ELCOTEQ

Annual Report 2002

The year 2002

Net sales in 2002 totaled MEUR 1,840.2 (MEUR 1,862.5). The operating profit improved considerably compared to 2001 and was MEUR 25.5 (MEUR -18.4). Earnings per share amounted to EUR 0.54 (EUR -1.08) and cash flow was MEUR 77 positive (MEUR 123). Under the company's refined strategy, Elcoteq focuses on communications technology customers and products. Our goal is to be the world's best EMS provider in communications technology.

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Annual General Meeting and dividends

Annual General Meeting

The Annual General Meeting of Elcoteq Network Corporation shareholders will be held on Wednesday March 26, 2003, commencing at 2.00 p.m. (EET), in the Ball Room of the Scandic Hotel Continental, Mannerheimintie 46-48, Helsinki, Finland.

Shareholders who have registered themselves in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd on March 14, 2003 may attend the Annual General Meeting.

Registration

Shareholders wishing to attend the AGM are requested to notify the company no later than 4.00 p.m. (EET) on March 21, 2003 by telephone on +358 10 413 1827/Ms Riia Johansson, by telefax on +358 10 413 1804, by e-mail to riia.johansson@elcoteq.com, or in writing to Elcoteq Network Corporation, Ms Riia Johansson, P.O. Box 8, FIN-02631 Espoo, Finland. 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, telephone number and date of birth.

Dividends

The Board proposes to the Annual General Meeting that a dividend of EUR 0.40 be distributed on the financial year 2002. 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 record date March 31, 2003.
Dividend payment date April 7, 2003.

Dividend policy

Elcoteq's dividend policy is based on the assumption that in the company's rapidly developing markets shareholders are likely to gain a higher return on their investments if the Group invests its profits primarily in developing its business.

Elcoteq in brief

Elcoteq Network Corporation is an electronics manufacturing services (EMS) company focusing on communications technology products and customers. Elcoteq provides global design, NPI (New Product Introduction), manufacturing, supply chain management and after-sales services for the whole lifecycle of its customers' products. Elcoteq ranks among the world's leading EMS providers and is clearly the largest European company in its field.

Elcoteq's net sales in 2002 totaled MEUR 1,840.2 (MEUR 1,862.5). The Group operates in 12 countries on three continents with more than 10,000 employees. In 2002 its largest geographical area was Europe, where sales accounted for approximately 70% of Elcoteq's total sales. Asia-Pacific contributed approximately 26% and Americas 4% to total net sales. The Group acquired two manufacturing plants in China at the close of 2002 which will substantially increase the proportion of total net sales derived from Asia-Pacific from the beginning of 2003.

Focus on communications technology

Under its strategy Elcoteq concentrates on communications technology products and customers. Its main business areas are Terminal Products and Communications Network Equipment.

Terminal Products is Elcoteq's largest business area, accounting for approximately 73% of consolidated net sales in 2002. Its principal product group is mobile phones and their accessories but the product range also includes other terminal devices such as digital receivers and PDAs.

Communications Network Equipment represents approximately 13% of Elcoteq's net sales. Most of this business area's customers are manufacturers of cellular networks, WLANs (Wi-Fi) and broadband networks.

Elcoteq also manufactures various types of electronic control, regulation and measuring equipment as well as electronic modules for automobiles and elevators for several international companies. Roughly half of these industrial electronics products can be classified as communications technology products. The Industrial Electronics business area accounted for 13% of Elcoteq's total net sales in 2002.

Global service offering

Manufacturing services are the foundation of Elcoteq's service range but the company's aim is to continuously increase the proportion of design, NPI, sourcing and after-sales services it provides. Elcoteq's NPI network, which provides most of these added-value services, is global in coverage like the company's network of manufacturing plants. To strengthen its design capabilities in mobile phones the company set up the Elcoteq Design Center in Finland in 2002.

All Elcoteq's volume manufacturing plants are located in low-cost countries: Estonia, Russia, Hungary, China and Mexico. The globally uniform manufacturing processes and operating methods of Elcoteq's plant network enable the company to manufacture customers' products on three continents simultaneously. Elcoteq's policy of global consistency makes transferring products from one plant to another fast and efficient.

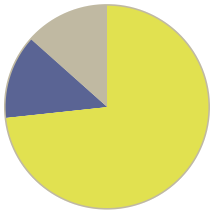
In addition to the volume manufacturing plants, Elcoteq also has capacity in Finland, Germany and Switzerland to produce small and medium-sized series. At the end of 2002 Elcoteq's manufacturing plants had an aggregate floor area of 183,500 square meters.

Key figures

	2002	2001
Net sales, MEUR	1,840.2	1,862.5
Operating profit/loss, MEUR	25.5	-18.4
Profit/loss before taxes, MEUR	18.6	-30.7
Earnings per share (EPS), EUR	0.54	-1.08
Return on investment (ROI/ROCE), %	9.2	-3.5
Solvency ratio, %	36.6	39.6
Gross capital expenditure, MEUR	78.0	45.1
Personnel at year end	10,176	8,350

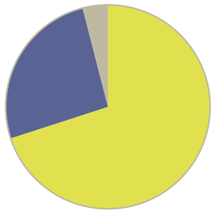
Net sales by business area, %

	2002
Terminal Products	73.3
Communications Network Equipment	13.3
Industrial Electronics	13.4



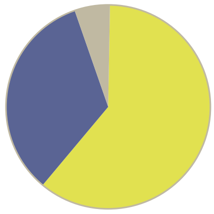
Net sales by geographical area, %

	2002
Europe	69.9
Asia-Pacific	25.6
Americas	4.5



Personnel by geographical area, %

	2002
Europe	60.8
Asia-Pacific	33.6
Americas	5.6



Quarterly figures

INCOME STATEMENT, MEUR	Q4/2002	Q3/2002	Q2/2002	Q1/2002	Q4/2001	Q3/2001	Q2/2001	Q1/2001
Net sales	**556.4**	**456.1**	**425.2**	**402.3**	**531.6**	**427.7**	**433.3**	**469.9**
Changes in stock of work in progress and finished goods	5.7	8.7	-6.7	3.5	-14.7	1.4	-3.0	6.0
Other income from operations	1.5	0.8	0.5	1.1	4.4	3.9	7.7	11.4
Operating expenses	-532.9	-441.1	-405.9	-400.7	-503.8	-424.3	-437.3	-472.5
Restructuring costs	-	-	-	-	-	-11.8	-	-
Depreciation	-12.6	-11.9	-11.9	-12.6	-12.7	-12.9	-11.6	-11.2
Operating profit/loss	**18.1**	**12.7**	**1.2**	**-6.5**	**4.9**	**-16.1**	**-10.8**	**3.6**
% of net sales	3.3	2.8	0.3	-1.6	0.9	-3.8	-2.5	0.7
Financial income and expenses	-0.8	-2.0	-2.5	-1.6	-2.0	-3.1	-2.9	-4.3
Profit/loss before extraordinary items and taxes	**17.3**	**10.7**	**-1.3**	**-8.1**	**2.9**	**-19.1**	**-13.8**	**-0.7**
Income taxes	3.0	-2.9	-0.7	0.5	-2.3	2.6	1.2	-1.3
Minority interest	-0.7	-1.4	-0.4	0.0	-0.4	-0.5	-0.5	0.0
Net profit/loss	**19.6**	**6.4**	**-2.4**	**-7.6**	**0.1**	**-17.0**	**-13.1**	**-2.0**
BALANCE SHEET, MEUR								
ASSETS								
Fixed assets								
Intangible assets	45.8	33.0	22.9	23.9	25.2	24.8	24.3	13.0
Tangible assets	147.6	127.4	132.5	145.6	153.1	154.3	164.9	175.7
Investments	0.8	0.8	0.9	0.7	0.6	0.6	0.6	0.5
Fixed assets, total	**194.2**	**161.2**	**156.3**	**170.3**	**178.9**	**179.7**	**189.8**	**189.2**
Current assets								
Inventories	197.4	180.4	152.2	169.2	177.8	198.6	253.4	275.1
Long-term receivables	6.9	1.7	5.1	4.3	3.2	6.3	3.6	1.3
Short-term receivables	235.2	176.9	161.2	173.5	214.2	226.5	218.8	346.2
Cash and cash equivalents	76.1	101.7	100.8	75.7	36.4	38.0	27.5	19.2
Current assets, total	**515.6**	**460.7**	**419.3**	**422.8**	**431.7**	**469.4**	**503.3**	**641.8**
ASSETS, TOTAL	**709.8**	**621.9**	**575.6**	**593.1**	**610.7**	**649.1**	**693.1**	**831.1**
SHAREHOLDERS´ EQUITY AND LIABILITIES								
Shareholders´ equity								
Share capital	11.8	11.8	11.8	11.8	11.8	11.8	11.8	9.9
Other shareholders´ equity	235.8	217.7	210.7	216.5	223.9	222.2	242.0	255.2
Shareholders´equity, total	**247.6**	**229.5**	**222.5**	**228.3**	**235.7**	**234.0**	**253.8**	**265.1**
Minority interest	12.2	5.5	6.0	6.3	6.3	5.6	5.5	4.8
Provisions	1.4	3.3	2.0	2.6	3.1	7.2	0.0	0.0
Liabilities								
Long-term liabilities								
Long-term loans	22.6	36.5	37.5	35.4	37.3	48.8	48.7	49.9
Other long-term debt	2.9	1.2	1.3	1.3	1.3	2.0	2.1	2.1
	25.5	**37.7**	**38.8**	**36.7**	**38.6**	**50.9**	**50.8**	**52.0**
Short-term liabilities								
Short-term loans	20.5	34.8	31.4	37.6	39.1	86.4	119.6	210.2
Other short-term debt	402.6	311.1	274.8	281.7	287.8	265.0	263.3	299.0
	423.1	**345.9**	**306.3**	**319.2**	**327.0**	**351.4**	**382.9**	**509.2**
Liabilities, total	**448.6**	**383.6**	**345.1**	**355.9**	**365.6**	**402.3**	**433.8**	**561.2**
SHAREHOLDERS´ EQUITY AND LIABILITIES, TOTAL	**709.8**	**621.9**	**575.6**	**593.1**	**610.7**	**649.1**	**693.1**	**831.1**
Personnel on average during the period	8,734	7,781	7,731	8,020	8,699	9,409	10,352	11,360
Gross capital expenditure, MEUR	51.7	16.7	5.7	3.9	10.3	7.9	8.4	18.5
ROI/ROCE from 12 preceding months, %	9.2	4.4	-3.4	-5.6	-3.5	0.3	8.4	14.6
Earnings per share (EPS), EUR	0.66	0.22	-0.08	-0.26	0.00	-0.58	-0.44	-0.07
Solvency ratio, %	36.6	37.8	39.7	39.6	39.6	36.9	37.4	32.5
NET SALES BY BUSINESS AREA, MEUR								
Terminal Products	423.3	339.3	300.7	285.6	413.6	320.8	341.9	380.6
Communications Network Equipment	67.6	59.5	61.9	54.9	51.6	47.0	34.7	37.6
Industrial Electronics	65.6	57.4	62.6	61.8	66.5	59.9	56.7	51.7
NET SALES BY GEOGRAPHICAL AREA, MEUR								
Europe	349.9	272.0	238.2	196.8	221.1	146.7	178.8	244.7
Asia-Pacific	129.5	115.3	104.5	121.3	214.9	174.5	136.8	122.2
Americas	20.1	15.5	21.3	26.0	39.1	46.4	55.3	49.8
Industrial Electronics, Europe *	57.0	53.4	61.2	58.2	56.5	60.1	62.4	53.2

*) The figures for Asia-Pacific and Americas include the Industrial Electronics' customers in these geographical areas.

We concentrate on what we do best:

We wish to be the world's best EMS provider in communications technology.

This is how we can best develop our expertise and serve our customers.

Strategy

We focus on communications technology

We wish to be the world's best EMS provider to communications technology customers. We concentrate on terminal products, cellular networks, broadband networks and wireless local area networks. We are at our strongest when manufacturing these products.

We aim for growth

We are targeting strong growth both organically and through acquisitions. We wish to be so competitive that our growth is not dependent on market trends. That way we serve the interests of our shareholders, customers and other stakeholders.

We offer a full service range

We wish to provide a full range of services that fulfills our customers' needs. In particular we are developing design and NPI services, sourcing, and after-sales services to meet demand and the evolving needs of our customers.

We broaden our customer base

We are expanding our customer base by attracting new customers among global, medium-sized and also small start-up companies. This also enables us to assess our own knowhow, balance our operations and spread our risks.

We strengthen our corporate identity

We are actively marketing our services and building a strong corporate identity. We wish to be known as a unique, highly skilled and global EMS provider in communications technology.

Competitive advantages – Elcoteq's 7 C's

Concentration

- Focus on communications technology products: both 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 plant network, standardized machinery, uniform systems and processes to enable superior time-to-market
- 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

Continuous development

- Continuously competitive and unique service offering

Values

- Customer satisfaction
- Committed personnel
- Ethical conduct of business
- Continuous improvement
- Result orientation

Key financial targets

- Continuous growth of EPS
- Return on investment (ROI/ROCE) from preceding 12 months > 20%
- Positive cash flow
- Gearing < 1

Our most important task in 2003 is to continue putting our communications technology strategy into effect. We are seeking strong growth *both organically and through acquisitions. I am convinced that we have now found the right direction and have built a solid platform for growth in the years ahead.*

Chief Executive's review

The year 2002 was a time for building up a new platform for growth at Elcoteq. Our aim was to find an area within the electronics manufacturing services business to focus on in the future and in which we have a good chance of becoming the best in the world.

The timing for renewal of our strategy could not have been better. Elcoteq had just emerged from a period of vigorous growth culminating in a nearly 200% increase in net sales in 2000. Our growth during 2001 slackened, however, and net sales decreased on the previous year by 16%. Elcoteq had to adjust itself to the new situation. Our adjustment measures hit the mark, allowing us to turn our sights on growth and raising profits through our refined strategy.

After carefully assessing growth prospects in various sectors of the EMS market, our competitors' strategies, our own strengths, and the needs of our customers, we resolved to concentrate on communications technology customers and products. It was a natural decision to make: communications technology had long been the strongest of Elcoteq's competencies, and also market research shows that growth will be fastest in this area. We launched our refined strategy in August 2002 and since then we have communicated it throughout the company and actively implemented it in all our units.

In 2002 we built a foundation for the future and defined what we want to achieve. Most of the action outlined in our strategy is still ahead of us but we can already see good results. We set targets at the start of the year that we have already achieved and even exceeded. Although the company's net sales was unchanged compared to the previous year our performance improved markedly. Our target of recording a positive result was achieved exceptionally fast, which I take to be an indication of our organization's abilities. We already reached breakeven point in the second quarter and since then we have been in the black.

During the summer and autumn we took several steps that were crucial to our refined strategy. In the summer we introduced an operating model that focuses on communications technology and supports the implementation of our strategy, while in September the company's top management visited all Elcoteq units to describe the strategy to employees. In August, to broaden our portfolio of services, we acquired 75% of Benefon's R&D capacity and set up the Elcoteq Design Center in Salo, Finland. This addition significantly enhanced Elcoteq's ability to offer its customers top-quality design services in mobile phones.

In December we acquired IBM's 70% holding in the GKI companies, two Chinese EMS providers, which substantially strengthened Elcoteq's presence in China. Elcoteq's annual net sales in China now exceeds EUR 1.1 billion and we have more than 3,300 employees there. The deal also gives Elcoteq access to the Xingwang industrial park in Beijing, enabling us to manage a greater number of projects for both existing and new customers.

One of our main strategic challenges has been concentration on sales and gaining new customers. We have expanded our sales resources and boosted our marketing efforts. Building up a new customer relationship generally takes several months since outsourcing of production calls for considerable trust and is a big decision for the customer. Yet we have already attracted several new customers and we believe that our strong focus on sales will yield further results in the future.

In deciding to give top priority to communications electronics we have also found a new role for our industrial electronics business. In January 2003 we merged this business area with the European operations of our Communications Network Equipment business in order to find synergies in these areas.

Our most important task in 2003 is to continue putting our communications technology strategy into effect. We are seeking strong growth both organically and through acquisitions. We have chosen the financial indicators of most importance to us and we will strive to improve our performance as measured by those indicators. We will also raise internal efficiency by focusing on a number of key issues including our organization, operating practices, leadership and employee remuneration scheme. I am convinced that we have now found the right direction and have built a solid platform for growth in the years ahead.

I thank our customers, suppliers, financiers, shareholders and other partners for their collaboration with us during 2002. My special thanks are due to Elcoteq's employees who have enthusiastically taken up the task of implementing our refined strategy. I bid you all welcome to continue this work with us in 2003!

Espoo, February 2003

Lasse Kurkilahti
President and CEO

The EMS market: Further strong polarization

Where demand for electronics manufacturing services is concerned, the whole of 2002 was a quiet year. Technology Forecasters Inc. (TFI), an American market research company specializing in the EMS business, estimated that the market contracted to USD 92 billion, a decrease of 9% on 2001. Many EMS companies streamlined operations, revised their strategies or adjusted to the changed market conditions in other ways. Nonetheless unusually few acquisitions were seen in this sector, as companies turned their attention away from growth to focus on managing their overcapacity and integration problems and developing their internal processes.

Elcoteq, likewise, completed a far-reaching renewal of its strategy. After long and thorough analysis the company decided to concentrate more strongly on developing its core expertise. In the light of Elcoteq's heavy historical emphasis on communications electronics it was natural for the company to decide to focus in the future specifically on the communications technology segment.

Two roads to broadening the service range

As demand for EMS services shifts from conventional manufacturing and assembly to added-value services EMS companies have sought to expand their service portfolios both horizontally and vertically.

The basic idea behind horizontal integration is to broaden the service range along a chronological axis to include activities that precede and follow the company's core expertise. Examples of the first case, pre-manufacturing, are design and new product introduction (NPI). Post-manufacturing activities include repair and maintenance, for example.

The biggest advantage of horizontal integration is that it gives the company control over the entire lifecycle of the product. This enables it to reduce manufacturing and maintenance costs by selecting the most suitable components and processes for each stage. Elcoteq has been developing its services in this way for years. Under its refined strategy the company is now especially committed to developing added-value services for the pre- and post-manufacturing stages of the value chain. One step in this direction was acquiring R&D capacity, which Elcoteq has integrated into its service portfolio.

Vertical integration, by contrast, is when a company expands its activities to include, for instance, manufacture of the components used in a product. The biggest advantage of this model is that by using its own components the company can reduce the end product's material costs more easily than a competitor that needs to outsource its manufacturing materials.

Elcoteq has confidence in virtual vertical integration based on close collaboration with selected partners. In this way Elcoteq enjoys the advantages of vertical integration while the whole delivery chain finds it easier to respond to changes more flexibly than in the case of other operating models.

Generalists vs. specialists

Elcoteq focuses on communications technology products and customers. Such precise positioning is rare in this business and indeed Elcoteq is the clearest example so far of an EMS specialist.

Generalists, the opposite of the specialists, serve major customers in several segments at once. Of special importance is the generalist's size, and that of its customers.

The value chain in horizontal integration

For specialists, however, it is more important to have a deep knowledge of the customer and understand his needs. It is also important to have product expertise, which companies specializing in a niche segment can develop rapidly. On the other hand where the service portfolio or geographical coverage is concerned, there is little difference between the specialist and generalist. Both need to provide their services close to where their customers are.

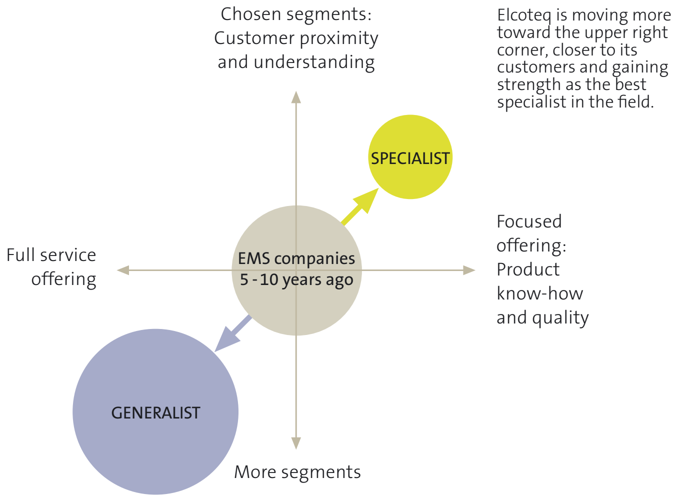
If Elcoteq is the clearest example of a specialist, the characteristics typical of the generalist are especially true of the largest players in the EMS market. These have grown very rapidly in recent years into giant corporations mainly through acquisitions. If the market had continued to grow at its feverish pace the generalists would have achieved an even faster and more deep-reaching polarization than is now in fact the case. The objective of complete horizontal and vertical integration remained a dream owing to the sluggish customer and capital markets in 2001 and 2002. At the same time manufacturing plants bought for a high price lay empty generating enormous restructuring charges and goodwill writedowns for many generalists. The specialists, though, were largely unaffected by these problems because most of their growth was organic rather than through acquisitions and they therefore avoided the problem of overlapping operations. Thanks to its network of globally consistent manufacturing plants in low-cost countries, Elcoteq's adjustment measures and their costs were among the lowest in the entire EMS sector.

Prospects rather bright

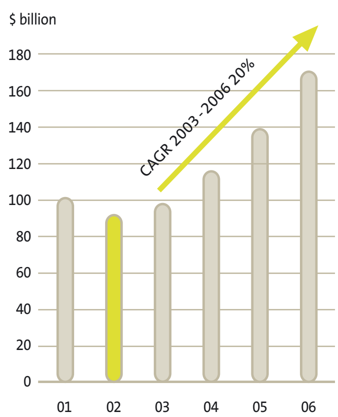
Gentle growth is forecast for the EMS business following two quiet years. TFI predicts 7% growth in demand for EMS services during 2003 to over USD 98 billion whereas annual growth between 2003 and 2006 is expected to reach 20%. In absolute terms growth is forecast to increase most in the wireless and hardwired communications segments.

Geographically, growth in both demand and manufacturing will be highest in Asia, and specifically in China. TFI estimates that the North American share of EMS production will fall by half from 33% in 2001 to 17% in 2006, whereas Asia's share will rise from 29% to 42%. All other geographical areas will more or less keep their existing shares. Elcoteq has positioned itself for growth in Asia. Following the GKI acquisition announced at the end of 2002 Elcoteq has far and away the most manufacturing capacity of its own in China among all the important EMS companies.

Positioning of generalists and specialists



EMS trends 2001-2006



Source: Technology Forecasters Inc., Dec 2002

Geographical areas

Elcoteq reorganized itself around three geographical areas (GA) in July: Europe, Asia-Pacific and Americas. Net sales of GA Europe in 2002 totaled MEUR 1,286.7 (MEUR 1,023.5), which includes the European sales of the Industrial Electronics business area, MEUR 229.8 (MEUR 232.2). Net sales of GA Asia-Pacific was MEUR 470.6 (MEUR 648.4) and net sales of GA Americas was MEUR 82.9 (MEUR 190.6). Europe has for several years been the largest of these areas in terms of net sales although at the beginning of 2003 Asia-Pacific reached approximately the same size as Europe following the acquisition of IBM's GKI holding in China. Americas is the company's smallest geographical area.

For all three areas the main priorities during 2002 were implementation of the refined strategy, introducing the organizational changes this required, broadening the service portfolio, strengthening sales resources and attracting new customers.

Europe stronger than expected

Although Asia, notably China, has for years held out the strongest growth expectations, Elcoteq's GA Europe turned out to be stronger than expected during 2002. Demand for mobile phones recovered markedly in the second half of 2002 and capacity utilization rose further towards the end of the year.

A major event in Europe during the year was the launch of design services for mobile phones in Finland. In August Elcoteq acquired 75% of the R&D capacity of Finnish mobile phone manufacturer Benefon, leading to the establishment of Elcoteq Design Center Oy in Salo. This company provides design services for mobile phones in addition to sourcing and developing the technology required for this purpose. The acquisition also gave Elcoteq certain immaterial rights to mobile phone products which it supplemented later by joining the Symbian Platinum Partnership program. Elcoteq Design Center also has sites in Turku, Finland, and St. Petersburg, Russia, and altogether about 120 employees.

In April Elcoteq and Aspocomp established Imbera, a joint venture in Finland that develops and commercializes IMB (integrated module board) technology.

At the beginning of 2003 GA Europe was divided into two areas; one responsible for terminal products and the other for communications network equipment and industrial electronics. At this point the Industrial Electronics business area was merged with Elcoteq's European Communications Network Equipment. This merger is integral to Elcoteq's strategy as its purpose is to achieve synergetic benefits and improve the company's range of services in Europe. In the long term Elcoteq also expects to generate cost savings in supply chain management, R&D and manufacturing through this reorganization.

Asian presence strengthened

Following a quiet first half to the year activities in Asia became more lively after the summer and production volumes grew steadily to the year end. The highlight of the year in GA Asia-Pacific was Elcoteq's acquisition in December of IBM's 70% holding of the GKI electronics manufacturing services companies in China. This acquisition considerably boosted Elcoteq's presence in China: the company rapidly obtained the extra capacity it needed while also gaining access to the Xingwang industrial park in Beijing. Moreover the acquisition further strengthened Elcoteq's position as a supplier to Nokia, in addition to contributing new Japanese and western customers. It also put GA Asia-Pacific on a par with GA Europe in terms of net sales.

Elcoteq now operates four manufacturing plants in China; two in Beijing in the north of the country, and two in Shenzhen and Dongguan in the south. These plants have an aggregate floor area of over 53,000 square meters, which represents roughly 30% of Elcoteq's total manufacturing space.

Another Asian highlight during 2002 was the inauguration of Elcoteq's NPI Center in Beijing, the company's first such center in Asia-Pacific. A new sales office was set up in Seoul, South Korea, which strengthened the sales resources in Asia. Elcoteq also has sales and technical support centers in Hong Kong, China, and in Tokyo, Japan.

Challenged in Americas

The year 2002 was particularly challenging for Elcoteq's GA Americas. Sales failed to develop as expected and capacity utilization at the Monterrey plant in Mexico remained low all year.

The outlook for 2003, however, is better than last year and GA Americas has prepared for the challenges and opportunities that lie ahead by renewing its organization, strengthening its sales resources and increasing the range of services it offers to its customers. During 2002 Elcoteq established an NPI Center in Monterrey, Mexico, and the same services will be offered in Dallas, USA in spring 2003.

Elcoteq locations

Area and location	Activities and services	Floor space, m²
EUROPE		
Espoo, Finland	Group office, sales and technical support	
Espoo and Lohja, Finland	NPI Center Finland	
Lohja, Finland	Plant	14,000
Vaasa, Finland	Plant, NPI Center	3,200
Salo and Turku, Finland	Elcoteq Design Center	
Kista, Sweden	Sales and technical support	
Tallinn plants, Estonia	Volume plant, NPI Center	31,000
Pécs plants, Hungary	Volume plant	46,000
Überlingen, Germany	NPI Center	5,200
Baden, Switzerland	NPI Center	9,500
St. Petersburg, Russia	Volume plant, NPI Center	2,500
St. Petersburg, Russia	Elcoteq Design Center	
Europe, total		**111,400**
ASIA-PACIFIC		
Beijing plants, China	Volume plant, NPI Center	32,000
Dongguan, China	Volume plant	13,000
Shenzhen, China	Volume plant	8,800
Hong Kong, China	Sales and technical support	
Seoul, South Korea	Sales and technical support	
Tokyo, Japan	Sales and technical support	
Asia-Pacific, total		**53,800**
AMERICAS		
Dallas, USA	Sales and technical support, NPI Center	
Monterrey, Mexico	Volume plant, NPI Center	18,300
Americas, total		**18,300**
TOTAL		**183,500**

We concentrate on communications technology products and customers. *The Group's two main business areas are* *Terminal Products* *and* *Communications Network Equipment.* *Communications technology products account for over 90% of Elcoteq's net sales.*

Terminal Products

The Terminal Products business area manufactures high-volume products that represent the latest advances in wireless communications technology. These products are manufactured at Elcoteq's high-volume plants in Europe, Asia-Pacific and Americas, and most are marketed globally.

The product groups of Terminal Products are mobile phones and accessories, PDAs, smartphones and accessories, wireless modules and home communication products.

Terminal Products' net sales in 2002 totaled MEUR 1,348.9 (MEUR 1,456.9), or roughly 73% (78%) of Elcoteq's total net sales. Net sales are expected to grow significantly during 2003 due to both organic growth and the growth contributed by the acquisition in China in December 2002.

2002 in review

The business area's sales and R&D were focused more strongly on manufacturing and design services for wireless communications products and services. Production volumes were low during the first half of 2002 compared to the same period one year earlier. Demand for mobile phones recovered noticeably in the second half of 2002, however, and this increased capacity load at all manufacturing plants except in Mexico. Most of Terminal Products' sales came from Europe and Asia-Pacific. Sales in Americas did not develop as hoped.

The business area's heavier focus on sales to new customers yielded results. Several new customers were gained including Soutec in China, Tel.Me in Austria and Wavecom in France. An EMS contract signed with Sumitomo signaled Elcoteq's entry into the Japanese market. Elcoteq also obtained new Japanese and western customers on its acquisition of IBM's 70% holding in the GKI companies.

Besides gaining new accounts Elcoteq also deepened cooperation with existing customers. The company's broader design and NPI service offering, and its stronger commitment to communications technology, have reinforced Elcoteq's position as a Nokia supplier, for example.

Full service offering

Terminal Products provides its customers with services covering the entire value chain. In design, NPI and manufacturing services customers are product companies or brand owners. After-sales services are sold also to network operators.

Design services for mobile phones have been part of Elcoteq's service portfolio since August 2002 when the company acquired R&D capacity in Finland. This enabled Elcoteq to set up the Elcoteq Design Center, which offers:

- Complete and partial product design
- Software design, and
- Product verification services.

Customers have welcomed the new services enthusiastically. Three customers signed contracts for Elcoteq's design services during 2002 and negotiations are in constant progress on new products and accounts.

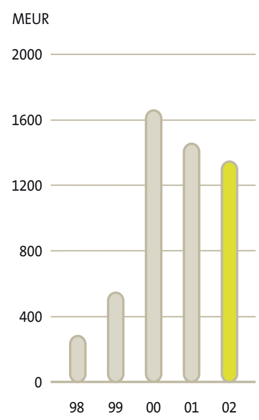
Elcoteq's aim is to participate in its customers' projects right at the product design stage and thus to offer them a competitive and comprehensive portfolio of services from design to after-sales. The earlier Elcoteq is involved in a project, the more likely the company will also be contracted to manufacture the product as well.

Prospects in 2003

The mobile phone market is forecast to grow by some 10% during 2003. At the same time mobile phones are becoming increasingly complex and this is raising demand for electronics manufacturing services.

Elcoteq's EMS contracts portfolio gives the Terminal Products business area a solid platform for growing significantly faster than the market in general. Elcoteq is currently the world's second largest EMS company in the mobile phones segment and our aim in 2003 is to reinforce this position further.

Terminal Products
Net sales in 1998-2002



Communications Network Equipment

Customers of the Communications Network Equipment business area are manufacturers of cellular networks, WLANs (Wi-Fi) and broadband networks. Elcoteq's manufacturing services for these customers cover base station and base station controller modules, plug-in units for mobile base stations, tower top amplifiers, base station antennas, and broadband access multiplexers.

Growth in market share

At the beginning of 2002 Elcoteq estimated that its Communications Network Equipment business area would grow faster than the whole communications technology sector during the year. The business area's net sales in 2002 increased by over 40% on 2001 to MEUR 243.9 (170.9), which represented roughly 13% (9%) of Elcoteq's consolidated net sales.

The increase in net sales clearly indicates that Elcoteq is capable of meeting customers' continuously growing needs and therefore of increasing its presence in this challenging and extremely competitive market. Most of the increase in net sales came from the business area's main customers, Ericsson and Nokia, clear proof that Elcoteq's decision to concentrate on communications technology has increased internal efficiency and raised customer satisfaction with the company.

The business area's existing and potential customers can be divided into two categories. The first includes original equipment manufacturers (OEM), and the other comprises suppliers of subsystems for the OEMs.

The business area's largest customers are Ericsson and Nokia with other customers including Allgon, Andrew Corporation, Guangzhou Thinker and LGP. Elcoteq announced the start of co-operation with the latter two during 2002.

Broadening service range

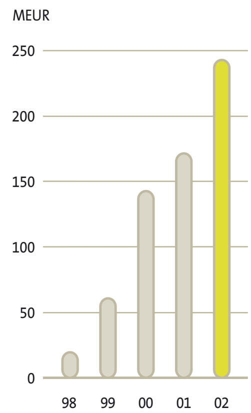
Elcoteq placed special priority during the year on investments aimed at developing and broadening its range of pre-manufacturing and after-sales services. These services are also assuming increasing importance in the Communications Network Equipment business area. In 2002 pre-manufacturing and after-sales services accounted for only 5% of the business area's sales, but this share is expected to increase.

Prospects in 2003

Forecasting trends in the communications network market continues to be difficult. The most important factor affecting demand is the volume of investments by teleoperators. The need for maintenance and upgrading investments is growing all the time but the final go-ahead for investment decisions will depend on the financial condition and investment capabilities of the operators.

Both wireless and hardwired communications are growing and this will manifest itself in investments in communications infrastructure. By focusing on communications technology customers and products, by expanding its service portfolio and by boosting its sales efforts, Elcoteq believes that its Communications Network Equipment business area will win further market share during 2003 and, for the third year running, will grow faster than the average in this sector.

Communications Network Equipment Net sales in 1998-2002



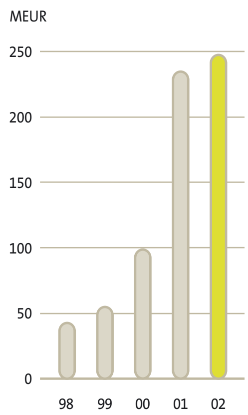
Industrial Electronics

In 2002 net sales of Elcoteq's Industrial Electronics business area totaled MEUR 247.4 (MEUR 234.8), or approximately 13% (13%) of the Group's total net sales. The business area's largest customers were ABB, Kone, Philips, Vaisala, Viterra and Techem, for whom Elcoteq manufactures various electronic control, measuring and regulation equipment. Traditional industrial electronics products typically have short production series but long lifecycles, often spanning ten to twenty years. Also typical of Elcoteq's Industrial Electronics business is its strong European focus: more than 95% of the business area's customers are in Europe, which is also where most of these products are manufactured.

Elcoteq's strategy calls for concentration on communications technology. Roughly half of the industrial electronics products manufactured by Elcoteq can be considered communications technology products. Both groups have several features in common such as similar production series, product complexity and a large amount of mechanical assembly.

In order to gain maximum advantage from the synergies between these two product groups, Elcoteq merged its Industrial Electronics business area with the European operations of the Communications Network Equipment business area at the beginning of 2003.

Industrial Electronics
Net sales in 1998-2002



Human resources

Management of human resources in Elcoteq during 2002 placed special emphasis on allocating the right resources to the new organization, on carrying out a personnel survey and on developing the company's employee remuneration and incentive schemes.

The largest recruitment needs were felt in sales and R&D. The number of employees in production operations began to grow again in the fall of 2002 after the personnel cuts earlier in the year. The Group's total number of personnel was at its lowest in August, when there were approximately 7,600 employees. Personnel totaled 10,176 at the end of 2002. The acquisition in China in December added about 1,600 new employees to the Group.

Personnel survey

After a break of two years a new personnel survey was conducted throughout the company in spring 2002. Its purpose was to establish employees' opinions and experience of the working atmosphere in the company, its management and Elcoteq's image as an employer, and also to map the company's strengths and weaknesses. More than 70% of employees replied to the survey, which was carried out in all Elcoteq units in their local language.

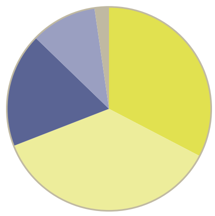
Elcoteq's strengths, the survey showed, included the company's ability to adjust to changing conditions and its operational efficiency. Employees also considered that Elcoteq's external image as an employer was positive. As to areas requiring further development, employees highlighted management in general and relations with supervisors. Based on the survey's results Elcoteq chose two global areas of development: leadership skills, and the need to build up a corporate culture that treats all employees fairly and encourages active participation. The personnel survey will from now on be performed annually.

Rewarding employees

Special attention was given during 2002 to creating a motivating remuneration system based on incentives. In developing the new remuneration system the main guideline was to ensure both the system's internal fairness and external competitiveness. Elcoteq's new incentive scheme gives greater emphasis than before to individual, team and business unit performance, which it also integrates more effectively into the Group's common strategic and business objectives.

Age distribution

AGE	2002
< 25	3,323
25 - 34	3,707
35 - 44	1,848
45 - 54	1,066
> 54	232
Total	10,176



A learning organization and competence development

The premise underlying Elcoteq's refined strategy, and a condition for its successful implementation, is a learning organization. Typical of such an organization is an atmosphere that encourages continuous learning and personal development. Continuous improvement of working methods is a natural part of everyone's working day.

Personal development at all levels in the organization is based on the company's strategy and business needs. Here, the aim is to ensure that the competences essential to the company's operations exist, are located in the right places and are continuously enhanced. In 2002 Elcoteq focused on the development of supervisor and sales skills. This activity, along with development of other competence areas important to Elcoteq globally, will be continued during 2003.

A new organization

Elcoteq adopted a new organization in July 2002 supporting implementation of the refined strategy. The company's operations were organized along both geographical lines (Europe, Asia-Pacific and Americas) and business area lines. These are supported by Group functions, design, NPI, Operations, Demand & Supply Chain Management, and Sourcing.

This model was further developed and at the beginning of 2003 GA Europe was split into two areas: one responsible for Elcoteq's terminal products business in Europe, and the other for communications network equipment and industrial electronics. The organizational structure and responsibilities are described in more detail on page 53.

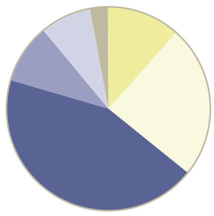
The geographical division was also replicated in human resources management with the aim of making communication between the geographical areas more efficient, sharing best personnel management practices within the company, and increasing multicultural collaboration in decisions concerning personnel.

Challenges in 2003

As the company continues to expand, the main challenges for human resources management will be competence development and creating a uniform Elcoteq culture that supports implementation of the refined strategy.

Levels of education

	2002
No grade school	4
Grade school (comprehensive school)	1,174
High school	2,466
Vocational education	4,448
Professional degree	962
Lower (university) degree	827
Higher (university) degree	283
Doctoral degree	12
Total	10,176



Corporate social responsibility

Elcoteq started work on defining a corporate social responsibility policy during 2002. This policy, based on the company's values, defines Elcoteq's responsibilities with respect to its own employees and social environment. In 2003 Elcoteq will begin systematic collation of the information necessary for producing a corporate social responsibility report, with the aim of publishing the first report in 2004.

Environmental policy

Elcoteq's environmental policy commits the company to environmental responsibility in all its activities. The company recognizes its responsibility for the environmental impacts of the products it manufactures throughout their lifecycle. Since Elcoteq operates as an integral part of its customers' value chain, the most significant requirements related to the environmental impact of Elcoteq's activities come directly from customers.

Environmental co-operation

Elcoteq is involved with universities, research institutions and other companies in the fields of electrical engineering and electronics in a number of research and development projects aimed at protecting the environment. The company has played an active role in the GreenPack R&D development, started in 2000. The purpose of this project is to develop methods and tools for managing environmental information on products and to promote networking among companies.

Elcoteq also collaborates closely with stakeholders at a local level. In Lohja, Finland, for instance, Elcoteq has for a number of years worked alongside the city of Lohja and other companies and associations in the area in an "environmental cluster" focusing on local environmental matters.

Development projects

In 2002 Elcoteq made preparations in anticipation of the forthcoming EU environmental directives. Particular focus was given to the management of information on component materials and process chemicals and to managing environmentally hazardous substances. This work will continue during 2003.

An example of Elcoteq's long-term commitment to developing environmentally friendly production technology is the company's ongoing work related to lead-free soldering. In 2002 Elcoteq gave special emphasis to developing the equipment, processes and materials necessary for lead-free soldering and to issues related to product reliability. As a result of this project, which involved several Elcoteq plants, the company is now able to offer its customers lead-free soldering.

Environmental management systems and ISO 14001 certificates

All Elcoteq's manufacturing plants have ISO 14001 environmental certification. Elcoteq's Beijing plant built in 2000 gained this certificate in summer 2002. The plant is located in an industrial park that hosts approximately 1,080 companies. Of these companies, 14 have ISO 14001 certification.

Elcoteq's Group functions and the NPI Center Finland were certified in the fall of 2002.

Environmental protection at the plants

Elcoteq's plants performed in line with the company's global environmental policy during the year. Reports submitted by the units disclosed the occurrence of two small accidents during 2002. In the Dongguan plant in China, personnel were evacuated from the production area after a furnace overheated causing smoke. At the Lohja plant in Finland, the electrical switchgear caught fire. The fire was rapidly extinguished by one of the plant's employees. These accidents caused no damage to people or the environment.

Elcoteq's plants are independently responsible for environmental management of their operations in accordance with their own environmental programs. Central areas of priority are waste handling, packaging, energy consumption, and the safe and economical handling of materials and substances used in production processes. In order to unify waste handling procedures throughout the company Elcoteq drew up global waste handling guidelines in 2002 applying to all its plants.

Monitoring and reporting

Elcoteq monitors 25 environmental parameters on a quarterly basis. These are used to calculate environmental indicators for measuring and evaluating the company's management of environmental matters, the consumption of natural materials, waste handling and the development of indirect environmental impacts. Elcoteq has been building up a database with this information since 2001 in order to help the plants set environmental targets by providing comparable information on the environmental performance of other Elcoteq plants.

Environmental management in the supply chain

In the electronics industry managing environmental impacts requires the active involvement of all parties in the value chain throughout the lifecycle of the products. Elcoteq has made environmental management an integral part of its co-operation with its suppliers. In 2002 development of environmental management focused particularly on transportation and its environmental impact. Elcoteq's aim is to create a systematic method of assessing the environmental impacts of different transport modes and routes.

More detailed information on Elcoteq's management of environmental issues and its environmental performance will be posted on the company's website at www.elcoteq.com.

Quality management

Elcoteq's quality policy and corporate values commit the company to continuously improving its operating procedures, processes and systems, thereby enhancing its competitiveness and that of its customers. In this way the company is best able to create added value for its customers and other stakeholders. Quality is integral to Elcoteq's entire organization and all its processes: each business unit, department and individual is responsible for the quality of their work and its improvement.

Continuous improvement

Elcoteq globally assesses improvements in the performance of its manufacturing plants using standard benchmarking methods and measurements. These assessments compare the company's management practices and business performance against world-class best practices and performance. Carried out since 2000, these assessments, coupled with feedback gained directly from customers, show that significant and measurable improvements had been achieved in Elcoteq's operations globally in each of the years 2000-2002.

Sharing of best practices and their implementation worldwide is a central element in Elcoteq's policy of continuous improvement as this helps the company maintain globally uniform and efficient practices. The company also plans to link recognition for best practices and their implementation to its personnel incentive schemes.

Six Sigma

Six Sigma is a method used by Elcoteq to optimize its processes and working methods in order to minimize the occurrence of errors or defects. The goal is to ensure that the company's processes and services are efficient and first-class, and that they fulfill customers' needs.

Training of Six Sigma experts continued in Europe, Asia-Pacific and Americas during 2002. These experts lead projects and help the organization to measure and analyze the right parameters in the right way and achieve permanent improvements in working methods and performance.

Six Sigma implementation will continue with training at Group level and strengthening of the network of Six Sigma experts in the manufacturing plants and NPI Centers. The Six Sigma approach will also be introduced in the activities of the Elcoteq Design Center in order to ensure the compatibility of product design, material selection and manufacturing processes.

Quality systems

Elcoteq's global policies, operating principles and business processes are set out in the Elcoteq Manual. The systems employed at all Elcoteq sites are required to comply with the Manual's instructions and to have ISO 9001:2000 certification. All the company's manufacturing plants had ISO 9000 certification at the end of 2002. Two plants also have QS 9000 certified management systems required by customers in the automobile industry. These systems will be upgraded and certified to the automobile industry's TS-16949 standard during 2003.

In 2002 Elcoteq's management system for Group organization received ISO 9001:2000 certification and the Monterrey plant's data security system was certified according to the BS 7799 standard.

Elcoteq plans to integrate the management systems of its manufacturing plants and Group functions so that all its operations are covered by common ISO 9001:2000 and ISO 14001 certificates. To do this, the company will build the management and information systems required to ensure global implementation of the improvement measures necessary.

Quality awards

In 2001 and 2002 Elcoteq held internal quality competitions to encourage all its units to develop their systems and processes to world-class levels. The competition is based on the criteria of the European Foundation of Quality Management. The winner of the 2001 award was the Monterrey plant in Mexico. In 2002 the award was given to the Dongguan plant in China.

Besides the internal quality competition Elcoteq's plants also enter national quality competitions. In 2002 the company's Tallinn plant won Estonia's first quality award.

Report by the Board of Directors January 1 - December 31, 2002

Elcoteq reached its main targets in 2002 despite the challenging business environment. The company's position strengthened in selected market segments as business developed positively with existing customers, and also because of new customers, and Elcoteq's performance once again became profitable. All in all the result for the financial year 2002 was the second best in the company's history and surpassed only by its result in 2000.

The year was the second in a row of virtually zero growth in the terminal products market. The communications network equipment market, in contrast, contracted by roughly one fifth compared to the previous year's volume. The electronics manufacturing services market also declined in 2002 for the first time in many years. Elcoteq's success in maintaining the previous year's level of net sales in such business conditions can be considered a good achievement. The lack of growth, however, meant that the company's capacity utilization remained low on average in 2002. Only about one-third of Elcoteq's capacity was in use during the first half of the year but the situation improved substantially during the third and fourth quarters due to the impact of the strong emphasis on sales and the seasonal fluctuations typical of the EMS business. During the fourth quarter roughly half of Elcoteq's capacity was in use.

As capacity utilization was low in the electronics business in general and also in Elcoteq's customers' manufacturing plants, outsourcing of production decreased temporarily. However, the need for outsourcing is likely to start growing again as manufacturers of electronics products seek to ensure that their invested capital is used efficiently in similar market conditions in the future and focus on their own core businesses such as product development and marketing.

Fourth-quarter result

Demand strengthened considerably during the fourth quarter compared to the previous quarters in 2002 as a result of normal seasonal variation. Net sales in the final quarter totaled MEUR 556.4 (MEUR 531.6), an increase of 22% on third-quarter net sales of MEUR 456.1. The operating profit in the final quarter was MEUR 18.1 (Q3/2002 MEUR 12.7 and Q4/2001 MEUR 4.9) and the pretax profit was MEUR 17.3 (MEUR 2.9). The sale of the manufacturing plant in Poland contributed a capital gain of approximately MEUR 1 to the operating profit.

Clear improvement in performance in 2002

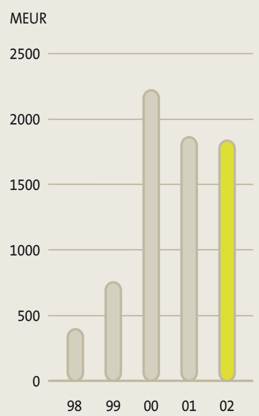
Elcoteq's net sales in 2002 remained at the previous year's level totaling MEUR 1,840.2 (MEUR 1,862.5). The full-year operating profit was MEUR 25.5 (MEUR -18.4). The pretax profit was MEUR 18.6 (MEUR -30.7) and the profit after taxes and minority interests was MEUR 16.1 (MEUR -32.0). EPS (earnings per share) was EUR 0.54 (EUR -1.08).

The principal reason behind the significant improvement in performance was greater business process efficiency. When comparing 2002 and 2001 it should be remembered that the 2001 accounts contained non-recurring expenses totaling MEUR 18.8, of which MEUR 11.8 were related to Elcoteq's adjustment program. On the other hand the 2001 accounts also included non-recurring other operating income of MEUR 27, mainly from reimbursements for materials and reserved but unused capacity. The net impact of non-recurring items in the 2002 accounts is minor and in practice neutral. The official figures show a MEUR 43.9 improvement in the operating profit but the improvement before non-recurring items was in fact even larger.

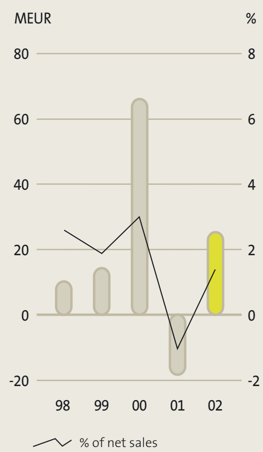
Income tax in 2002 was reduced by deferred tax assets entered by the parent company after it was awarded during the fourth quarter the right to a tax deduction on writedowns on investments in its US subsidiary in the 2000 and 2001 accounts. These writedowns amounted to MEUR 24.4, and the resulting tax deduction, charged to the income statement in 2002, was approximately MEUR 7.1 positive.

Elcoteq's solvency ratio at the close of the period was 36.6% (39.6%) and gearing was -0.1 (0.2). Elcoteq's year-end balance sheet total was MEUR 709.8 (MEUR 610.7).

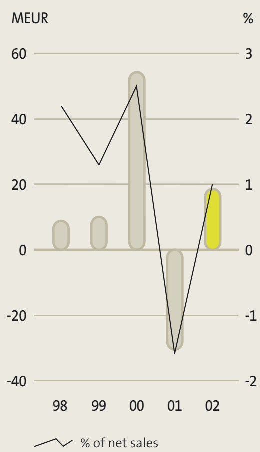
Net sales



Operating profit/loss



Profit/loss before taxes



Capital expenditure

Gross capital expenditure on fixed assets amounted to 4.2% of net sales, or MEUR 78.0 (MEUR 45.1) and depreciation was MEUR 49.2 (MEUR 48.4). The largest items were the acquisition of Benefon's R&D capacity for MEUR 11 and IBM's 70% holding in the Chinese GKI joint venture companies for MUSD 37.3; the former figure included goodwill totaling MEUR 7.4 and the latter goodwill of MEUR 18.1.

In December Elcoteq acquired IBM's 70% holding in the Chinese EMS companies Shenzhen GKI Electronics Company Limited and Beijing GKI Electronics Co, Ltd. The deal was closed on the last day of 2002. The balance sheets of both GKI companies were consolidated in Elcoteq's accounts at December 31, 2002 but they had no impact on Elcoteq's 2002 result. The transaction price was paid at the beginning of 2003 and therefore the deal had no impact on Elcoteq's cash flow in 2002 either. The unpaid acquisition price on December 31, 2002 was entered under accrued expenses in the balance sheet.

Consolidation of the GKI companies' balance sheets increased Elcoteq's balance sheet total by approximately MEUR 120 and weakened the solvency ratio by about 7 percentage points compared to what these figures would have been if the acquisition had not taken place.

Financing

The Group's liquidity remained strong throughout the financial year. Interest-bearing net debt at the end of December amounted to MEUR -33.4 (MEUR 39.4) and the company had MEUR 167.1 (MEUR 157.8) in unused credit lines. Net financial expenses decreased considerably on the previous year, the main reason being that working capital was lower on average than in the previous year which made it possible to reduce interest-bearing debt. Lower interest rates also reduced financial expenses.

The company's cash flow after investing activities was positive, MEUR 77 (MEUR 123). The positive cash flow was due to the release of working capital through more efficient business processes and the sale of accounts receivable. The sale of accounts receivable contributed MEUR 40.2 to cash flow. These sold accounts receivable are not included under accounts receivable in the consolidated balance sheet. The company may sell its accounts receivable within the sales limits set by its securitization and other arrangements. The sold receivables contain no credit risks.

Personnel

Elcoteq's total workforce increased by 1,826 employees during 2002 as a result of improved sales at the end of the year and the effect of acquisitions. The largest increases took place in Hungary and China, where the GKI acquisitions that took effect on the last day of the year raised the number of Elcoteq employees in China by 1,618. At the end of December 2002 the Group had altogether 10,176 (8,350) employees: 1,021 (964) in Finland and 9,155 (7,386) in other countries. The average number of employees during 2002 was 8,127 (9,960).

Organization

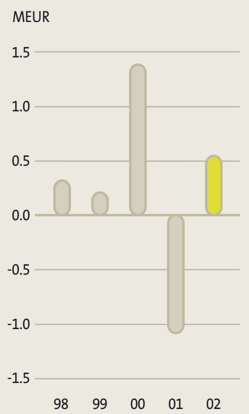
Elcoteq adopted a new operating model during the year under which its operations are divided into three geographical areas – Europe, Asia-Pacific, Americas – and two business areas, Terminal Products and Communications Network Equipment. At the same time the Industrial Electronics business was given a more independent role and was treated as a geographical area. At the beginning of 2003 this model was further modified and GA Europe was divided into two areas: one responsible for terminal products and the other for communications network equipment and industrial electronics. At this point the Industrial Electronics business area was merged with Elcoteq's European Communications Network Equipment to achieve synergies.

Geographical areas (GA)

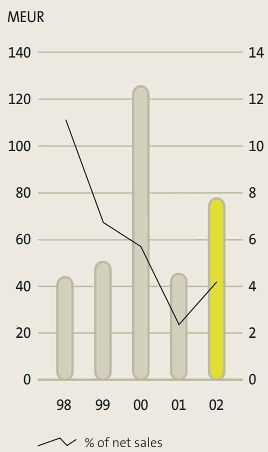
GA Europe's net sales in 2002 totaled MEUR 1,286.7 (MEUR 1,023.5). This figure includes the 2002 net sales of Industrial Electronics which was MEUR 229.8 (MEUR 232.2). GA Asia-Pacific's net sales were MEUR 470.6 (MEUR 648.4) and the Americas' MEUR 82.9 (MEUR 190.6).

Europe has always been Elcoteq's largest geographical area but the acquisition of the GKI holdings in China at the end of 2002 will increase Elcoteq's net sales by roughly one-third, at the same time raising GA Asia-Pacific's net sales to

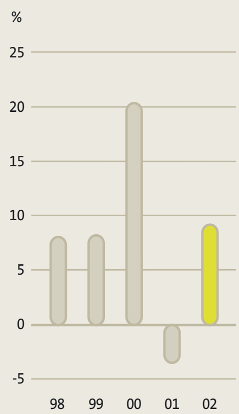
Earnings per share (EPS)



Capital expenditure



Return on investment (ROI/ROCE)



more than Europe's. In the Americas Elcoteq has so far not managed to develop its business volume in line with targets.

Business area performance

Net sales of the Terminal Products business area, which produces mainly mobile phones and their accessories, represented 73% (78%) of Elcoteq's total net sales in 2002, or MEUR 1,348.9 (MEUR 1,456.9). Most of this figure came from the manufacturing plants in Europe but China's contribution grew towards the end of the year.

In its communications network equipment business Elcoteq grew clearly faster than on average in this sector during 2002. The previous year's one-fifth growth now reached 40% and net sales amounted to MEUR 243.9 (MEUR 170.9), or 13% (9%) of Elcoteq's total net sales. New customer agreements were one factor in this growth; more than anything, however, the improvement was the result of higher competitive efficiency and a service portfolio that matched customers' needs.

Industrial Electronics is reported as a separate business for the last time in these financial statements. The business was combined with Communications Network Equipment's European operations at the beginning of 2003. Industrial Electronics' net sales in 2002 totaled MEUR 247.4 (MEUR 234.8), or 13% (13%) of consolidated net sales.

Elcoteq's largest customers in 2002 were companies within the Ericsson and Nokia groups and accounted for 83% (85%) of Elcoteq's total net sales. This figure does not include business activities with Sony Ericsson. Agreements were signed during the year with several new customers including Wavecom in France, Soutec in China and LGP in Sweden. Since, with the exception of the GKI acquisitions, these agreements did not include the purchase of any customer production plants, the new agreements typically involved rather small volumes, which is why the impact of Elcoteq's expanded customer base was still not significant in the company's 2002 financial statements.

Refined strategy concentrates on the essential

In 2002 Elcoteq built a foundation for returning to growth and increased profitability. Special emphasis was given to creating a clear strategy, to increasing sales and sales resources, and to improving the company's service offering.

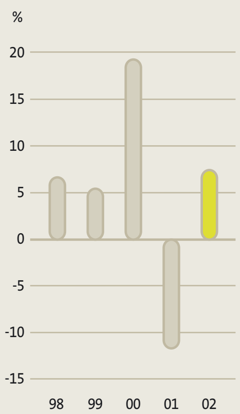
At the end of July the company's Board of Directors approved the new policies resulting from the strategy reformulation process that had taken the entire first half of the year. The overriding conclusion was the need to concentrate on serving manufacturers of communications technology products and to make Elcoteq the leading EMS provider in this sector. Underlying the decision to focus on a strictly limited group of customers and products was the idea that only through specialization could the company create a service portfolio that was both sufficiently comprehensive and able to meet its customers' needs while enabling Elcoteq to continuously enhance its competitiveness. This strategy is also well founded, given Elcoteq's position as one of the world's largest EMS providers in communications technology, and especially the expertise it has amassed in wireless communications.

Elcoteq's strategy clearly differentiates the company from other EMS providers. Concentration on one product and customer segment enables Elcoteq to develop its competitive knowhow and services. To exploit the opportunities offered by the global markets, however, the company will need to continue to build an even more international base for its business, as in this way it will also best be able to safeguard its competitiveness and independence.

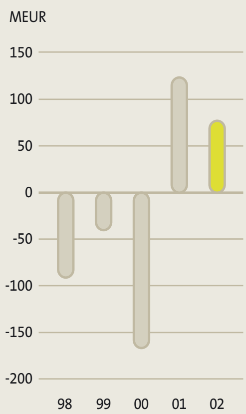
Elcoteq's new strategic direction did not go unnoticed by the markets. The number of inquiries and requests for offer from customers was considerably higher in 2002 than in previous years. The company was also offered many opportunities for participation in wider-reaching restructuring. The company made progress on both fronts. Elcoteq announced several new accounts during 2002. In August 2002 Elcoteq announced its purchase of 75% of Benefon's R&D capacity and set up the Elcoteq Design Center in Salo, Finland. In December the company secured the GKI deal in China with IBM. These examples demonstrate the company's desire and ability to move decisively in all areas of importance to its new strategy.

Elcoteq has strengths related to its expertise, way of operating, the global consistency of its manufacturing capacity, and cost efficiency on which it is able to build a

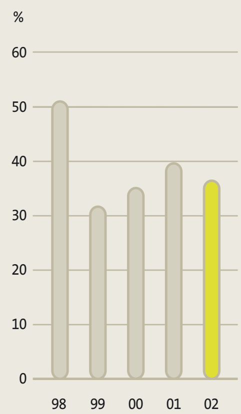
Return on equity (ROE)



Cash flow after investing activities



Solvency ratio



competitive range of services. The company's aim is to offer communications technology customers the world's best EMS services from product design, through manufacturing, to after-sales services. The Elcoteq Design Center provides design services for mobile phones and sources the necessary technology. Through this unit Elcoteq has expanded its service range to cover the entire value chain related to mobile phone manufacture.

NPI (new product introduction) services, sourcing, and repair all have special development priority at Elcoteq in addition to product design services. In its R&D activities, Elcoteq continues to be actively involved in national and international research projects. In April 2002 Elcoteq and Aspocomp Group Oyj established a joint venture called Imbera Electronics Oy to develop and commercialize IMB (Integrated Module Board) technology. The ownership of the company is split evenly between Elcoteq and Aspocomp.

The Annual General Meeting

Elcoteq's Annual General Meeting was held on March 20, 2002. The meeting authorized the Board for one year to float one or several convertible bond loans and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue. This authorization permits the subscription of at most 5,898,330 new Series A shares. The authorization has not been exercised.

The Board of Directors and President

The Annual General Meeting elected six individuals to the Board of Directors: President Martti Ahtisaari; Mr Heikki Horstia, Vice President, Treasurer of Wärtsilä Corporation; Mr Eero Kasanen, Rector of the Helsinki School of Economics and Business Administration; Mr Henry Sjöman, Senior Vice President, Elcoteq Network Corporation; Mr Juha Toivola, MSc; and Mr Jorma Vanhanen, Senior Vice President, Elcoteq Network Corporation. The Board members serve until the close of the subsequent annual general meeting.

The Board elected Juha Toivola as the Chairman and Martti Ahtisaari as the Deputy Chairman.

Elcoteq's President and CEO was Mr Lasse Kurkilahti throughout the financial year.

Shares and shareholders

The company had altogether 29,491,652 shares at the end of 2002: 18,914,652 Series A shares and 10,577,000 Series K shares.

According to the share register on December 31, 2002 the company had 12,295 registered shareholders. There were altogether 5,865,528 nominee-registered or foreign-registered shareholders representing 19.9% of the shares and 4.7% of the total voting power at general meetings.

The auditors

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

Prospects

The uncertainty in the global economy at the beginning of 2003 seems likely to continue. The mobile phone market, however, is expected to grow roughly 10% on 2002. As the ability of mobile phones to process and transfer pictures and other data in addition to voice messages grows, the need to enhance the capabilities of communications networks is increasingly near at hand. It is difficult to estimate, however, whether this will lead to the start of major network investments during 2003.

Elcoteq's principal goals in 2003 are to increase sales, to gain new customers, and to improve internal efficiency. Elcoteq will also actively pursue a policy of acquisitions in line with its strategy.

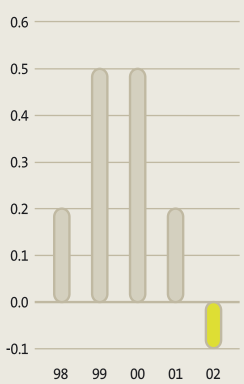
Based on acquisitions already made, and the company's organic growth, Elcoteq estimates that its full-year net sales for 2003 will total about three billion euros and that its result will improve. Compared to Q1/2002, Elcoteq expects its first-quarter net sales this year to increase by roughly one-third and its result to improve.

Board's dividend proposal

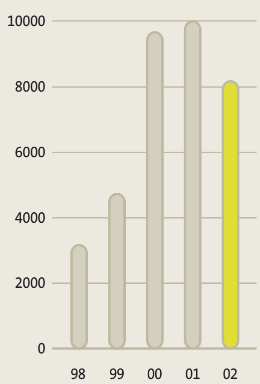
The Board of Directors proposes to the Annual General Meeting on March 26, 2003 payment of a dividend of EUR 0.40 per share on the financial year 2002, representing approximately 73.5% of the company's net profit.

Espoo, February 5, 2003
Board of Directors

Gearing



Personnel on average



Consolidated income statement

INCOME STATEMENT, EUR 1,000	Note	Jan. 1- Dec. 31 2002	Jan. 1- Dec. 31 2001
NET SALES	1	**1,840,214**	**1,862,490**
Change in stock of work in progress and finished goods		11,218	-10,305
Other income from operations	2	3,936	27,382
Production materials and services			
Materials and supplies			
Purchases during period		-1,546,861	-1,450,462
Change in inventories		-10,461	-137,611
Materials and supplies, total		-1,557,322	-1,588,073
External services		-1,032	-830
		-1,558,354	-1,588,903
Personnel expenses	3		
Wages, salaries and fees		-107,152	-109,868
Indirect personnel expenses			
Pension costs		-8,085	-11,877
Other indirect personnel costs		-14,017	-17,710
		-129,254	-139,455
Depreciation and writedowns	4		
Depreciation according to plan		-49,070	-48,194
Amortization of goodwill on consolidation		-157	-180
		-49,227	-48,374
Other operating expenses	5	-93,018	-109,484
Restructuring costs		-	-11,794
OPERATING PROFIT/LOSS		**25,517**	**-18,443**
Financial income and expenses			
Financial income			
Exchange gains		1,272	2,754
Other financial income		1,933	1,920
		3,205	4,675
Financial expenses			
Interest expenses		-2,627	-9,909
Exchange losses		-2,119	-2,547
Other financial expenses		-5,416	-4,494
		-10,161	-16,951
Financial income and expenses, total		-6,956	-12,276
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		**18,561**	**-30,718**
Extraordinary items		-	-
PROFIT/LOSS BEFORE TAXES		**18,561**	**-30,718**
Income taxes			
Income taxes for the financial year		-821	-1,794
Income taxes for prior years		-147	-342
Other indirect taxes		-887	-626
Change in deferred tax liability	9	1,802	2,931
Income taxes, total		-52	169
Minority interests		-2,453	-1,434
NET PROFIT/LOSS FOR THE FINANCIAL YEAR		**16,055**	**-31,984**

Consolidated cash flow statement

CASH FLOW STATEMENT, EUR 1,000	Jan. 1-Dec. 31 2002	Jan. 1-Dec. 31 2001
Cash flow from operating activities		
Profit/loss before extraordinary items	18,561	-30,718
Adjustments:		
Depreciation according to plan	49,227	48,374
Unrealized exchange profits and losses	-4,286	-2,106
Other income and expenses with no payment	-	-
Financial income and expenses	9,901	10,087
Other adjustments	-2,417	-1,412
Cash flow before change in working capital	70,986	24,224
Change in working capital: *)		
Change in interest-free short-term receivables	11,934	90,026
Change in inventories	-2,634	151,630
Change in interest-free short-term debt	35,760	-61,563
Cash flow from operating activities before financial items and taxes	116,046	204,318
Interest paid and payments of other financial expenses	-12,228	-14,160
Dividends received from business operations	-	50
Other financial income from business operations	1,205	1,503
Income taxes paid	144	-1,401
Cash flow from operating activities	**105,167**	**190,309**
Cash flow from investing activities		
Investments in tangible and intangible assets	-32,031	-43,856
Proceeds from sale of tangible and intangible assets	4,333	3,126
Acquisition of subsidiary, net of cash acquired	-	-26,431
Loans granted	-153	-2
Repayments of loan receivables	4	245
Change in minority interest	-	-
Cash flow from investing activities	**-27,847**	**-66,918**
Cash flow from financing activities		
Proceeds from the issue of shares	-	29
Proceeds from other shareholders' equity	-	-
Withdrawals of short-term debt	1,535	-1,831
Repayments of short-term debt	-16,538	-107,399
Withdrawals of long-term debt	1,684	3,659
Repayments of long-term debt	-18,554	-3,202
Dividends paid and other distribution of profits	-2,060	-11,160
Cash flow from financing activities	**-33,933**	**-119,903**
Change in cash and cash equivalents	**43,385**	**3,488**
Cash and cash equivalents on January 1	**36,432**	**31,810**
Effect of exchange rate fluctuations on cash held	**-3,752**	**1,134**
Cash and cash equivalents on December 31	**76,065**	**36,432**

*) The change in working capital includes the change in sold accounts receivable. The impact of this change is to improve cash flow by MEUR 40.2 during the reporting period 1-12/2002 and to improve cash flow by MEUR 34.3 during 1-12/2001.

ASSETS, EUR 1,000	Note	Dec. 31 2002	Dec. 31 2001
Fixed assets	10		
Intangible assets			
Intangible rights		3,377	364
Product development costs		4,042	-
Other long-term expenditure		8,228	10,812
Advance payments		3,798	138
Goodwill		11,702	1,149
Goodwill on consolidation		14,669	467
		45,816	12,929
Tangible assets			
Land and water		2,448	2,436
Buildings		40,354	42,667
Machinery and equipment		102,257	116,867
Advance payments and construction in progress		2,517	3,416
		147,577	165,386
Investments	11		
Shares and holdings in associated companies		65	37
Receivables from associated companies		137	87
Other shares and holdings		556	491
		758	615
Fixed assets, total		**194,152**	**178,931**
Current assets	12		
Inventories			
Raw materials		142,763	142,459
Work in progress		17,964	14,697
Finished goods		36,459	20,325
Advance payments		285	266
		197,471	177,748
Long-term receivables			
Deferred tax assets	13	6,727	3,206
Other loan receivables		166	18
		6,894	3,223
Short-term receivables			
Accounts receivable	15	216,076	194,374
Prepaid expenses and accruals	16	19,152	19,957
		235,228	214,331
Cash and cash equivalents		76,065	36,432
Current assets, total		**515,657**	**431,735**
ASSETS, TOTAL		**709,809**	**610,666**

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec. 31 2002	Dec. 31 2001
Shareholders' equity	17		
Share capital		11,797	11,797
Share premium account		202,550	202,550
Other reserves		8,354	8,326
Translation difference		759	4,966
Retained earnings		8,069	40,063
Net profit/loss for the financial year		16,055	-31,984
Shareholders' equity, total		**247,584**	**235,719**
Minority interests		**12,172**	**6,284**
Provisions	18	**1,439**	**3,100**
Liabilities	19		
Long-term liabilities			
Medium-term capital notes		15,095	21,941
Loans from financial institutions		19,685	24,376
Pension loans		3,074	3,536
Other debt		-	137
Deferred tax liability	13	2,862	1 177
		40,716	51,168
Payments due within one year		-15,196	-12,565
		25,520	**38,603**
Short-term liabilities			
Medium-term capital notes		10,000	12,538
Loans from financial institutions		7,036	10,787
Commercial paper programs		2,980	15,767
Pension loans		463	27
Advances received		434	2
Accounts payable		320,647	239,620
Other short-term liabilities		8,581	12,049
Accrued expenses	20	72,953	36,169
		423,094	326,960
Liabilities, total		**448,614**	**365,563**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**709,809**	**610,666**

Parent company income statement

INCOME STATEMENT, EUR 1,000	Note	Jan. 1- Dec. 31 2002	Jan.1- Dec. 31 2001
NET SALES	1	**1,218,549**	**931,220**
Change in stock of work in progress and finished goods		6,305	-2,378
Other income from operations	2	22,871	48,607
Production materials and services			
Materials and supplies			
Purchases during the period		-1,040,904	-682,064
Change in inventories		10,358	-121,773
Materials and supplies, total		-1,030,546	-803,837
External services		-87,267	-88,182
		-1,117,813	-892,019
Personnel expenses	3		
Wages, salaries and fees		-32,824	-36,818
Indirect personnel expenses			
Pension costs		-4,910	-6 669
Other indirect personnel costs		-1,838	-4,737
		-39,571	-48,224
Depreciation and writedowns	4		
Depreciation according to plan		-13,922	-15,774
Writedowns		-20,000	-24,500
		-33,922	-40,274
Other operating expenses	5	-49,304	-38,376
Restructurings costs		-	-2,695
OPERATING PROFIT/LOSS		**7,114**	**-44,138**
Financial income and expenses	6		
Financial income			
Interest income on long-term investments			
Group companies		1,020	1,250
Other interest and financial income			
Group companies		7,171	15,754
Exchange gains		3,200	1,936
Other financial income		1,606	1,064
		12,997	20,005
Financial expenses			
Interest and financial expenses to Group companies		-101	-117
Interest expenses		-1,236	-7,125
Exchange losses		-1,414	-2,321
Other financial expenses		-5,073	-4,218
		-7,824	-13,782
Financial income and expenses, total		5,173	6,224
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		**12,287**	**-37,914**
Extraordinary income	7	2,735	133
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**15,022**	**-37,781**
Appropriations			
Change in depreciation difference		1,691	5,085
Income taxes	8	2,449	-853
NET PROFIT/LOSS FOR THE FINANCIAL YEAR		**19,162**	**-33,549**

Parent company cash flow statement

CASH FLOW STATEMENT, EUR 1,000	Jan. 1- Dec. 31 2002	Jan. 1- Dec. 31 2001
Cash flow from operating activities		
Profit/loss before extraordinary items	12,287	-37,914
Adjustments:		
Depreciation according to plan	33,922	40,274
Unrealized exchange gains and losses	-2,039	2,321
Other income and expenses with no payment	82	133
Financial income and expenses	-5,995	-4,226
Other adjustmens	-571	595
Cash flow before change in working capital	**37,686**	**1,183**
Change in working capital:		
Change in interest-free short-term receivables	5,855	103,524
Change in inventories	-16,663	125,400
Change in interest-free short-term debt	52,167	-77,815
Cash flow from operating activities before financial items and taxes	79,045	152,292
Interest paid and payments of other financial expenses	-10,765	-11,954
Dividends received from business operations	3,290	50
Interests received from business operations	1,379	4,501
Income taxes paid	7	-77
Cash flow from operating activities	**72,956**	**144,812**
Cash flow from investing activities		
Investments in tangible and intangible assets	-8,239	-16,186
Proceeds from sale of tangible and intangible assets	796	6,510
Acquisition of subsidiary, net of cash acquired	-3,010	-18,362
Refunding of acquisition of subsidiary	528	-
Loans granted	-3,426	-3,325
Repayments of loan receivables	571	5,044
Cash flow from investing activities	**-12,780**	**-26,319**
Cash flow from financing activities		
Withdrawals of short-term debt	-	8,902
Repayments of short-term debt	-14,888	-96,203
Withdrawals of long-term debt	1,899	-
Repayments of long-term debt	-7,325	-12,522
Dividends paid and other distribution of profits	-	-11,160
Cash flow from financing activities	**-20,314**	**-110,983**
Change in cash and cash equivalents	**39,862**	**7,510**
Cash and cash equivalents on January 1	**8,621**	**1,111**
Cash and cash equivalents on December 31	**48,483**	**8,621**

Parent company balance sheet

ASSETS, EUR 1,000	Note	Dec. 31 2002	Dec. 31 2001
Fixed assets	10		
Intangible assets			
Intangible rights		3,369	39
Other long-term expenditure		4,335	6,452
Advance payments		3,741	124
Goodwill		4,450	992
		15,895	7,606
Tangible assets			
Land and water		1,108	1,108
Buildings		2,428	2,597
Machinery and equipment		15,435	23,183
Advance payments and construction in progress		1,055	1,953
		20,026	28,841
Investments	11		
Shares and holdings in Group companies		83,388	60,027
Receivables from Group companies		4,115	4,115
Shares in associated companies		319	64
Receivables from associated companies		137	87
Other shares and holdings		343	343
		88,302	64,636
Fixed assets, total		**124,223**	**101,083**
Current assets			
Inventories	12		
Raw materials		99,800	89,457
Work in progress		7,350	6,483
Finished goods		19,266	13,812
		126,416	109,753
Long-term receivables			
Deferred tax assets	13	5,109	-
Loan receivables from Group companies	14	25,479	22,398
Other loan receivables		1,550	1,790
		32,138	24,188
Short-term receivables			
Accounts receivable	15	104,200	69,071
Receivables from Group companies			
Accounts receivable		17,920	21,924
Loan receivables		30,556	55,238
Accrued income		2,303	10,675
Prepaid expenses and accruals	16	10,397	5,121
		165,376	162,029
Cash and cash equivalents		48,483	8,621
Current assets, total		**372,413**	**304,591**
ASSETS,TOTAL		**496,637**	**405,674**

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec.31 2002	Dec. 31 2001
Shareholders' equity	17		
Share capital		11,797	11,797
Share premium account		202,550	202,550
Retained earnings		1,169	34,718
Net profit/loss for the financial period		19,162	-33,549
Shareholders' equity, total		**234,678**	**215,516**
Accumulated appropriations			
Depreciation difference		-	1,691
Accumulated appropriations, total		**-**	**1,691**
Provisions	18	**620**	**1,211**
Liabilities	19		
Long-term liabilities			
Medium-term capital notes		15,095	21,941
Loans from financial institutions		-	105
Pension loans		3,074	3,536
Other debt		-	113
		18,169	25,696
Payments due within one year		-10,463	-12,565
		7,705	13,131
Short-term liabilities			
Medium-term capital notes		10,000	12,538
Commercial paper programs		2,980	15,767
Pension loans		463	27
Accounts payable		146,183	99,090
Debt to Group companies			
Accounts payable		42,336	32,573
Other short-term liabilities		1,973	1,973
Accrued expenses		1,233	1,055
Other short-term liabilities		1,022	987
Accrued expenses	20	47,443	10,115
		253,633	174,124
Liabilities, total		**261,338**	**187,255**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**496,637**	**405,674**

Accounting principles

General principles

The financial statements of Elcoteq Network Corporation and the consolidated financial statements are prepared in accordance with the requirements of the Finnish Accounting Act and other Finnish regulations ("Finnish GAAP").

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

Principles of consolidation

The consolidated financial statements include the accounts of the parent company, Elcoteq Network Corporation, and each of those companies in which it owns directly or indirectly over 50% of the voting rights. The results of subsidiaries acquired or established during the period are included in the consolidated financial statements from the date of acquisition or establishment. Subsidiaries are consolidated using the acquisition cost method of accounting. The difference between the acquisition cost of a subsidiary and its shareholders' equity at the time of acquisition is allocated to the subsidiary's fixed assets to the extent that the fair value of the subsidiary's assets at that time exceeded the book value. Items allocated to fixed assets are depreciated according to plan for the underlying asset. The rest of the difference is entered as goodwill on consolidation and amortized normally over five years, or ten years in the case of strategic acquisitions. In the case of the GKI acquisition on 31 December 2002 no amortization of goodwill on consolidation was entered in the 2002 accounts since Elcoteq's consolidated financial statements contained only the GKI balance sheets. All intercompany transactions, receivables, payables and internal margins are eliminated as part of the consolidation process.

The Group's share of profits and losses in associated companies (20-50% of the shares and voting rights) is included in the consolidated income statement in accordance with the equity method of accounting. The Group's share of post-acquisition retained profits and losses is reported as part of investments in associated companies in the consolidated balance sheet.

Minority interests in the results and equity of the subsidiaries are shown as separate items in the consolidated income statement and balance sheet.

Further details on the companies consolidated in the Group's financial statements are given under Note 11, Shares and Holdings.

Foreign Group companies

All items in the income statements of foreign subsidiaries are translated into euros monthly at the average monthly exchange rates published by the European Central Bank. The balance sheets of foreign Group companies are translated into euros at the European Central Bank's average rates of exchange ruling at the year end.

Differences resulting from the translation of income statement items at the average rate and the balance sheet items at the closing rate are taken to shareholders' equity in the Group accounts. Exchange differences arising from the application of the acquisition cost method are recorded under shareholders' equity likewise.

Revenue recognition

Revenue from the sale of goods and services is recognized when all significant risks and benefits associated with the relevant goods or services are transferred to the buyer and no significant uncertainties remain regarding their payment, associated costs and possible return of goods. Net sales comprises gross invoicing less cash discounts and exchange rate gains/losses related to sales.

Foreign currency

Realized transactions in foreign currencies in the income statement are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the accounting period the foreign currency receivables and liabilities are valued at the average rates of exchange published by the European Central Bank on the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to corresponding items. Foreign exchange gains and losses associated with financing are entered under financial income and expenses.

Hedging instruments related to normal business operations and financial items are valued at the average rates of exchange on the balance sheet date when forward contracts, whereas options are valued at marked-to-market price. The exchange differences arising from derivative contracts related to balance sheet items at the balance sheet date are normally entered in the income statement. However, when derivative contracts are made to hedge translation risks associated with the shareholders' equity of subsidiaries (the equity hedge method), the foreign exchange differences are taken to translation differences under equity in the Group accounts. Interest rate differential on forward contracts related to interest-bearing items and equity hedge is deferred in the income statement and balance sheet and recognized over the life of the forward contract. Foreign exchange gains and losses on derivative contracts made to hedge off-balance-sheet items are entered in the income statement at the same time as the hedged cash flow is recognized.

The nominal values, book values and market values of the derivative contracts at the balance sheet date are shown in Note 22 on page 45.

Fixed assets

Fixed assets are stated at the original acquisition cost less accumulated depreciation according to plan. The planned depreciation is recorded on a straight-line basis over the expected economic lives of the assets. Land and water are not depreciated.

Intangible assets also include patents. Other long-term expenditure includes information systems and costs incurred when maintaining and upgrading leased property.

Goodwill is the goodwill paid in connection with the purchase of business operations (i.e. excluding acquisitions of shares). Goodwill is amortized on a straight-line basis over the economic lifetime of the asset.

Gains and losses on the disposal of fixed assets are included in operating profit/loss. If the estimated accumulated income from the fixed asset or investment is considered, applying the prudence principle, to be permanently lower than the residual cost, the difference is entered as a write-down under expenses.

The expected economic lives of the fixed assets in the Group are as follows:

Intangible assets	5-10 years
Development costs	3-5 years
Other long-term expenditure	3-5 years
Goodwill and goodwill on consolidation	5-10 years
Buildings	25 years
Materials in buildings	15 years
Machinery and equipment in buildings	10 years
Other machinery and equipment	3-5 years

Goodwill and goodwill on consolidation are amortized over 10 years in the case of major acquisitions, such as the GKI companies and Benefon's R&D capacity during 2002, that are strategically significant for the company and which therefore are estimated to have a long-term impact on the company's profit expectations.

Inventories

Inventories are stated at the lower of either the costs arising from acquisition and manufacturing or their net realizable value calculated on an "average cost" basis which, owing to the rapid turnover of the products, is closely equivalent to the FIFO principle. The cost of finished goods and work in progress includes variable material costs, wages and salary costs, social costs, subcontracting costs and other variable costs, as well as a part of the fixed costs of the production departments. Inventories are shown net of deductions for obsolete and slow-moving inventories.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, in bank accounts and liquid short-term investments.

Leasing

Fixed assets acquired with finance leases have been capitalized to assets in the consolidated balance sheet and depreciated over their economic lifetime. Similarly, liabilities related to these acquisitions are shown as long-term loans from financial institutions.

The company had no production equipment acquired using finance leases on December 31, 2002. Rental payments under operating leases are entered as rentals under other operating expenses.

Research and development costs

Research and development costs are normally expensed in the financial period during which they are incurred. However, development costs arising from major investments and which meet the conditions stipulated in the Ministry of Trade and Industry's Decision 50/1998, are capitalized and shown separately in the balance sheet. Capitalized development costs are depreciated over their period of impact, which is generally three years.

Pension costs

The Group companies have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. Pension schemes are for the most part defined contribution pension plans. The costs of both contribution and benefit pension plans are entered in the period in which the contribution is paid. In Finland, Elcoteq has arranged pension benefits through third-party pension insurance companies.

In addition to the statutory pension benefits, the company's president and certain members of the Board of Directors are entitled under an additional pension scheme to retire at the age of 60 years instead of the normal 65 years. Also, certain employees are granted full pension benefits with fewer years of service than are normally required. These additional pension benefits are arranged through third-party pension insurance companies. Elcoteq has also made provisions to cover all known pension commitments for disability and unemployment.

Grants

In certain countries, public bodies provide financial support primarily to cover certain research and development costs. Financial support of this nature is entered under other income from operations.

Extraordinary items

Extraordinary items comprise non-recurring transactions that are essential but extraneous to the company's business operations. Group contributions and the effects of changes to the accounting principles are booked under extraordinary items likewise.

Income taxes

Income taxes are based on the results of Group companies and are calculated in accordance with the local tax rules in each country. Income taxes comprise the taxes paid during the reporting period as well as tax adjustments for previous periods. Other direct taxes include certain tax-related provisions and withholding taxes. Income taxes also include the net change in deferred tax liabilities and assets.

A deferred tax liability or asset has been determined for all temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes in all Group companies and also for differences arising in consolidation. The most important differences arise from confirmed and unconfirmed losses and writedowns, from depreciation differences related to fixed assets, and from tax liabilities related to future dividends payable by the company in Estonia.

The tax rate used to separate deferred tax liabilities and assets is the official tax rate in each country confirmed on the balance sheet date for the following fiscal period. A deferred tax asset is entered on losses only when it is probable that the loss can be used to offset taxable income in future financial periods. No tax assets are recorded on unconfirmed writedowns, however, unless a decision exists to terminate the operation on which the writedown has been made. Other deferred tax assets are entered in the balance sheet at their estimated realizable amounts, whereas deferred tax liabilities are recorded in full.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

Figures in thousands of euro

All figures denominated in euros in the notes to the financial statements are given in thousands (EUR 1,000) unless otherwise stated.

1. DISTRIBUTION OF NET SALES

	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
By markets				
Net sales, MEUR				
Finland	413.4	438.4	409.9	437.3
Sweden	95.3	127.5	94.0	123.7
Other EU countries	392.9	222.5	373.5	177.0
Americas	92.9	211.3	9.2	23.2
Asia-Pacific	480.1	644.1	11.0	14.6
Other areas	365.6	218.7	320.9	155.4
Total	1,840.2	1,862.5	1,218.5	931.2

	2002	2001
By production		
By geographical area		
Net sales, MEUR		
Europe	1,056.9	791.3
Asia-Pacific	470.6	648.4
Americas	82.9	190.6
Industrial Electronics, Europe	229.8	232.2
Total	1,840.2	1,862.5
By business area		
Net sales, MEUR		
Terminal Products	1,348.9	1,456.8
Communications Network Equipment	243.9	170.9
Industrial Electronics	247.4	234.8
Total	1,840.2	1,862.5

Personnel

The Group had 8,127 (9,960) employees on average during the year, distributed geographically as follows:

	At Jan. 1	At Dec. 31	Change	Average
Finland	964	1,021	57	1,013
Hong Kong	102	54	-48	60
Japan	12	12	0	13
China	1,864	3,352	1,488	1,741
Mexico	648	550	-98	518
Poland	90	0	-90	10
Sweden	2	4	2	4
Hungary	1,943	2,571	628	2,182
Germany	181	180	-1	180
Switzerland	329	278	-51	306
USA	15	19	4	16
Russia	151	177	26	170
Estonia	2,048	1,958	-90	1,914
Total	8,349	10,176	1,827	8,127

2. OTHER INCOME FROM OPERATIONS

Other income from operations, MEUR 3.9, mainly comprises insurance compensations and capital gains on the sale of fixed assets. The main items in 2001, MEUR 27.4, were compensation paid on materials and reserved but unused capacity, as well as capital gains on the sale of fixed assets.

3. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES, EUR 1,000	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Personnel expenses				
Wages, salaries and fringe benefits				
Salaries and fringe benefits to Board members and presidents of Group companies	1,054	1,709	780	1,450
Other wages, salaries and fringe benefits	106,658	108,649	32,433	35,756
Total	107,712	110,358	33,213	37,206
Fringe benefits	-560	-490	-390	-388
	107,152	109,868	32,823	36,818
Indirect personnel expenses				
Pensions costs	8,085	11,877	4,910	6,669
Other indirect personnel costs	14,017	17,710	1,838	4,737
Total	22,102	29,587	6,748	11,406
Personnel expenses in the Income Statement	129,254	139,455	39,571	48,224

4. DEPRECIATION, EUR 1,000	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Depreciation according to plan comprises the following:				
Intangible rights	17	22	7	7
Goodwill	697	39	356	8
Goodwill on consolidation	157	180	-	-
Other long-term expenditure	5,532	4,913	3,848	3,245
Buildings	2,466	2,377	178	173
Machinery and equipment	40,358	39,286	9,533	12,341
Total	49,227	46,817	13,922	15 774
Writedowns on shares in subsidiaries	-	-	20,000	21,500
Writedowns on receivables from Group companies	-	-	-	3,000
Writedowns on machinery and equipment	-	1,557	-	-
Depreciation and writedowns, total	49,227	48,374	33,922	40,274

The writedown on shares in subsidiaries entered by the parent company in 2002 refers to its investment in the US subsidiary.

5. OTHER OPERATING EXPENSES, EUR 1,000	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Other operating expenses for the Group and Parent Company comprise the following main items:				
Other personnel expenses	7,610	6,855	1,587	2,102
Rental expenses	23,690	29,086	12,894	11,941
Transportation	6,560	7,979	2,696	3,680
Energy expenses	4,993	4,835	785	827
Office expenses	5,158	6,816	1,189	1,694
Traveling, marketing and representation expenses	9,138	9,041	4,230	4,031
Insurances	2,622	3,319	1,496	1,989
External services	21,278	23,304	17,500	10,015
Other operating expenses	11,969	18,249	6,927	2,097
Total	93,018	109,484	49,304	38,376

6. FINANCIAL INCOME AND EXPENSES, EUR 1,000	PARENT COMPANY	
	2002	2001
Intragroup financial income and expenses		
Financial income		
Interest income from long-term investments	1,020	1,250
Dividend income	5,527	11,000
Interest income from short-term investments	1,644	4,754
	8,191	17,004
Financial expenses		
Interest expenses	-101	-117
Financial income and expenses total, net	8,090	16,887

7. EXTRAORDINARY ITEMS, EUR 1,000

	PARENT COMPANY	
	2002	2001
Extraordinary income		
Deferred tax assets	2,653	-
Group contributions received	82	133
Extraordinary income, total	2,735	133

Owing to a change in accounting principles, tax assets arising from the Parent Company's loss in 2001 are entered under extraordinary income in the Parent Company.

8. PARENT COMPANY'S INCOME TAXES, EUR 1,000

	PARENT COMPANY	
	2002	2001
Income taxes for the financial year	-	-
Income taxes for prior years	-7	-303
Other direct taxes	-	-550
Deferred taxes	2,456	-
Total	2,449	-853

Other direct taxes in 2001 consist of tax withheld at source on dividends paid by a foreign subsidiary. The change in deferred taxes for the Parent Company is mainly due to an increase in tax-deductable losses during 2002. See Note 13 below.

9. CHANGE IN DEFERRED TAX ASSETS / LIABILITIES, EUR 1,000

	GROUP	
	2002	2001
From depreciation difference	464	1,475
From consolidations	-117	35
From carry-forward losses	2,456	2,090
From temporary differences in taxation	-1,001	-669
Total	1,802	2,931

A major factor affecting the change in the Group's deferred tax assets in 2002 was the increase in the Parent Company's tax-deductable losses in 2002. See Note 13 below.

10. FIXED ASSETS, EUR 1,000

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Intangible assets				
Intangible rights				
Acquisition cost, Jan. 1	496	181	134	134
Increases, Jan. 1-Dec. 31	3,338	334	3,337	-
Decreases, Jan. 1-Dec. 31	-316	-19	-	-
Translation difference	-	-	-	-
Acquisition cost, Dec. 31	3,518	496	3,471	134
Accum. depreciation acc. to plan, Jan. 1	-132	-108	-95	-88
Accum. depreciation acc. to plan in decreases	8	-2	-	-
Depreciation according to plan	-17	-22	-7	-7
Book value, Dec. 31	3,377	364	3,369	39
Product development costs				
Acquisition cost, Jan. 1	-	-	-	-
Increases, Jan. 1-Dec. 31	4,042	-	-	-
Decreases, Jan. 1-Dec. 31	-	-	-	-
Book value, Dec. 31	4,042	-	-	-

	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Other long-term expenditure *)				
Acquisition cost, Jan. 1	21,029	16,501	13,714	10,327
Increases, Jan. 1-Dec. 31	3,342	4,902	1,738	3,559
Decreases, Jan. 1-Dec. 31	-236	-576	-7	-172
Translation difference	-656	202	-	-
Acquisition cost, Dec. 31	23,479	21,029	15,445	13,714
Accum. depreciation acc. to plan, Jan. 1	-10,217	-5,364	-7,262	-4,061
Accum. depreciation acc. to plan in decreases	101	110	1	44
Translation difference	396	-50	-	-
Depreciation according to plan, Jan. 1-Dec. 31	-5,531	-4,913	-3,849	-3,245
Book value, Dec. 31	8,228	10,812	4,335	6,452
Advance payments and construction in progress				
Advance payments, Jan. 1	138	368	124	350
Increases, Jan. 1-Dec. 31	4,977	1,960	4,932	1,959
Decreases, Jan. 1-Dec. 31	-1,317	-2,190	-1,314	-2,185
Advance payments, Dec. 31	3,798	138	3,741	124
Goodwill				
Acquisition cost, Jan. 1	1,188	-	1,000	-
Increases, Jan. 1-Dec. 31	11,247	1,188	3,814	1,000
Decreases, Jan. 1-Dec. 31	-	-	-	-
Translation difference	4	-	-	-
Acquisition cost, Dec. 31	12,439	1,188	4,814	1,000
Accum. depreciation acc. to plan, Jan. 1	-39	-	-8	-
Accum. depreciation acc. to plan in decreases	-	-	-	-
Translation difference	-1	-	-	-
Depreciation according to plan, Jan. 1-Dec. 31	-697	-39	-356	-8
Book value, Dec. 31	11,702	1,149	4,450	992
Goodwill on consolidation				
Acquisition cost, Jan. 1	1,149	823	-	-
Increases, Jan. 1-Dec. 31	14,359	326	-	-
Acquisition cost, Dec. 31	15,508	1,149	-	-
Accum. depreciation acc. to plan, Jan. 1	-682	-502	-	-
Depreciation according to plan, Jan. 1-Dec. 31	-157	-180	-	-
Book value, Dec. 31	14,669	467	-	-
Tangible assets				
Land and water				
Acquisition cost, Jan. 1	2,436	2,413	1,108	1,108
Increases, Jan. 1-Dec. 31	-	-	-	-
Decreases, Jan. 1-Dec. 31	-	-2	-	-
Translation difference	12	25	-	-
Book value, Dec. 31	2,448	2,436	1,108	1,108
Buildings *)				
Acquisition cost, Jan. 1	50,322	43,259	3,491	3,282
Increases, Jan. 1-Dec. 31	4,944	7,067	10	209
Decreases, Jan. 1-Dec. 31	-5,538	-371	-	-
Translation difference	185	367	-	-
Acquisition cost, Dec. 31	49,913	50,322	3,501	3,491
Accum. depreciation acc. to plan, Jan. 1	-7,655	-5,372	-894	-721
Accum. depreciation acc. to plan in decreases	604	154	-	-
Translation difference	-41	-60	-	-
Depreciation according to plan, Jan. 1-Dec. 31	-2,467	-2,377	-179	-173
Book value, Dec. 31	40,354	42,667	2,428	2,597

	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Machinery and equipment				
Acquisition cost, Jan. 1	224,947	194,948	58,273	62,084
Increases, Jan. 1-Dec. 31	36,840	39,919	2,534	3,593
Decreases, Jan. 1-Dec. 31	-19,973	-12,920	-3,722	-7,404
Translation difference	-13,015	3,000	-	-
Acquisition cost, Dec. 31	228,799	224,947	57,085	58,273
Accum. depreciation acc. to plan, Jan. 1	-108,080	-69,673	-35,090	-24,129
Accum. depreciation acc. to plan in decreases	16,151	3,286	2,972	1,380
Translation difference	5,744	-850	-	-
Depreciation according to plan, Jan. 1-Dec. 31	-40,357	-39,286	-9,532	-12,341
Writedowns, Jan. 1-Dec. 31	0	-1,557	-	-
Book value, Dec. 31	102,257	116,867	15,435	23,183
Advance payments and construction in progress				
Advance payments and construction in progress, Jan. 1	3,416	3,734	1,953	2,274
Increases, Jan. 1-Dec. 31	13,573	25,795	6,088	8,270
Decreases, Jan. 1-Dec. 31	-14,447	-26,122	-6,986	-8,591
Translation difference	-25	9	-	-
Advance payments, Dec. 31	2,517	3,416	1,055	1,953
Investments				
Shares and holdings in Group companies				
Shares, Jan. 1	-	-	89,937	71,574
Increases, Jan. 1-Dec. 31	-	-	43,888	18,363
Acquisition cost, Dec. 31	-	-	133,825	89,937
Accumulated writedowns, Jan. 1	-	-	-29,909	-8,409
Writedowns, Jan. 1-Dec. 31	-	-	-20,528	-21,500
Book value, Dec. 31	-	-	83,388	60,027
Receivables from Group companies **)				
Receivables, Jan. 1	-	-	7,115	-
Increases, Jan. 1-Dec. 31	-	-	-	7,115
Acquisition cost, Dec. 31			7,115	7,115
Accumulated writedowns, Jan. 1	-	-	-3,000	-
Writedowns	-	-	-	-3,000
Book value, Dec. 31	-	-	4,115	4,115
Shares in associated companies				
Shares, Jan. 1	37	39	64	64
Increases, Jan. 1-Dec. 31	255		255	
Share of losses of associated companies, Jan. 1-Dec. 31	-227	-2	-	-
Book value, Dec. 31	65	37	319	64
Receivables from associated companies				
Receivables, Jan. 1	87	87	87	87
Increases, Jan. 1-Dec. 31	50	-	50	-
Book value, Dec. 31	137	87	137	87

	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Other shares and holdings				
Shares, Jan. 1	491	845	343	702
Increases, Jan. 1-Dec. 31	88	4	-	-
Decreases, Jan. 1-Dec. 31	-23	-358	-	-359
Book value, Dec. 31	556	491	343	343
Accumulated depreciation difference				
Buildings			-	-630
Machinery and equipment			-	-1,061
Total			-	-1,691
Summary of fixed assets				
Acquisition cost, Jan. 1	302,095	259,009	168,064	149,275
Increases, Jan. 1-Dec. 31	78,456	53,740	55,576	26,724
Decreases, Jan. 1-Dec. 31	-26,313	-14,248	-3,729	-7,935
Translation difference	-13,470	3,594	-	-
Acquisition cost, Dec. 31	340,768	302,095	219,911	168,064
Accum. depreciation acc. to plan, Jan. 1	-126,805	-81,019	-73,258	-37,408
Accum. depreciation acc. to plan in decreases	16,864	3,548	2,973	1,424
Depreciation according to plan and writedowns, Jan. 1-Dec. 31	-49,226	-48,374	-34,451	-37,274
Translation difference	6,099	-960	-	-
Book value, Dec. 31	187,700	175,290	115,175	94,805
Advance payments and construction in progress	6,315	3,554	4,796	2,077
Loan receivables	137	87	4,252	4,202
Book value, Dec. 31	194,152	178,931	124,223	101,083

*) The renovation costs related to the Group's real estate in Hungary and previously shown under Other long-term expenditure have been included under buildings from 2002 onwards. The previous year's figures have been changed accordingly. The impact of this change was MEUR 12.4 in the 2002 accounts and MEUR 12.2 in the 2001 accounts.

**) Receivables from Group companies include a non-interest-bearing receivable, MEUR 4.1, from Elcoteq Elektronik GmbH, which will only be repaid in the event that Elcoteq Elektronik has distributable funds.

11. SHARES AND HOLDINGS

	Share capital	Group holding, %	Parent company holding, %	Book value, EUR 1,000
Group companies				
Elcoteq Lohja Oy, Lohja, Finland	168,000 EUR	100	100	168
Elcoteq Helsinki Oy, Helsinki, Finland	168,000 EUR	100	100	814
AS Elcoteq Tallinn, Tallinn, Estonia	20,500,000 EEK	100	100	1,776
Beijing Elcoteq Electronics Co. Ltd., Beijing, China	124 173 000 CNY	100	100	16,186
Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China	115,811,500 CNY	70	70	3,705
Elcoteq AG, Baden, Switzerland	9,100,000 CHF	100	100	6,078
Elcoteq Asia Ltd, Hong Kong, China	8,600,000 HKD	100	100	994
Elcoteq Inc., Dallas, USA	46,801,000 USD	100	100	4,467
Elcoteq JSC, St. Petersburg, Russia	7,009,415.50 RUR	100	100	277
Elcoteq Elektronik GmbH, Überlingen, Germany	4,627,186.23 EUR	100	-	-
Elcoteq Deutschland GmbH, Karlsruhe, Germany	6,442,277.70 EUR	100	100	2,742
Elcoteq Hungary Ltd., Pécs, Hungary	6,000,000 EUR	100	100	9,846
Elcoteq Japan Co. Ltd, Tokyo, Japan	10,000,000 JPY	100	100	73
Elco Real Estate, Wroclaw, Poland	4,000 PLN	100	100	44
Elcoteq S.A. de C.V., Monterrey, Mexico	50,000 USD	100	100	57
Elcoteq Sweden Ab, Stockholm, Sweden	200,000 SEK	100	100	22
Elcoteq Design Center, Salo, Finland	3,008,000 EUR	100	100	3,008
Immolease Kereskedelmi Kft., Pécs, Hungary	790,000,000 HUF	100	100	2,997
*) Beijing GKI Electronics Co. Ltd., Beijing, China	82,800,000 CNY	70	70	15,796
*) Shenzhen GKI Electronics Co. Ltd., Shenzhen, China	99,609,465 CNY	70	70	13,325
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	201,000 EUR	100	100	1,016
				83,388

*) Only the balance sheets of these companies were consolidated in the 2002 accounts.

Associated companies				
Nilistit Oy, Helsinki	161,460.41 EUR	33	33	64
Imbera Electronics Oy, Helsinki	60,100.00 EUR	50	50	255
				319
Other shares and holdings owned by the Parent Company	**Shareholders' equity**			
Kiinteistö Oy Lohjan Piiharju	435,290.77 EUR	10	10	17
Other shares				326
				343
Other shares and holdings owned by subsidiaries				213
Other shares and holdings, total				**556**

12. INVENTORIES

In the income statement for 2001 the change in the Parent Company's inventories calculated from the balance sheet does not correspond to the change in inventories in the income statement because part of the Polish non-current materials are entered under restructuring costs.

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

	GROUP	
	2002	**2001**
Deferred tax assets		
From deductable temporary differences	6,492	2,855
From consolidations	234	351
	6,726	3,206
Deferred tax liabilities		
From appropriations	26	490
From temporary differences in taxation	2,818	669
From consolidations	18	18
	2,862	1,177

In 2002 the Parent Company was awarded a tax ruling allowing the writedowns, totaling MEUR 24.4, entered on its US investments in previous years to be tax-deductable. Tax assets totaling MEUR 4.6 were entered in the 2002 accounts on the losses remaining non-deducted in taxation at December 31, 2002. However, the Parent Company has not entered as deferred tax assets any writedowns that the tax authorities had not confirmed as tax-deductable by December 31, 2002. The Parent Company continues to have approx. MEUR 6.9 in deferred tax assets related to non-deductable writedowns which are not entered in the balance sheet. Deferred tax liabilities includes a MEUR 1.1 liability related to dividends unpaid by the company in Estonia.

14. LOAN RECEIVABLES FROM GROUP COMPANIES

The Parent Company's loan receivables from Group companies include a MEUR 3.4 receivable from property company Kiinteistö Oy Salon Joensuunkatu that so far is interest-free and does not require repayment. The Parent Company has given Elco Real Estate a MEUR 1.8 accord on its receivable from this company.

15. ACCOUNTS RECEIVABLE

Accounts receivable in 2002, MEUR 216.1 (2001: MEUR 194.4), do not include sold accounts receivable totaling MEUR 121.4 (2001: MEUR 81.2). Accounts receivable are sold within the sale of receivable limits and under a securitization facility. The credit risk related to the sold receivables is transferred at the time of sale and without recourse. Under the securitization facility, the sales price is agreed and paid to the company in two instalments. The second instalment remains in the company's accounts receivable until received, but is not subject to a credit risk. In addition to the sales price, the company may also receive an additional sales price, the size of which depends on the payment behavior of the customers. The amount of additional sales price is assessed monthly and entered in the balance sheet under prepaid expenses and accruals. The costs of selling accounts receivable are entered under other financial expenses.

16. PREPAID EXPENSES AND ACCRUALS, EUR 1,000

Prepaid expenses and accruals for the Group and	GROUP		PARENT COMPANY	
Parent Company comprise the following main items:	**2002**	**2001**	**2002**	**2001**
Contributions	84	84	84	84
Advance rental payments	821	406	286	289
Advance statutory personnel costs	72	57	-	-
Management fees related to loans	-	66	-	66
Value added taxes	5,071	6,508	643	1,745
Withholding taxes	1,094	501	1,094	501
Income taxes	1,127	1,569	880	880
Additional sales price estimation / securitization	4,079	-	4,079	-
Other items	6,804	10,766	3,330	1,556
Total	19,152	19,957	10,397	5,121

17. SHAREHOLDERS' EQUITY, EUR 1,000	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Share capital				
Share capital, Jan. 1	11,797	9,919	11,797	9,919
Shares subscribed with "A" warrants	-	1*	-	1*
Conversion of share capital in euros, transfer from retained earnings, April 24	-	1,876	-	1,876
Share capital, Dec. 31	11,797	11,797	11,797	11,797
*) Shares were subscribed in 2000, but the registration was made in 2001.				
Share premium account				
Share premium account, Jan. 1	202,550	202,523	202,550	202,523
Issue premium	-	27*	-	27*
Share premium account, Dec. 31	202,550	202,550	202,550	202,550
Other funds				
Other funds, Jan. 1	8,326	94	-	29
Change in reserve fund / Pécs	-	1,804	-	-
Increase in reserve fund / St. Petersburg	-	49	-	-
Increase in reserve fund / Dongguan	18	6,408	-	-
Increase in reserve fund / Monterrey	10	-	-	-
Change in share issue fund	-	-29	-	-29
Other funds, Dec. 31	8,354	8,326	-	-
Translation difference				
Translation difference, Jan. 1	4,966	2,701	-	-
Increase in translation difference	-4,207	2,265	-	-
Translation difference, Dec. 31	759	4,966	-	-
Retained earnings				
Retained earnings, Jan. 1	8,079	61,206	1,169	47,755
Dividend payment	-	-11,160	-	-11,160
Transfer to share capital in euro conversion	-	-1,877	-	-1 877
Transfers to reserve fund	-10	-8,106	-	-
Retained earnings, Dec. 31	8,069	40,063	1,169	34,718
Profit/loss for the year	16,055	-31,984	19,162	-33,549
Shareholders' equity, total	**247,584**	**235,719**	**234,678**	**215,516**

DISTRIBUTABLE FUNDS IN SHAREHOLDERS' EQUITY ON DEC. 31, EUR 1,000	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Retained earnings	8,069	40,063	1,169	34,718
Profit/loss for the financial year	16,055	-31,984	19,162	-33,549
Share issue costs booked to share premium account	-2,433	-2,433	-2,433	-2,433
Share of accumulated depreciation difference recorded in shareholders' equity	-	-1,201	-	-
Distributable funds in shareholders' equity	21,691	4,445	17,898	-1,264

THE PARENT COMPANY'S SHARE CAPITAL IS DIVIDED INTO THE FOLLOWING SHARE SERIES	2002		2001	
	Shares	**EUR 1,000**	**Shares**	**EUR 1,000**
Series A (1 vote / share)	18,914,652	7,566	18,914,652	7,566
Series K (10 votes / share)	10,577,000	4,231	10,577,000	4,231
Total	29,491,652	11,797	29,491,652	11,797

18. PROVISIONS

Provisions in 2002 comprise a restructuring provision and a provision for streamlining measures at the Mexico subsidiary. Provisions in 2001 comprise only a provision for restructuring costs arising from streamlining of capacity and personnel, principally in Finland, Poland and Estonia.

19. LIABILITIES, EUR 1,000

	GROUP		PARENT COMPANY	
	2002	**2001**	**2002**	**2001**
Long-term liabilities				
Interest-bearing				
Medium-term capital notes	15,095	2, 941	15,095	21,941
Loans from financial institutions	19,181	23,893	-	105
Pension loans	3,074	3,536	3,074	3,536
Other long-term liabilities	-	137	-	113
Total	37,350	49,508	18,169	25,695
Payments due within one year	-15,196	-12,565	-10,463	-12,565
Interest-bearing, total	22,154	36,943	7,705	13,131
Interest-free				
Loans from financial institutions	504	483	-	-
Deferred tax liability	2,862	1,177	-	-
Interest-free, total	3,366	1,660	-	-
Long-term liabilities, total	25,520	38,603	7,705	13,131
Short-term liabilities				
Interest-bearing				
Medium-term capital notes	10,000	12,538	10,000	12,538
Loans from financial institutions	6,748	10,511	-	-
Commercial paper programs	2,980	15,767	2,980	15,767
Pension loans	463	27	463	27
Interest-bearing, total	20,191	38,843	13,443	28,332
Interest-free				
Accounts payable	320,647	239,620	146,183	99,090
Accrued expenses	72,953	36,169	47,443	10,115
Debt to Group companies	-	-	45,542	35,601
Loans from financial institutions	288	276	-	-
Advances received	434	2	-	-
Other short-term liabilities	8,581	12,049	1,022	987
Interest-free, total	402,903	288,117	240,190	145,793
Short-term liabilities, total	423,094	326,960	253,633	174,124
Interest-bearing liabilities	42,345	75,786	21,148	41,463
Interest-free liabilities	406,269	289,777	240,190	145,793
Liabilities, total	448,614	365,563	261,338	187,255

Medium-term capital notes

In December 1998 Elcoteq Network Corporation established a MFIM 300 (MEUR 50.5) medium-term note (MTN) program. There were no outstanding bond issues under this program at December 31, 2002.

In December 2002 Elcoteq Network Corporation issued an EEK 80 million private placement medium-term bond running from December 19, 2002 to December 19, 2005 and carrying a fixed coupon rate of 5.00%. The bond is unsecured. The bond has been valued at amortized cost using the effective interest rate method.

In September 2000 Elcoteq Network issued a MEUR 10 private placement medium-term bond running from September 29, 2000 to September 29, 2003. The bond interest is based on a 6-month Euribor plus a premium of 0.75%.

Pension loans

The company has TEL (Employees' Pensions Act) loans, the repayment schedules and interest rates of which are regulated by Finnish law. The principal amount of the loan raised in 1999 is payable in equal instalments over ten years. Pension loans are subject to interest rates of 3.85-5.25%.

Loans from financial institutions

Loans from financial institutions mature between 2003 and 2005 and their interest rates are based primarily on a 3- or 6-month market rate plus a premium varying from 0.25% to 0.8%.

Commercial paper programs

Elcoteq Network Corporation has a MEUR 100 commercial paper program. At the balance sheet date MEUR 3 of this program was in use with rolling periods of at most two months.

Other long-term liabilities

In late 1996 AS Elcoteq Tallinn entered into a MUSD 7.7 credit agreement with International Finance Corporation (IFC). The principal on this loan was paid back according to schedule and its repayment was completed in December 2002.

In 2000 Beijing Elcoteq Electronics Co., Ltd. entered into a MUSD 6 credit agreement with Finnfund to finance investments at the Beijing manufacturing plant. This loan has a maturity of maximum five years. MUSD 5.2 of this loan had been withdrawn at the balance sheet date and this matures in 2003. The loan carries interest of LIBOR +2%.

Revolving lines of credit

The credit limit on the Revolving Credit facility signed with a bank syndicate in March 2001 totals MEUR 105 at the balance sheet date. The amount of the facility diminishes towards the end of the agreement. The loan has a maturity of five years and carries variable interest of EURIBOR +1.15%. Elcoteq Network Corporation has the right to cancel the credit facility permanently. The loan is unsecured. The facility had no open withdrawals at the balance sheet date.

Long-term liabilities maturing after five years or later, EUR 1,000:	**GROUP**		**PARENT COMPANY**	
	2002	**2001**	**2002**	**2001**
Pension loans	751	1,215	751	1,215

20. ACCRUED EXPENSES, EUR 1,000

	GROUP		**PARENT COMPANY**	
	2002	**2001**	**2002**	**2001**
The Group's and Parent Company's accrued expenses comprise the following main items:				
Wages and salaries	5,956	3,055	1,923	306
Holiday pay	5,613	4,663	3,823	3,817
Other indirect personnel costs	4,821	3,790	2,442	1,933
Interest	158	429	134	380
Value-added taxes	3,403	3,650	422	26
Income taxes	1,103	1,882	174	189
Exchange rate periodizations of forward contracts	1,330	1,364	1,330	1,364
Transportation expenses	1,048	677	-	-
Rents of machinery and equipment	-	6,176	-	-
Aquisition cost of subsidiary	35,568	-	35,568	-
Other items	13,953	10,483	2,860	3,155
Total	72,953	36,169	48,676	11,170

21. LEASING CONTRACTS, EUR 1,000

The Group has leased equipment under operating leases. No significant new operating lease contracts were made in 2002.

The future minimum lease payments under operating leases for machinery and equipment are as follows:

	GROUP		**PARENT COMPANY**	
	Dec. 31,2002	**Dec. 31, 2001**	**Dec. 31, 2002**	**Dec. 31, 2001**
2002	-	7,499	-	7,499
2003	5,827	5,966	5,827	5,966
2004	2,909	2 814	2,909	2,814
2005	76	34	76	34
2006	28	-	28	-
2007	8	-	8	-
Total	8,848	16,314	8,848	16,314

The rental expenses with respect to operating leases for machinery and equipment amounted to MEUR 7.9 for the year ended December 31, 2002 and MEUR 8.3 for the year ended December 31, 2001. No significant new finance lease contracts were made during 2002.

Elcoteq has leased a manufacturing facility from the real estate company Kiinteistö Oy Piiharju in Lohja under a long-term rental agreement. Elcoteq has the option, at any time, to acquire the facility at a purchase price specified in the agreement. On December 31, 2002 this price was approximately MEUR 2.2.

Elcoteq Network Corporation has a 10% shareholding in Kiinteistö Oy Piiharju. The City of Lohja, which owns 90% of the real estate company, has financed the purchase of the facility. According to the shareholders' agreement between Elcoteq Network Corporation and the City of Lohja, Elcoteq Network Corporation is obligated to provide any necessary financing to the real estate company. The rental expenses with respect to the lease of the manufacturing facility were MEUR 0.6 during 2002 and MEUR 0.75 during 2001.
At December 31, 2002 Elcoteq's consolidated balance sheet contained MEUR 4.0 for assets in buildings and MEUR 2.0 for loans from financial institutions related to the Kiinteistö Oy Piiharju finance lease contract.

22. ASSETS PLEDGED AND CONTINGENT LIABILITIES, EUR 1,000		**GROUP 2002**	**GROUP 2001**	**PARENT COMPANY 2002**	**PARENT COMPANY 2001**
FOR OWN LIABILITIES					
Mortgages on real estate					
Loans from credit institutions		-	1,275	-	84
Mortgages		9,041	9,293	-	252
Mortgages on moveable assets					
Mortgages for other loans		4,541	4,541	4,541	4,541
Other pledges given as collateral					
Mortgages on moveable assets		336	336	336	336
ON BEHALF OF GROUP COMPANIES					
Guarantees		-	-	119,503	164,062
ON BEHALF OF OTHERS					
Guarantees		523	486	523	486
LEASING COMMITMENTS					
Operating lease, machinery and equipment (excl. VAT)		8,848	16,342	8,848	16,342
Rental commitments, real estates (excl. VAT)		17,443	27,010	4,540	6,003
DERIVATIVE CONTRACTS					
Foreign currency derivative instruments					
Foreign currency forward contracts					
Nominal value		168,118	163,720	157,018	143,175
Book value		-1,475	-1,472	-1,129	-1,210
Market value		-1,540	-1,349	-1,201	-1,084
Foreign currency option contracts					
Nominal value	bought	11,309	10,085	9,402	7,657
	sold	2,861	14,864	-	11,301
Book value	bought	4	-254	-13	108
	sold	0	-42	-	-42
Market value	bought	0	-253	0	108
	sold	0	-42	-	-42
Interest rate derivative instruments					
Nominal value		-	145,387	-	145,387
Book value		-	-71	-	-71
Market value		-	-235	-	-235
Interest rate and foreign exchange swap contracts					
Nominal value		-	1,747	-	1,747
Book value		-	557	-	-
Market value		-	568	-	568

OTHER COMMITMENTS

In calculating the value added tax for China in 2002 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. Elcoteq has estimated the risk to be small and has therefore made no provision.

Shares and shareholders

Share series and share capital

Elcoteq Network Corporation has two classes of shares, Series A and Series K. Each Elcoteq A share carries one vote and each K share ten votes at general shareholders' meetings. Both share series carry the same dividend rights.

Series A shares (trading code ELQAV) are quoted on the HEX Helsinki Exchanges and they are incorporated in the book-entry securities system maintained by the Finnish Central Securities Depository Ltd. Elcoteq shares are traded in lots of 50.

At the close of the 2002 financial year the share capital comprised altogether 29,491,652 shares divided into 18,914,652 A shares and 10,577,000 K shares. The nominal value of the shares is EUR 0.40. Hence the company's registered share capital is EUR 11,796,660.80. Elcoteq does not own its own shares.

The Articles of Association stipulate that the number of K shares may not be increased. All K shares are held by Mr Antti Piippo, Mr Henry Sjöman and Mr Jorma Vanhanen. These individuals owned the whole company before its Initial Public Offering and their holdings of K shares have not changed since.

Board authorizations

The Annual General Meeting on March 20, 2002 authorized the Board of Directors to float one or several convertible bond loans and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue. The authorization is in force until March 20, 2003 and at most 5,898,330 shares may be subscribed based on it. The authorization was not exercised during 2002.

The Board has no authorization to purchase the company's own shares.

Bond with warrants 1997

In the fall of 1997 the company offered bonds with warrants totaling FIM 1,125,000 to key executives of the company. The loan principal was repaid to the subscribers in October 2000 as required by the bond's terms and conditions. The bond warrants (A-C) entitle their holders to subscribe for at most 1,125,000 A shares.

The share subscription period under the A warrants (30%) began on September 1, 2000, under the B warrants (30%) on September 1, 2001, and under the C warrants (40%) on September 1, 2002. In all three cases the subscription period ends on January 31, 2004. Exercise of these warrants during 2000 resulted in the subscription of 146,700 new A shares. No new subscriptions were made during 2001 or 2002.

The bonds with warrants 1997 covers 96 people who hold altogether 938,300 warrants. A further 40,000 warrants are held by an Elcoteq subsidiary, Elcoteq Lohja Oy. Subscription rights remaining unexercised at the end of 2002 entitle the subscription of at most 978,300 new A shares of nominal value EUR 10.04 per share. The share subscription price will be reduced by the amount of any dividends paid after the issue of the bond with warrants. The share subscription price cannot, however, be lower than the nominal value of the share.

The stock option rights under the bonds with warrants 1997 were admitted for trading on the Main List of the Helsinki Exchanges on December 16, 2002 and at the same time the separate A, B and C warrants were united into a single 1997 ABC warrant in the book-entry securities system. These warrants are traded in lots of 50 under trading code ELQAVEW197.

Stock options for key employees 2001

Under the company's 2001 stock option plan, options were issued to key employees of the Group and to a wholly owned Elcoteq subsidiary. Altogether 2,685,000 warrants (A-E) were issued entitling their holders to subscribe for at most 2,685,000 new A shares. At the end of 2002 this plan covered 261 employees who held altogether 1,795,200 warrants. The remaining warrants are held by an Elcoteq subsidiary, Elcoteq Lohja Oy, for future needs. Stock options form part of the company's scheme for ensuring the motivation and long-term commitment of key employees.

Altogether 537,000 new A shares may be subscribed for annually under the warrants (A-E) in the five successive

Possible impact of unexercised option rights on Elcoteq's share capital on December 31, 2002

	number	Shares, %	Share capital, euro	Votes, %
Management options 1997	+978,300	+3.32	+391,320	+0.78
Option scheme 2001	+ 2,685,000	+9.10	+1,074,000	+2.15
Total	**+3,663,300**	**+12.42**	**+1,465,320**	**+2.93**

If all the abovementioned and hitherto unexercised subscription rights were exercised, Elcoteq would have altogether 33,154,952 shares and altogether 128,347,952 votes.

years from April 1, 2002 to April 30, 2007 inclusive. Share subscription under the A warrants started on April 1, 2002. Share subscription under the B warrants starts on April 1, 2003, under the C warrants on April 1, 2004, under the D warrants on April 1, 2005, and under the E warrants on April 1, 2006. The subscription price in all cases is EUR 9.14 per share. The share subscription price will be reduced by the amount of any dividends paid after the issue of the stock options. The share subscription price cannot, however, be lower than the nominal value of the share. No A warrants had been exercised to subscribe for new shares by the end of 2002.

The A warrants under the stock option plan 2001 were admitted for trading on the Main List of the Helsinki Exchanges on December 16, 2002. These A warrants are traded in lots of 50 under trading code ELQAVEW101.

The terms and conditions of the 1997 bond with warrants and the 2001 stock options are available on the company's website at www.elcoteq.com.

Board of Directors' and President's holdings

At the end of 2002 the members of the company's Board of Directors and the President owned altogether 1,430,922 A shares and 5,166,000 K shares, corresponding to 22.4% of the total number of shares and 42.6% of the voting rights.

The President and the members of the Board, not including the two principal owners on the Board, hold altogether 145,500 of the warrants attached to the bonds with warrants issued to company executives in the fall of 1997. Furthermore, the President owns 150,000 warrants under the 2001 stock option scheme. Based on these warrants, the President and the Board members, excluding the two principal owners, may subscribe for at most 295,500 new A shares, which would represent 1.0% of the share capital and 0.24% of the voting rights after subscription. If all other warrants were also exercised, the President and all the Board members would jointly hold 20.8% of the total number of shares and 41.6% of the voting rights.

Shareholders

Elcoteq Network Corporation had 12,295 registered shareholders at the end of 2002. There were altogether 5,865,528 nominee-registered or foreign-registered A shares, i.e. 19.9% of the total number of shares and 4.7% of the voting rights.

Free float

The free float (the number of A shares not held by the principal owners) is 15,911,152 shares, i.e. approximately 84% of the A shares and 53.9% of the total number of shares. 36.9% of the free float were nominee-registered or held by registered foreign companies.

Share performance and trading

The price of the A shares at the beginning of 2002 was EUR 10.09. The closing price on the final day of trading, December 30, 2002, was EUR 10.80. The highest price on the Helsinki Exchanges during 2002 was EUR 12.50, the lowest price was EUR 4.43, and the average price was EUR 8.75.

Altogether 17,936,782 Elcoteq shares were traded during the year, totaling MEUR 156.9.

Market capitalization

Elcoteq's market capitalization at the end of 2002 was MEUR 318.5. The market capitalization is calculated by multiplying the share capital, i.e. all the A and K shares, by the final share quotation in 2002.

Taxation value of Elcoteq shares in Finland

The confirmed Finnish taxation value of Elcoteq's A share in 2002 was EUR 7.56.

Per share data and share trading figures are shown with the company's financial ratios on page 51.

In the tables describing types of owners and distribution of shares, each share entry is considered to be independent. Holdings belonging to the same group or sphere of influence are not combined.

The tables below are based on the share register at December 30, 2002.

Distribution of shares

No. of shares	No. of owners	% of total shares	% of total votes
1-100	4,749	1.12	0.26
101-1,000	6,512	8.54	2.02
1,001-10,000	944	8.21	1.94
10,001-100,000	68	7.45	1.76
100,001-	22	74.68	94.01

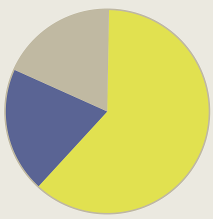
Figures include nominee-registered shareholders.
Each nominee register is treated as one owner.

Types of owners

	No. of shares	% of total shares	% of total votes
Households	18,148,834	61.54	90.9
Foreign*	5,865,528	19.89	4.70
Financial and insurance institutions	2,389,346	8.10	1.92
Public entities	1,205,563	4.09	0.97
Corporations	1,166,288	3.95	0.94
Non-profit organizations	716,093	2.43	0.57

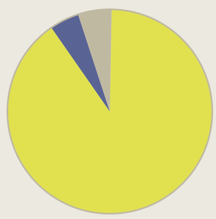
* Includes nominee-registered shares

% of total shares



Households
Foreign*
Other

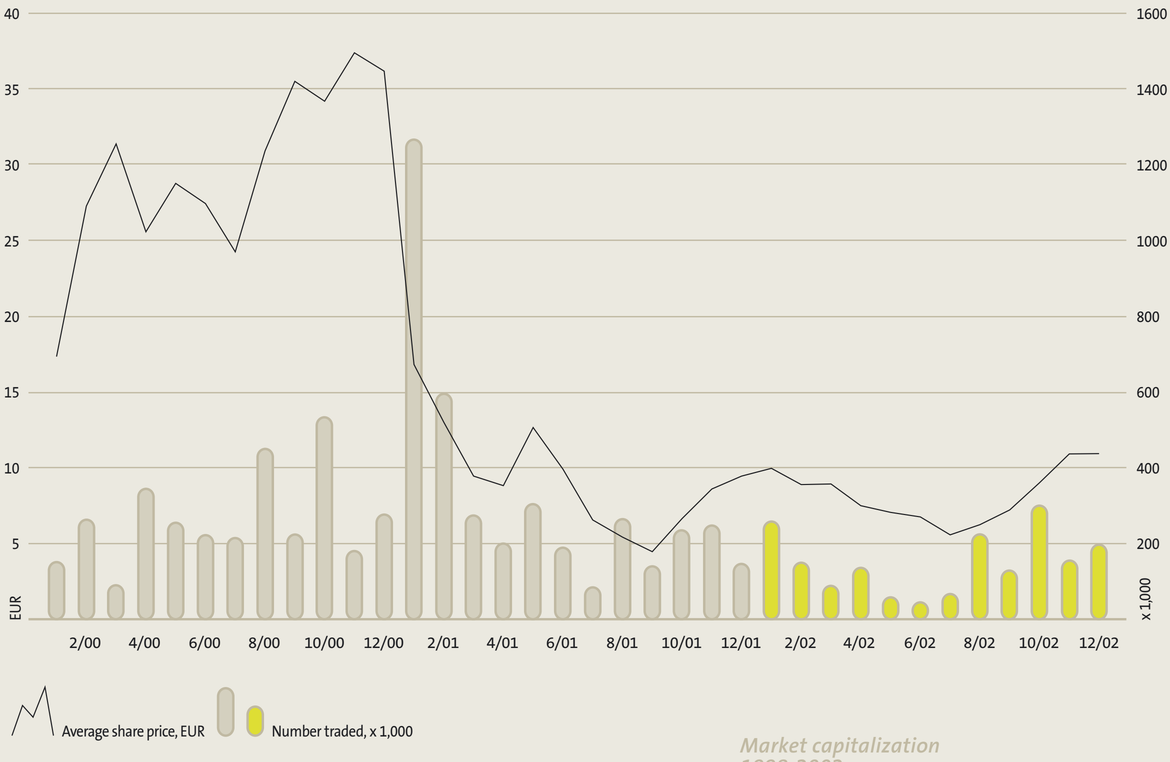
% of total votes



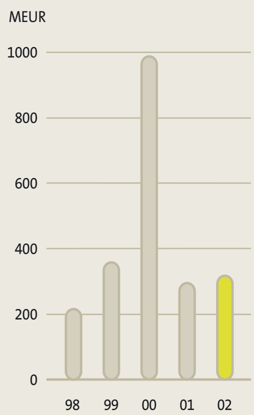
Largest shareholders, Dec. 30, 2002

	A shares	K shares	% of shares	% of votes
1. Antti Piippo	1,586,970	5,411,000	23.73	44.67
2. Henry Sjöman	815,765	2,583,000	11.52	21.37
3. Jorma Vanhanen	600,765	2,583,000	10.79	21.19
4. State Pension Fund	500,000		1.69	0.40
5. Tapiola Mutual Pension Insurance Company	365,000		1.24	0.29
6. FIM Forte Investment Fund	294,550		1.00	0.24
7. Tapiola General Mutual Insurance Company	230,000		0.78	0.18
8. FIM Fenno Investment Fund	194,050		0.66	0.16
9. Evli-Select Investment Fund	157,750		0.53	0.13
10. Erkki Etola	146,050		0.49	0.12
Ten largest shareholders, total	**4,890,900**	**10,577,000**	**52.43**	**88.75**

Trading price and volume of Elcoteq's Series A shares January 3, 2000-December 30, 2002



Market capitalization 1998-2002



Risk management

Principles of risk management

Risk management in Elcoteq is based on the company's risk management policy approved by management in 2002. This policy classifies risks as external and internal on the one hand, and strategic, operative, financial and hazard risks on the other. Elcoteq pursues a policy of comprehensive and predictive management of these areas of risk, while also utilizing the opportunities they provide.

Elcoteq's risk management policy requires that risk management in the company is an integral part of the business processes of all its units at all levels of the organization. Risk management responsibilities are defined in line with normal business responsibilities.

Under the risk management policy Elcoteq's business units regularly monitor and assess the risks associated with their own activities, draw up appropriate development plans, and provide reports on these risks and plans according to the company's reporting responsibilities. The purpose of the Group's Risk Management function is to support and evaluate the risk management work conducted by the business units and to report to Group management on the most significant risks.

Elcoteq has drawn up separate risk management guidelines on specific areas that supplement the Group's risk management policy. These areas include treasury, insurance, data and corporate security, and environmental management.

Financial risk management

The objective of Elcoteq's Treasury function is threefold: to ensure the availability of sufficient and cost-effective funding alternatives in different market conditions, to identify and manage the credit and foreign exchange risks related to the company's business, and to hedge against significant financial exposure in line with the company's treasury policy. Funding operations and loans are mainly the responsibility of the parent company's Treasury function. The funding needs of the subsidiaries are generally managed using internal loans.

Foreign exchange risks

Most of the company's short-term liabilities and to some extent short-term assets are denominated in currencies other than the euro. Therefore foreign exchange fluctuations can have a major impact on the Group's performance. These transaction risks are hedged by product pricing (the Open Book Calculation method). In addition to component, raw material and manufacturing costs, this method also covers foreign exchange rates at the time of pricing and therefore provides a good foundation for the hedging required by the company's volume forecasts. Pricing is typically agreed for three-month intervals. The pricing period may also be shorter, so no significant long-term items are included in the company's transaction position. The net exchange rate position at the time of pricing is hedged using both forward exchange contracts and also currency options, with a validity of at most four months. The level of these hedging instruments is monitored throughout the pricing period.

The currency exposure of the company's subsidiaries outside the Eurozone, i.e. the translation exposure, is due to fluctuations in the euro-denominated value of their equity. This exposure is partly covered by derivative contracts and loans denominated in the same currency.

The nominal, book and market values of the derivative contracts on the balance sheet date are shown in Note 22 in the Notes to the Financial Statements on page 45. The market value of the forward contracts is calculated using the official average exchange rate on the balance sheet date. The market value of option contracts is the realizable amount at which the instrument could be closed off at the balance sheet date.

Other financial risks

Other financial risks to which the company's business is exposed include liquidity, credit, counterparty and interest risks.

Liquidity risk is measured by liquidity risk reports based on cash flow estimates. The company will continue to safeguard its good liquidity in varying market conditions through sufficient cash reserves and credit arrangements. The company also has a commercial paper program and in addition it will strive to utilize sale of receivable arrangements when cost-efficient.

Primary responsibility for credit risks associated with the company's commercial operations lies with its geographical areas. Commercial credit risks are managed in accordance with the company's treasury policy, the aim being to obtain adequate collateral should the customer's creditworthiness so require. The trade receivables of the Group companies did not contain any significant items regarded as uncertain on the closing date.

To minimize counterparty risk the company enters into derivative financial contracts only with creditworthy domestic and foreign banks. Liquid reserves are invested within counterparty specific limits agreed separately.

The company's borrowing and investments are for the most part tied to short-term market interest rates. The company had no open interest derivatives on the balance sheet date.

Formulas for the calculation of financial ratios

Return on equity (ROE) =

$$\frac{\text{(Profit before extraordinary items – taxes) x 100}}{\text{Shareholders' equity + minority interests, average of figures at beginning and end of year}}$$

Return on investment (ROI/ROCE) =

$$\frac{\text{(Profit before extraordinary items + interest and other financial expenses) x 100}}{\text{Total assets – non-interest-bearing liabilities, average of figures at beginning and end of year}}$$

Current ratio =

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

Solvency 1 =

$$\frac{\text{(Shareholders' equity + minority interests) x 100}}{\text{Total assets – advance payments received}}$$

Solvency 2 =

$$\frac{\text{(Shareholders' equity + convertible capital notes + minority interests) x 100}}{\text{Total assets – advance payments received}}$$

Gearing 1 =

$$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Shareholders' equity + minority interests}}$$

Gearing 2 =

$$\frac{\text{Interest-bearing liabilities – convertible capital notes – cash and cash equivalents}}{\text{Shareholders' equity + convertible capital notes + minority interests}}$$

Earnings per share (EPS) =

$$\frac{\text{Profit before extraordinary items – taxes – minority interests}}{\text{Adjusted average number of shares during the period}}$$

Shareholders' equity per share =

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the period}}$$

Dividend per share =

$$\frac{\text{Dividends paid for the fiscal year}}{\text{Adjusted number of shares at the end of the period}}$$

Pay-out ratio =

$$\frac{\text{Dividends paid for the fiscal year x 100}}{\text{Profit before taxes – income taxes – minority interests}}$$

Dividend yield =

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

P/E ratio =

$$\frac{\text{Average share price at the end of the period}}{\text{Earnings per share (EPS)}}$$

Return on investment (ROI/ROCE) from 12 preceding months =

$$\frac{\text{(Profit before extraordinary items + interest and other financial expenses) x 100}}{\text{Total assets – non-interest-bearing liabilities, average of figures at beginning and end of the period}}$$

In these formulas the convertible capital notes are included in interest-bearing liabilities and not in shareholders' equity.

Five years in figures

		2002	2001	2000	1999	1998
OPERATIONS						
Net sales	MEUR	1,840.2	1,862.5	2,213.5	752.5	394.6
of which outside Finland	%	77.5	76.5	68.5	80.3	64.7
Gross capital expenditure	MEUR	78.0	45.1	125.7	50.2	44.0
(excludes operating leases)						
Personnel on average during the year		8,003	9,960	9,630	4,733	3,085
PROFITABILITY						
Operating profit/loss	MEUR	25.5	-18.4	66.4	14.5	10.4
as percentage of net sales	%	1.4	-1.0	3.0	1.9	2.6
Profit/loss before taxes	MEUR	18.6	-30.7	54.4	9.8	8.7
as percentage of net sales	%	1.0	-1.6	2.5	1.3	2.2
Net profit/loss	MEUR	16.1	-32.0	37.2	5.0	7.1
as percentage of net sales	%	0.9	-1.7	1.7	0.7	1.8
Return on equity (ROE)	%	7.4	-11.7	19.3	5.4	6.6
Return on investment (ROI/ROCE)	%	9.2	-3.5	20.4	8.2	8.1
FINANCIAL RATIOS						
Current ratio		1.2	1.3	1.3	1.2	1.7
Solvency 1	%	36.6	39.6	35.1	27.5	43.8
Solvency 2	%	36.6	39.6	35.1	31.7	51.0
Gearing 1		-0.1	0.2	0.5	0.7	0.4
Gearing 2		-0.1	0.2	0.5	0.5	0.2
Interest-bearing liabilities	MEUR	42.6	75.8	182.3	89.3	44.3
Interest-bearing net debt	MEUR	-33.4	39.4	150.5	68.8	30.6
PER SHARE DATA						
Earnings per share (EPS)	EUR	0.54	-1.08	1.38	0.21	0.32
Diluted earnings per share (EPS) *)	EUR	0.48	-	1.33	-	-
Shareholders' equity per share	EUR	8.40	7.99	9.37	5.04	4.81
Diluted shareholders' equity per share	EUR	7.47	7.11	9.07	-	-
Dividend per share **)	EUR	0.40	0.0	0.38	0.11	0.03
Pay-out ratio **)	%	73.47	0.0	30.0	51.0	11.0
Dividend yield **)	%	3.70	0.0	1.1	0.7	0.4
P/E ratio		19.7	-9.1	24.4	72.0	30.1
Share price						
• lowest	EUR	4.43	3.30	13.00	7.07	5.21
• highest	EUR	12.50	34.90	43.00	15.90	14.30
• average	EUR	8.75	11.92	30.26	9.42	9.46
• at the end of the year	EUR	10.80	10.00	33.50	15.20	9.25
Market capitalization						
• A share	MEUR	204.3	189.1	633.5	193.6	117.8
• K share	MEUR	114.2	105.8	354.3	160.8	97.8
• Total	MEUR	318.5	294.9	987.9	354.4	215.7
Market capitalization for both share series is calculated using the closing share price at the end of the year.						
Trading of shares						
• Number of shares traded	Shares	17,936,782	39,324,316	31,957,599	10,706,930	12,508,204
• As percentage of all A shares	%	94.8	207.9	169.0	84.1	98.2
Adjusted weighted average number of shares during the period	Shares	29,491,652	29,491,373	26,944,809	23,315,500	23,315,500
Adjusted number of shares at the end of the period	Shares	29,491,652	29,491,652	29,488,902	23,315,500	23,315,500

*) The diluted earnings per share (EPS) has not been presented for 1998, 1999 and 2001 since these figures have been higher than the undiluted EPS figures.

**) The dividend for the financial year 2002 is the Board's proposal to the Annual General Meeting.

Since 1998 the financial statements have been prepared in compliance with the Finnish Accounting Act, which came into force on December 31, 1997.

Board's proposal to the Annual General Meeting

The Group's distributable funds on the balance sheet date totaled EUR 21,690,618.44. The parent company recorded a net profit of EUR 19,161,839.14 for the year. Retained earnings from previous years, adjusted for the share issue costs entered in the share premium account, amounted to EUR -1,264,057.98. Therefore the company's distributable funds totaled EUR 17,897,781.16.

The Board will propose to the Annual General Meeting that the parent company distribute a dividend of EUR 0.40 per share, or EUR 11,796,660.80 in total, on the financial year. After this, the parent company's unused retained earnings will amount to EUR 6,101,120.36.

Espoo, February 5, 2003

Juha Toivola
Chairman of the Board

Martti Ahtisaari

Heikki Horstia

Eero Kasanen

Henry Sjöman

Jorma Vanhanen

Lasse Kurkilahti
President and CEO

Auditors' report to the shareholders of Elcoteq Network Corporation

We have audited the accounting records, the financial statements and the administration of Elcoteq Network Corporation for the year 2002. The financial statements, which include the report by the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on the company's administration.

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

In our opinion the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The 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 distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 14 February 2003

KPMG WIDERI OY AB

Mauri Palvi
Authorized Public Accountant

Organization

Elcoteq adopted an organization on July 1, 2002 that divides the company into three geographical areas (GA's), which are Europe, Asia-Pacific and Americas, and into two business areas, which are Terminal Products and Communicatons Network Equipment.

The heads of the geographical areas are responsible for sales, production and financial performance within their areas. At the beginning of 2003, when Industrial Electronics was reorganized, GA Europe was divided into two areas: one responsible for terminal products and the other for communications network equipment and industrial electronics.

Elcoteq's main business areas are Terminal Products and Communications Network Equipment. The business area heads are responsible for development of the business, service offering and supply chain management in their areas as well as for maintaining the global consistency of Elcoteq's operations.

The geographical and business areas are supported by Group functions, Design, NPI, Operations, Demand & Supply Chain Management, and Sourcing.

Elcoteq's management team, called the Management Conference, comprises the heads of the geographical areas and business areas, the heads of the various Group functions, and separately specified individuals who hold global responsibility.

The purpose of the new organization is to support implementation of the refined strategy, to clarify responsibilities and to improve the organization's ability to sell Elcoteq services with success.

		TP* EUROPE	CNE/IE** EUROPE	ASIA-PACIFIC	AMERICAS
CEO	Lasse Kurkilahti	Harri Ollila	Jukka Jäämaa	Jouni Hartikainen	Douglas Brenner
GROUP FUNCTIONS:					
Business Control	Teo Ottola				
Treasury	Tuula Hatakka				
Corp. Development	Vesa Keränen				
Human Resources	Riitta Savonlahti				
Communications	Osmo Kammonen				
Marketing	Johan Westermarck				
Quality	Reijo Itkonen				
Legal Affairs	Jukka Hakkila				
TERMINAL PRODUCTS	Christer Härkönen				
Operations	Reijo Itkonen				
D/SCM & IM***	Panu Kaila				
COMMUNICATIONS NETWORK EQUIPMENT	Hannu Keinänen				

* TP= Terminal Products
** CNE/IE= Communications Network Equipment and Industrial Electronics
*** D/SCM & IM= Demand and Supply Chain Management and Information Management

Corporate governance

In addition to the requirements of Finnish legislation, Elcoteq applies the guidelines for the administration of public limited companies prepared jointly by the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers, as well as the insider guidelines issued by the Helsinki Exchanges.

General Shareholder Meetings

The general meeting of shareholders is the supreme decision-making body in the company 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. The 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.

The Board of Directors

Responsibility for the management of the company and appropriate organization of its operations lies with the Board of Directors, which comprises at least four and at most eight members. The Board is elected by the Annual General Meeting and serves for one year at a time until the close of the subsequent AGM. The Board had six members during the term of office expiring at the AGM in 2003. The Board elects a chairman and a deputy chairman from among its members. Since the AGM on March 20, 2002 the Board has been chaired by Mr Juha Toivola and its deputy chairman has been Mr Martti Ahtisaari.

In addition to the tasks required by Finnish legislation and Elcoteq's articles of association, the Board is also responsible for confirming the company's strategy, for approving its budget, and for deciding on major investments and donations to good causes. The Board meets as required. In 2002 the Board held eight meetings.

The Review and Compensation Committee

The Board of Directors has appointed a Review and Compensation Committee from among its members to monitor the company's operations, to report to the Board on its findings and to submit proposals. During its 2002-2003 term of office, the Committee was chaired by the Chairman of the Board, Mr Juha Toivola, and its members were Mr Martti Ahtisaari, Mr Heikki Horstia and Mr Eero Kasanen.

The term of office of the Committee is the same as for the Board of Directors. The Committee's tasks include, for example, analyzing the annual and interim financial statements, establishing the sufficiency of the external and internal audits, and evaluating the company's risk exposure.

The Committee approves the remuneration policies applied to the company's top management. It also ensures that the remuneration scheme promotes the company's goals.

The Working Committee

The Board of Directors has also appointed a Working Committee from among its members to prepare issues for consideration by the Board and to supervise implementation of the development programs approved by the Board. The Working Committee reports to the Board of Directors. During its 2002-2003 term of office, the Committee was chaired by the Board's chairman, Mr Juha Toivola, and its other members were Mr Henry Sjöman, Mr Jorma Vanhanen and CEO Lasse Kurkilahti.

The President

The Board of Directors appoints a President who is responsible for the operative management of the company as required by the provisions of the Finnish Companies Act and in accordance with the instructions and stipulations of the Board of Directors. The President and Chief Executive Officer of the company since December 1, 2001 has been Mr Lasse Kurkilahti, BSc (Econ.).

Remuneration

Elcoteq's Annual General Meeting on March 20, 2002 decided that, with the exception of the company's two principal owners Mr Henry Sjöman and Mr Jorma Vanhanen, the members of the Board of Directors should be paid an annual fee of EUR 25,000, 60% of which in cash and 40% in the form of shares. Mr Sjöman and Mr Vanhanen are employed full-time by the company and are paid a monthly salary.

The salaries, fees and benefits in kind paid to the members of the Board of Directors and the President in 2002 totaled EUR 843,411.40. The salary, benefits and bonuses paid to the President totaled EUR 406,197. The salaries and fees paid to the Board members totaled EUR 437,214.40.

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 Exchanges. Personnel are trained in the matters covered by these Insider Rules.

The company's statutory list of insiders comprises the members of the Board of Directors, the President and the auditor. Other permanent insiders are the members of the company's management team i.e. Management Conference, and individuals who regularly attend the Management Conference's meetings. The company also maintains insider registers for specific projects.

Elcoteq Network Corporation's insider register is maintained by the Finnish Central Securities Depository Ltd. Up-to-date information on insiders' holdings is on display at the HEXGate offices, Fabianinkatu 14, Helsinki.

Board of Directors

Martti Ahtisaari, born 1937, Teacher Training Course Graduate, University of Oulu, has been a member of Elcoteq's Board of Directors since 2000. Mr Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. His many posts include Ambassador of Finland to Tanzania, the UN's special representative to Namibia and Secretary of State in Finland's Ministry for Foreign Affairs. Mr Ahtisaari was President of the Republic of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts including Co-Chairman of the East West Institute and Chairman of the International Crisis Group. Mr Ahtisaari is also a member of the Board of Directors of UPM-Kymmene and he holds honorary doctorates from a number of universities. Elcoteq holdings: 2,598 A shares and 5,250 bonds with warrants 1997.

Heikki Horstia, born 1950, BSc (Econ.), has been a member of the Board since 1991. Mr Horstia has had a career in the financial management of industrial enterprises since 1976, and has occupied management and board positions in the electronics industry since 1983. He is Vice President, Treasurer of Wärtsilä Corporation. Elcoteq holdings: 3,598 A shares and 7,500 bonds with warrants 1997.

Eero Kasanen, born 1952, DBA, Rector of Helsinki School of Economics and Business Administration and Professor of Finance, has been a member of the Board since 2001. Dr Kasanen is a member of the Board of Directors of Kesko Oyj and Kaleva Mutual Insurance Company and Chairman of the Board of Directors of the Helsinki School of Economics and Business Administration Holding Ltd. Elcoteq holdings: 2,598 A shares and 5,250 bonds with warrants 1997.

Henry Sjöman, born 1950, BSc (Eng.), has been one of the principal shareholders and a member of the Board since the management buyout in 1991. Mr Sjöman has worked in the electronics industry since 1974, and has held various management positions in Elcoteq and its predecessors since 1984. Elcoteq holdings: 815,765 A shares and 2,583,000 K shares.

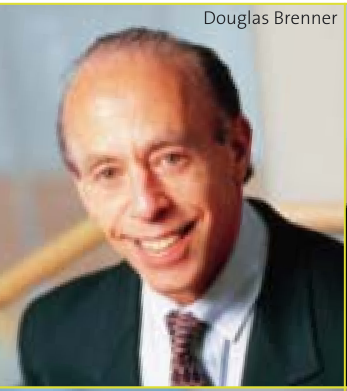
Juha Toivola, born 1947, MSc, has been a member of the Board since 1997 and Chairman of the Board since autumn 2001. He has over 30 years of experience of Finnish and international industrial corporations and the insurance sector. Between 1971 and 1995 Mr Toivola worked for Fiskars Corporation, and between 1996 and 2001 he was Managing Director of Industrial Insurance Company Ltd and Deputy Managing Director of Sampo Group. Mr Toivola is the chairman or member of the boards of directors in several companies. He is also member of Hallitusammattilaiset (Association of Finland's Board Professionals). Elcoteq holdings: 2,598 A shares and 7,500 bonds with warrants 1997.

Jorma Vanhanen, born 1959, MSc (Eng.), has been one of the principal shareholders and a member of the Board since the management buyout in 1991. He has held various management positions in Elcoteq and its predecessors since 1985. Elcoteq holdings: 600,765 A shares and 2,583,000 K shares.

The Board of Directors: (from left) Juha Toivola, Henry Sjöman, Eero Kasanen, Martti Ahtisaari, Jorma Vanhanen and Heikki Horstia.

Management Conference (MC)


Lasse Kurkilahti

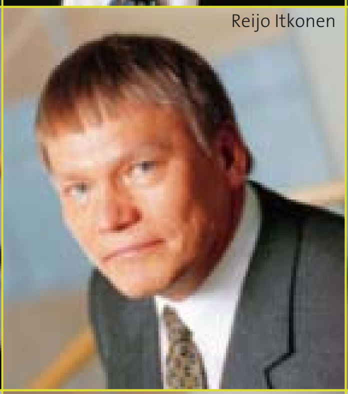

Douglas Brenner


Jukka Hakkila


Jouni Hartikainen


Tuula Hatakka


Christer Härkönen


Reijo Itkonen


Jukka Jäämaa


Panu Kaila


Osmo Kammonen


Hannu Keinänen

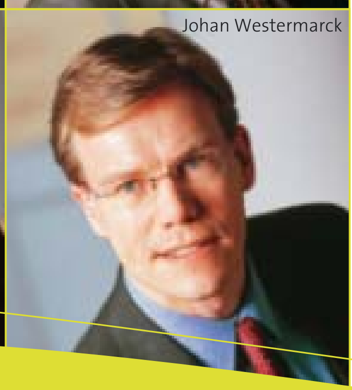

Vesa Keränen


Harri Ollila


Teo Ottola


Temmo Pitkänen


Riitta Savonlahti


Johan Westermarck

Lasse Kurkilahti, born 1948, BSc (Econ.)
President and CEO
Joined the company and the MC in 2001
Number of Elcoteq shares: 3,000
Number of warrants: 120,000 (1997); 150,000 (2001)

Douglas Brenner, born 1949, PhD, MBA
President, Americas
Joined the company and the MC in 2002
Number of warrants: 50,000 (2001)

Jukka Hakkila, born 1960, LLM
Senior Vice President, Legal Affairs
Joined the company and the MC in 2002
Number of warrants: 50,000 (2001)

Jouni Hartikainen, born 1961, MSc (Eng.)
President, Asia-Pacific
Joined the company and the MC in 2000
Number of warrants: 10,000 (1997); 85,000 (2001)

Tuula Hatakka, born 1963, MSc (Econ.)
Senior Vice President, Treasury
Joined the company in 2000; member of the MC since 2002
Number of Elcoteq shares: 50
Number of warrants: 7,500 (1997); 50,000 (2001)

Christer Härkönen, born 1957, MSc (Eng.)
Senior Vice President, Terminal Products
Joined the company and the MC in 1996
Number of Elcoteq shares: 80
Number of warrants: 51,900 (1997); 85,000 (2001)

Reijo Itkonen, born 1949, Technician
Senior Vice President, Operations and Quality
Joined the company in 1997; member of the MC since 1999
Number of Elcoteq shares: 150
Number of warrants: 19,500 (1997); 75,000 (2001)

Jukka Jäämaa, born 1965, LSc (Eng.)
President, Communications Network Equipment and Industrial Electronics, Europe
Joined the company and the MC in 1998
Number of warrants: 15,750 (1997); 85,000 (2001)

Panu Kaila, born 1955, BSc (Eng.)
Senior Vice President, Demand/Supply Chain Management and Information Management
Joined the company in 2000; member of the MC since 2002
Number of Elcoteq shares: 3,400
Number of warrants: 7,500 (1997); 50,000 (2001)

Osmo Kammonen, born 1959, LLM
Senior Vice President, Communications and Investor Relations
Joined the company and the MC in 1996
Number of Elcoteq shares: 500
Number of warrants: 50,500 (1997); 50,000 (2001)

Hannu Keinänen, born 1969, MSc (Eng.)
Senior Vice President, Communications Network Equipment
Joined the company in 1998; member of the MC since 2002
Number of warrants: 5,250 (1997); 50,000 (2001)

Vesa Keränen, born 1970, MSc (Eng.)
Senior Vice President, Corporate Development
Joined the company in 1997; member of the MC since 2001
Number of warrants: 10,000 (1997); 50,000 (2001)

Harri Ollila, born 1954, MSc (Eng.), MBA
President, Terminal Products, Europe
Joined the company and the MC in 2003
Number of warrants: 85,000 (2001)

Teo Ottola, born 1968, MSc (Econ.)
Senior Vice President, Business Control and Accounting
Joined the company in 1996; member of the MC since 2000
Number of Elcoteq shares: 580
Number of warrants: 8,000 (1997); 50,000 (2001)

Temmo Pitkänen, born 1961, MSc (Eng.)
Vice President, Terminal Products, Technology and NPI
Joined the company in 1995; member of the MC since 2002
Number of Elcoteq shares: 80
Number of warrants: 5,250 (1997); 50,000 (2001)

Riitta Savonlahti, born 1964, MSc (Econ.)
Senior Vice President, Human Resources
Joined the company and the MC in 2001
Number of Elcoteq shares: 1,100
Number of warrants: 4,000 (1997); 50,000 (2001)

Johan Westermarck, born 1965, LSc (Econ.), MSc (Eng.)
Vice President, Marketing
Joined the company in 2001; member of the MC since 2003
Number of warrants: 30,000 (2001)

Releases in 2002

February

Elcoteq to manufacture Ascotel corded system terminals
(Feb. 5)

Elcoteq and Ascom Enterprise Communications agreed that Elcoteq will start manufacturing Ascotel corded system terminals for Ascom at Elcoteq's plant in Pécs, Hungary. The agreement covers several models which Elcoteq manufactures box-built, i.e. ready for distribution to end-users.

Antti Piippo will not stand for re-election to Elcoteq's Board of Directors
(Feb. 15)

Elcoteq's founder and principal shareholder Antti Piippo informed the company that he will not stand for re-election to the Board of Directors at the Annual General Meeting in March 2002. At the same time Mr Piippo announced that he has no intention of reducing his holding in Elcoteq.

March

Elcoteq signs MEUR 130 securitization facility
(March 11)

Elcoteq signed a master agreement to sell selected trade receivables under continuing transactions without recourse via a securitization facility. The facility was arranged by Nordea Group. This discount facility gives the company the potential to sell receivables up to MEUR 130.

Elcoteq strengthens its NPI services
(March 13)

Elcoteq announced that it intends to strengthen its network of New Product Introduction Centers in response to increasing demand for the services they provide. At the same time the company announced plans to build NPI Centers in Beijing, China and Monterrey, Mexico.

Decisions of Elcoteq's Annual General Meeting
(March 20)

The meeting confirmed the consolidated and parent company's income statements and balance sheets for the financial year 2001 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year. The meeting also decided not to distribute a dividend on the financial year 2001. The Annual General Meeting authorized the Board of Directors for one year to float one or several convertible bond loans and/or to issue stock options and/or to raise the share capital in one or several installments through a rights issue.

Guangzhou Thinker Technology becomes Elcoteq's customer in China
(March 25)

Guangzhou Thinker Technology Co. Ltd, a Chinese company specializing in designing and supplying components for data and telephone communications networks, chose Elcoteq as its manufacturing partner. The parties signed a two-year agreement under which Elcoteq manufactures printed circuit board assemblies at its plant in Dongguan, China, for a Guangzhou Thinker Technology product.

Elcoteq to manufacture phones for Swissvoice AG
(March 27)

Elcoteq and Swissvoice agreed that Elcoteq will start to manufacture ISDN phones for Swissvoice at Elcoteq's plant in Pécs, Hungary. Elcoteq also provides Swissvoice with new product introduction (NPI) services as well as high-value-added sourcing and supply chain services. Elcoteq manufactures Swissvoice's products box-built.

April

Elcoteq and Aspocomp establish technology development company
(April 12)

Elcoteq Network Corporation and Aspocomp Group Oyj founded a joint venture that focuses on the development and commercialization of IMB (Integrated Module Board) technology. The ownership of the new company, Imbera Electronics Oy, is split evenly between Aspocomp and Elcoteq. This collaboration enables the owner-companies to strengthen their respective market positions in the electronics industry supply chain and meet the challenges created by structural change in the sector.

Personnel reductions
(April 15)

Elcoteq announced personnel reductions of approximately 270 employees at its Tallinn plant in Estonia. The number of personnel was also reduced in China and Mexico where altogether some 650 people left the Group during the first part of the year. The personnel cuts were part of the adjustment program started in 2001.

June

Elcoteq to manufacture phones for Chinese Soutec
(June 6)

Elcoteq announced that it will start manufacturing of mobile phones for the Chinese state-owned high-tech enterprise Guangzhou Southern High-Tech Co., Ltd (Soutec).

Under this agreement Elcoteq supports Soutec in the development of a single series of GSM mobile handsets by providing a full range of electronics manufacturing services from its Dongguan plant in China.

Douglas Brenner appointed President, Elcoteq Americas
(June 26)

Douglas Brenner, PhD, MBA, was appointed President of Elcoteq Americas and a member of the Elcoteq Management Conference effective June 26, 2002.

July

Elcoteq and Benefon enter deal to jump-start Elcoteq Design Center
(July 1)

Elcoteq and Benefon signed a Memorandum of Understanding for transferring three-fourths of the capacity of the Benefon R&D Center to Elcoteq´s wholly-owned subsidiary Elcoteq Design Center Oy. At the same time Elcoteq Design Center assumed access to all Benefon intellectual property rights which relate to the design work in question. The new company provides product development services based on wireless terminals platforms and acquires technologies for these products.

August

Elcoteq-Benefon agreement closed
(August 1)

Elcoteq and Benefon reached final agreement on the transfer of three-fourths of the capacity of Benefon's R&D Center to Elcoteq Design Center Oy on August 1, 2002. The transaction price was MEUR 11. The main operations of Elcoteq Design Center are located in Salo and Turku, Finland, and it has approximately 90 design experts from Benefon R&D Center.

Wavecom selects Elcoteq as new outsourcing partner
(August 8)

Wavecom chose Elcoteq to manufacture the company's WISMO Quik Q2400 wireless modules at Elcoteq's plant in Beijing, China. WISMO modules are compact devices that include all of the hardware, software and other technology needed for wireless communications over the GSM/GPRS, CDMA and future 3G networks.

Elcoteq to sell its Polish plant
(August 21)

Elcoteq and a privately owned French company entered into a preliminary agreement on the sale of Elcoteq's industrial site in Wroclaw, Poland, to the French company's Polish subsidiary. Elcoteq decided to withdraw from Poland as part of the company's adjustment program in 2001.

October

Third-quarter sales and operating profit better than expected
(Oct. 3)

Elcoteq announced that its net sales and especially its operating profit for the third quarter in 2002 will exceed the company's previous predictions.

Harri Ollila appointed President, Elcoteq Europe
(Oct. 9)

Mr Harri Ollila, MSc (Eng.), MBA, was appointed President, Europe in Elcoteq and a member of the Elcoteq Management Conference from January 1, 2003.

November

Elcoteq Tallinn wins the first Estonian Quality Award
(Nov. 15)

The Estonian Ministry for Economic Affairs selected Elcoteq Tallinn as the winner of the first Estonian Quality Award contest. Altogether 15 Estonian companies took part in the contest. The assessment team was particularly impressed by Elcoteq's devotion to continuous improvement and Total Quality Management.

Elcoteq and LGP sign manufacturing agreement
(Nov. 19)

Elcoteq and LGP Telecom AB of Sweden signed an agreement concerning manufacturing of base station products for LGP in Elcoteq's plants in Tallinn, Estonia and Dongguan, China.

December

Wavecom collaboration develops as expected
(Dec. 9)

Elcoteq stated that the collaboration between Elcoteq and Wavecom announced in the summer had started as expected, and that Elcoteq did not have any grounds for changing its previous forecast that Wavecom is expected to become a significant customer for Elcoteq during 2003.

Elcoteq seeks a listing for 1997 and 2001 A warrants
(Dec. 10)

Elcoteq applied for listing of the A, B and C series of 1997 Warrants and series A of the 2001 Warrants on the Main List of the Helsinki Exchanges. In conjunction with this listing the A, B and C warrants under the 1997 option plan were combined into a single warrant series 1997ABC.

Profit forecast for 2002
(Dec. 10)

Elcoteq announced that it will at least reach its previously announced sales and profit targets during 2002.

Elcoteq joins Symbian's Platinum Partner Program
(Dec. 11)

Elcoteq joined Symbian's Platinum Partner Program, which will assist Elcoteq to design mobile handsets based on the Symbian Operating System.

Elcoteq to re-open the Tallinn 2 plant in Estonia
(Dec. 16)

Elcoteq stated that it plans to re-open its second plant in Tallinn, Estonia, at the beginning of 2003. The re-opened plant will manufacture communications network equipment products.

Elcoteq acquires IBM's share of GKI
(Dec. 17)

Elcoteq announced that it will acquire IBM's 70% ownership in the Chinese joint-venture EMS companies Shenzhen GKI Electronics Company Limited and Beijing GKI Electronics Co, Ltd. The transaction price for the acquisitions and certain licensing arrangements was approx. MEUR 36.5.

Chinese authorities approve Elcoteq's GKI acquisition
(Dec. 27)

The Chinese authorities gave their approval to the arrangement announced on December 17, 2002 whereby Elcoteq acquired IBM's 70% ownership in the GKI companies. The transaction was thus closed on December 31, 2002 according to plan.

Polish authorities approve the sale of Elcoteq's plant property in Poland
(Dec. 30)

The Polish authorities gave their approval to the agreement made between Elcoteq and a privately owned French company on the sale of Elcoteq's industrial site in Poland to the French company's Polish subsidiary. The sale was thus finalized as planned.

Elcoteq's press and stock exchange releases are posted in full on the company's website at www.elcoteq.com.

Investor relations at Elcoteq

Elcoteq's Investor Relations function aims to provide information about the company's activities, financial position and goals in a timely, open and accurate manner, enabling the capital markets to form a true and fair view of the company. IR seeks to raise awareness of Elcoteq's strategies and activities and increase openness in investor information, thereby enhancing interest in Elcoteq as an investment prospect.

Investor relations are managed and co-ordinated by Mr Osmo Kammonen, Senior Vice President, Communications and Investor Relations (tel. +358 10 413 1406, or osmo.kammonen@elcoteq.com), and Ms Reeta Kaukiainen, Manager, Investor Relations (tel. +358 10 413 1742 or reeta.kaukiainen@elcoteq.com).

The company's Internet home pages, www.elcoteq.com, contain further information on Elcoteq as an investment prospect.

Stock exchange releases

Following the guidelines of the Helsinki Exchanges, Elcoteq classifies its releases into stock exchange releases, press releases, or stock exchange announcements depending on their content.

Stock exchange releases contain information that in the company's opinion could have a material impact on the share price. Press releases provide new or supplementary company information which is not expected to influence the company's share price. Stock exchange announcements are releases of a technical nature, for example on the company's reporting calendar or registration of increases in share capital.

Financial publications in 2003

Elcoteq's annual reports, interim reports, stock exchange releases and press releases are published in English and Finnish on the company's website, www.elcoteq.com.

In 2003 Elcoteq will publish interim reports on the following dates:

- January – March, on Friday April 25, 2003
- January – June, on Thursday August 7, 2003
- January – September, on Friday October 24, 2003

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

Investor meetings

Elcoteq arranges conferences in Finland and teleconferences for analysts, investors and financial journalists on publication of its interim and full-year reports. The conferences provide participants with the opportunity to hear the company's views and to address questions to its management. The company also arranges a Capital Markets Day once a year for investors, analysts and fund managers.

The company regularly meets investors in Europe and the USA as well as taking part in various seminars arranged for investors. Finnish and foreign analysts and investors also visit the company's management at Elcoteq's own premises.

These meetings provide a forum for discussing Elcoteq's strategies, financial performance and prospects based on information published by the company.

Private investors are invited to meet the company's representatives at the Sijoitus-Invest exhibition in Helsinki, Finland in autumn 2003.

Silent period

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

Analysts covering Elcoteq

At least the following investment analysts monitor Elcoteq as an investment prospect:

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Elcoteq takes no responsibility for any evaluations or recommendations published by the analysts.

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Elcoteq locations

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Finland	Espoo
	Lohja
	Salo
	Turku
	Vaasa
Germany	Überlingen
Hungary	Pécs
Sweden	Kista
Switzerland	Baden/Turgi
Russia	St. Petersburg

Asia-Pacific

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	Dongguan
	Hong Kong
	Shenzhen
Japan	Tokyo
Korea	Seoul

Americas

USA	Dallas
Mexico	Monterrey

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