and Quality
Mirja Lammi, Director, Business Control and Accounting
Harri Ojala, President, Europe
Harri Ollila, Senior Vice President, Corporate Relations
Esa Retva, Vice President, Sourcing, Supply Chain Management and Information Management
Mitch Schoch, Vice President, Sales and Business Development, Home Communications
Patrik Åhgren, Vice President, Sales and Business Development, Personal Communications

The Management Conference convenes 3 to 4 times a year. The purpose of the meetings is to provide a senior management forum for planning the company's operations and sharing information.

Option and Share Ownership of the Management Conference

The number of shares and options held by the members of the Group's Management Conference on December 31, 2006:

Name	2001 Stock Option Plan	2004 A and B Options	Number of Shares
Phil Brown	-	-	-
Bruno Cathomen	4,000	34,500	1,684
John-James Farquharson	-	46,000	2,352
Jouni Hartikainen	150,000	120,000	8,132
Tuula Hatakka	10,000	49,500	1,974
Jukka Jäämaa	10,000	91,000	5,596
Reeta Kaukiainen	4,000	34,500	1,684
Hannu Keinänen	10,000	50,000	2,418
Vesa Keränen	-	62,000	3,232
Sari Kolu	-	23,000	700
Anssi Korhonen	2,000	39,500	1,924
Petteri Laaksomo	-	34,500	1,684
Mirja Lammi	-	34,500	1,684
Harri Ojala	-	26,000	764
Harri Ollila	-	39,500	1,924
Teo Ottola	19,000	62,000	3,262
Esa Retva	6,000	34,500	1,684
Mitch Schoch	-	-	-
Patrik Åhgren	-	-	-

Up-to-date information of the public insiders' shareholdings is available at www.elcoteq.com>Investors.

Glossary

Box Build
Business model, in which an EMS company delivers finished products in consumer packages directly to the customers' distribution channel.

EMS
Electronics Manufacturing Services. An EMS company provides services to original equipment manufacturers (OEMs) with OEMs' own brands.

EuP
EU directive on Eco-design of Energy-using Products.

Free Float
Shares freely available for investors.

IPR
Intellectual Property Rights

MBO
Management Buy-Out

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.

OEM
Original Equipment Manufacturer, which is the brand owner.

PCBA
Printed Circuit Board Assembly

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.

WEEE
EU directive on Waste Electrical and Electronic Equipment.

Investor Relations (IR)

Elcoteq's IR function seeks to increase investors' awareness of Elcoteq and enhance interest in the company as an investment.

IR Principles

Elcoteq's IR function aims to provide information about the company's activities, financial position and goals, as well as conditions in its operating environment, in a timely, open, accurate and objective manner. The aim is to enable the capital markets to form a true and fair view of the company and thus make informed decisions concerning their holdings. IR seeks to increase awareness of Elcoteq's strategy and activities, thereby enhancing interest in Elcoteq as an investment.

Investor Meetings

Elcoteq arranges press conferences, as well as audio webcasts and teleconferences for analysts, investors, financiers and financial journalists on the publication of its interim and full-year results. The conferences provide participants with the opportunity to hear the company's views and to address questions to its top management. The company also arranges Capital Market Days for investors, analysts and financiers. The material presented at all these events is also available on the company's website.

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

Private investors are invited to meet the company's representatives at the Annual General Meeting in the spring.

Silent Period

Elcoteq observes a silent period from the closing of its interim or annual accounts to the date on which its results are published. During this period Elcoteq's representatives do not meet investors or comment on the company's results.

Prospects

Elcoteq operates in an industry where business volumes can vary considerably and very rapidly. Further on, these changes may have a substantial effect on the company's previously stated forecasts. For this reason Elcoteq does not include precise figures on net sales and profits in its forecasts, preferring instead to provide a verbal description of its prospects in its financial statements bulletins and interim reports. In these reports, Elcoteq's primary aim is to forecast the quarter immediately following the reported period.

Financial Reporting in 2007

- Financial Statements Bulletin, February 7, at 9.00 am (EET)
- Annual Report, week commencing on March 5
- Interim Report January–March, April 26, at 9.00 am (EET)
- Interim Report January–June , July 25, at 9.00 am (EET)
- Interim Report January–September, October 24, at 9.00 am (EET)

Elcoteq's annual reports, interim reports, and releases are published both in English and Finnish. They are available on the company's website at www.elcoteq.com.

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

Changes of Address

Shareholders are kindly asked to notify any changes of address either to the bank holding their book-entry account or to the Finnish Central Securities Depository Ltd, if the book-entry account is registered there.

Investor Relations Contacts

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

Analysts Covering Elcoteq

The investment analysts listed below actively monitor Elcoteq's performance. Elcoteq takes no responsibility for any evaluations or recommendations published by them.

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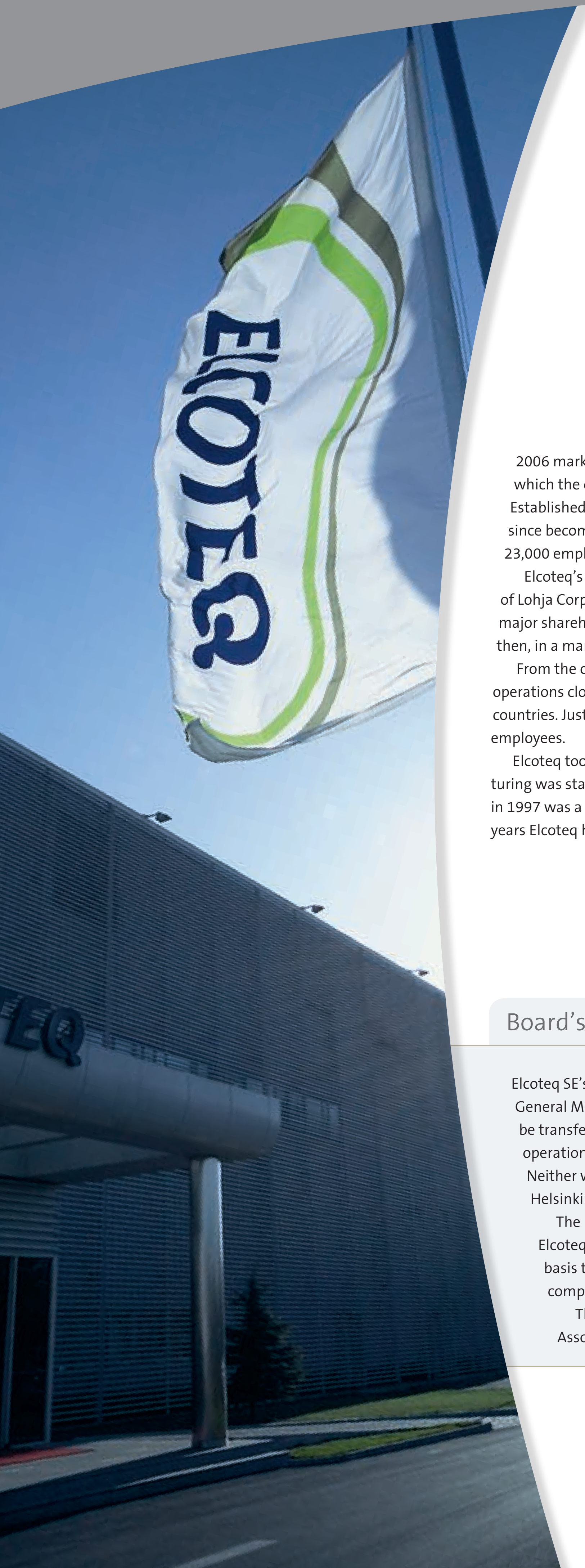

Elcoteq 15 Years

2006 marked an important milestone in Elcoteq's history as the year in which the company celebrated its 15th year as an independent company. Established in 1991 in Lohja, Finland with 170 people, the company has since become a global electronics manufacturing specialist with some 23,000 employees and operations in 16 countries around the world.

Elcoteq's history began in 1984 when the company was set up as part of Lohja Corporation. Elcoteq was founded in 1991 when its current three major shareholders took control of Lohja Microelectronics, as it was known then, in a management buy-out.

From the outset Elcoteq's central business concept has been to build its operations close to the end-product markets of its customers, in low-cost countries. Just as important has been the need to obtain and secure skilled employees.

Elcoteq took its first step towards globalization in 1992, when manufacturing was started in Tallinn, Estonia. Listing on the Helsinki Stock Exchange in 1997 was a further boost in Elcoteq's international growth and in a few years Elcoteq had expanded into 12 countries.

Board's Proposal to Transfer Domicile

Elcoteq SE's Board of Directors will propose to the company's Annual General Meeting on March 22, 2007 that Elcoteq's domicile and head office be transferred to Luxembourg. However, there is no plan to move Elcoteq's operations in Finland to Luxembourg in conjunction with the transfer. Neither will it affect trading in the company's series A shares at the Helsinki Stock Exchange.

The purpose underlying the transfer of domicile is to implement Elcoteq's globalization strategy and to create an effective structural basis to ensure the continuous improvement of the company's competitiveness.

The Transfer Proposal, a Report and proposed new Articles of Association can be found at the company's website.

Annual General Meeting

The Annual General Meeting (AGM) of Elcoteq SE will be held on Thursday, March 22, 2007 at 2.00 pm (EET), in the Ballroom of Scandic Hotel Continental, address: Mannerheimintie 46, Helsinki, Finland.

Shareholders who have registered themselves in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd. on March 12, 2007 may attend the Annual General Meeting.

Shareholders wishing to attend the AGM are requested to notify the company no later than at 4.00 pm (EET) on March 16, 2007 either:

- on the company's website at www.elcoteq.com
- in writing to Elcoteq SE, Ms Minna Cederberg, P.O. Box 8, FI-02631 Espoo, Finland
- by fax on +358 10 413 1804/Minna Cederberg, or
- by telephone on +358 10 413 2081 between 9.00 and 11.00 am and 1.00 and 4.00 pm (EET)/Ms Minna Cederberg.

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

Additional information on the Annual General Meeting can be found on the company's website at www.elcoteq.com.

Dividend Proposal

The Board proposes to the Annual General Meeting that a dividend of 0.20 euros per share be distributed on the financial year 2006. The dividend approved by the AGM will be paid to shareholders registered in the Elcoteq shareholder register maintained by the Finnish Central Securities Depository Ltd. on the record date.

Dividend Payment in 2007

Annual General Meeting March 22
The dividend record date March 27
The dividend payment date April 3

Contact Information

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