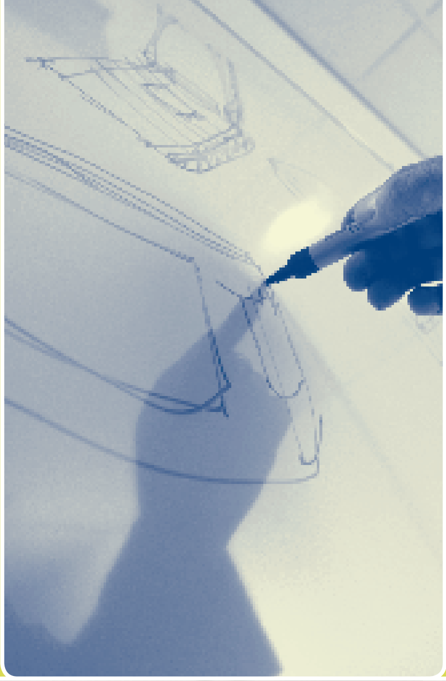
Annual Report 2005

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



Contents

Elcoteq in Brief

Elcoteq SE is an electronics manufacturing services (EMS) company that focuses on communications technology customers and products. Ranging from product development to after-sales, the company's services cover the whole lifecycle of its customers' products. Elcoteq is the largest European company in its field and the fourth largest in the world.

Serving Global OEMs

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

In 2005 companies belonging to the Nokia and Ericsson groups accounted for 69% of Elcoteq's net sales. In addition to these, the top five customers included Siemens, Sony Ericsson and Thomson. Elcoteq has also other leading communications technology companies among its customers, such as Andrew Corporation, Avocent, Philips and RIM.

Elcoteq's operations are organized into two business areas: Terminal Products and Communications Network Equipment. In 2005 Terminal Products contributed 82.5% and Communications Network Equipment 17.5% to the Group's net sales.

The main product group for Terminal Products is mobile phones, their parts, modules and accessories. Terminal Products also manufactures other terminal devices, such as set-top boxes and PDAs. In recent years demand for home communications products has clearly increased. In addition to set-top boxes Elcoteq also manufactures electronics for flat-screen televisions, for example.

- *EMS provider since 1984*
- *Independent company since 1991*
- *Largest European company in its field and the fourth largest in the world*
- *Net sales 4,169 million euros in 2005*
- *Approximately 20,000 employees*
- *Operations in 15 countries on four continents*
- *Listed on the Helsinki Stock Exchange since 1997*
- *20,526,577 listed A shares and 10,577,000 non-listed K shares (Dec. 31, 2005)*

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

Global Service Network

Elcoteq has a comprehensive and globally consistent service network in altogether 15 countries on four continents. Following its most recent expansions, Elcoteq is the only global EMS company with operations in the fast-growing BRIC countries i.e. Brazil, Russia, India and China.

The company's service network includes high-volume manufacturing plants, units specializing in smaller series, as well as design units and new product introduction (NPI) centers. All of the company's high-volume plants are located close to the main end-markets for the products. Other factors influencing the location of the plants are the availability of skilled labor and the cost benefits offered by their localities.

Elcoteq has built most of its manufacturing plants itself and for this reason the plant network is able to operate worldwide with an extremely high degree of consistency. Having globally consistent working procedures, manufacturing processes and production equipment, Elcoteq is able, for example, to ramp up production simultaneously at different plants, and move manufacturing from one plant to another, fast and efficiently. For customers this translates into a consistently uniform, flexible, and high-quality service.

Elcoteq's volume manufacturing plants are located in Estonia, Hungary, Russia, China, India, Brazil and Mexico. Small and medium-volume plants are located in Finland, the USA and Germany. In addition, Elcoteq has its own mobile phone design unit, Elcoteq Design Center, that operates in Finland and Russia. Elcoteq also collaborates with various design companies. The company provides after-sales services in Hungary, Germany, Mexico, China and India.

Growth Year 2005

2005 was a year of strong growth for Elcoteq. Net sales rose 43% on the previous year to 4,169.0 million euros (2,921.8) and operating income increased 34% to 76.5 million euros (57.3). Net sales increased in all geographical areas.

Main Events

April 11	New plant in Bangalore, India
May 30	The headquarters for Elcoteq's geographical area Europe established in Budapest, Hungary
August 26	10th anniversary of the Gunnarla plant in Lohja, Finland
September 20	Foreign Investor 2005 award for the Tallinn unit in Estonia
September 28	Subordinated notes issued, totaling 50 million euros
October 1	Elcoteq was the first large industrial corporation in Europe to become a European company and was renamed Elcoteq SE
October 7	New plant in St. Petersburg, Russia
November 22	Customer Service Leadership award from Frost & Sullivan
December 13	Elcoteq selected for the Red Herring Small Cap 100 list as the only Finnish company
December 31	Divestment of the Überlingen plant in Germany

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

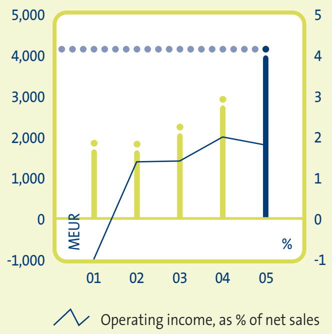
Key Figures

	2005	2004	Change, %
Net sales, MEUR	4,169.0	2,921.8	43
Operating income, MEUR	76.5	57.3	34
% of net sales	1.8	2.0	
Income before taxes, MEUR	59.3	44.9	32
Net income, MEUR*	41.3	30.7	35
Capital employed, MEUR	495.6	414.3	20
Return on capital employed (ROI/ROCE), %	17.6	19.5	
Cash flow, MEUR	24.4	-80.3	
Interest-bearing net debt, MEUR	90.3	98.2	-8
Gearing	0.3	0.4	
Solvency ratio, %	26.0	30.5	
Earnings per share, EUR	1.34	1.01	33
Gross capital expenditures, MEUR	123.6	128.3	-4
Personnel on December 31	19,802	19,480	2

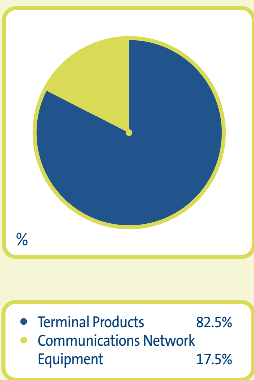
* Net income for the equity holders of the parent company.

The comparison figures for the income statement and earnings per share are the figures for continuing operations in the same period of 2004. The other comparison figures include the impact of the discontinued operation.

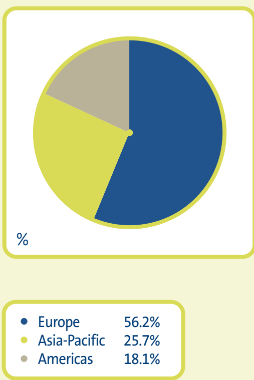
Net Sales and Operating Income in 2001–2005



Net Sales by Business Area in 2005



Net Sales by Geographical Area in 2005



"If we succeed in meeting our customers' needs in an innovative and timely manner, we will also succeed in reaching our main goals — creating added value for our customers and raising the company's shareholder value," Jouni Hartikainen says.

CEO's Review

Dear Reader,

2005 was another year of real growth for Elcoteq. Our net sales rose to a new record level, and exceeded four billion euros, and earnings per share improved on the previous year by more than 30%. Most of this growth was organic and I am particularly pleased that growth took place in all geographical areas. The new manufacturing plants we opened in India and Russia in 2005 provide a solid platform for growth in the future. Furthermore, our status as a European company has already attracted a lot of attention and interest among both our customers and other stakeholders.

The goals we set at the beginning of 2004 — balancing our customer base, broadening the service offering and improving the profitability of the Communications Network Equipment business — are just as relevant today.

The emergence of original design manufacturing services has been an especially lively discussion topic in recent years. In Elcoteq we view these services as a natural extension of the traditional electronics manufacturing services (EMS). Customers expect and need a wider range of services from their partners. Our global service network, along with our globally consistent procedures, processes and manufacturing plants, puts Elcoteq in an outstanding position in its market. A strong global network gives us the capability to add new services and features. And when this is done systematically and with care, we have every reason to expect results.

Elcoteq's success so far is no coincidence but the result of a systematic effort. Concentration on safeguarding and developing our core expertise gives us a clear competitive edge that will benefit us as the market evolves. It goes without saying that we will face new trends and changes in the future: new players and products will enter the market, old players will merge or even leave the market, which will inevitably create new opportunities. Especially in this sort of situation it is absolutely essential that we remain intent on carrying out our own strategy with greater determination and consistency than ever. We must create for ourselves a clear picture of what our customers need now and in the future, and develop our operations on that basis. That is how we have always done things in Elcoteq, and it is how we will continue.

A good example of this is the strategic management process we started in 2004. We began by setting clear targets which we have since worked systematically to achieve. Our growth and financial success in 2005 are largely the result of this work. Despite the increase in competition we achieved a good result by taking care of our competitive strength and its development.

Financial success on its own, however, is not enough. It is vitally important for us, how the results are achieved. The company's operations must be blameless and ethically acceptable in every respect. This is why we have founded our operations on compliance with legal provisions, international treaties, the SA8000 standard and the requirements of our customers.

In my view Elcoteq has outstanding growth potential in the future. We have every means of growing profitably and faster than the average for the EMS sector. The communications electronics and outsourcing markets are in a constant state of flux as equipment manufacturers prepare themselves for a new type of competition and rapid market change. This is increasing demand for services, which is creating growth opportunities for us. If we succeed in meeting our customers' needs in an innovative and timely manner, we will also succeed in reaching our main goals — creating added value for our customers and raising the company's shareholder value.

In closing, I extend my warm thanks to our customers, suppliers, shareholders and other partners for their excellent collaboration during the year behind us. I especially thank Elcoteq's employees for their focused and fruitful work during 2005. At the same time I wish you all every success in 2006.

Espoo, Finland, February 2006

Jouni Hartikainen
President and CEO

Market Review

The market for electronics manufacturing services in communications technology grew by more than 10% in 2005, driven especially by strong demand for mobile phones in developing countries in Asia-Pacific and Latin America. Growth is expected to remain strong in the years ahead.

Further Solid Market Growth

The electronics manufacturing services (EMS) market showed further growth in 2005, a trend expected to be repeated during the next few years. According to research institute IDC the total value of the electronics manufacturing services and original design manufacturing (ODM) markets was roughly USD 170 billion in 2005. IDC estimates that growth in 2005 was approximately 15% and forecasts further annual growth in excess of 10% until 2009.

The traditional EMS business grew by around 10% in 2005, totaling roughly USD 120 billion. The largest product segments outsourced to EMS companies are computers, communications systems and mobile phones. IDC forecasts annual growth of some 10% in the EMS market in the years ahead.

The ODM business, according to IDC, amounted to over USD 50 billion in 2005, which represents growth of some 25% on the previous year. The largest product segments in the ODM sector are computers and mobile phones. The ODM market is forecast to grow faster than the traditional EMS market although the annual growth rate is expected to level off at around 15%.

Elcoteq Consolidates Position in Communications Technology

Communications technology accounted for 35%, or USD 60 billion, of the total EMS market in 2005. Growth from the previous year was over 10%. The traditional EMS business represented USD 40 billion of this amount and the ODM business USD 20 billion. Based on analyst forecasts, outsourced manufacturing of communications technology is estimated to amount to roughly 40%.

Elcoteq further strengthened its position in the communications technology segment of the EMS market during 2005. With a market share of 8%, the company is the world's fourth largest EMS provider to communications technology companies and the largest European EMS company. Elcoteq's position is particularly strong in mobile phone manufacturing, where the company is the world's third largest EMS provider with a market share of 15%. Other global EMS companies are Celestica, Flextronics, Hon Hai Precision Industry, Jabil Circuit, Sanmina-SCI and Solectron. The largest ODM companies in terminal products are the Taiwanese companies Arima Communication, Compal Communication and High Tech Computer.

Mobile Phones Spur End-Product Market Growth

Looking at the end-product market, strong demand for mobile phones was especially instrumental in accelerating growth for communications technology EMS. The research institute Gartner estimates that more than 800 million mobile phones were sold in 2005, an increase of some 20% from the previous year. The strong growth in the mobile phone market has continued unabated since 2002, when 420 million phones were sold. The single most significant change in the competitive situation in the mobile phone market during 2005 was the divestment of Siemens' mobile phone business to the Taiwanese company BenQ. In 2006 the number of mobile phones sold is forecast to grow by roughly 10%, according to the investment bank UBS Warburg, but the value of the mobile phone market in US dollars will remain at the 2005 level.

According to UBS Warburg, sales of communications network equipment totaled roughly USD 140 billion in 2005, up about 10% on the previous year. Of this amount, mobile phone networks represented approximately USD 60 billion. The market shares of the three largest mobile phone network manufacturers — Ericsson, Nokia and Siemens — remained essentially unchanged in 2005. The largest change in the competitive environment of the communications network equipment sector was Ericsson's acquisition of most of Marconi's business. In 2006 growth in the communications network equipment market will be roughly 5% to USD 146 billion, according to USB Warburg's forecast. The market for 3G mobile phone networks (W-CDMA) was roughly USD 13 billion in 2005, and this segment is forecast to grow 30% in 2006.

In addition to mobile phones and network equipment, Elcoteq also manufactures home communications electronics, such as set-top boxes. In 2005 sales of these products grew worldwide by some 20% to about 50 million units. The largest manufacturers in this market are Thomson, Motorola and Cisco Systems. The latter acquired Scientific-Atlanta at the end of 2005 to become the third largest manufacturer in this business. Analysts estimate that this segment's sales will total 60 million units in 2006.

Developing Countries Spearhead Growth

From the geographical perspective, growth in communications technology has been most vigorous in the developing countries of Asia-Pacific and Latin America.

In China, the number of mobile phone subscribers rose 20% in 2005 to more than 370 million, or roughly 30% of the country's total population, while in India the number of subscribers doubled to over 70 million. Subscriber growth is expected to remain strong in India because as yet only 6% of the population have a mobile phone. In Brazil there were around 90 million mobile phone users at the end of 2005, which is roughly 30% more than in the previous year.

In Russia, the number of mobile phone users almost doubled in 2005 and exceeded 100 million.

China, India, Brazil and Russia will continue to be the world's largest growth markets for sales of both terminal products and mobile phone networks in the years ahead. In mobile phone networks interest in 2006 will focus in particular on the historically largest GSM network expansion in India by the local operator BSNL and on the licenses for 3G technology due to be granted in China.

Competition Intensifies in Service Offering Expansion

In the mobile phone segment, the ODM market has grown distinctly faster during the current decade than the traditional EMS market. This has also marked more intense competition as providers seek to expand their service offerings. Some Taiwanese ODM companies have either been bought out or have themselves withdrawn from mobile phone design.

Competition between ODM and EMS operating models in outsourcing of mobile phones has leveled off. The ODM model can actually be seen as continuation for the traditional EMS model. Depending on their own core expertise and strategy, some of the largest mobile phone manufacturers prefer the traditional EMS model and others the ODM model, while some still do not outsource at all.

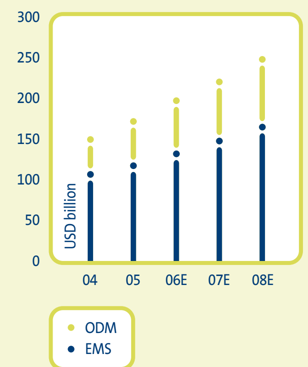
ODM-style outsourcing is not so extensive in mobile phone networks as in terminal products. Nonetheless, network manufacturers are gradually moving towards outsourcing ever larger parts of their business. Here, EMS companies are increasingly taking responsibility for manufacturing not only network equipment modules and plug-in units but also complete network elements.

The Fittest Will Succeed

Global delivery capability, efficient customer relations management and operational efficiency are the main success factors. In this intensely competitive sector only the players that are most efficient both operationally and financially will be successful and be able to gain new customers and broaden their service offerings.

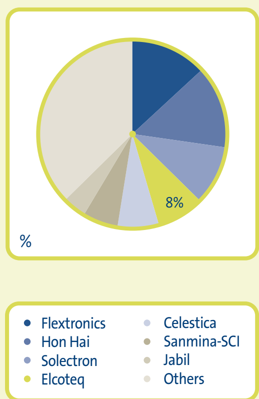
EMS companies have traditionally reduced their manufacturing costs by locating volume production to low-cost countries close to the main end-product markets of their customers. Of the largest western EMS companies, Elcoteq is the only one that has all its volume production in the low-cost countries — in Asia, Eastern Europe and Latin America. Most other large EMS companies have almost half of their manufacturing capacity in North America and Western Europe, where manufacturing costs are higher.

EMS and ODM Market Growth in 2004–2008



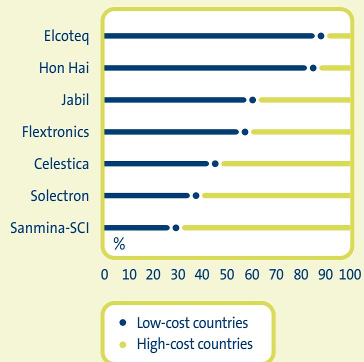
Source: IDC
E=estimate

Market Shares of EMS Providers in Communications Technology in 2005



Source:
Information from the companies' publications compiled by Elcoteq

Location of EMS Providers' Manufacturing Capacity According to Cost Level



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

Vision, Strategy and Values

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

Vision

Elcoteq's vision is to be the world's leading EMS provider to communications technology customers.

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

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

Strategy

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

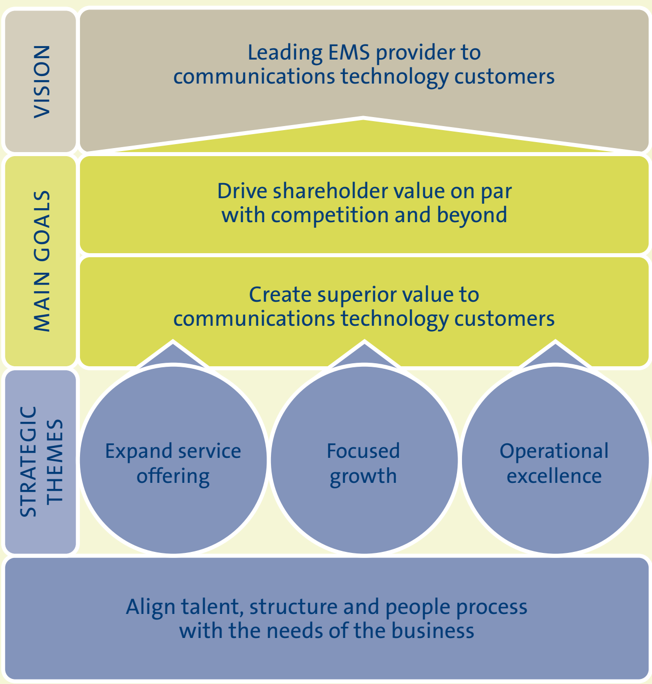
Expanding the service offering starts with the customers' need to outsource not only manufacturing but other functions as well. Elcoteq offers a comprehensive range of services throughout the product lifecycle and is continuously strengthening its expertise.

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

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

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

Elcoteq's Vision and Strategy



Expand Service Offering

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

Focused Growth

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

Operational Excellence

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

Competitive Advantages — Elcoteq's 7 Cs

Concentration
- Focus on terminal products and communications network equipment

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

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

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

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

Coverage
- Global operations
- Full service range from design to after-sales

Continuous Development
- Continuously competitive and unique service offering

Values

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

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

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

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

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

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

	2005	2004	2003	2002	2001
Increasing earnings per share (EPS), EUR	1.34	1.01	0.70	0.54	-1.08
Return on investment (ROI/ROCE), trailing 12 months > 20%	17.6	19.5	10.2	9.2	-3.5
Positive cash flow, MEUR	24.4	-80.3	-18.1	77.3	123.4
Gearing < 1	0.3	0.4	-0.0	-0.1	0.2

Elcoteq's service offering covers the entire lifecycle of customers' products.

Service Offering

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

Experienced and Reliable EMS Partner

The core of Elcoteq's business is traditional electronics manufacturing services (EMS) — the manufacture of terminal products and communications network equipment. However, with the increasing interest shown by customers in product design and new product introduction (NPI) services, the EMS model is expanding to encompass original design manufacturing (ODM) services as well. In the ODM model, the EMS provider not only manufactures the product but is more broadly involved in the product's lifecycle from product development to after-sales. Globally operating EMS providers are well equipped to expand their service offerings to meet customer demand and needs.

The use of ODM services has grown, especially in mobile phones. On the other hand manufacturers of communications network equipment, for example, now expect their EMS partners to provide an increasingly broader range of services throughout the product's lifecycle.

Clear Benefits to Customers

Characteristic of the communications electronics business is its rapid pace, along with intense competition and large fluctuations in business volumes, all of which makes forecasting difficult in this sector. Therefore OEMs increasingly need external partners to supplement their own resources. In the case of mobile phone OEMs, for example, a critical success factor is the ability to bring a sufficient number of new phone models to market at the right time. A further factor driving this need is the increasing number and complexity of product features.

Outsourcing enables customers to concentrate on the areas of their business they consider to be of paramount importance, such as customer relations, brand management, and developing more sophisticated and innovative products. The customer no longer necessarily needs to invest in building and maintaining a design and manufacturing network or recruit more personnel. Co-operation with an EMS partner also creates flexibility, allowing the customer to put their own capacity to more effective use and bring more products to market successfully at the optimal time.

Wide Service Offering

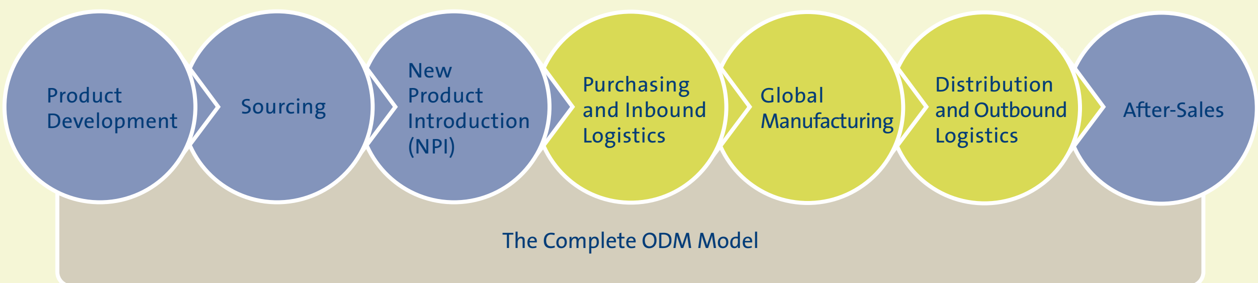
In addition to design and manufacturing, Elcoteq also offers its customers sourcing, NPI, logistics and after-sales services.

Elcoteq has increased its resources in recent years and developed its competencies, especially in the product development of mobile phones. The company also supplements its own service offering through collaboration with companies specialized in design and component technologies, for instance. Working with partners offers Elcoteq the opportunity to choose the right expertise for various projects.

Product Development

Product development services have taken an increasingly prominent role in Elcoteq's service offering year by year. In the design of

Elcoteq's Service Offering



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

Elcoteq's own mobile phone design unit, Elcoteq Design Center, operates in Salo and Turku, Finland, and in St. Petersburg, Russia. The unit has roughly 150 employees. Elcoteq is also a minority shareholder in Cellon International, an independent wireless design and development house with design centers in China.

Customers of communications network equipment likewise expect to receive an ever broader array of services. Also in this segment, Elcoteq's aim is to forge close ties with its customers and enhance the process bridging product development and manufacturing.

EMS in the traditional sense is typically a business of tight margins in which Elcoteq is compensated for work completed. Broader ODM services offer both the customer and the EMS company more added value. For the EMS company the ODM model is a way to increase margins but at the same time its responsibilities and risks are larger. The compensation Elcoteq earns from ODM services always depends on the operating model agreed with the customer. Factors that determine the compensation include responsibilities in product projects, technology choices, product definition and agreements on immaterial rights. By offering ODM services Elcoteq seeks to gain new customers, to grow and to raise profitability.

New Product Introduction

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

- Design, sourcing, assembly and testing for production lines, production tools and testing systems
- Prototype manufacturing
- Sourcing of materials for the NPI process
- Quality assurance, and
- Management of NPI and product development projects.

The purpose of the NPI process is to ensure cost-efficient manufacturing and rapid product launch. NPI centers work closely with product design engineers and manufacturing plants.

Sourcing and Supply Chain Management

Elcoteq is continuously developing its sourcing and logistics operations to ensure more independent control of all aspects of the supply chain management process.

These include:

- Selecting components and suppliers
- Tight co-operation with suppliers already at the early phases of design and NPI projects
- Price and contract negotiations
- Sourcing and purchasing components, and
- Quality management and logistics related to these tasks.

Elcoteq works only with selected key suppliers to ensure that the service it offers is as cost-efficient and technically sound as possible. In addition to sourcing, Elcoteq helps its customers to manage and develop their supply chains. Elcoteq is also able to take total responsibility for managing a customer's sourcing, purchasing and logistics functions.

What Is Outsourcing?

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

OEMs can purchase services from product development right through to after-sales. They can purchase a particular single service, a selection of services, or a complete ODM service package. In the case of terminal products, for example, Elcoteq can design and manufacture parts and accessories for mobile phones, or complete phones which are delivered in consumer packages to the customer. The product is always sold under the customer's brand. In communications network equipment Elcoteq is increasingly called upon to deliver complete network elements.

Customer Benefits:

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

Manufacturing

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

- High-volume manufacturing
- Box-build production, i.e. Elcoteq delivers complete products in consumer packages to the customer's distribution channel or manufactures complete communications network elements
- Assembly of electronic and electromechanical components
- Manufacture of low-volume series and prototypes, and
- Testing.

Elcoteq has high-volume manufacturing capacity in Europe, Asia and the Americas — close to the main end-product markets of products. The company's largest plants are in Estonia, Hungary, Russia, China and Mexico. Elcoteq also has manufacturing plants in India and Brazil. In Europe Elcoteq has units for low-volume and prototype manufacture. The aggregate floor space of all Elcoteq's manufacturing plants totals 212,200 square meters.

After-Sales

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

Repair services consist mainly of demanding electrical repair and

Wireless Technology for Sony Ericsson

In addition to other mobile devices, Elcoteq is manufacturing PC cards that enable wireless network connection and automotive modules for Sony Ericsson, helping the company to nearly double their volumes.

"Elcoteq played an important role in getting the PC card (GC82 EDGE) to the market. This card officially launched large-scale commercial deployment of EDGE technology in the world," says **Joe Braga**, Director of Global Marketing and Communication for Sony Ericsson's M2M division.

This PC card was selected by the American Cingular Wireless as their first one to market. Since then Elcoteq has been manufacturing several PC cards for Sony Ericsson's global markets.

Braga adds that the production of both PC cards and automotive modules is often more demanding than that of mobile phones due to very high quality and logistics demands coupled with lower volumes. "Elcoteq stood up to these challenges and emerged as the clear partner in this context," says Braga.

Braga believes that outsourcing will continue in communications technology.

"As businesses continue to look for ways to improve efficiency and productivity, there is very little doubt that manufacturing and other non-core functions will continue to be outsourced."

Braga adds that Sony Ericsson is committed to outsourcing products such as PC cards and automotive modules.

"We will continue to rely on our partners, such as Elcoteq, to handle the complex task of manufacturing in the ever-changing business environment while focusing ourselves on those things we find most important."

"We will continue to rely on our partners, such as Elcoteq, to handle the complex task of manufacturing," Joe Braga says.

upgrade services for products that have been returned from the market. Elcoteq offers after-sales services in Hungary, Germany, Mexico, China and India, for example.

Consistency

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

Elcoteq maintains a comprehensive global service network. All the high-volume manufacturing plants are in low-cost countries. The company has built most of its manufacturing plants itself and can therefore ensure that the operating models, production machinery, processes and organizations of these plants are globally consistent.

All of Elcoteq's global operating procedures and business processes are ISO 9001:2000 and ISO 14001 certified. The different certificates ceased in 2004 so that all Elcoteq units now operate under single, common certification.

Technological Experience Plays a Major Role for RIM

Outsourcing became an option for Canadian Research in Motion (RIM) a few years ago. The company wanted to increase manufacturing flexibility and the number of locations for manufacturing handhelds, as well as to improve supply chain asset utilization, responsiveness and reliability by establishing capabilities closer to their customer base.

Elcoteq was chosen as the first outsourcing partner to manufacture an RIM handheld. In addition to the global footprint, Elcoteq's experience in the manufacture of wireless handhelds was a key factor in RIM's decision-making.

"Our relationship is solid and as in any partnership we continue to grow together. We have stumbled along the way but RIM and Elcoteq have been able to establish a relationship in which issues are addressed in a timely fashion. We're happy with the quality and delivery of the products," says **Kevin Stenson**, Senior Director of Outsourced Manufacturing at RIM.

Elcoteq manufactures Blackberry devices in Pécs, Hungary and Monterrey, Mexico. Some of the manufactured handsets are configured, packed, and shipped directly to RIM's customers while other handsets are shipped to subsequent postponement locations for distribution.

"Establishing a proper relationship and earning trust is 90% of this game," Stenson says, adding that constant improvement is a prerequisite.

"Establishing proper relationship and earning trust is 90% of this game," Kevin Stenson says.

Global Service Network

Location	Activities and Services	Floor Space, m²
Europe		
Espoo, Finland	Group office, sales and tehcnical support	
Espoo and Lohja, Finland	NPI center, after-sales services	8,700
Salo and Turku, Finland	Elcoteq Design Center, product development services for mobile phones	
Kista, Sweden	Sales and technical support	
Tallinn, Estonia	High-volume production, NPI center	42,000
Budapest, Hungary	Sales and technical support	
Pécs, Hungary	High-volume production, NPI center, after-sales services, system integration	46,000
St. Petersburg, Russia	High-volume production, NPI center	14,700
St. Petersburg, Russia	Elcoteq Design Center, product development services for mobile phones	
Offenburg, Germany	NPI center, after-sales services, system integration	14,500
Luxembourg	Office	
Zug, Switzerland	International office	
Europe, total		125,900
Asia-Pacific		
Dongguan, China	High-volume production	13,000
Beijing, China	High-volume production, NPI center, after-sales services	19,200
Shenzhen, China	High-volume production	9,300
Bangalore, India	High-volume production, after-sales services	5,500
Hong Kong, China	Sales and technical support	
Seoul, Korea	Sales and technical support	
Tokyo, Japan	Sales and technical support	
Asia-Pacific, total		47,000
Americas		
Dallas, USA	NPI center, sales and technical support	2,500
Juárez, Mexico	High-volume production, NPI center	17,000
Monterrey, Mexico	High-volume production, after-sales services	18,300
Manaus, Brazil	Medium to high-volume production	1,500
Americas, total		39,300
The Group, total		212,200

Terminal Products

The Terminal Products business area focuses on serving mainly global OEMs, for whom the company designs and manufactures products based on a variety of communications technologies. In 2005 Terminal Products accounted for 82.5% (78.7%) of Elcoteq's consolidated net sales.

2005 in Review

Net sales of the Terminal Products business area rose 50% on the previous year to 3,439.0 million euros (2,300.0). The segment's operating income was 95.0 million euros (77.7).

Demand for mobile phones remained strong in 2005 and outsourcing of their design and manufacturing grew by approximately 15%. Elcoteq's Terminal Products' net sales increased in every quarter compared to the same periods in 2004. Demand was especially strong at the end of the third and beginning of the fourth quarter. Growth was strong in all geographical areas.

Products and Customers

Terminal Products manufactures mainly mobile phones, their parts and accessories, as well as wireless modules, wireless phones and home communications products, such as set-top boxes and electronics for flat-screen televisions. The business area's customers include Aastra, Motorola, Nokia, Philips, Research in Motion (RIM), Sony Ericsson, Thomson and ZTE.

In 2005 most of the sales growth in Terminal Products was derived from larger delivery volumes to the largest customers. A further factor was extremely strong demand for various smartphones. Elcoteq manufactures smartphones for RIM, for example.

A clear increase in demand for home communications products has been evident in recent years. In 2005 the global market for set-top boxes rose by some 20%. Elcoteq manufactures set-top boxes for Thomson in Juárez, Mexico and Pécs, Hungary. The co-operation has proceeded well and net sales of 250 million euros slightly exceeded Elcoteq's estimate made a year ago. The Thomson acquisition in Mexico at the end of 2004 made Elcoteq one of the world's largest set-top box manufacturers. Elcoteq aims to further develop its collaboration with Thomson on a global scale, levering its own worldwide service network.

Services

Terminal Products offers its customers services covering the entire value chain of their products, from product development to after-sales. In recent years Elcoteq has given particular priority to enhancing its product development services, in response to customer needs and industry trends. The company's own mobile phone design unit, Elcoteq Design Center, operates in Finland and Russia. Elcoteq also co-operates with other mobile phone design companies.

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

Enhancing product development, sourcing operations and product lifecycle management will continue to receive heavy emphasis at Elcoteq. The company is developing its sourcing operations by deepening collaboration with selected technology and component suppliers.

Terminal Products

- *82.5% of the Group's net sales*
- *Net sales increased 50% in 2005*
- *The third largest EMS company in mobile phone manufacturing*
- *Service offering covering the entire value chain of products*
- *Products: mobile phones and their parts and accessories, wireless modules, wireless phones, and home communications such as set-top boxes and electronics for flat-screen televisions*
- *Customers include Aastra, Motorola, Nokia, Philips, RIM, Sony Ericsson, Thomson and ZTE*

Growth in mobile phone and home communications markets is forecast to continue.

Prospects in 2006

Market research institutions forecast that there will be a roughly 10% increase in the number of sold mobile phones in 2006. Growth prospects are good for home communications products as well. Correspondingly, annual growth of about 10% is also forecast for design and manufacturing services for mobile phones and other terminal devices. Intensifying competition, along with an increasing variety of products and the features they contain, means that OEMs will more and more need partners such as Elcoteq for both designing and manufacturing their products.

Of the world's growth regions, India in particular offers very substantial growth opportunities. Elcoteq is the only global EMS company with operations in India, Brazil, Russia and China.

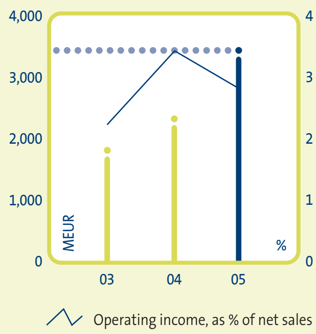
Elcoteq expects net sales of its Terminal Products business area to grow faster in 2006 than the EMS market on average. The company's aim is to expand its customer base and strengthen its service offering. Elcoteq is also interested in new product areas that suit its competencies and service network.

Key Indicators, MEUR

	2005	2004	Change, %
Net sales	3,439.0	2,300.0	50
Segment operating income	95.0	77.7	22
% of net sales	2.8	3.4	
Assets	737.7	530.3	39
Liabilities	491.9	336.4	46
Capital expenditures	88.5	92.2	-4

More information on key indicators is available in the Notes to the consolidated financial statements on page 41.

Net Sales and Operating Income in 2003–2005



Quarterly Figures, MEUR

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net sales	999.5	999.3	795.0	645.2	688.8	660.0	489.8	461.4
Segment operating income	32.2	26.6	19.4	16.9	28.3	23.8	10.3	15.4
% of net sales	3.2	2.7	2.4	2.6	4.1	3.6	2.1	3.3

Communications Network Equipment

The Communications Network Equipment business area serves global manufacturers of wireless and wireline infrastructure and enterprise networks. In 2005 the business area accounted for 18.5% (21.3%) of Elcoteq's consolidated net sales.

2005 in Review

Net sales of the Communications Network Equipment (CNE) business area rose 17% in 2005 to 730.1 million euros (621.8). The segment's operating income was 23.2 million euros (16.3).

Net sales grew faster than the end-product markets, particularly in Asia. The bulk of net sales, however, was once again derived in Europe. The improvement in the segment's operating income and working capital was due to an increase in manufacturing volumes and to higher operational efficiency. All in all, Elcoteq's market position as a manufacturer of communications network equipment showed a slight increase compared with 2004.

Products and Customers

Elcoteq's CNE business area manufactures wireless and wireline infrastructure products and enterprise networks. For wireless infrastructure the range includes cellular base stations, microwave systems and plug-in units for mobile base stations, and for wireline infrastructure ADSL multiplexers and other broadband network products. CNE's typical enterprise network products are routers and switches.

CNE's customers include manufacturers of complete systems, as well as suppliers of subsystems to these companies. Its largest customers are Ericsson, Marconi, Nokia and Siemens with other customers including Andrew Corporation, Avocent, Huawei, NEC and Orthogon Systems.

Services

Elcoteq has systematically expanded its service offering to communications network equipment customers as well as improved the geographical coverage of its services. The company intends to move increasingly from producing individual modules and plug-in units to providing entire network elements such as complete base stations, transmission systems and routers. Alongside manufacturing, Elcoteq is also increasingly involved in product development, new product introduction, sourcing of components and mechanical parts, and supply chain management. Elcoteq offers its customers a wide range of services tailored to their needs throughout the product lifecycle. Elcoteq has already engaged in collaboration on this scale with Siemens and Marconi, among others.

Elcoteq is increasingly offering integrated services to its communications network customers.

Communications Network Equipment

- *18.5% of the Group's net sales*
- *Net sales increased 17% in 2005*
- *Among the top ten EMS companies in its sector*
- *Products: cellular base station products and microwave systems, ADSL multiplexers and other broadband network products, as well as routers and switches*
- *Customers include Andrew Corporation, Avocent, Ericsson, Huawei, Nokia, NEC, Orthogon Systems and Siemens*

Elcoteq seeks even closer collaboration with its customers especially in the early phase of the product lifecycle, to ensure that the process from product development to manufacturing is as efficient as possible. Among other things, Elcoteq plans to build standardized testing systems for specific network elements to accelerate the time-to-market of customer products, to increase flexibility and to improve return on investment.

Prospects in 2006

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

Market volumes are forecast to grow slightly in 2006 in wireless, wireline and enterprise products. In the first case growth will be driven largely by the building of 3G mobile phone networks, and in the second by the increasing prevalence of broadband connections coupled with technological changes to networks. In enterprise networks the main driver will be the increasing volume of digital communications.

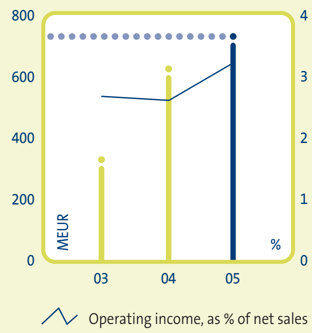
Elcoteq believes that the market share of its CNE business area will strengthen during 2006 accompanied by an increase in its net sales from the previous year. The company will further develop its service capabilities in order to offer broader service packages. With new plants in India and Russia, Elcoteq is well positioned in all the emerging markets.

Key Indicators, MEUR

	2005	2004	Change, %
Net sales	730.1	621.8	17
Segment operating income	23.2	16.3	43
% of net sales	3.2	2.6	
Assets	277.7	297.7	-7
Liabilities	129.1	120.0	8
Capital expenditures	30.9	31.8	-3

More information on key indicators is available in the Notes to the consolidated financial statements on page 41.

Net Sales and Operating Income in 2003–2005



Quarterly Figures, MEUR

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net sales	182.6	195.4	187.1	165.1	175.9	168.6	152.2	125.1
Segment operating income	2.9	9.7	8.0	2.6	2.5	1.7	7.4	4.7
% of net sales	1.6	5.0	4.3	1.5	1.4	1.0	4.9	3.7

Geographical Areas

Elcoteq has three geographical areas: Europe, Asia-Pacific and Americas. In 2005 the company opened new plants in Russia and India. Elcoteq is the only global EMS provider with operations in all the emerging markets — Brazil, Russia, India and China.

Net Sales

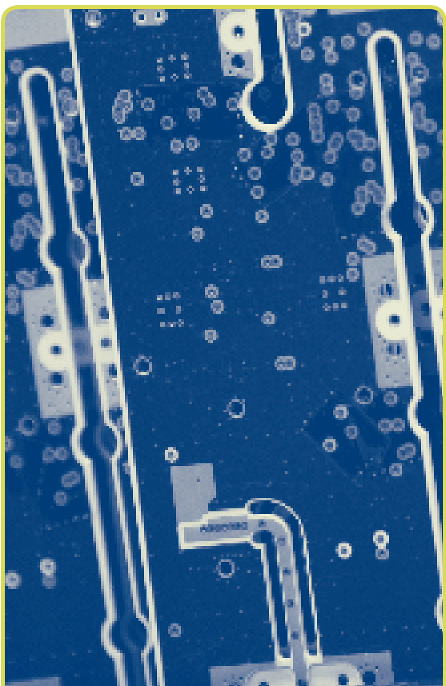
Europe is Elcoteq's largest geographical area with net sales in 2005 totaling 2,345.0 million euros (1,843.1). Asia-Pacific's net sales rose to 1,069.4 million euros (714.1) and Americas' net sales to 754.6 million euros (364.6). Of the Group's net sales, Europe contributed to 56%, Asia-Pacific 26% and Americas 18%.

Europe

Net sales of Elcoteq's geographical area Europe increased approximately 30% in 2005. Demand continued to be favorable for both terminal products and communications network equipment.

In terminal products, demand was particularly good for various smartphones, which Elcoteq manufactures for Research in Motion (RIM), among others. Home communications grew as a product area in Europe. In this field Elcoteq manufactures, for example, set-top boxes for Thomson and electronics for Philip's flat-screen televisions. On the communications network equipment side, Elcoteq collaborates with companies including Avocent, Ericsson, Nokia and Siemens. With Siemens, for instance, Elcoteq has been heavily involved in demanding system integration projects.

In the fall of 2005 Elcoteq opened a new plant of 14,700 square meters in St. Petersburg, Russia. This strengthened Elcoteq's position in this growing market, where the company has been operating since 1997. Elcoteq is the only global EMS company with a presence in Russia. The St. Petersburg plant serves customers of both the Terminal Products and Communications Network Equipment business areas. When operating at full capacity, the plant will have an estimated 1,500 employees. Elcoteq also has product development and new product introduction (NPI) activities in St. Petersburg.



During 2005 Elcoteq developed its NPI services throughout Europe and each manufacturing plant now has its own NPI center.

The bulk of Elcoteq's production capacity is in Europe. These plants have an aggregate floor space of 125,900 square meters. The company's largest plants are located in Hungary and Estonia and their total floor space corresponds to around 40% of the Group's entire capacity. In addition to the high-volume plants and NPI centers, Elcoteq has smaller units in Finland and Germany specializing in meeting the needs of communications network equipment customers. At the end of 2005 Elcoteq's European units employed altogether 9,984 (10,008) people.

Elcoteq sold its plant in Überlingen, Germany, to the German company Rafi GmbH & Co. KG on December 31, 2005. The strategic importance of this plant, which produced communications network equipment, had significantly decreased in the past few years. The divestment had no impact on Elcoteq's result for 2005.

Asia-Pacific

Elcoteq's Asia-Pacific net sales increased roughly 50% on the previous year. Demand for terminal products rose substantially in China, where the company also broadened its service offering and moved towards delivering larger entities. Elcoteq's offering of product development and NPI services developed during the year as well.

Elcoteq has an extensive service network in Asia-Pacific. In April 2005 the company inaugurated a new 5,500 square meter plant in Bangalore, India. This plant serves both terminal products and communications network equipment customers, especially for the markets in India and the rest of Asia. Elcoteq was the first global EMS company in the communications technology sector to set up a manufacturing presence in India.

Elcoteq has three plants in China: one in Beijing in the north of the country, and two in southern China, in Shenzhen and Dongguan. The aggregate floor space of these plants is 47,000 square meters, which corresponds to roughly one-fifth of Elcoteq's total capacity.

Additionally Elcoteq has sales and technical support units in Hong Kong, China, in Tokyo, Japan and in Seoul, Korea. At the end of 2005 Elcoteq's units in Asia-Pacific had altogether 6,086 (5,364) employees. The new plant in India had approximately 300 employees at the year end. When operating at full capacity, it will employ some 1,000 people.

Americas

Net sales of Americas more than doubled compared to 2004. Over the past three years net sales in this geographical area have risen twelve-fold to roughly one-fifth of the Group's total net sales.

The main reason for the increase in business volume is the acquisition of Thomson's Mexican facility at the end of 2004. Elcoteq manufactures set-top boxes for Thomson and also provides certain component sourcing services. Elcoteq plans to expand its collaboration with Thomson in regions beyond the Americas and Europe.

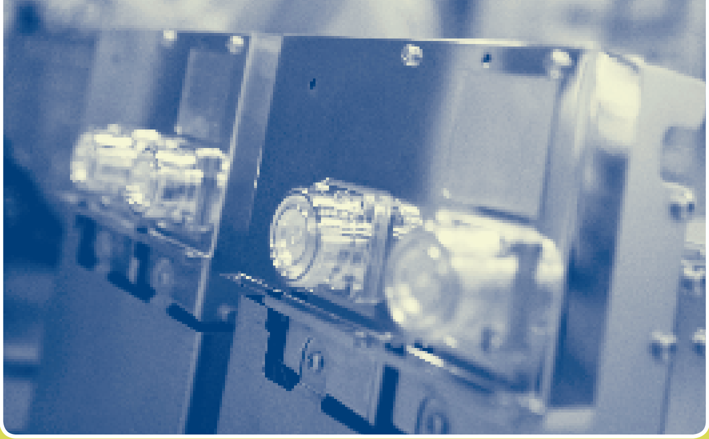
Set-top boxes have become an important element in Elcoteq's business and the company is today one of the leading manufacturers of these products in both the Americas and the entire world.

Elcoteq also co-operates with the Canadian company RIM. In addition to producing mobile devices, Elcoteq has started to offer repair services for RIM.

Elcoteq's plant in Americas are located in Manaus, Brazil, as well as in Juárez and Monterrey, Mexico. Elcoteq also has an NPI center in Dallas, USA, which serves both terminal products and communications network equipment customers. These units have an aggregate floor space of 39,300 square meters. At the end of 2005 Elcoteq employed 3,732 (4,108) people in Americas.

Quarterly Net Sales of the Geographical Areas, MEUR

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Europe	641.6	686.5	550.9	466.0	569.4	513.8	393.2	366.6
Asia-Pacific	344.7	321.0	226.6	177.1	210.2	207.0	137.2	159.7
Americas	195.8	187.1	204.5	167.2	85.0	107.9	111.5	60.2



Elcoteq collaborates with its customers to improve management of ethical issues in the supply chain.

Corporate Responsibility

Corporate responsibility in Elcoteq means actively applying the principles of sustainable development. Elcoteq is aware of the requirements set by its stakeholders and the law, and in a balanced manner takes into account the environmental, social and economic impacts of its activities.

Principles of Corporate Responsibility

Responsibility for addressing the three dimensions of corporate responsibility is integrated in the company's management structures and corporate governance, and the principles, guidelines and systems that are derived from them.

Elcoteq provides its stakeholders with information on the principles it follows, and the actions it takes, in the various areas of corporate responsibility through its Annual Report and a separate Corporate Responsibility Report. The Annual Report provides a summary of the corporate responsibility issues of most importance to the company's strategy and operations. A separate Corporate Responsibility Report to be published in 2006 will describe these issues in greater detail. This report will be based on the Global Reporting Initiative (GRI) guidelines for international sustainable development.

SRI Index

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

Awards

Elcoteq's Offenburg plant in Germany was granted the International Spirit at Work Award 2005 in recognition of the plant's good work in combining two different work cultures following Elcoteq's acquisition of this plant.

The Tallinn City Enterprise Board awarded Elcoteq's Tallinn plants in Estonia for being the best creator of new jobs during 2005. The unit also received the Enterprise Estonia institution's Foreign Investor of the Year award in 2005. The criteria for the award were Elcoteq's investments, innovative approach and its ability to create new jobs in the country.

Targets for 2006

Elcoteq's main targets in the area of corporate responsibility are promoting a responsible corporate culture, preparing for the requirements of the EU's new environmental directives, improving the energy efficiency of the manufacturing plants, and continuing development relating to the SA8000 standard especially at the new plants in Brazil, India and Russia.

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

Elcoteq's Values and Corporate Responsibility Policy

Social Responsibility

Management of social responsibility, especially human rights and working conditions in different cultures and new market areas, call for continuous and persistent work. Elcoteq uses the SA8000 standard as a guideline in its operations.

Aspects of Social Responsibility

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

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

Supply Chain Management

Elcoteq works with its customers to improve management of ethical issues in the supply chain. During the year Elcoteq continued to conduct the joint supplier audits with Ericsson started in 2004 in which the parties examined compliance with Ericsson's supplier requirements and the SA8000 standard. Special attention was paid to employee rights and working conditions and to environmentally sound business practices.

Focus on the Strategic Management Process

The main task of Elcoteq's Human Resources (HR) function is to ensure that the number of employees, competencies and motivation support the company's business objectives. In 2005 the HR function concentrated in particular on defining and implementing the measures required by the following targets set in the company's Strategic Management Process

- Mapping the competency potential of the company's employees
- Aligning the organizational structure with the company's business needs
- Defining and revising HR management policies, processes and operating models, and
- Promoting a responsible corporate culture.

Other priorities during 2005 included recruiting employees and allocating resources to the new units established in India and Russia, creating new organizational structures, and organizing training for new personnel in these locations.

Initiative, sharing of ideas, and the give and take of responsibility form the basis for the entrepreneurial spirit that is valued at Elcoteq.

Safeguarding Future Human Resources

It is vital for Elcoteq's business operations that the company is able to recruit and hold on to professionally skilled and motivated employees. Motivating compensation, continuous training and the opportunity to take up new responsibilities in the organization are critical in maintaining the job satisfaction of employees and thus keeping them in the company.

In 2005 the company started a project to assess the competency potential of its employees. The purpose of this project is to establish the existing special expertise of the employees, the competency levels, key tasks and roles, as well as the ability and willingness of employees to take up more challenging tasks in the organization in the future. Based on the results of this assessment the company will arrange training and development programs to prepare employees for new tasks at different levels of the organization. Assessing the level and depth of competency potential is essential to job rotation and successor planning. The aim is to create a successor system that will enable internal recruitment to the senior management positions critical to the company's business operations.

Employee Involvement in the European Company

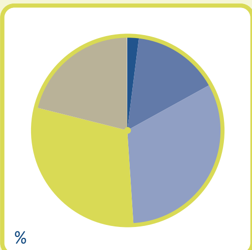
Elcoteq became a European company (SE, Societas Europaea) in October 2005. Before completion of this process, a special negotiating body comprising the company's top management and personnel representatives decided on employee involvement in the forthcoming European company. Among other things the negotiations defined the composition of the personnel representation and its tasks, operating models for communication and personnel negotiations, the schedule of meetings and the resources necessary for this activity.

The personnel representative body was formed at the end of 2005 and comprises 13 members representing all Elcoteq's European units in the EEA countries. The number of representatives from different countries is in proportion to the total number of employees. The representatives regularly receive information on the company's development and in addition they convene twice a year to discuss the company's prospects and other separately agreed and current issues.

Number of Employees

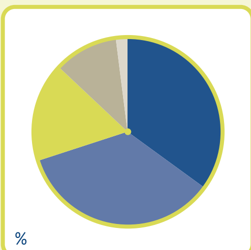
At the end of 2005 Elcoteq employed altogether 19,802 (19,480) people. The new manufacturing plant inaugurated in India in the spring of 2005 had approximately 300 employees at the year end. Elcoteq also recruited new employees in Russia after opening a new manufacturing plant in St. Petersburg in October. At the end of 2005 this facility had some 300 employees.

Level of Education



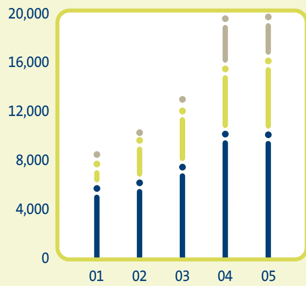
No grade school	2%
Grade school	15%
High school	32%
Vocational education	30%
Professional qualification or university degree	21%
Doctorate	0.1%

Distribution by Age



Age	
Under 25	35%
25–34	35%
35–44	17%
45–54	11%
Over 55	2%

Number of Personnel in 2001–2005



- Americas
- Asia-Pacific
- Europe

Environmental Responsibility

The EU's integrated product policy has shifted the emphasis from management of site-specific environmental impacts to minimizing the environmental impacts of products throughout their lifecycles. Elcoteq's expanded service offering, along with new legislative obligations and customer requirements, call for continuous development of environmental management by the company.

Product-Specific Environmental Information

The most significant environmental requirements of the products Elcoteq manufactures are based on EU directives that apply, among other things, to the handling and recycling of waste from electrical and electronic equipment (WEEE), the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS), and the need to observe the lifecycle impacts of energy-using products in the design of these products (EuP). These directives have set new requirements especially with respect to the collection and management of product-specific environmental information throughout the supply chain.

The design and manufacturing process is affected by the requirements of these EuP and WEEE directives that concern environmentally sound design and product-specific information collection consistent with lifecycle thinking. Elcoteq has improved its capabilities in this respect, particularly in the management of product-specific environmental information, by making the identification and management of environmental aspects an integral part of the entire product process from design to after-sales services. Elcoteq also anticipates legislative changes in line with these directives in countries outside Europe in order to offer its customers throughout the world product development and manufacturing services that comply with these new stipulations.

Lead-Free Manufacturing and RoHS

Elcoteq has been developing a lead-free manufacturing process since 2002, as soon as the EU ratified the RoHS directive. In 2005 Elcoteq continued to prepare for full compliance with the RoHS directive with major development of its information management and the development of processes specifically for materials management. Elcoteq will shift to lead-free manufacturing and products that comply in full with the RoHS directive in stages as its customers require, completing this process by July 1, 2006.

During 2005 Elcoteq worked closely with its customers to optimize the phasing in of lead-free soldering product by product. A lead-free manufacturing process is already used for volume production in several Elcoteq plants.

Management of Environmental Aspects

All Elcoteq units operate within a multisite certificate for quality and environmental management system. The company's environmental management system was updated in 2005 to correspond with the requirements of the new ISO 14001:2004 standard. At the same time the structure of the environmental management system was revised with changes including the setting of function-specific targets worldwide. Within the limits of the company's multisite certificate and targets, all business units are individually responsible for continuous improvement of the environmental management of their local operations. This allows the units to address local conditions when defining development priorities.

Elcoteq monitors environmental indicators on a quarterly basis to measure and assess environmental management at its plants, the consumption of natural resources, waste management and indirect environmental impacts.

Further details on these indicators and environmental management in Elcoteq will be given in the company's Corporate Responsibility Report to be published in 2006.

Economic Responsibility

Economic responsibility means ensuring that the company is profitable and competitive in a sustainable manner. This in turn means, for instance, good corporate governance practice, risk management and the ethical conduct of business.

Financial Targets

Financial success for Elcoteq ensures added value and well-being for its stakeholders. The company's main stakeholders are its shareholders, customers, employees, partners, authorities, the media and local communities.

Elcoteq has set itself challenging short- and long-term financial targets. The company continuously monitors fulfillment of these targets, which also form one component in Elcoteq's target-based bonus scheme. The company's risk management is described on page 62.

Competitive Remuneration

To safeguard its position as an attractive employer, Elcoteq seeks to pay competitive wages and salaries corresponding to the degree of difficulty of the employees' jobs and wages that are also internally fair. The company also has several incentive schemes such as production and target-based bonuses and stock options.

The company revised its target-based bonus scheme during 2005 as part of the Strategic Management Process. Each employee's personal targets were tied more closely to the company's financial development. These targets are set and monitored during the appraisal discussions held twice a year. The scheme covers the company's white-collar employees, i.e. roughly 20% of the total number of people employed directly by the company. The maximum target bonus is 50% of the employee's basic annual salary according to the competence requirements of the job.

Donations

Elcoteq chooses the good causes it will support based on how the organization, event or activity in question supports the company's values. Elcoteq's units decide independently on any local support they give.

The largest support given by the Group is to the Finnish Foundation for Young People and Children, which is part of the International Youth Foundation (IYF). The foundation works with the authorities and other organizations in various countries to improve the conditions and prospects for children and young people.

Elcoteq has decided to expand its co-operation with IYF by supporting the foundation's projects in India and Russia in 2006–2007. In India the support will go to a girls' school in New Delhi which seeks to strengthen and broaden the opportunities for education and skills training for girls. The support program in Russia aims to offer education in mathematics and information technology in particular to talented students with limited means by increasing the activities of the software club of Petrozavodsk University.

Key Figures

	2005	2004	2003	2002	2001
Net sales, MEUR	4,169.0	2,921.8	2,235.7	1,840.2	1,862.5
Personnel at year end	15,751	16,149	13,013	10,176	8,350
Personnel on average	15,242	13,065	11,044	8,127	9,960
Net sales/employee*, tEUR	273.5	223.6	202.4	226.4	187.0
Wages, salaries and personnel costs**, MEUR	202.6	163.9	153.5	129.3	139.5

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

** More information on wages, salaries and other personnel expenses is available in the Notes to the consolidated financial statements on page 43.

Report by the Board of Directors January 1–December 31, 2005

Elcoteq SE's net sales in 2005 rose 43% on the previous year to more than four billion euros. Operating income improved as well, totaling 76.5 million euros (57.3 in 2004). Cash flow for the full year was clearly positive. The main events in Elcoteq's financial year were the opening of new manufacturing plants in India and Russia and the conversion of the company's form into a European company (SE).

In preparing the financial statements for 2005 Elcoteq SE has applied the recognition and measurement principles of the International Financial Reporting Standards (IFRS), which Elcoteq adopted at the beginning of 2004. The comparison figures for the income statement and earnings per share in the descriptive section are the figures for continuing operations in the same period of 2004 unless otherwise stated. The other comparison figures include the impact of the discontinued operation.

IFRS 2 (Share-Based Payments) and IFRS 5 (Non-Current Assets Available for Sale and Discontinued Operations) were adopted at the beginning of 2005, which has caused changes to the 2004 comparison figures. The changes necessitated by these standards have been applied retrospectively to the 2004 comparison figures in the manner required by the standards. The impacts of the changes on the 2004 income statement are described in the first interim report for 2005.

Market Review

The upward trend in the communications technology end-markets that started towards the end of 2002 continued in 2005. In the same period the market for original design manufacturing (ODM) and electronics manufacturing services (EMS) grew at an average annual rate of roughly 15%. In 2005 the ODM business grew by approximately 25% and the traditional EMS business by around 10%, driven principally by strong demand for mobile phones. According to estimates by market research institutions more than 800 million mobile phones were sold in 2005, which was almost 25% more than in the previous year. The market for communications network equipment grew by some 10% in 2005.

Elcoteq consolidated its position as an EMS provider to communications technology companies in 2005. Elcoteq's market share was about 8%, which makes the company the fourth largest in its field.

Growth in the number of mobile phones is forecast to continue rising in 2006. The largest growth markets are countries in Asia-Pacific and Latin America — India, China, Russia and Brazil, where the number of mobile phone users is growing. The communications network equipment segment is expected to grow by slightly less than 10% in 2006. In the communications technology sector, the ODM and EMS market is forecast to show annual growth of around 10% over the next few years.

Financial Year 2005: Net Sales and Result Improved

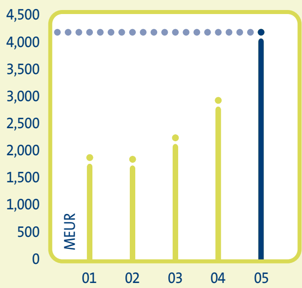
Elcoteq's net sales in 2005 rose 43% to 4,169.0 million euros (2,921.8). Operating income was 76.5 million euros (57.3), or 1.8% of net sales. Income before taxes amounted to 59.3 million euros (44.9) and net profit was 41.3 million euros (30.7). Earnings per share showed a clear improvement, standing at 1.34 euros (1.01).

A prominent factor underlying the growth in net sales was continued strong demand for mobile phones. Net sales increased in all geographical areas. Growth was strongest in the Americas, where net sales more than doubled compared to the previous year, due largely to the acquisition of the Thomson business at the end of 2004. Thomson accounted for almost 250 million euros of the Group's net sales in 2005. Net sales in Asia-Pacific rose by some 50% on the previous year, and net sales in Europe by some 30%.

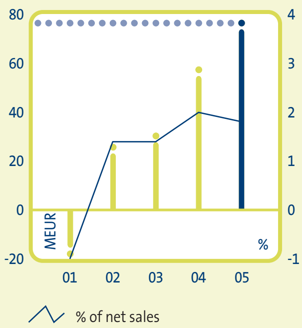
Operating income in 2005 was a distinct improvement on 2004. The operating margin, however, was down on the previous year due to the still weak capacity utilization levels and ramp-up costs of the new manufacturing plants and to changes in the Terminal Products business area, where unit growth of manufactured products was smaller than sales growth as the product mix shifted to products requiring higher-value materials. Despite the reduction in margins, return on capital employed in Terminal Products was good in 2005. The profitability of the Communications Network Equipment business area improved as well, although this segment's operating income and return on capital employed are still not satisfactory.

The Group's net financial expenses amounted to 16.0 million euros (11.3). The increase was especially attributable to a change in the debt structure and to greater average use of the accounts receivable sales programs due to the growth in sales. The addition of subordinated notes to the company's portfolio of financial instruments, coupled with longer loan maturities, strengthen the company's capital structure.

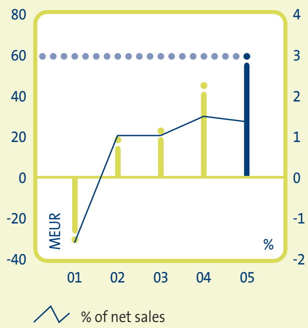
Net Sales



Operating Income



Income before Taxes



Fourth-Quarter Net Sales and Result

Demand for services during the fourth quarter was on a par with the third quarter. Net sales in the fourth quarter totaled 1,182.0 million euros (864.6 for Q4/2004 and 1,194.7 for Q3/2005). The slight decrease in net sales from the previous quarter arose from lower sales by the Communications Network Equipment business area. Operating income in the fourth quarter amounted to 25.5 million euros (20.4 for Q4/2004 and 25.6 for Q3/2005) and income before taxes was 19.7 million euros (14.6).

The operating income of Terminal Products improved compared to the third quarter due to higher production volumes. The product mix shifted towards products requiring lower-cost materials. The profitability of the Communications Network Equipment business area, on the other hand, weakened clearly owing both to a decline in manufacturing volumes and to an unfavorable product mix.

Financing and Cash Flow

Liquidity was good throughout the period. At the end of December Elcoteq had unused but immediately available credit limits totaling 293.5 million euros (292.4 at the end of Q3/2005 and 289.9 at the end of 2004). There were no open issues from the company's 200 million euro commercial paper program at December 31, 2005 (40.0 million euros at December 31, 2004).

Interest-bearing net debt at the end of December amounted to 90.3 million euros (98.2), and gearing was 0.3 (0.4). The solvency ratio was 26.0% (30.5%). Cash flow from sold accounts receivable totaled 148.8 million euros (213.9 at the end of Q3/2005 and 164.0 at the end of 2004). Return on capital employed was 17.6% (19.5%).

In May Elcoteq issued notes totaling 20 million euros and subordinated notes totaling 10 million euros in two private placements. The terms of the subordinated notes are identical to the subordinated notes issued in December 2004. The subordinated notes mature on December 22, 2011 but the company has the right to redeem the notes prematurely at six-month intervals from December 22, 2009. In September Elcoteq issued subordinated notes in the nominal amount of 50 million euros with a maturity of five years in a private placement issue.

In 2005 cash flow after investing activities was 24.4 million euros (-80.3) and 5.5 million euros (-44.0) in the final quarter. Despite the strong growth in net sales cash flow in 2005 was clearly positive, due to effective working capital management. Average turnover of working capital was roughly one week at the end of the year, which is an outstanding result compared to other companies in this sector. Compared to 2004 the improvement in turnover of working capital was particularly strong in Communications Network Equipment.

Capital Expenditures

Gross capital expenditures on fixed assets in 2005 totaled 123.6 million euros (128.3), or 3.0% of net sales. Depreciation amounted to 78.2 million euros (60.4), or 1.9% of net sales. The largest single investment item was the new manufacturing plant in St. Petersburg, Russia. Other major investment items included the addition of assembly capacity in Europe and Asia-Pacific. Capital expenditures in the fourth quarter totaled 35.4 million euros (45.2).

Elcoteq also increased its manufacturing capacity through operating leases worth roughly 25.2 million euros (35.3) in 2005.

Personnel

At the end of the December the Group employed 19,802 (19,480) people: 869 (817) in Finland and 18,933 (18,663) in other countries. The geographical distribution of the workforce was as follows: Europe 9,984 (10,008), Asia-Pacific 6,086 (5,364) and Americas 3,732 (4,108). The average number of employees directly employed by the company during 2005 was 15,242 (13,065).

Environment

Elcoteq has a certified quality and environmental system covering all its units. The company's environmental management system was updated in 2005 to comply with the requirements of the new ISO 14001:2004 standard. The company's environmental performance is described in more detail in a separate Corporate Responsibility Report to be published in 2006.

Business Area Performance

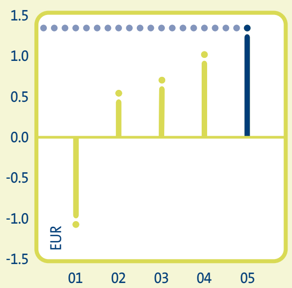
Elcoteq has two business areas: Terminal Products and Communications Network Equipment. In 2005 net sales of Terminal Products contributed 82.5% (79%) and net sales of Communications Network Equipment 17.5% (21%) of Elcoteq's consolidated net sales.

In 2005 companies within the Nokia and Ericsson groups accounted for altogether 69% (73%) of Elcoteq's net sales. In addition to these companies, Elcoteq's top five customers included Siemens, Sony Ericsson and Thomson.

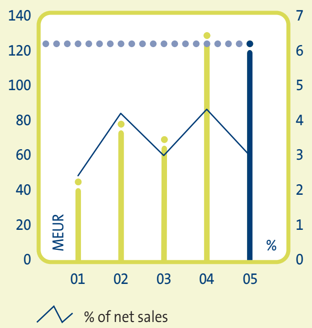
Terminal Products

Net sales of the Terminal Products business area in 2005 rose on the previous year by approximately 50% to 3,439.0 million euros

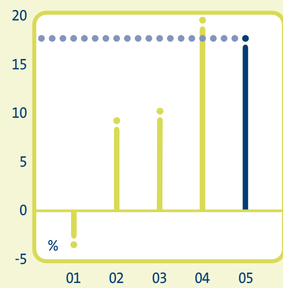
Earnings per Share (EPS)



Gross Capital Expenditures



Return on Investment (ROI/ROCE)



(2,300.0). The segment's operating income was 95.0 million euros (77.7), or 2.8% of net sales. Net sales in the fourth quarter of the year totaled 999.5 million euros (688.8) and the segment's fourth-quarter operating income was 32.2 million euros (28.3). Underlying the growth in full-year net sales was good demand for mobile phones.

The strategic goal of Elcoteq's Terminal Products business area is to further broaden and balance its customer base. Established customer relationships as well as newer customer accounts, for example with Thomson and RIM, developed well during 2005. Home communications represented a larger share of Terminal Products' net sales than in the previous year. This product group includes set-top boxes and electronics for flat-screen televisions.

Elcoteq estimates that the net sales of its Terminal Products business area will grow in 2006 more rapidly than overall growth in the EMS market.

Communications Network Equipment

Net sales of the Communications Network Equipment business area in 2005 grew 17% on the previous year to 730.1 million euros (621.8) and the segment's operating income was 23.2 million euros (16.3), or 3.2% of net sales. Net sales grew faster than infrastructure market growth. Net sales in the final quarter of 2005 were 182.6 million euros (175.9) and the segment's operating income was 2.9 million euros (2.5).

Elcoteq expects the market share of its Communications Network Equipment business area to strengthen in 2006 and its net sales to grow compared to 2005. Elcoteq's aim is to raise the profitability of Communications Network Equipment and to increase its share of the Group's net sales.

Geographical Areas

Elcoteq has three geographical areas (GAs): Europe, Asia-Pacific and Americas.

In 2005 the geographical areas contributed to the Group's net sales as follows: Europe 56% (63%), Asia-Pacific 26% (25%) and Americas 18% (12%).

Europe

Net sales of GA Europe were 2,345.0 million euros (1,843.1).

Elcoteq's new manufacturing plant in St. Petersburg, Russia was completed in September. The plant has a total floor space of approximately 15,000 square meters and it currently employs almost 300 people. The total investment in the plant between 2004 and 2005 amounted to roughly 27 million euros which, among other things, includes the land, the plant's construction and utilities, as well as machinery investments.

Elcoteq sold its subsidiary in Überlingen, Germany, Elcoteq Elektronik GmbH and its manufacturing plant to the German company Rafi GmbH & Co. KG on December 31, 2005. The divested company had an enterprise value of roughly 6 million euros. The sale of the plant did not affect Elcoteq's 2005 result. The plant's net sales in 2005 amounted to approximately 25 million euros.

A new office was opened in Budapest in the spring which functions as the headquarters of Elcoteq's GA Europe.

Asia-Pacific

Net sales of GA Asia-Pacific increased by some 50% to 1,069.4 million euros (714.1). In 2005 Elcoteq expanded its service offering in China by starting to deliver larger product entities.

Elcoteq opened a new manufacturing plant in Bangalore, India, in spring 2005. In India Elcoteq operates in rented premises with a floor space of about 5,500 square meters and at the end of the year the company employed roughly 300 people. The plant caters to the needs of both terminal products and communications network equipment customers.

In the autumn Elcoteq sold the machinery used to manufacture industrial electronics at the Beijing plant, along with the inventory of this business, to Enics Electronics Beijing Limited.

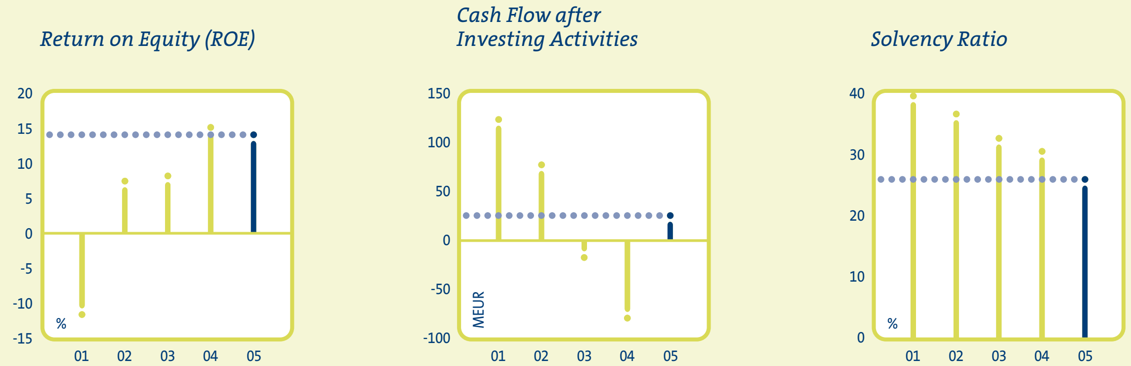
Americas

Net sales of GA Americas more than doubled on the previous year to 754.6 million euros (364.6). The increase was especially due to the acquisition of the Thomson business in Mexico at the end of 2004, which made Elcoteq one of the world's leading manufacturers of set-top boxes.

Decisions of the Annual General Meeting

Elcoteq's Annual General Meeting was held in Helsinki on March 23, 2005. The AGM approved the Board's proposal that the Board be authorized 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 company's share capital may be increased by at most 2,456,468.80 euros under this authorization. This authorization is in force for one year from the decision of the Meeting, i.e. until March 23, 2006.

The Meeting elected seven members to the Board of Directors:



President Martti Ahtisaari; Mr Heikki Horstia, Vice President, Treasurer, Wärtsilä Corporation; Dr Eero Kasanen, Rector of the Helsinki School of Economics; Mr Antti Piippo, principal owner and founder-shareholder of Elcoteq SE; Mr Henry Sjöman, founder-shareholder of Elcoteq SE; Mr Juha Toivola, MSc, and Mr Jorma Vanhanen, founder-shareholder of Elcoteq SE. The terms of office of the Board members extend until the end of the following Annual General Meeting. Mr Ahtisaari, Mr Horstia, Mr Kasanen and Mr Toivola are independent Board members.

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

The AGM decided to re-elect the firm of authorized public accountants KPMG Oy Ab under the supervision of principal auditor Mr Mauri Palvi (APA) as the company's auditors.

Extraordinary General Meeting: Elcoteq Becomes a European Company

An extraordinary general meeting was held on September 27, 2005. The EGM decided to convert Elcoteq from a public limited company into a European company (SE, Societas Europaea). Since October 1, 2005 the company's new name has been Elcoteq SE.

Shares and Shareholders

During 2005 altogether 462,700 new A shares were registered as a result of subscriptions under the 2001 stock options scheme. At the end of 2005 the company's share capital totaled 12,441,430.80 euros and there were altogether 31,103,577 shares divided into 20,526,577 Series A shares and 10,577,000 Series K shares. All the K shares are held by the company's three principal owners.

Elcoteq had 11,694 registered shareholders on December 31, 2005. There were a total of 8,382,054 nominee-registered and foreign-registered shares, or 26.95% of the total number of shares and 6.64% of the votes outstanding.

Prospects

Market research institutions forecast annual growth of roughly 10% for the ODM and EMS business in communications technology in the coming years. The same level of growth is also forecast in the end-markets for mobile phones and communications network equipment. The largest growth areas are countries in Asia-Pacific and Latin America, where the number of mobile phone users is growing.

Elcoteq believes that the use of ODM services, particularly in mobile phones, will become more prevalent and demand for this type of services is also growing in communications network equipment. Elcoteq will continue gradual expansion of its service network and will supplement its own expertise through collaboration with various design companies and component suppliers.

Alongside strengthening of the service offering, the Group's key strategic goals will continue to be balancing the customer portfolio and expanding operations into new product areas that support the company's operating model. Home communications is considered one potential growth area.

Elcoteq estimates that its net sales in 2006 will increase faster than the average growth in the EMS market and that operating income will improve compared to the previous year.

Net sales in the first quarter of 2006 are expected to grow compared to the same period last year but to remain below the level in the final quarter of 2005. Operating income is forecast to be slightly below the level in the first quarter last year.

Board's Dividend Proposal

The Board of Directors proposes to the Annual General Meeting on March 23, 2006 that a dividend of 0.66 euros be distributed on the financial year 2005, representing about half of the company's net profit for the year.

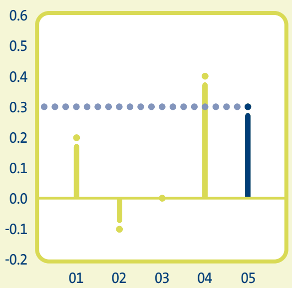
Annual General Meeting 2006

Elcoteq's Annual General Meeting in 2006 will be held in Helsinki on March 23. The Nomination Committee of the Board of Directors will propose to the AGM that Board's current members be re-elected. The members have consented to their re-election.

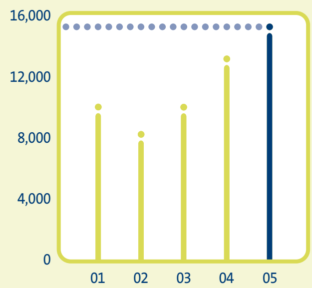
Espoo, Finland
February 8, 2006

Board of Directors

Gearing



Personnel on Average



Consolidated Income Statement (IFRS)

INCOME STATEMENT, EUR 1,000	Note	Jan. 1–Dec. 31, 2005	Jan. 1–Dec. 31, 2004
NET SALES	1	4,169,046	2,921,834
Change in work in progress and finished goods		-11,163	10,563
Other operating income	2	5,809	5,871
Production materials and services	3	-3,638,528	-2,538,012
Personnel expenses	5	-202,596	-163,869
Depreciation	7	-78,238	-60,359
Writedowns		-279	-
Depreciation and writedowns, total		-78,517	-60,359
Other operating expenses	8	-167,565	-118,744
OPERATING INCOME		76,486	57,283
Financial income, total	9	4,788	2,957
Financial expenses, total	9	-20,751	-14,281
Share of the losses of associated companies		-1,178	-1,025
INCOME BEFORE TAXES		59,346	44,935
Income taxes	10	-18,442	-12,282
INCOME FROM CONTINUING OPERATIONS		40,904	32,653
Income from discontinued operation	11	-	7,911
NET INCOME		40,904	40,563
ATTRIBUTABLE TO:			
Equity holders of the parent*		41,271	38,617
Minority interests		-367	1,946
		40,904	40,563
Earnings per share calculated on profit attributable to equity holders of the parent company.	12		
Earnings per share (EPS), continuing operations, EUR		1.34	1.01
Earnings per share (EPS), continuing operations diluted, EUR		1.28	0.96
Earnings per share (EPS), discontinued operations, EUR		-	0.26
Earnings per share (EPS), discontinued operations diluted, EUR		-	0.25

* Net profit reported by the company.

Consolidated Cash Flow Statement (IFRS)

CASH FLOW STATEMENT, EUR 1,000	Jan. 1–Dec. 31, 2005	Jan. 1–Dec. 31, 2004
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxes	59,345	59,048
Adjustments:		
Scheduled depreciation and amortization	78,517	60,847
Unrealized foreign exchange gains and losses	13,629	-10,226
Other non-payment-related income and expenses	831	-
Financial income and expenses	19,439	8,045
Other adjustments	768	-15,172
Cash flow before change in working capital	172,530	102,542
Change in working capital:*		
Change in non-interest-bearing current receivables	-122,088	-29,157
Change in inventories	-9,986	-56,724
Change in non-interest-bearing current liabilities	115,222	63,555
Cash flow from operating activities before financial items and taxes	155,677	80,216
Interest and other financial expenses	-16,140	-11,607
Operations-related interest income	2,725	366
Income taxes paid	-14,018	-9,040
Cash flow from operating activities	**128,244**	**59,935**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	-126,626	-128,414
Proceeds from disposal of tangible and intangible assets	20,630	10,326
Acquisitions	-	-43,247
Disposals	2,146	21,313
Loans made	-	-253
Repayment of loans receivable	17	4
Cash flow from investing activities	**-103,834**	**-140,270**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	3,369	2,036
Change in current debt	-25,757	39,617
Issuance of long-term debt	79,529	49,678
Repayment of long-term debt	-4,450	-7,746
Dividends paid and other distributions of earnings	-19,959	-27,299
Cash flow from financing activities	**32,731**	**56,286**
CHANGE IN CASH AND EQUIVALENTS	57,141	-24,049
Cash and equivalents on January 1	**39,239**	**63,683**
Effect of exchange rate changes on cash held	**4,972**	**-394**
Cash and equivalents on December 31	**101,351**	**39,239**

* The change in working capital includes the change in sold accounts receivable.
The impact of this change is to weaken cash flow by 15.2 million euros
during the reporting period 1–12/2005 and by 21.0 million euros during 1–12/2004.

The cash flow statement for 2004 includes the discontinued operation (Industrial Electronics).
In 2004 the discontinued operation added 26.5 million euros to cash flow before financing activities.

Consolidated Balance Sheet (IFRS)

ASSETS, EUR 1,000	Note	Dec. 31, 2005	Dec. 31, 2004
Non-current assets	14		
Intangible assets			
Intangible rights		6,439	6,660
Product development costs		1,889	-
ADP software		7,629	6,626
Advance payments and construction in progress		5,731	4,601
Goodwill		10,615	10,798
Goodwill on consolidation		15,098	15,216
		47,400	43,900
Tangible assets			
Land and water areas		4,150	3,861
Buildings		80,872	55,285
Machinery and equipment		149,627	131,908
Advance payments and construction in progress		10,085	14,745
		244,734	205,799
Investments			
Shares and equity interests in associated companies		2,426	2,748
Receivables from associated companies		262	87
Other shares and equity interests		11,399	11,535
		14,087	14,371
Long-term receivables			
Deferred tax assets	17	10,010	6,375
Other loans receivable		4	7,665
		10,014	14,039
Non-current assets, total		**316,235**	**278,109**
Current assets			
Inventories			
Raw materials		270,368	233,135
Work in progress		24,678	31,509
Finished goods		33,304	40,571
Advance payments		12	128
		328,362	305,343
Current receivables			
Accounts receivable	18	352,713	250,074
Loans receivable		7,976	-
Other receivable		44,312	16,554
Prepaid expenses and accruals	19	16,441	18,325
		421,442	284,953
Cash and equivalents		101,351	39,239
Current assets, total		**851,155**	**629,535**
ASSETS, TOTAL		**1,167,390**	**907,645**

Consolidated Balance Sheet (IFRS)

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec. 31, 2005	Dec. 31, 2004
Equity attributable to equity holders of the parent	20		
Share capital		12,441	12,256
Additional paid-in capital		215,988	212,226
Other reserves		8,369	8,354
Translation differences		-2,883	-2,687
Retained earnings		21,794	1,499
Net income for the year		41,271	38,617
Equity attributable to equity holders of the parent, total		**296,980**	**270,265**
Minority interests		6,885	6,575
Total equity		**303,865**	**276,840**
Liabilities	21		
Long-term liabilities			
Subordinated notes		108,978	49,678
Medium-term notes		39,956	25,100
Loans from financial institutions		-	3,333
Loans from pension plans		1,678	2,144
Other debt		628	1,128
Deferred tax liability	17	3,062	3,268
		154,302	84,651
Payments due within one year		-702	-8,074
Long-term liabilities, total		153,600	76,577
Current liabilities			
Loans from financial institutions		40,691	23,777
Commercial paper program		-	39,881
Loans from pension plans		465	465
Advances received		216	196
Accounts payable		582,602	413,292
Other current liabilities		11,262	21,011
Accrued expenses	22	71,909	54,072
Provisions	21	2,780	1,535
Current liabilities, total		709,925	554,229
Liabilities, total		**863,525**	**630,805**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		1,167,390	907,645

Calculation of Changes in Shareholders' Equity (IFRS)

EUR 1,000	Attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Additional paid-in capital	Other reserves	Share issue	Translation differences	Retained earnings	Total		
BALANCE AT JAN. 1, 2005	12,256	212,226	8,354	0	-2,687	40,116	270,265	6,575	276,840
Issue of share capital	185	3,184					3,369		3,369
Transfer to translation difference		578			-578		-		-
Increase in other reserves			15		-15		-		-
Equity hedge of subsidiaries					-2,602		-2,602		-2,602
Translation differences					2,999		2,999	330	3,329
Share based payments						1,637	1,637		1,637
Ownership change of group companies							-	348	348
Dividends						-19,959	-19,959		-19,959
Net income						41,271	41,271	-367	40,904
BALANCE AT DEC. 31, 2005	12,441	215,988	8,369	0	-2,883	63,065	296,980	6,885	303,865
BALANCE AT JAN. 1, 2004	12,076	209,008	8,354	1,361	-2,904	27,599	255,495	5,764	261,259
Issue of share capital	180	3,218		-1,361			2,037		2,037
Equity hedge of subsidiaries					1,203		1,203		1,203
Translation differences					-986		-986	-1,136	-2,123
Share-based payments						1,199	1,199		1,199
Dividends						-27,299	-27,299		-27,299
Net income						38,617	38,617	1,946	40,563
BALANCE AT DEC. 31, 2004	12,256	212,226	8,354	0	-2,687	40,116	270,265	6,575	276,840

Accounting Principles Used in the Consolidated Financial Statements

General Accounting Principles

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

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

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

Significant Changes Arising from Standards Applied Since January 1, 2005

From January 1, 2005 the company has applied IFRS 2 (Share-Based Payments) in the treatment of employee stock option rights. The impact of these stock option rights on expenses in the 2004 comparison statements is 1.2 million euros.

The Industrial Electronics business, sold in 2004, is treated as a discontinued operation in compliance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). For this reason the income statement items of this business have been eliminated from the consolidated income statement and its result is shown as a separate line item.

Principles of Consolidation

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

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

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

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

Translation of Items in Foreign Currencies

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

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

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

Derivative instruments are valued at their fair values. Hedge accounting is not applied to derivative instruments related to sales and purchases; instead these instruments are recognized in the income statement at their fair values as adjustments to the corresponding items. Nor is hedge accounting applied to derivative instruments used to hedge financial items; these instruments are recognized at their fair values under financial items. Hedge accounting is applied when derivative contracts are used to hedge currency translation exposure related to the Group's equity instruments in foreign subsidiaries. In this case foreign exchange gains and losses are treated as translation differences in the consolidated statements. The gains and losses relating to the potential ineffective portion of the hedge are recognized under financial items.

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

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

Business Segments

Elcoteq has organized its operations into two business areas: Terminal Products and Communications Network Equipment. Elcoteq reports these business areas as its primary segments applying IAS 14 (Segment Reporting). In addition to these two business areas Elcoteq has also had a separate business operation, Industrial Electronics, the bulk of which the company sold on April 1, 2004. All the income statement items of this discontinued business are eliminated from the consolidated income statement and its result is shown as a separate item in the 2004 comparison figures. The residual part of this business retained by Elcoteq has been consolidated within the Communications Network Equipment business area.

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

Revenue Recognition

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

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

Tangible Assets

Tangible assets are stated at their acquisition cost less accumulated depreciation and any impairment losses. If the asset consists of several parts with different economic lives, each part is treated as a separate asset. In this case the costs arising from renewal of the part are capitalized. Other costs arising later are capitalized only when it is probable that they give the company added economic benefit from the asset and when the acquisition cost can be defined reliably. Other repair and maintenance expenses are entered as an expense in the income statement as they arise. Straight-line depreciation is entered on the assets over their estimated economic lives. Depreciation is not entered on land. The estimated economic lives are:

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

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

Intangible Assets

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

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

Research and Development Costs

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

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

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

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

Impairments

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Furthermore, the recoverable amount is estimated annually for goodwill and construction in progress with an indefinite economic life, whether indications of impairment exist or not.

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

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

Goodwill has been tested for impairment as required by the transition standard applying IAS 36 on the transition date January 1, 2003.

Inventories

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

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

Accounts Receivable

Accounts receivable are valued at their purchase price less any writedowns.

The Group's accounts receivable do not contain realized cash flow from sold accounts receivable. The credit risk related to sold accounts receivable is transferred to the buyer at the time of sale without recourse to Elcoteq. The costs arising from the sale of accounts receivable are entered under other financial expenses. More detailed information on accounts receivable is given in the Note "Accounts Receivable".

Cash and Equivalents

Cash and equivalents consist of cash in hand, bank accounts, and liquid short-term investments. Liquid investments are measured at fair value and the change in fair value is entered to the income statement.

Leasing Contracts

Leasing contracts are treated as finance leases in accordance with IAS 17 (Leases) when the lease transfers substantially all the risks and rewards incident to ownership to the Group. Non-current assets acquired under finance leases are capitalized as non-current assets in the consolidated balance sheet and are depreciated over their expected economic lives. Conversely, liabilities related to these assets are shown as long-term loans from financial institutions.

The Group had no production equipment under finance leases on December 31, 2005. Machinery acquired with operating leases is not included in the Group's non-current assets. Operating leases are entered as rental expenses under other operating expenses and the rental commitments are shown in the Notes under both "Leasing Agreements" and "Contingent Liabilities".

Long-Term Liabilities

The Group's long-term liabilities are stated at amortized cost using the effective interest rate method.

Employee Benefits

Pension Obligations

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

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

Share-Based Payments

The Group has applied IFRS 2 (Share-Based Payments) to all share and option schemes in which option rights have been granted after November 7, 2002, but on which the rights were not vested until January 1, 2005 (the vesting period). Option scheme expenses predating this period are not recognized in the income statement. Option rights are measured at their fair value on the date they were granted and are expensed in the income statement on a straight-line basis during the vesting period. The expense determined on the granting date is based on the Group's estimate of the number of options expected to generate a right at the end of the vesting period. The fair value is determined using the Black-Scholes option pricing model. The fair value does not include any non-market-based impacts of the terms (for example profitability and a certain profit growth target); instead, these impacts are taken into account in the number of options expected to generate a right at the end of the vesting period. The Group updates its estimate of the final number of options at each balance sheet date. Changes in these estimates are recognized in the income statement. When option rights are exercised, cash payments received as a result of share subscriptions (adjusted for any transaction costs) are entered under share capital (nominal value) and additional paid-in capital.

Grants

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

Provisions

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

Taxes

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

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

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

Non-Current Assets Available for Sale and Discontinued Operations

As required by IFRS 5 (Non-Current Assets Available for Sale and Discontinued Operations) the divestment of the Industrial Electronics business in 2004 is treated as a discontinued operation. Hence all its income statement items have been eliminated from the consolidated income statement and its result is shown as a separate line item.

Assets and liabilities classified as available for sale at the balance sheet date are shown separately in the balance sheet in compliance with IFRS 5.

Dividends

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

Figures in Thousands of Euros

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

New Standards and Interpretations

On January 1, 2006 the Group adopted IFRIC 4 (Determining Whether an Arrangement Contains a Lease), issued by the IASB in December 2004. IFRIC 4 provides guidelines on determining where an agreement that does not take the legal form of a lease nonetheless contains a lease that should be treated as defined in IAS 17 (Leases). The application of IFRIC 4 has no material impact on the Group.

In 2007 the Group will adopt IFRS 7 (Financial Instruments: Disclosures) issued by the IASB in August 2005. IFRS 7 introduces certain new requirements for presenting financial instruments and puts all the presentation requirements for financial instruments into one standard. The standard is expected to mainly affect the Notes to the financial statements.

Notes to the Consolidated Financial Statements

1. SEGMENT REPORTING

Elcoteq has organized its business operations into two business areas: Terminal Products and Communications Network Equipment. Elcoteq reports these as its primary segments applying the principles defined in IAS 14 (Segment Reporting). In addition to these business lines, Elcoteq has also had a separate Industrial Electronics business, most of which was divested on April 1, 2004.

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

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

Accounting Principles

There are no intersegment sales between the primary segments.

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

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

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

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

Non-Allocated Items

Non-allocated expenses in the income statement consist of the expenses of the Group office. Non-allocated expenses were reduced in 2004 by two items: the settlement in 2004 of the Shenzhen GKI company's VAT demands for 2001 and 2002, worth 2.3 million euros, and a reduction in Elcoteq's statutory employment disability pension (TEL) obligation worth 2.1 million euros.

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

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

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

Discontinued Operation

Elcoteq agreed in February 2004 on the divestment of its Industrial Electronics business. The divestment was closed, as planned, on April 1, 2004. On this date the assets of the sold Industrial Electronics segment totaled 43.7 million euros and its liabilities were 22.5 million euros. The assets mainly comprised inventories and accounts receivable.

Operative cash flow after investing activities in the first quarter of 2004 amounted to 5.2 million euros and capital expenditures were 0.5 million euros. Elcoteq recorded operating profit of 10.0 million euros on the sale of this business and taxes totaling 4.3 million euros on this gain.

Business Areas

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

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

BUSINESS AREAS IN 2005, MEUR

	Terminal Products	Communications Network Equipment	Non-allocated	Continuing operations, total
Net sales	3,439.0	730.1	-	4,169.0
Depreciation	55.1	18.9	4.6	78.5
Operating income	95.0	23.2	-41.7	76.5
Share of associated companies' results	0.0	-0.3	-0.9	-1.2
Assets	737.7	277.7	152.1	1,167.4
Investments in associated companies	0.2	1.9	0.3	2.4
Liabilities	491.9	129.1	242.6	863.5
Capital expenditures	88.5	30.9	4.2	123.6
Sold accounts receivable*	96.1	52.7	-	148.8

BUSINESS AREAS IN 2004, MEUR

	Terminal Products	Communications Network Equipment	Non-allocated	Continuing operations, total	Discontinued operation (Industrial Electronics)
Net sales	2,300.0	621.8	-	2 921.8	31.9
Depreciation	41.8	16.1	2.5	60.4	0.5
Operating income	77.7	16.3	-36.8	57.3	13.0
Share of associated companies' results	0.0	-0.3	-0.7	-1.0	-
Assets	530.3	297.7	79.7	907.6	-
Investments in associated companies	0.2	1.9	0.6	2.7	-
Liabilities	336.4	120.0	174.4	630.8	-
Capital expenditures	92.2	31.8	3.9	127.8	0.5
Sold accounts receivable*	124.7	39.4	-	164.0	-

* Not included in the segment's assets.

Geographical Areas

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

GEOGRAPHICAL AREAS IN 2005, MEUR

	Europe	Asia-Pacific	Americas	Non-allocated	Continuing operations, total
Net sales	2,345.0	1,069.4	754.6	-	4,169.0
Assets	541.8	291.6	184.2	149.9	1,167.4
Capital expenditures	72.2	37.8	9.5	4.2	123.6
Sold accounts receivable*	132.0	-	16.8	-	148.8

GEOGRAPHICAL AREAS IN 2004, MEUR

	Europe	Asia-Pacific	Americas	Non-allocated	Continuing operations, total	Diccontinued operation (Industrial Electronics, Europe)
Net sales	1,843.1	714.1	364.6	-	2,921.8	31.9
Assets	529.0	200.5	92.7	85.5	907.6	-
Capital expenditures	76.4	28.6	19.1	3.9	127.8	0.5
Sold accounts receivable*	164.0	-	-	-	164.0	-

* Not included in the segment's assets.

BREAKDOWN OF NET SALES BY MARKET, MEUR

	2005	2004
Europe	2,857.4	2,008.5
Americas	767.4	380.1
Asia-Pacific	544.3	533.3
	4,169.0	2,921.8

2. OTHER OPERATING INCOME

The bulk of Elcoteq´s other operating income of 5.8 million euros (5.9) was made up of various types of service charges and gains on the disposal of fixed assets.

3. PRODUCTION MATERIALS AND SERVICES

	2005	2004
Materials and supplies	-3,634,362	-2,536,733
External services	-4,166	-1,280
Production materials and services, total	-3,638,528	-2,538 012

4. PERSONNEL

The Group had on average 15,242 (13,065) employees during the year, distributed geographically as follows:

	At Dec. 31	At Jan. 1	Change	Average
Finland	789	817	-28	823
Brazil	204	94	110	205
Hong Kong	52	111	-59	53
India	299	18	281	120
Japan	4	12	-8	10
China	5,255	4,406	849	4,604
Mexico	2,353	3,912	-1,559	2,419
Sweden	7	7	0	7
Germany	419	551	-132	566
Switzerland	8	-	8	5
Hungary	2,523	2,514	9	2,504
USA	103	81	22	92
Russia	281	227	54	248
Estonia	3,454	3,399	55	3,586
Total	15,751	16,149	-398	15,242

On December 31, 2005 the Group employed 19,802 people, of whom 15,751 were on Elcoteq's payroll.

5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES, EUR 1,000

Personnel Expenses

	2005	2004
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits, total	169,930	137,074
Fringe benefits	-4,957	-4,856
	164,973	132,218
Indirect personnel expenses		
Other pension expenses	9,949	9,175
Defined benefit pensions	-520	-2,146
Other indirect personnel expenses	28,194	24,622
Total	37,623	31,651
Personnel expenses in the income statement	202,596	163,869

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

6. INCENTIVE PLANS

The terms of the stock option plans 2001 and 2004 are described under Shares and Shareholders on page 65. From January 1, 2005 the cost impact of the options is charged to the Group's result as required by IFRS 2 (Share-Based Payments) and the comparison figures for 2004 have been changed accordingly.

In 2004 the Board of Directors also decided to initiate a share ownership plan and a reward plan for key employees of the Group, the terms of which are described under Shares and Shareholders. The costs related to the share ownership plan are allocated to the financial year for which the targets of the plan are set. The costs related to the reward plan are allocated to 2005 to the extent that the plan was in force in 2005.

The share-based plans generated expenses of 2.5 million euros (2.3) in 2005, of which 0.9 million euros (1.1) are shown as liability in the balance sheet at December 31, 2005.

In 2005 the company granted 449,000 2004A options and 450,000 2004B options to key employees of Elcoteq Group. The fair value of the options is calculated using the Black-Scholes pricing model using the following input data:

	2004A	2004B
Fair value	3.52	3.11
Measurement date	28.1.2005 /14.10.2005	14.10.2005
Expiry date	31.3.2007	31.3.2008
Interest rate	2.50	2.56
Share price	16.46	17.87
Volatility	29.41	23.34
Average price in quarter that must be exceeded before the subscription can begin	21.00	27.00

Volatility is calculated using the historical volatility of the share price.

Share subscription prices for options in 2005:

Option right	Ratio	Subscription price per share	Subscription period
2001A	1:1	7.19 *	1.4.2002–30.4.2007
2001B	1:1	7.19 *	1.4.2003–30.4.2007
2001C	1:1	7.19 *	1.4.2004–30.4.2007
2001D	1:1	7.19 *	1.4.2005–30.4.2007
2001E	1:1	7.19 *	1.4.2006–30.4.2007
2004A	1:1	14.65 *	1.3.2005–31.3.2007 **
2004B	1:1	14.65 *	1.3.2006–31.3.2008 **

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

Changes in option rights in 2005 and 2004 (number):

	2005	2004
Jan.1	2,481,550	2,964,425
Issued	899,000	
Exercised	462,700	450,350
Unsubscribed at end of subscription period		32,525
Dec.31	2,917,850	2,481,550

7. DEPRECIATION AND AMORTIZATION, EUR 1,000

	2005	2004
Scheduled depreciation and writedowns consist of the following:		
Intangible rights	1,269	680
Goodwill	279	-
Goodwill on consolidation	-	-
ADP software	5,458	5,224
Product development costs	1,142	-
Buildings	6,751	3,372
Machinery and equipment	63,618	51,083
Total	78,517	60,359

Goodwill and goodwill on consolidation

Elcoteq ceased recording planned goodwill depreciation and planned amortization of goodwill on consolidation on January 1, 2004 as required by IFRS 3.

Goodwill and goodwill on consolidation are tested for impairment based on cash-generating units. The cash-generating units on which an impairment loss is recorded are the company´s geographical areas. Impairment tests have also been made on the company´s design operations.

Accrued cash flow is the cash flow forecast for the following eight years. The internal discount rate used for each geographical area is the weighted average cost of capital (WACC), which in 2005 was 13–14%.

In 2005 goodwill impairment charges totaled 279 thousand euros. The impairment charge arose from the removal of a customer's business from Elcoteq's production in 2005. Impairment testing of goodwill did not give cause for any other impairments.

Amount of goodwill and goodwill on consolidation in cash-generating units:	2005	2004
Europe	452	791
Design operations	6,381	6,381
Asia-Pacific	18,531	18,531
Americas	349	311
Total	25,714	26,014

8. OTHER OPERATING EXPENSES, EUR 1,000

Other operating expenses of the Group consist of the following items:	2005	2004
Other personnel expenses	15,672	9,309
Rental expenses	37,385	28,313
Transportation	9,400	8,817
Energy expenses	9,962	7,598
Office expenses	7,154	6,581
Travel, marketing and representation expenses	14,012	13,873
Insurance expenses	3,062	2,490
External services	57,622	32,150
Other operating expenses	13,296	9,613
Total	167,565	118,744

9. FINANCIAL INCOME AND EXPENSES, EUR 1,000

	2005	2004
Financial income		
Foreign exchange gains	2,652	1,447
Other financial income	2,136	1,510
Financial income, total	4,788	2,957
Financial expenses		
Interest expenses	-9,657	-4,261
Foreign exchange losses	-1,836	-2,503
Other financial expenses	-9,258	-7,517
Financial expenses, total	-20,751	-14,281
Financial income and expenses, total	-15,962	-11,324

10. INCOME TAXES, EUR 1,000

10. INCOME TAXES, EUR 1,000	2005	2004
Income taxes for the current period	-18,621	-12,121
Income taxes for prior periods	-2,707	-65
Other direct taxes	-1,328	-1,412
Change in deferred tax assets/liabilities		
Due to depreciation difference	35	85
Due to consolidation	33	-1,756
Due to operating loss carryforwards	-	-
Due to temporary tax differences	4,145	-2,016
Change in deferred tax assets/liabilities total	4,213	-3,687
Income taxes, total	-18,442	-17,285

Group tax expenses	2005	2004
Income before taxes	59,346	59,047
Taxes at parent company´s tax rate (26% year 2005, 29% year 2004)	15,430	17,124
Impact of foreign subsidiaries´ tax rates that differ from the parent company´s tax rate	-1,646	-1,792
Change in tax rate	-1,806	-
Impact of non-tax-deductable expenses	1,905	1,472
Impact of deferred tax assets left unrecorded	4,596	2,250
Adjustments to taxes in earlier years	2,707	-
Impact of consolidation	-1,013	1,385
Impact of deferred tax assets from previous periods left unrecorded	-1,731	-3,154
Group´s tax expenses, total	18,442	17,285

The Group's unrecognized tax assets totaled 21.8 million euros (18.7) and they related mainly to tax assets accrued from losses in subsidiaries.

The tax expenses in 2004 also include the tax expense of the discontinued operation.

11. INCOME FROM DISCONTINUED OPERATION, EUR 1,000

In 2004 Elcoteq divested its Industrial Electronics business. The divestment was closed on April 1, 2004. Elcoteq recorded operating income of 10.0 million euros on the sale of this business and taxes totalling 4.3 million euros on this gain.

Impact of the Industrial Electronics business on the 2004 result:

CONSOLIDATED INCOME STATEMENT

	Continuing operations	Discontinued operation	Total
NET SALES	**2,921,834**	**31,901**	**2,953,735**
Change in work in progress and finished goods	10,563	717	11,280
Other operating income	5,871	11,037	16,908
Production materials and services	-2,538,012	-18,349	-2,556,361
Personnel expenses	-163,869	-9,215	-173,084
Depreciation and writedowns	-60,359	-488	-60,847
Other operating expenses	-118,744	-2,689	-121,433
OPERATING INCOME	**57,283**	**12,914**	**70,197**
Financial income and expenses, total	-11,324	-	-11,324
Share of the losses of associated companies	-1,025	-	-1,025
INCOME BEFORE TAXES	**44,935**	**12,914**	**57,848**
Income taxes	-12,282	-5,003	-17,285
NET INCOME	**32,653**	**7,911**	**40,563**
ATTRIBUTABLE TO:			
Equity holders of the parent	30,707	7,911	38,617
Minority interest	1,946	-	1,946
	32,653	**7,911**	**40,563**

12. EARNINGS PER SHARE

Formula for calculating earnings per share:

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

	2005	2004 Continuing operations	2004 Discontinued operation
Net income attributable to the equity holders of the parent, EUR 1,000	41,271	30,707	7,911
Average number of shares	30,764,705	30,420,473	30,420,473
Dilution effect of options	1,392,469	1,418,635	1,418,635
Average diluted number of shares	32,157,174	31,839,108	31,839,108
Earnings per share (EPS)	1.34	1.01	0.26
Earnings per share (EPS), diluted	1.28	0.96	0.25

13.CASH FLOW STATEMENT, EUR 1,000

	2005	2004
Acquired and divested business operations		
Acquired business operations	-	-43,247
Divested business operations	2,146	21,313

The total acquisition price of business operations acquired in 2004 was 19,492 thousand euros. No new business operations were acquired in 2005. Acquired assets and liabilities are shown by balance sheet groups in Impact of Business Combinations on the Consolidated Financial Statements.

14. NON-CURRENT ASSETS, EUR 1,000

	2005	2004
Intangible assets		
Intangible rights		
Cost basis, Jan. 1	8,229	3,920
Additions, Jan. 1–Dec. 31	530	4,338
Disposals, Jan. 1–Dec. 31	-110	-7
Translation difference	638	-22
Cost basis, Dec. 31	9,287	8,229
Accum. scheduled amortization, Jan. 1	-1,569	-892
Accum. scheduled amortization on disposals	-	4
Translation difference	-10	-1
Scheduled amortization, Jan. 1–Dec. 31	-1 269	-680
Book value, Dec. 31	6,439	6,660
Product development costs		
Cost basis, Jan. 1	-	-
Additions, Jan. 1–Dec. 31	3,031	-
Scheduled amortization, Jan. 1–Dec. 31	-1,142	-
Book value, Dec. 31	1,889	-

The Group’s research and development costs amounted to 7.1 million euros (7.9). Of this total 3.6 million euros (4.6) were entered as expenses and 3.5 million euros (3.3) were capitalized in the balance sheet under construction in progress. The value of projects completed in 2005, 3.0 million euros, has been transferred from projects in progress to development costs. The amount of development costs included under advance payments and construction in progress in the balance sheet is 3.8 million euros (3.3).

	2005	2004
ADP software		
Cost basis, Jan. 1	30,164	24,570
Additions, Jan. 1–Dec. 31	6,185	6,372
Disposals, Jan. 1–Dec. 31	-330	-343
Translation difference	227	-435
Cost basis, Dec. 31	36,246	30,164
Accum. scheduled amortization, Jan. 1	-23,538	-18,692
Accum. scheduled amortization on disposals	475	114
Translation difference	-96	264
Scheduled amortization, Jan. 1–Dec. 31	-5,458	-5,224
Book value, Dec. 31	7,629	6,626

	2005	2004
Advance payments and construction in progress		
Advance payments, Jan. 1	4,601	1,962
Additions, Jan. 1–Dec. 31	8,660	7,677
Disposals, Jan. 1–Dec. 31	-7,530	-5,030
Translation difference	-	-8
Advance payments, Dec. 31	5,731	4,601
Goodwill		
Cost basis, Jan. 1	13,009	13,278
Additions, Jan. 1–Dec. 31	62	-
Disposals, Jan. 1–Dec. 31	-	-251
Translation difference	48	-18
Cost basis, Dec. 31	13,119	13,009
Accum. scheduled amortization, Jan. 1	-2,211	-2,299
Accum. scheduled amortization on disposals	-	85
Translation difference	-14	3
Writedowns, Jan.1–Dec.31	-279	-
Book value, Dec. 31	10,615	10,798
Goodwill on consolidation		
Cost basis, Jan. 1	17,887	17,770
Additions, Jan. 1–Dec. 31	-	200
Disposals, Jan. 1–Dec. 31	-118	-83
Cost basis, Dec. 31	17,769	17,887
Accum. scheduled amortization, Jan. 1	-2,671	-2,671
Scheduled amortization, Jan. 1–Dec. 31	-	-
Book value, Dec. 31	15,098	15,216
Tangible assets		
Land and water areas		
Cost basis, Jan. 1	3,861	2,414
Additions, Jan. 1–Dec. 31	137	1,426
Disposals, Jan. 1–Dec.31	-	-
Translation difference	152	21
Book value, Dec. 31	4,150	3,861
Buildings		
Cost basis, Jan. 1	71,434	57,892
Additions, Jan. 1–Dec. 31	34,969	13,528
Disposals, Jan. 1–Dec. 31	-4,871	-49
Translation difference	1,632	63
Cost basis, Dec. 31	103,164	71,434
Accum. scheduled amortization, Jan. 1	-16,149	-12,610
Accum. scheduled amortization on disposals	958	-80
Translation difference	-350	-87
Scheduled amortization, Jan. 1–Dec. 31	-6,751	-3,372
Book value, Dec. 31	80,872	55,285

The Group owns a property which, in conjunction with the divestment of the Industrial Electronics business, was leased to a company outside the Group. The carrying value of the property is 2.0 million euros. The property has been measured at its acquisition cost less depreciation because the fair value of the property cannot be reliably determined.

	2005	2004
Machinery and equipment		
Cost basis, Jan. 1	310,627	247,842
Additions, Jan. 1–Dec. 31	78,134	101,533
Disposals, Jan. 1–Dec. 31	-21,509	-31,990
Translation difference	24,689	-6,758
Cost basis, Dec. 31	391,941	310,627
Accum. scheduled amortization, Jan. 1	-178,719	-158,961
Accum. scheduled amortization on disposals	13,508	26,841
Translation difference	-13,485	4,484
Scheduled amortization, Jan. 1–Dec. 31	-63,618	-51,083
Book value, Dec. 31	149,627	131,908
Advance payments and construction in progress		
Advance payments and construction in progress, Jan. 1	14,745	17,407
Additions, Jan. 1–Dec. 31	48,547	74,820
Disposals, Jan. 1–Dec. 31	-53,945	-77,476
Translation difference	738	-6
Advance payments, Dec. 31	10,085	14,745

Investments

	2005	2004
Equity in associated companies		
Shares, Jan. 1	2,748	3,058
Additions, Jan. 1–Dec. 31	525	875
Share of the losses of associated companies, Jan. 1–Dec. 31	-1,178	-1,024
Translation difference	331	-161
Book value, Dec. 31	2,426	2,748
Receivables from associated companies		
Receivables, Jan. 1	87	137
Additions, Jan.1–Dec. 31	175	-
Disposals, Jan. 1–Dec. 31	-	-50
Book value, Dec. 31	262	87
Other shares and equity interests		
Shares, Jan. 1	11,535	11,666
Additions, Jan. 1–Dec. 31	26	25
Disposals, Jan. 1–Dec. 31	-146	-141
Transfer to subsidiary shares Jan. 1–Dec. 31	-17	-
Translation difference	1	-15
Book value, Dec. 31	11,399	11,535

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

Long-term receivables

	2005	2004
Deferred tax assets		
Deferred tax assets, Jan. 1	6,375	11,185
Additions, Jan. 1–Dec. 31	7,418	-
Disposals, Jan. 1–Dec. 31	-3,782	-4,810
	10,010	6,375
Other loans receivable		
Other loans receivable, Jan. 1	7,665	15
Additions, Jan. 1–Dec. 31	-	7,654
Disposals, Jan. 1–Dec. 31	-7,661	-4
	4	7,665

	2005	2004
Summary of non-current assets		
Cost basis, Jan. 1	473,668	386,584
Additions, Jan. 1–Dec. 31	123,599	128,297
Disposals, Jan. 1–Dec. 31	-28,279	-33,888
Translation difference	27,718	-7,325
Cost basis, Dec. 31	596,706	473,668
Accum. scheduled amortization, Jan. 1	-229,030	-200,296
Accum. scheduled amortization on disposals	14,941	26,961
Scheduled amortization, Jan. 1–Dec. 31	-78,517	-60,359
Translation difference	-13,956	4,663
Book value, Dec. 31	290,144	244,637
Advance payments and construction in progress	15,816	19,346
Loans receivable	262	87
Long-term receivables	10,014	14,039
Book value, Dec. 31	316,235	278,109

15. SHARES AND EQUITY INTERESTS

	Share capital	Consolidated ownership, %	Parent company ownership, %	Parent company book value, EUR 1,000
Group companies				
Elcoteq Lohja Oy, Lohja, Finland	EUR 168,000	100	100	168
Elcoteq Helsinki Oy, Helsinki, Finland	EUR 168,000	100	100	814
AS Elcoteq Tallinn, Tallinn, Estonia	EEK 20,500,000	100	100	1,776
Dongguan Elcoteq Electronics Co. Ltd., Dongguan, China	CNY 115,811,500	70	70	3,705
Elcoteq Asia Ltd, Hong Kong, China	HKD 8,600,000	100	100	994
Elcoteq Inc., Dallas, USA	USD 66,781,000	100	-	-
Elcoteq Holding Inc., Dallas, USA	USD 701,480	100	100	7,295
Elcoteq JSC, St. Petersburg, Russia	RUB 65,409,426.50	100	100	4,894
Elcoteq Communications Technology GmbH, Offenburg, Germany	EUR 700,000	100	-	-
Elcoteq Deutschland GmbH, Überlingen, Germany	EUR 6,442,277.70	100	100	13,742
Elcoteq Hungary Ltd., Pécs, Hungary	EUR 6,000,000	100	100	9,846
Elcoteq Japan Co. Ltd, Tokyo, Japan	JPY 10,000,000	100	100	73
Elcoteq S.A. de C.V., Monterrey, Mexico	USD 50,000	100	-	-
Elcoteq Sweden Ab, Stockholm, Sweden	SEK 200,000	100	100	22
Elcoteq Design Center, Salo, Finland	EUR 3,008,000	100	100	3,008
Elcoteq Finland Oy, Lohja, Finland	EUR 8,000	100	100	8
Immolease Kereskedelmi Kft., Pécs, Hungary	HUF790,000,000	100	100	2,997
Beijing Elcoteq Electronics Co. Ltd., Beijing, China	CNY 206,973,000	90	90	32,040
Shenzhen Elcoteq Electronics Co, Ltd., Shenzhen, China	CNY 99,609,465	70	70	12,624
Elcoteq Electronics India Pvt. Ltd, Bangalore, India	INR 56,321,000	100	100	1,202
Elcoteq Network S.A, Luxemburg	EUR 531,000	100	100	531
Elcoteq Juarez SA de CV, Juárez, Mexico	USD 4,374.35	100	-	-
Elcoteq da Amazonia Ltda, Manaus, Brazil	0	100	100	-
Kiinteistö Oy Piiharju, Lohja, Finland	EUR 168,187.93	100	100	168
Kiinteistöosakeyhtiö Salon Joensuunkatu 13, Salo, Finland	EUR 201,000	100	100	1,016
				96,922

	Share capital	Consolidated ownership, %	Parent company ownership, %	Consolidated book value EUR 1,000
Associated companies				
Nilistit Oy, Helsinki, Finland	EUR 161,460.41	33	33	30
Imbera Electronics Oy, Helsinki, Finland	EUR 185,100.00	50	50	235
ISIS Surface Mounting, Inc., California, USA	USD 120,000.00	20	-	2,161
				2,426

Other shares and equity interests held by the parent company	
Cellon International Holding Corporation	10,949
Other shares	342
	11,291
Other shares and equity interests held by subsidiaries	108
Other shares and equity interests, total	11,399

16. IMPACT OF BUSINESS COMBINATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

No new business operations were acquired by Elcoteq in 2005.

At the end of 2004 Elcoteq concluded an outsourcing and acquisition agreement with Thomson, a French provider of media technology, systems and services. Under this agreement Thomson's production operation in Juárez, Mexico, was transferred to Elcoteq on December 31, 2004.

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

Assets and liabilities acquired in business combinations in 2005 and 2004:	2005 Fair value	2005 Book value	2004 Fair value	2004 Book value
Non-current assets				
Intangible assets	-	-	3,854	-
Tangible assets	-	-	3,672	3,672
Current assets				
Inventories	-	-	11,617	11,617
Current receivables	-	-	235	235
Cash and equivalents	-	-	2,614	2,614
Assets, total	-	-	21,992	21,992
Liabilities				
Long-term liabilities				
Current liabilities	-	-	2,500	2,500
Acquisition cost	-		19,492	

On December 31, 2005 Elcoteq sold Elcoteq Elektronik GmbH in Überlingen, Germany, to Rafi GmbH. Furthermore, in the fall of 2005 Elcoteq sold a small part of its business operation in Beijing to Enics Electronics Beijing Limited.

Assets and liabilities sold in business combinations in 2005 and 2004:	2005 Book value	2004 Book value
Non-current assets		
Intangible assets	142	268
Tangible assets	1,933	3,993
Long-term receivables	620	-
Current assets		
Inventories	4,053	24,203
Current receivables	3,463	9,592
Cash and equivalents	883	2,265
Assets, total	11,094	40,321
Liabilities		
Long-term liabilities	-	9,615
Current liabilities	8,871	10,030
Liabilities, total	8,871	19,645
Difference between carrying values of disposals and their sales price	806	10,751
Sales price	3,029	31,427

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

	2005	2004
Deferred tax assets		
Due to deductible temporary differences	9,876	6,288
Due to consolidation	134	87
	10,010	6,375

Deferred tax liabilities		
Due to appropriations	-	-
Due to temporary tax differences	3,048	3,246
Due to consolidation	14	22
	3,062	3,268

18. ACCOUNTS RECEIVABLE

Elcoteq´s 2005 consolidated accounts receivable of 352.7 million euros (250.1) excludes cash received from sold accounts receivable totaling 148.8 million euros (164.0). Receivables are sold within the limits of Elcoteq´s sale of receivables and securitization facilities. The credit risk related to sold accounts receivable is transferred to the buyer at the time of sale without recourse to Elcoteq. Under the securitization facility a purchase price payable in two installments is established at the time receivables are sold. The second installment is carried in the company´s accounts receivable until the related payment is received. This installment is not subject to any credit risk either. In addition to the original purchase price Elcoteq may also receive an additional payment, the magnitude of which depends on the payment history of its customers. This additional payment is estimated monthly and recorded on the balance sheet under prepaid expenses and accruals. The credit risk related to the additional payment remains with the company but the magnitude of the additional payment is minor compared to the actual purchase price. Expenses related to the sale of receivables are recognized under other financial expenses.

19. PREPAID EXPENSES AND ACCRUALS, EUR 1,000

Prepaid expenses and accruals of the Group consist of the following intems:	2005	2004
Prepaid rent	3,877	1,283
Withholding taxes	574	856
Estimated additional purchase price/securitization	2,192	3,142
Other items	9,797	13,044
Total	16,441	18,325

20. SHAREHOLDERS´ EQUITY, EUR 1,000

DISTRIBUTABLE FUNDS IN SHAREHOLDERS´ EQUITY ON DEC. 31, EUR 1,000

	2005	2004
Retained earnings	21,794	1,499
Net income for the year	41,271	38,617
Share issue costs recognized under additional paid-in-capital	-2,433	-2,433
Accumulated depreciation and amortization difference recorded in shareholders´ equity	-87	-52
Distributable funds in shareholders´ equity	60,544	37,630

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

		2005
	Shares	EUR 1,000
Series A (1 vote per share)	20,526,577	8,211
Series K (10 votes per share)	10,577,000	4,231
Total	31,103,577	12,441

21. LIABILITIES, EUR 1,000

	2005	2004
Long-Term Liabilities		
Interest-bearing		
Medium-term notes	39,956	25,100
Subordinated notes	108,978	49,678
Loans from financial institutions	-	3,333
Loans from pension plans	1,678	2,144
Defined benefit plans	73	593
Other long-term liabilities	555	535
Total	151,240	81,383
Payments due within one year	-702	-8,074
Interest-bearing, total	150,538	73,309
Non-interest-bearing		
Deferred tax liability	3,062	3,268
Non-interest-bearing, total	3,062	3,268
Long-term liabilities, total	153,600	76,577
Current liabilities		
Interest-bearing		
Loans from financial institutions	40,691	23,777
Commercial paper program	-	39,881
Loans from pension plans	465	465
Interest-bearing, total	41,156	64,123
Non-interest-bearing		
Accounts payable	582,602	413,292
Accrued expenses	71,909	54,072
Advances received	216	196
Other current liabilities	11,262	21,011
Provisions	2,780	1,535
Non-interest-bearing, total	668,769	490,106
Current liabilities, total	709,925	554,229
Interest-bearing liabilities	191,694	137,432
Non-interest-bearing liabilities	671,831	493,374
Liabilities, total	863,525	630,805

Provisions

Restructuring provisions		
Provisions on Jan. 1	635	2,056
Disposals	-11	-1,421
Provisions on Dec. 31	624	635

	2005	2004
Warranty provisions		
Provision on Jan. 1	900	-
Additions	1,256	900
Provisions on Dec. 31	2,156	900
Provisions, total		
Provision on Jan. 1	1,535	2,056
Additions	1,256	900
Disposals	-11	-1,421
Provision on Dec. 31	2,780	1,535

Restructuring provisions relate mainly to the personnel reductions that the Parent Company carried out during 2001 and 2003. Warranty provisions relate to the Group's product warranties.

Bonds

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

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

Subordinated notes

In December 2004 Elcoteq SE issued 50 million euros and in May 2005 10 million euros in subordinated notes. These notes run until December 22, 2011. The notes carry a fixed coupon of 5% until December 22, 2009, after which the company has the right to redeem the notes prematurely. After this, the interest rate will be the three-month Euribor with a 3.5% margin and the company has the right to redeem the notes prematurely at six-month intervals. The loan is unsecured. The loan has been valued at amortized cost using the effective interest rate method.

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

Loans from pension plans

The company has TEL (Employees' Pensions Act) pension plan loans, whose repayment schedules and interest rates are regulated by Finnish law. The loan raised in 1999 is repayable in equal installments over 10 years. Pension plan loan interest rates range from 3.85% to 5.50%.

Loans from financial institutions

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

Commercial paper program

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

Committed lines of credit

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

Maturity of the long-term loans, EUR 1,000:

	2006	2007	2008	2009	2010	2011–
Loans from pension plans	465	463	429	218	7	96
Bonds, nominal value	-	-	20,000	-	-	20,000
Subordinated notes, nominal value	-	-	-	-	50,000	60,000

The book value of the bonds was about 40 million euros and the book value of the subordinated notes about 109 million euros at December 31, 2005.

The company has the right to redeem the subordinated notes maturing in 2011 prematurely at six-month intervals from December 22, 2009 onwards.

22. ACCRUED EXPENSES, EUR 1,000

The Group´s accrued expenses consist of the following items:	2005	2004
Wages and salaries	19,260	11,684
Vacation pay	6,679	6,525
Other indirect personnel expenses	13,850	5,613
Interest	517	6,115
Income taxes	5,411	3,695
Exchange rate accruals on forward contracts	4,366	6,735
Transportation expenses	1,188	987
Other items	20,638	12,718
Total	71,909	54,072

23. EMPLOYEE BENEFITS

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

Actuarial estimates used to calculate pension liabilities:

	2005	2004
Discount rate on Dec. 31 (%)		
Finland	4.00	5.00
Switzerland	-	3.75
Japan	-	2.10
Expected yield (%)		
Finland	4.00	0–5.00
Switzerland	-	4.50
Japan	-	-
Increase in wages and salaries (%)		
Finland	4.00	3.50
Switzerland	-	2.00
Japan	-	2.00
Estimated inflation rate (%)		
Finland	2.00	2.00
Switzerland	-	1.00
Japan	-	-
Terminated employment contracts (%)		
Finland	0.00	0–16
Switzerland	-	0–22
Japan	-	0.7–10

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

	2005	2004
Service cost	209	909
Interest cost	87	256
Payments to mutual funds	-550	-798
Income from mutual funds	-88	-50
Reduction of the obligation	-178	-1,680
Transfer of obligations in conjunction with business divestment		-4,541
Actuarial gains/losses		-744
Exchange rate difference		9
Impact of previous service costs		-39
Total	-520	-6,678

The reduction of 4.5 million euros of the defined benefit pension costs in 2004 are entered under Income from discontinued operation.

	2005	2004
Change in balance sheet:		
Contingent liability on Jan. 1	593	7,271
Cost entered in income statement	-520	-6,773
Impact of foreign exchange rates	-	95
Contingent liability on Dec. 31	73	593

24. LEASING CONTRACTS, EUR 1,000

The Group has leased equipment under operating leases. In 2005 new operating lease contracts were made with an equipment purchase value of approximately 25.2 million euros. The lease payments are fixed for the duration of the leasing period.

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

	Dec. 31, 2005	Dec. 31, 2004
2005	-	13,044
2006	19,622	12,862
2007	16,464	9,619
2008	8,634	1,837
2009	900	-
Total	45,620	37,362

Rental expenses on operating leases for machinery amounted to 15.4 million euros for the year ended December 31, 2005 and 9.5 million euros for the year ended December 31, 2004.

No significant new finance lease contracts were signed during 2005.

25. RELATED PARTY DISCLOSURES, EUR 1,000

Salaries and share-based payments to management*:	2005	2004
To parent company President and CEO Jouni Hartikainen		
Salaries and other short-term benefits	1,098	437
Share-based payments	208	216
To parent company Deputy CEO Jukka Jäämaa		
Salaries and other short-term benefits	454	410
Share-based payments	194	141
To other Elcoteq Management Team members		
Salaries and other short-term benefits	744	479
Share-based payments	469	325

* Includes costs of stock options and share incentive plans.

	2005	2004
Fees paid for work for the Board of Directors		
Antti Piippo, Chairman of the Board	457	345
Juha Toivola, Deputy Chairman of the Board	135	102
Martti Ahtisaari, member of the Board	45	30
Heikki Horstia, member of the Board	45	30
Eero Kasanen, member of the Board	45	30
Henry Sjöman, member of the Board	45	30
Jorma Vanhanen, member of the Board	45	30
Salaries to management and share-based payments, total	3,984	2,605

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

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

Disclosures related to associated companies:

	2005	2004
Goods and services purchased from associated companies	-	17
Goods and services sold to associated companies	176	106
Accounts receivable on Dec. 31	73	80
Accounts payable on Dec. 31	-	22

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

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

26. ASSETS PLEDGED AND CONTINGENT LIABILITIES, EUR 1,000

	2005	2004
ON BEHALF OF OTHERS		
Guarantees	8	8
LEASING COMMITMENTS		
Operating leases, production machinery (excl. VAT)	45,620	37,362
Rental commitments, real-estate (excl. VAT)	25,898	24,238
DERIVATIVE CONTRACTS		
Foreign currency derivative instruments		
Forward contracts, transaction risk		
Nominal value	378,905	227,581
Fair value	-1,358	-4,343
Forward contracts, translation risk		
Nominal value	28,857	20,959
Fair value	-129	298
Forward contracts, financial risk		
Nominal value	98,143	72,109
Fair value	-996	83
Foreign currency option contracts		
Nominal value, bought	-	9,000
sold	-	12,000
Fair value, bought	-	46
sold	-	-149
Interest rate and foreign exchange swap contracts		
Nominal value	2,500	-
Fair value	-180	-

The forwards have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The fair value of options is the amount at which options could be exercised if closed on the balance sheet date. The figures also include the closed positions.

OTHER COMMITMENTS

In calculating value-added tax for China in 2005, Elcoteq has applied a method that has so far not received the written approval of the tax authorities. Should this approval not be forthcoming, the effect would be to reduce Elcoteq's result substantially. During previous years Elcoteq has been granted the approval afterwards and therefore the company has estimated the risk to be small and has made no provision.

The company is not currently involved in any significant litigation proceedings.

Parent Company Income Statement

INCOME STATEMENT, EUR 1,000	Note	Jan.1–Dec.31 2005	Jan.1–Dec.31 2004
NET SALES	1	**2,218,450**	**1,701,715**
Change in work in progress and finished goods		-10,237	10,644
Other operating income	2	42,423	40,908
Production materials and services	3	-2,052,302	-1,593,015
Personnel expenses	5	-39,795	-34,976
Depreciation and writedowns	6	-9,387	-11,872
Other operating expenses	7	-64,849	-49,383
OPERATING INCOME		**84,304**	**64,021**
Financial income, total	8	24,394	11,397
Financial expenses, total	8	-22,939	-12,147
INCOME BEFORE EXTRAORDINARY ITEMS		**85,759**	**63,272**
Extraordinary items	9	-20,150	-18,600
INCOME BEFORE APPROPRIATIONS AND TAXES		**65,609**	**44,672**
Income taxes	10	-14,591	-10,606
NET INCOME		**51,018**	**34,066**

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

Parent Company Cash Flow Statement

CASH FLOW STATEMENT, EUR 1,000	Jan. 1–Dec. 31, 2005	Jan. 1–Dec. 31, 2004
CASH FLOW FROM OPERATING ACTIVITIES		
Income before extraordinary items	85,759	63,272
Adjustments:		
Scheduled depreciation and amortization	9,387	11,872
Unrealized foreign exchange gains and losses	9,920	-7,013
Other non-payment-related income and expenses	4,114	0
Financial income and expenses	-566	3,607
Other adjustments	-7,118	10,423
Cash flow before change in working capital	**101,496**	**82,161**
Change in working capital*:		
Change in non-interest-bearing current receivables	-16,456	-87,669
Change in inventories	17,730	-46,498
Change in non-interest-bearing current liabilities	32,346	32,649
Cash flow from operating activities before financial items and taxes	135,116	-19,357
Interest and other financial expenses	-13,680	-10,481
Operations-related dividend income	8,386	2,673
Operations-related interest income	2,708	245
Income taxes paid	-11,521	-8,979
Cash flow before extraordinary items	**121,009**	**-35,899**
Cash flow (net) from extraordinary items related to operations	-20,150	-18,600
Cash flow from operating activities	**100,859**	**-54,499**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	-10,021	-21,987
Proceeds from disposal of tangible and intangible assets	14,502	14,452
Acquisition of subsidiary	-9,000	-496
Disposals	3,673	10,463
Loans made	-58,373	-62,806
Repayment of loans receivable	3,530	-
Cash flow from investing activities	**-55,689**	**-60,374**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	3,369	2,615
Change in current debt	-45,957	46,944
Issuance of long-term debt	79,269	49,686
Repayment of long-term debt	-471	-5,572
Dividends paid and other distributions of earnings	-19,959	-27,299
Cash flow from financing activities	**16,252**	**66,373**
CHANGE IN CASH AND EQUIVALENTS	61,423	-48,500
Cash and equivalents on January 1	**6,812**	**55,312**
Cash and equivalents on December 31	**68,234**	**6,812**

* The change in working capital includes the change in sold accounts receivable. The impact of this change is to weaken cash flow by 32.1 million euros during the reporting period 1–12/2005 and by 2.3 million euros during 1–12/2004.

Parent Company Balance Sheet

ASSETS, EUR, 1,000	Note	Dec. 31, 2005	Dec. 31, 2004
Fixed assets	11		
Intangible assets			
Intangible rights		1,947	2,688
Other long-term expenditures		4,033	4,617
Advance payments and construction in progress		1,896	1,100
Goodwill		2,670	3,018
		10,546	11,421
Tangible assets			
Land and water areas		1,108	1,108
Buildings		2,124	2,337
Machinery and equipment		4,246	7,587
Advance payments and construction in progress		3,830	5,937
		11,307	16,969
Investments	12		
Shares and holdings in Group companies		96,922	83,424
Receivables from Group companies		5,934	9,254
Shares in associated companies		2,147	1,622
Receivables from associated companies		262	87
Other shares and holdings		11,291	11,308
		116,555	105,695
Fixed assets, total		**138,409**	**134,085**
Current assets			
Inventories			
Raw materials		122,422	129,915
Work in progress		6,953	9,599
Finished goods		17,918	25,509
		147,293	165,023
Long-term receivables			
Deferred tax assets		2,574	1,245
Loans receivable from Group companies		99,266	78,135
Other loans receivable		-	10,614
		101,840	89,994
Current receivables			
Accounts receivable		142,717	132,827
Receivables from Group companies			
Accounts receivable		43,212	59,855
Loan receivables		104,832	77,134
Other receivables	13	6,300	-
Accrued income	14	3,418	4,473
Other receivables	13	20,118	-
Other loan receivables		7,976	-
Prepaid expenses and accruals	14	8,187	9,483
		336,760	283,771
Cash and equivalents		68,234	6,812
Current assets, total		**654,128**	**545,600**
ASSETS, TOTAL		**792,537**	**679,685**

Parent Company Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES, EUR 1,000	Note	Dec. 31, 2005	Dec. 31, 2004
Shareholders´ equity	15		
Share capital		12,441	12,256
Additional paid-in capital		215,988	212,804
Retained earnings		22,122	8,015
Net income for the year		51,018	34,066
Shareholders´ equity, total		**301,570**	**267,141**
Provisions	16	**2,744**	**1,535**
Liabilities	17		
Long-term liabilities			
Subordinated notes		108,978	49,678
Medium-term notes		39,956	25,100
Loans from pension plans		1,678	2,144
		150,612	76,922
Payments due within one year		-465	-5,572
Long-term liabilities, total		150,147	71,350
Current liabilities			
Medium-term notes		-	5,107
Commercial paper program		-	39,881
Loans from pension plans		465	465
Accounts payable		275,947	247,239
Debt to Group companies			
Accounts payable		33,111	20,144
Other current liabilities		7,289	8,257
Accrued expenses	19	478	491
Other current liabilities	18	3,257	1,503
Accrued expenses	19	17,530	16,572
Current liabilities, total		338,076	339,660
Liabilities, total		**488,224**	**411,009**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**792,537**	**679,685**

Notes to the Parent Company's Financial Statements

Accounting Principles of the Parent Company

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

Defined benefit pension commitments

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

Parent company goodwill

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

Other long-term expenses

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

Notes to the Parent Company Financial Statements

1. BREAKDOWN OF NET SALES

Breakdown of net sales by market:

	2005	2004
Net sales, MEUR		
Finland	745.9	348.0
Rest of Europe	1,406.4	1,319.9
Americas	16.0	14.9
Asia-Pacific	50.2	18.9
	2,218.5	1,701.7

2. OTHER OPERATING INCOME

The bulk of other operating income of 42.4 million euros (40.9) was made up of service charges to subsidiaries and leasing charges.

3. PRODUCTION MATERIALS AND SERVICES, EUR 1,000

Materials and supplies	2005	2004
Purchases during the year	1,881,525	1,491,428
Change in raw materials	7,493	-31,792
Total	1,889,018	1,459,636
External services	**163,284**	**133,379**
Production materials and services, total	**2,052,302**	**1,593,015**

4. PERSONNEL

The parent company had an average of 655 (566) employees during the year.

5. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES, EUR 1,000

Personnel Expenses

	2005	2004
Wages, salaries and fringe benefits		
Wages, salaries and fringe benefits	35,834	29,712
Fringe benefits	-4,643	-2,479
Total	31,191	27,233
Indirect personnel expenses		
Pension expenses	6,282	5,532
Other indirect personnel expenses	2,321	2,211
Total	8,603	7,743
Personnel expenses in the income statement	39,795	34,976

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

6. DEPRECIATION AND AMORTIZATION, EUR 1,000

Scheduled depreciation consists of the following:	2005	2004
Intangible rights	740	679
Goodwill	348	694
Other long-term expenditures	3,012	3,052
Buildings	214	215
Machinery and equipment	5,073	7,231
Total	9,387	11,872
Depreciation and amortization, total	9,387	11,872

7. OTHER OPERATING EXPENSES, EUR 1,000

Other operating expenses of the parent company consist of the following items:	2005	2004
Other personnel expenses	1,490	1,306
Rental expenses	19,433	14,652
Transportation	4,778	4,149
Energy expenses	620	534
Office expenses	1,944	1,465
Travel, marketing and representation expenses	4,892	5,482
Insurance expenses	976	726
External services	17,427	12,987
Other operating expenses	13,288	8,081
Total	64,849	49,383

8. FINANCIAL INCOME AND EXPENSES, EUR 1,000

	2005	2004
Financial income		
Interest income from long-term investments		
From Group companies	3,356	2,041
Other interest and financial income		
From Group companies	17,888	5,283
Foreign exchange gains	1,553	2,829
Other interest and financial income	1,597	1,245
Total	24,394	11,397

	2005	2004
Financial expenses		
Interest and financial expenses to		
Group companies	-247	-171
Interest expenses	-7,292	-3,151
Foreign exchange losses	-3,974	-1,785
Writedowns of long-term borrowings	-4,115	-
Other financial expenses	-7,311	-7,040
Total	-22,939	-12,147
Financial income and expenses, total	1,455	-749

9. EXTRAORDINARY ITEMS, EUR 1, 000

	2005	2004
Extraordinary expenses		
Group contributions paid	-20,150	-18,600
Extraordinary expenses, total	-20,150	-18,600
Extraordinary items, total	-20,150	-18,600

10. INCOME TAXES, EUR 1,000

	2005	2004
Income taxes for the year	13,792	8,151
Income taxes for prior years	2,129	-175
Change in deferred taxes	-1,330	2,631
	14,591	10,606

11. FIXED ASSETS, EUR 1,000

	2005	2004
Intangible assets		
Intangible rights		
Cost basis, Jan. 1	4,139	3,506
Additions, Jan. 1–Dec. 31	-	640
Disposals, Jan. 1–Dec. 31	-	-7
Cost basis, Dec. 31	4,139	4,139
Accum. scheduled amortization, Jan. 1	-1,451	-776
Accum. scheduled amortization on disposals	-	4
Scheduled amortization Jan. 1–Dec. 31	-740	-679
Book value, Dec. 31	1,947	2,688
Other long-term expenditures		
Cost basis, Jan. 1	21,673	18,814
Additions, Jan. 1–Dec. 31	2,428	2,970
Disposals, Jan. 1–Dec. 31	-	-111
Cost basis, Dec. 31	24,101	21,673
Accum. scheduled amortization, Jan. 1	-17,057	-14,077
Accum. scheduled amortization on disposals	-	72
Scheduled amortization Jan. 1–Dec. 31	-3,012	-3,052
Book value, Dec. 31	4,033	4,617
Advance payments and construction in progress		
Cost basis, Jan. 1	1,100	1,589
Additions, Jan. 1–Dec. 31	4,164	4,086
Disposals, Jan. 1–Dec. 31	-3,368	-4,575
Advance payments, Dec.31	1,896	1,100

	2005	2004
Goodwill		
Cost basis, Jan. 1	4,814	4,814
Accum. scheduled amortization, Jan. 1	-1,795	-1,101
Scheduled amortization Jan. 1–Dec. 31	-348	-694
Book value, Dec. 31	2,670	3,018
Tangible assets		
Land and water areas		
Book value, Dec. 31	1,108	1,108
Buildings		
Cost basis, Jan. 1	3,813	3,738
Additions, Jan. 1–Dec. 31	-	76
Cost basis, Dec. 31	3,813	3,813
Accum. scheduled amortization, Jan. 1	-1,476	-1,261
Accum. scheduled amortization on disposals	-	-
Scheduled amortization Jan. 1–Dec. 31	-214	-215
Book value, Dec. 31	2,124	2,337
Machinery and equipment		
Cost basis, Jan. 1	36,970	47,679
Additions, Jan. 1–Dec. 31	3,034	12,718
Disposals, Jan. 1–Dec. 31	-1,302	-23,428
Cost basis, Dec. 31	38,702	36,970
Accum. scheduled amortization, Jan. 1	-29,383	-48,979
Accum. scheduled amortization on disposals	-	26,827
Scheduled amortization Jan. 1–Dec. 31	-5,073	-7,231
Book value, Dec. 31	4,246	7,587
Advance payments and construction in progress		
Advance payments and		
construction in progress, Jan.1	5,937	11,311
Additions, Jan. 1–Dec. 31	20,197	36,016
Disposals, Jan. 1–Dec. 31	-22,304	-41,389
Advance payments, Dec. 31	3,830	5,937
Investments		
Shares and equity interests in the Group companies		
Shares, Jan. 1	87,542	93,124
Additions, Jan. 1–Dec. 31	13,538	1,231
Disposals, Jan. 1–Dec. 31	-57	-6,813
Transfer from other group	17	-
Cost basis, Dec. 31	101,040	87,542
Accumulated writedowns, Jan.1	-4,118	-4,118
Book value, Dec. 31	96,922	83,424
Receivables from the Group companies		
Receivables, Jan. 1	12,254	7,115
Additions, Jan. 1–Dec. 31	795	6 796
Disposals, Jan. 1–Dec. 31	-	-1,657
Cost basis, Dec. 31	13,049	12,254
Writedowns, Jan. 1–Dec. 31	-4,115	-
Accumulated writedowns, Jan. 1	-3,000	-3,000
Cost basis, Dec. 31	5,934	9,254

	2005	2004
Equity in associated companies		
Shares, Jan.1	1,622	747
Additions, Jan. 1–Dec. 31	525	875
Cost basis, Dec. 31	2,147	1,622
Receivables from associated companies		
Receivables, Jan. 1	87	137
Additions, Jan. 1–Dec. 31	175	1,212
Disposals, Jan. 1–Dec. 31	-	-1,262
Book value, Dec. 31	262	87
Other shares and equity interests		
Shares, Jan.1	11,308	11,308
Transfer to other group	-17	-
Cost basis, Dec. 31	11,291	11,308
Summary of fixed assets		
Cost basis, Jan. 1	172,989	184,838
Additions, Jan. 1–Dec. 31	19,525	29,480
Disposals, Jan. 1–Dec. 31	-1,359	-41,329
Cost basis, Dec. 31	191,155	172,989
Accum. scheduled depr. and amort. Jan.1	-55,281	-70,313
Accum. scheduled depr. and amort. on disposals	-	26,904
Scheduled depr. amort. and writedowns, Jan.1–Dec.31	-9,387	-11,872
Book value, Dec. 31	126,487	117,708
Advance payments and construction in progress	5,726	7,037
Loans receivable	6 196	9,341
Book value, Dec. 31	138,409	134,085

12. SHARES AND EQUITY INTERESTS

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

13. OTHER RECEIVABLES, EUR 1,000

	2005	2004
Current receivables		
Interest-bearing		
Transfer from intragroup receivables	2,414	-
Non-interest-bearing		
Transfer from intragroup receivables	2,414	-
Value-added taxes	15,290	-
Dividend income	6,300	-
	26,418	-

14. PREPAID EXPENSES AND ACCRUALS, EUR 1,000

Prepaid expenses and accruals of the company consist of the following items:	2005	2004
Prepaid rent	1,119	1,249
Periodized exchange rate differences of forwards	2,725	1,659
Withholding taxes	259	856
Income taxes	-	829
Avoir fiscal tax credit	-	649
Estimated additional purchase price/securitization	2,192	3,142
Other items	5,308	5,572
Total	11,604	13,956

15. SHAREHOLDERS EQUITY, EUR 1,000

	2005	2004
Share capital		
Share capital, Jan.1	12,256	12,076
Shares subscribed with 1997 and 2001 stock options	185	180
Share capital, Dec, 31	12,441	12,256
Additional paid-in capital		
Additional paid-in capital, Jan.1	212,804	209,008
Additional paid-in capital	3,184	3,796
Additional paid-in capital, Dec. 31	215,988	212,804
Share issue		
Share issue, Jan.1	-	1,361
Change in share issue	-	-1,361
Share issue, Dec.31	-	-

The above change in the issuance of shares in 2004 includes the subscription price of the shares (141,275 total) subscribed through the exercise of 1997 and 2001 options but not entered in the Finnish Trade Register as of December 31, 2003.

	2005	2004
Retained earnings		
Retained earnings, Jan.1	42,081	35,314
Dividend payment	-19,959	-27,299
Retained earnings, Dec.31	22,122	8,015
Net income for the year	51,018	34,066
Shareholders´equity, total	301,570	267,141

DISTRIBUTABLE FUNDS IN SHAREHOLDERS´EQUITY ON DEC. 31, EUR 1,000

	2005	2004
Retained earnings	22,122	8,015
Net income for the year	51,018	34,066
Share issue costs recognized under additional paid-in capital	-2,433	-2,433
Distributable funds in shareholders´equity	70,707	39,648

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

	2005	
	Shares	EUR 1,000
Series A (1 vote per share)	20,526,577	8,211
Series K (10 votes per share)	10,577,000	4,231
Total	31,103,577	12,441

16. PROVISIONS

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

17. LIABILITIES, EUR 1,000

	2005	2004
Long-term liabilities		
Interest-bearing		
Subordinated notes	108,978	49,678
Medium-term notes	39,956	25,100
Loans from pension plans	1,678	2,144
Total	150,612	76,922
Payments due within one year	-465	-5,572
Interest-bearing, total	150,147	71,350
Long-term liabilities, total	150,147	71,350

	2005	2004
Current liabilities		
Interest-bearing		
Medium-term notes	-	5,107
Commercial paper program	-	39,881
Loans from pension plans	465	465
Interest-bearing, total	465	45,453
Non-interest-bearing		
Accounts payable	275,947	247,239
Accrued expenses	17,530	16,572
Liabilities to Group companies	40,879	28,892
Other current liabilities	3,257	1,503
Non-interest-bearing, total	337,612	294,207
Current liabilities, total	338,076	339,660
Interest-bearing liabilities	150,612	116,803
Non-interest-bearing liabilities	337,612	294,207
Liabilities, total	488,224	411,009

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

18. OTHER CURRENT LIABILITIES, EUR 1,000

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

	2005	2004
Payroll tax on wages and salaries, and social security dues	1,154	1,043
Payment received on behalf of another Group company	2,103	-
Value-added taxes	-	460
	3,257	1,503

19. ACCRUED EXPENSES, EUR 1,000

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

	2005	2004
Wages and salaries	3,585	3,515
Vacation pay	3,441	3,328
Other indirect personnel expenses	1,864	2,521
Interest	291	199
Income taxes	2,413	-
Exchange rate accruals on forward contracts	4,366	6,735
Other items	2,047	765
Total	18,008	17,063

20. LEASING CONTRACTS, EUR 1,000

The company has leased equipment under operating leases. In 2005, new operating lease contracts were made with an equipment purchase value of approximately 25.2 million euros. The lease payments are fixed for the duration of the leasing period.

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

	Dec. 31 2005	Dec. 31 2004
2005	-	12,943
2006	19,622	12,862
2007	16,464	9,619
2008	8,634	1,837
2009	900	-
Total	45,620	37,261

Rental expenses on operating leases for machinery amounted to 15.1 million euros for the year ended December 31, 2005 and 9.5 million euros for the year ended December 31, 2004. No significant new financing lease contracts were signed during 2005.

21. ASSETS PLEDGED AND CONTINGENT LIABILITIES, EUR 1,000

		2005	2004
ON BEHALF OF GROUP COMPANIES			
Guarantees		145,688	98,091
ON BEHALF OF OTHERS			
Guarantees		8	8
LEASING COMMITMENTS			
Operating leases, machinery and equipment (excl. VAT)		45,620	37,261
Rental commitments, real estate (excl. VAT)		2,964	2,732
DERIVATIVES CONTRACTS			
Foreign currency derivatives instruments			
Forward contracts, transaction risk			
Nominal value		336,890	215,524
Market value		-1,150	-4,624
Forward contracts, translation risk			
Nominal value		28,857	20,959
Market value		-129	298
Forward contracts, financial risk			
Nominal value		98,143	72,109
Market value		-996	83
Foreign currency option contracts, transaction risk			
Nominal value	bought	-	9,000
	sold	-	12,000
Market value	bought	-	46
	sold	-	-149

The forwards have been valued using the market prices and the exchange reference rates of the European Central Bank on the balance sheet date. The fair value of options is the amount at which options could be exchanged if closed on the balance sheet date. The figures also include the closed positions.

Risk Management

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

Risk Management Principles

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

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

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

Risk Assessment

In 2004, Elcoteq conducted an extensive risk assessment in which the manufacturing plants, each geographical area and business area, as well as Group functions identified and assessed the risks in their respective operations and drew up development plans to manage these risks. The Group's risk management function was responsible for guiding and supervising this process.

In the spring of 2005 Elcoteq's units re-examined and revised the risk assessments made the previous year. At the same time development plans were prepared covering the risks of greatest strategic importance for Elcoteq. The risk assessments were once again updated in all the units at the end of 2005.

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

Elcoteq developed and introduced an internal audit system at the end of 2005 to ensure the continued functionality of its risk management. Using this system the Group's risk management function measures and monitors the level of risk management in Elcoteq's various units. The audits will be performed and their findings reported mainly during 2006.

Strategic and Operational Risks

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

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

A key element of Elcoteq's strategy is focused growth, i.e. broadening the customer portfolio and reducing dependency on individual customers. Actions to achieve this include, for example, strengthening the sales organization, concentrating sales efforts on obtaining new customers and, if necessary, through acquisitions.

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

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

Competitive Situation: the company's business operations and its profits could suffer if the company is unable to counter the challenges posed by intensifying competition or respond successfully to changes in the competitive environment or in demand.

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

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

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

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

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

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

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

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

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

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

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

Casualty Risks

In anticipation of possible unforeseen casualty risks, Elcoteq has continuous global insurance programmes covering aspects of its operations including personnel, property, business interruption, third-party liability, criminal action and transportation.

The company developed a new business continuity planning system in 2005 to ensure the continuity of its operations. Elcoteq will start drawing up the consistent plans required by this system for its geographical areas and manufacturing plants during 2006.

Financial Risks

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

Foreign Exchange Risk

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

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

The foreign exchange risk associated with equity-linked investments denominated in currencies other than the euro, i.e. the translation risk, arises from fluctuations in the calculated euro values of these amounts. The translation risk in 2005 related mainly to the Chinese yuan (CNY), the US dollar (USD) and the Russian ruble (RUB). These risks are partly hedged using exchange rate derivative contracts. Roughly 80% of the consolidated ownership holdings in these companies is hedged and this level is updated during every subsequent month after the financial statements of the subsidiaries for the previous month are completed. On December 31, 2005 roughly 70% of the equity-based investments denominated in CNY, USD and RUB was hedged at the end of the previous month.

Note Assets Pledged and Contingent Liabilities in the Notes to the Consolidated Financial Statements shows the year-end nominal and fair values of derivatives contracts. The principles applied in entering these items are described in the accounting principles on page 37.

Liquidity and Refinancing Risks

Liquidity risk is measured through reports that are based on the Group's cash flow forecasts. The company endeavors to continue to safeguard its good liquidity position under varying market conditions through sufficient cash reserves and credit facility arrangements. On December 31, 2005 the Group's interest-bearing net debt totaled 90.3 million euros. The Group's cash reserves totaled 101.4 million euros and interest-bearing debt 191.7 million euros.

The company's financing reserves consisted of unused credit limits that on December 31, 2005 totaled 293.5 million euros. Altogether 230 million euros of the total is a syndicated and committed credit facility. The company also has a domestic commercial paper program of 200 million euros, of which no issues were open at December 31, 2005. In addition, the company will continue to make use of accounts receivable sales facilities whenever cost-effective. Apart from an accounts receivable securitization facility worth 250 million euros, the company has other smaller limits available for the sale of receivables.

The average maturity of the loan portfolio was extended with the issue of subordinated notes totaling 60 million euros in 2005 to strengthen the company's financial structure and reduce its refinancing risk.

Interest Rate Risk

The Group follows its interest exposure by monitoring, in particular, the interest payment flow risk. On December 31, 2005 the average interest rate of the loan portfolio was 4.96% with the average interest rate refixing time approximately 20 months. Altogether 78.9% of the loan porfolio was nominated in euros. No derivatives contracts were used to hedge the interest rate risk during the period.

The average interest rate refixing time period of the company's loan portfolio has been extended by agreeing 60 million euros of the long-term subordinated notes, totaling 110 million euros, with a fixed coupon. The interest rate is tied to long-term, mainly five-year, interest rates at the time the notes were issued.

Short-term market interest rates also affect the price received by Elcoteq when selling its accounts receivable. The interest rate risk associated with this off-balance-sheet item is not hedged.

Credit and Counterparty Risks

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 credit policy, and adequate collateral is to be requested if the need for it is indicated by the creditworthiness of a customer. The company is released from the credit risk related to sold accounts receivables at the time of sale.

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

Risk Management

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

Shares and Shareholders

Share Series and Share Capital

Elcoteq SE has two classes of shares, Series A and Series K. Elcoteq A shares (ticker symbol ELQAV) are quoted on the Helsinki Stock Exchange and are included in the book-entry system maintained by the Finnish Central Securities Depository Ltd. Elcoteq shares are traded in lots of 50. All the K shares are held by Mr Antti Piippo, Mr Henry Sjöman and Mr Jorma Vanhanen, who were the sole owners of the company before its initial public offering and whose holdings of the K shares have not changed since. Elcoteq's Articles of Association stipulate that the number of K shares cannot be increased. Each Elcoteq A share carries one vote and each K share ten votes at general shareholders' meetings. Both classes of shares carry the same dividend rights.

At the end of 2005, Elcoteq's share capital consisted of altogether 31,103,577 shares divided into 20,526,577 A shares and 10,577,000 K shares. The nominal value of each share is 0.40 euros. The company's registered share capital on December 31, 2005 totaled 12,441,430.80 euros. Elcoteq SE does not hold any of its own shares.

Share Information (December 31, 2005)

Number of A shares 20,526,577
Ticker symbol ELQAV
Minimum trading lot 50 shares
Number of K shares 10,577,000

Board Authorizations

Elcoteq's Annual General Meeting held on March 23, 2005 authorized the Board of Directors to float one or more convertible bond loans, and/or to issue stock options, and/or to increase Elcoteq's share capital in one or more installments through a rights offering. Under this authorization, the company's share capital may be increased by a maximum of 2,456,468.80 euros. This one-year authorization will expire on March 23, 2006. The authorization was not exercised during 2005. The Board has no current authorization to repurchase any of the company's own shares.

Shareholder Agreements

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

Stock Option Plan 2001

Elcoteq issued a stock option plan for key employees in 2001. The options not allocated to key employees were issued to Elcoteq Lohja Oy. A total of 2,685,000 options (A–E) were issued that entitle their holders to subscribe for a maximum of 2,685,000 new A shares. At the end of 2005, this plan covered 283 employees, who together held 1,305,230 options. Elcoteq Lohja Oy holds 255,000 options for future needs. These options form part of the company's incentive program for ensuring the motivation and long-term commitment of its key employees.

The options (A–E) may be exercised to subscribe for at most 537,000 new A shares annually over a five-year period from April 1, 2002 until April 30, 2007. The Series A options became exercisable on April 1, 2002, the Series B options on April 1, 2003, the Series C options at the earliest on April 1, 2004 and Series D options at the earliest on April 1, 2005. Series E options will be exercisable on April 1, 2006. After the dividend payment in 2005, the share subscription price has been 7.19 euros per share and will be adjusted downward for any dividends paid after the issue of the options. The share subscription price cannot, however, be lower than the nominal value of the underlying shares.

No options issued pursuant to this option plan were exercised in 2002. In 2003, a total of 600 options were exercised under this option plan. In 2004 the number of exercised options was altogether 202,850 and in 2005 altogether 462,700. On December 31, 2005 there were a total of 2,018,850 unexercised option rights to subscribe for A shares.

A, B, C and D options issued under the 2001 stock option plan are traded on the Helsinki Stock Exchange. These options are traded in lots of 50 under the ticker symbol ELQAVEW101.

Incentive Plans 2004

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

Stock Option Plan 2004

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

The stock options are divided into 2004A, 2004B and 2004C stock options with 450,000 stock options in each stock option class. This stock option plan covers all members of the Management Conference and the aggregate number of 2004A and 2004B options held by them is 899,000. The 2004C options have not yet been allocated and continue to be held by Elcoteq Lohja Oy.

The share subscription price for all options after the dividend payment in 2005 has been 14.65 euros. The share subscription price of the stock options shall be reduced by the amount of any dividend decided after August 3, 2004 and paid before the share subscription, as per the record date for each dividend payment.

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

Share Ownership Plan

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

The potential reward from the plan in 2005 will be based on the development of the Group's earnings per share and net sales. The reward will be paid in 2006, partly in the company's Series A shares and partly in cash. The shares will be acquired at the Helsinki Stock Exchange by the end of April 2006 within the regulations regarding insiders. It is prohibited to transfer the shares corresponding to the gross annual salary of a key person as long as his/her employment in the Group continues. The President and CEO of the company is not allowed, without the consent of the Board of Directors, to transfer his A shares as long as he is in the service of the company.

Reward Plan 2004

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

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

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

Shareholdings of the CEO, Deputy CEO and the Board Members

At December 31, 2005, the members of the company's Board of Directors owned a total of 2,817,180 A shares and 10,577,000 K shares, which represented 43.1% of the total number of shares and 86% of the votes outstanding.

At December 31, 2005, Mr Jouni Hartikainen, Elcoteq's President and CEO, held 3,460 Elcoteq A shares and Mr Jukka Jäämaa, COO and Deputy CEO, altogether 3,560 Elcoteq A shares. These total 7,020 shares, which represent 0.02% of shares and 0.01% of the votes outstanding.

At December 31, 2005, Mr Jouni Hartikainen, President and CEO, held 150,000 options issued under the 2001 option program and 120,000 options under the 2004 option program. Mr Jukka Jäämaa, COO and Deputy CEO, held 43,000 options issued under the 2001 option program and 91,000 options under the 2004 option program. The President and the COO could exercise these options to subscribe for a maximum of 404,000 new A shares, which would represent 1.28% of the share capital and 0.29% of the votes outstanding after such exercise. If all the other unexercised options on December 31, 2005 were also exercised, Elcoteq's CEO, Deputy CEO and the members of the Board of Directors would collectively hold 40.0% of the total share capital and 84.1% of the total votes outstanding.

The share and option holdings of Elcoteq's Board of Directors and top management are presented on pages 79 and 82.

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

Shareholders

Elcoteq had 11,694 registered shareholders at the end of 2005. There were a total of 8,382,054 nominee-registered or foreign-registered A shares, representing some 27% of the total number of shares and 6.6% of the votes outstanding.

Flagging Announcement

On March 17, 2005, Elcoteq was informed that the total shareholding of Fidelity International Limited and its subsidiaries in Elcoteq A shares had decreased to less than 5% of Elcoteq's share capital. According to the announcement, Fidelity owned 514,442 Elcoteq A shares on March 17, 2005. This represented 1.68% of Elcoteq's total share capital and 0.41% of the votes on that date.

Free Float

At December 31, 2005 Elcoteq's free float (the number of A shares not held by its three principal owners) totaled 17,747,194 shares, or 86.5% of all A shares and 57.1% of the total share capital. Nominee-registered and foreign-registered shares accounted for 47.2% of the free float.

Taxable Value of Elcoteq Shares in Finland

The 2005 value assigned to Elcoteq A shares for Finnish tax purposes is 14.00 euros per share.

Dividend Policy

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

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

Distribution of Shares, December 31, 2005

Number of Shares	Number of Holders	% of Total Shares	% of Total Votes
1–100	4,038	0.90	0.22
101–1,000	6,525	8.28	2.04
1,001–10,000	1,044	8.55	2.11
10,001–100,000	68	6.11	1.50
100,001–	19	76.16	94.13

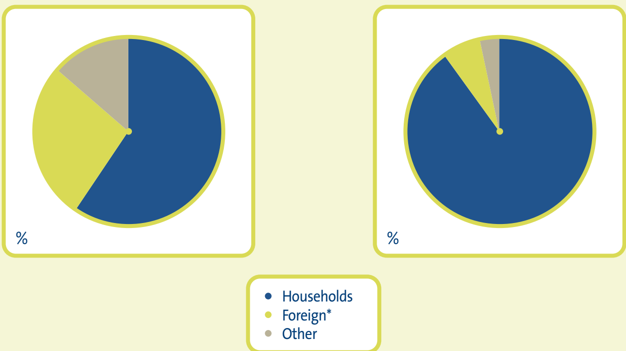
Figures include nominee-registered shareholders.
Each nominee is treated as one shareholder.

Shareholders by Type, December 31, 2005

	Number of Shares	% of Total Shares	% of Total Votes
Households	18,480,052	59.41	90.00
Foreign*	8,382,054	26.95	6.64
Financial and insurance institutions	1,483,929	4.77	1.17
Public entities	1,087,798	3.50	0.86
Corporations	989,514	3.18	0.78
Non-profit organizations	680,230	2.19	0.54

* Includes nominee-registered shares.

% of Total Shares   *% of Total Votes*



* Includes nominee-registered shares.

Series A Share Performance and Trading

	2005	2004
Highest price, EUR	20.35	21.50
Lowest price, EUR	14.50	12.80
Average price, EUR	16.92	16.65
Closing price, EUR	20.15	17.89
Trading volume, MEUR	435.0	537.5
Trading volume, shares	25,718,873	32,218,487

Performance and Trading of the 2001 Options

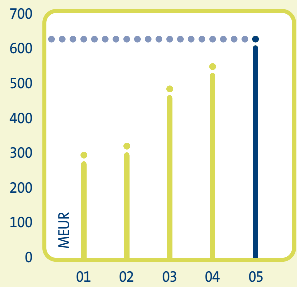
	2005	2004
Highest price, EUR	13.08	12.00
Lowest price, EUR	4.13	5.25
Average price, EUR	10.39	8.76
Closing price, EUR	12.78	9.75
Trading volume, MEUR	20.4	7.7
Trading volume, options	1,960,850	883,000

Market Capitalization, MEUR

	2005	2004
Series A shares	413.6	358.9
Series K shares	213.1	189.2
Total	626.7	548.2

Market capitalization is calculated by multiplying the company's total shares outstanding, i.e. all A and K shares, by the closing quotation of each year.

Market Capitalization in 2001–2005



Major Shareholders, December 31, 2005

	A Shares	K Shares	% of Shares	% of Votes
1. Antti Piippo	1,588,930	5,411,000	22.51	44.10
2. Jorma Vanhanen	602,725	2,583,000	10.24	20.93
3. Henry Sjöman	587,725	2,583,000	10.19	20.92
4. Tapiola Mutual Pension Insurance Company	365,000	-	1.17	0.29
5. FIM Fenno Mutual Fund	281,150	-	0.90	0.22
6. FIM Forte Mutual Fund	193,850	-	0.62	0.15
7. Sampo Suomi Osake Mutual Fund	162,100	-	0.52	0.13
8. State Pension Fund	150,000	-	0.48	0.12
9. Erkki Olavi Etola	150,000	-	0.48	0.12
10. Mandatum Suomi Kasvuosake Mutual Fund	149,050	-	0.48	0.12
Total	4,230,530	10,577,000	47.59	87.1

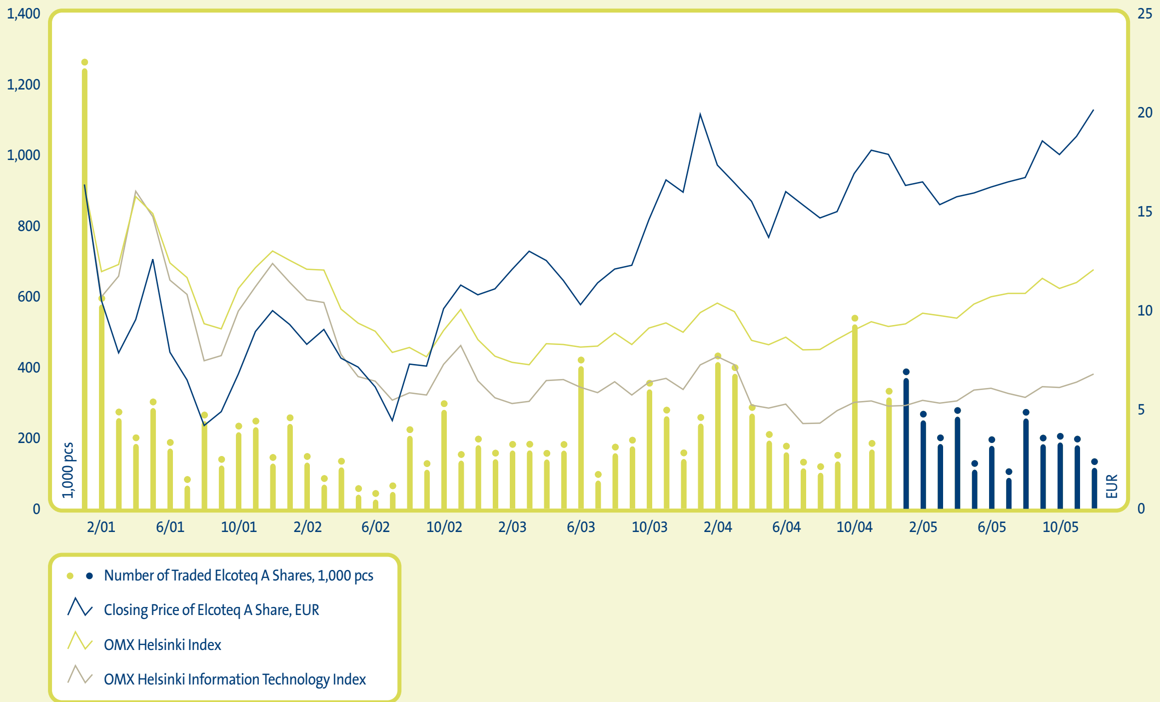
A monthly updated list of Elcoteq's 30 largest shareholders
is available on the company's website at www.elcoteq.com.

Possible Impact of Unexercised Option Rights on Elcoteq's Share Capital on December 31, 2005

	Number of Shares	% of Shares	Share Capital, EUR	% of Votes
Option scheme 2001	+2,018,850	+6.5	+807,540	+1.6
Option scheme 2004	+1,350,000	+4.3	+540,000	+1.1
Total	+3,368,850	+10.8	+1,347,540	+2.7

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

Trading Prices and Volumes of Elcoteq A Shares in 2001–2005



Formulas for the Calculation of Financial Ratios

Return on equity (ROE) =	Net income x 100 / Total equity, average of opening and closing balances
Return on investment (ROI/ROCE) =	(Income before taxes + interest and other financial expenses + income from discontinued operation before taxes and financial expenses) x 100 / Total assets – non-interest bearing liabilities, average of opening and closing balances
Return on investment (ROI/ROCE) for trailing 12 months =	(Income before taxes + interest and other financial expenses + income from discontinued operation before taxes and financial expenses) x 100 / Total assets – non-interest-bearing liabilities, average of opening and closing balances
Current ratio =	Current assets / Current liabilities
Solvency =	Total equity x 100 / Total assets – advance payments received
Gearing =	Interest-bearing liabilities – cash and equivalents / Total equity
Earnings per share (EPS) =	Net income attributable to equity holders of the parent / Adjusted average number of shares outstanding during the period
Earnings per share, diluted (EPS) =	Net income attributable to equity holders of the parent / Adjusted average number of shares outstanding during the period + effect of dilution on the number of shares
Dividend per share =	Dividends paid for the fiscal year / Adjusted number of shares outstanding at the end of the period
Payout ratio =	Dividend per share x 100 / Earnings per share
Dividend yield =	Dividend per share x 100 / Average share price at the end of the period
P/E-ratio =	Average share price at the end of the period / Earnings per share (EPS)

Five Years in Figures

		2005	2004*	2003	2002	2001
OPERATIONS						
Net sales	MEUR	4,169.0	2,921.8	2,235.7	1,840.2	1,862.5
of which outside Finland	%	81.4	86.2	81.0	77.5	76.5
Gross capital expenditures	MEUR	123.6	128.3	68.1	78	45.1
(does not include operating leases)						
Employees, average		15,242	13,065	11,044	8,127	9,960
PROFITABILITY						
Operating income before depreciation and amortization (EBITDA)	MEUR	155.0	117.6	88.1	74.7	29.9
Operating income	MEUR	76.5	57.3	30.5	25.5	-18.4
as percentage of net sales	%	1.8	2.0	1.4	1.4	-1.0
Income before taxes	MEUR	59.3	44.9	22.5	18.6	-30.7
as percentage of net sales	%	1.4	1.5	1.0	1.0	-1.6
Net income ***	MEUR	41.3	30.7	20.7	16.1	-32.0
as percentage of net sales	%	1.0	1.1	0.9	0.9	-1.7
Return on equity (ROE)	%	14.1	15.1	8.2	7.4	-11.7
Return on investment (ROI/ROCE)	%	17.6	19.5	10.2	9.2	-3.5
FINANCIAL RATIOS						
Current ratio		1.2	1.1	1.2	1.2	1.3
Solvency	%	26.0	30.5	32.6	36.6	39.6
Gearing		0.3	0.4	-0.0	-0.1	0.2
Interest-bearing liabilities	MEUR	191.7	137.4	63.3	42.6	75.8
Interest-bearing net debt	MEUR	90.3	98.2	-0.4	-33.4	39.4
PER SHARE DATA						
Earnings per share (EPS)	EUR	1.34	1.01	0.70	0.54	-1.08
Diluted earnings per share (EPS)	EUR	1.28	0.96	0.67	-	-
Shareholders' equity per share ***	EUR	9.55	8.82	8.46	8.40	7.99
Share price at the end of the year	EUR	20.15	17.89	15.98	10.80	10.00
Dividend per share **	EUR	0.66	0.65	0.90	0.40	0.00
Payout ratio **	%	49.7	49.6	131.0	73.5	0.0
Dividend yield **	%	3.3	3.6	5.6	3.7	0.0
P/E ratio		15.0	14.1	22.9	19.7	-9.1
Adjusted weighted average number of shares in issue during the period	Shares	30,764,705	30,420,473	29,572,826	29,491,652	29,491,373
Adjusted number of shares in issue at the end of the period	Shares	31,103,577	30,640,877	30,190,527	29,491,652	29,491,652

* The key figures for the income statement and earnings per share are calculated on continuing operations. Other key figures include the impact of the discontinued operation.
** The dividend in 2005 is the proposal of the Board of Directors to the Annual General Meeting.
*** Amount attributable to equity holders of the parent company. The net income for 2004 does not include the income of the discontinued operation.

Financial statements have been prepared in compliance with the IFRS standards beginning from January 1, 2003. Financial statements 2001–2002 have been prepared in compliance with the Finnish Accounting Act, which came into effect on December 31, 1997.

Board's Proposal to the Annual General Meeting

The Group's distributable funds on the balance sheet date totaled 60,544,246.84 euros. The parent company recorded a net profit of 51,018,293.58 euros for the year. Retained earnings from previous years, adjusted for the share issue costs entered in the additional paid-in capital, amounted to 19,688,749.05 euros. Therefore the parent company's distributable funds totaled 70,707,042.63 euros.

The Board will propose to the Annual General Meeting that the parent company distribute a dividend of 0.66 euros per share, or 20,573,240.82 euros, on the financial year. After this, unused retained earnings will amount to 50,133,801.81 euros in the parent company and 39,971,006.02 euros in the Group.

Espoo, Finland, February 8, 2006

Antti Piippo
Chairman of the Board

Martti Ahtisaari

Heikki Horstia

Eero Kasanen

Henry Sjöman

Juha Toivola

Jorma Vanhanen

Jouni Hartikainen
President and CEO

Auditors' Report

To the Shareholders of Elcoteq SE

We have audited the accounting records, the financial statements and the administration of Elcoteq SE for the financial period January 1–December 31, 2005. The Board of Directors and the President and CEO have prepared the Report of the Board of Directors and the consolidated financial statements, which comprise balance sheet, income statement, cash flow statement, statement of changes in shareholder's equity and notes to the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements, which comprise balance sheet, income statement, cash flow statement and notes to the financial statements, prepared in accordance with prevailing regulations in Finland. Based on our audit, we express an opinion on the consolidated financial statements, on the Report of Board of Directors as well as on the parent company's financial statements and administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies Act.

Consolidated Financial Statements

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and defined in the Finnish Accounting Act give a true and fair view of the group's result of operations and of the financial position. The consolidated financial statements can be adopted.

Parent Company's Financial Statements and Administration

In our opinion the parent company's financial statements and the Report of Board of Directors 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 Finnish Accounting Act, of the parent company's result of operations and 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 the retained earnings is in compliance with the Companies Act.

Helsinki, Finland, February 13, 2006

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Quarterly Figures (Unaudited)

INCOME STATEMENT, MEUR	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
NET SALES	1,182.0	1,194.7	982.1	810.3	864.6	828.7	641.9	586.6
Change in work in progress and finished goods	2.1	1.7	-9.8	-5.2	-23.6	16.7	-3.2	20.6
Other operating income	1.2	1.1	1.8	1.7	2.0	1.0	1.9	1.0
Operating expenses	-1,137.8	-1,150.5	-940.1	-780.3	-806.2	-810.9	-617.1	-586.3
Depreciation and writedowns	-22.1	-21.4	-18.0	-17.0	-16.4	-15.9	-14.4	-13.7
OPERATING INCOME	25.5	25.6	15.9	9.5	20.4	19.7	9.1	8.1
% of net sales	2.2	2.1	1.6	1.2	2.4	2.4	1.4	1.4
Financial income and expenses	-5.6	-4.4	-3.2	-2.8	-5.8	-2.5	-2.2	-0.9
Share of profits and losses of associates	-0.2	-0.2	-0.6	-0.2	-0.1	-0.3	-0.3	-0.4
INCOME BEFORE TAXES	19.7	21.0	12.1	6.5	14.6	16.9	6.5	6.8
Income taxes	-4.6	-7.4	-3.8	-2.7	-2.0	-5.1	-1.5	-3.7
INCOME FROM CONTINUING OPERATIONS	15.1	13.7	8.3	3.8	12.6	11.8	5.1	3.2
Income from discontinued operations	-	-	-	-	-	-	5.7	2.2
NET INCOME FOR THE PERIOD	15.1	13.7	8.3	3.8	12.6	11.8	10.8	5.4
ATTRIBUTABLE TO:								
Equity holders of the parent	14.9	13.7	8.3	4.4	12.8	9.7	10.9	5.3
Minority interests	0.2	0.0	-0.0	-0.6	-0.2	2.2	-0.1	0.1
	15.1	13.7	8.3	3.8	12.6	11.8	10.8	5.4

BALANCE SHEET, MEUR	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
ASSETS								
Non-current assets								
Intangible assets	47.4	47.5	46.6	43.9	43.9	39.5	38.1	37.5
Tangible assets	244.7	245.4	215.1	206.7	205.8	183.6	153.7	152.3
Investments	14.1	14.1	14.1	14.4	14.4	14.5	14.7	14.8
Long-term receivables	10.0	9.8	16.2	16.5	14.0	15.4	15.1	9.1
Non-current assets, total	316.2	316.8	292.0	281.4	278.1	253.0	221.7	213.7
Current assets								
Inventories	328.4	363.4	323.2	331.5	305.3	357.3	268.6	255.7
Current receivables	421.4	487.5	462.8	388.6	285.0	320.7	324.9	289.8
Cash and cash equivalents	101.4	106.7	60.5	70.2	39.2	37.4	40.7	18.4
Assets classified as held for sale	-	1.7	-	-	-	-	-	43.7
Current assets, total	851.2	959.3	846.5	790.3	629.5	715.4	634.1	607.5
ASSETS, TOTAL	1,167.4	1,276.0	1,138.5	1,071.7	907.6	968.4	855.8	821.3
SHAREHOLDERS' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent								
Share capital	12.4	12.3	12.3	12.3	12.3	12.2	12.2	12.2
Other shareholders' equity	284.5	267.1	252.8	243.3	258.0	244.1	234.3	222.8
Equity attributable to equity holders of the parent, total	297.0	279.4	265.1	255.6	270.3	256.3	246.5	235.0
Minority interests	6.9	7.3	6.9	6.7	6.6	7.9	5.9	5.9
Total equity	303.9	286.7	272.0	262.3	276.8	264.2	252.4	241.0
Long-term liabilities								
Long-term loans	149.9	150.4	101.1	72.3	72.2	34.1	35.3	31.0
Other long-term debt	3.7	4.0	4.2	4.9	4.4	14.8	13.3	14.4
Long-term liabilities, total	153.6	154.3	105.3	77.1	76.6	49.0	48.6	45.4
Current liabilities								
Current loans	41.2	53.4	69.8	135.9	64.1	57.6	43.0	90.9
Other current liabilities	666.0	778.9	686.6	594.3	488.6	595.4	509.3	419.8
Provisions	2.8	2.7	4.8	2.1	1.5	2.3	2.6	1.7
Liabilities classified as held for sale	-	-	-	-	-	-	-	22.5
Current liabilities, total	709.9	835.0	761.2	732.2	554.2	655.3	554.9	534.9
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	1,167.4	1,276.0	1,138.5	1,071.7	907.6	968.4	855.8	821.3

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Personnel on average during the period	15,903	15,162	15,030	14,560	13,481	12,865	12,638	13,222
Gross capital expenditures, MEUR	35.4	48.8	17.8	21.6	45.2	46.7	16.5	19.9
ROI/ROCE from 12 preceding months, %	17.6	17.5	17.7	16.8	19.5	21.1	17.1	11.1
Earnings per share (EPS), EUR	0.48	0.44	0.27	0.14	0.42	0.32	0.36*	0.18*
Solvency ratio, %	26.0	22.5	23.9	24.5	30.5	27.3	29.6	29.5

* Includes the discontinued operation.

CONSOLIDATED CASH FLOW STATEMENT, MEUR

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Cash flow before change in working capital	47.3	47.1	48.4	29.7	22.0	33.5	24.6	22.4
Change in working capital	-11.4	21.6	26.6	-53.7	24.5	-12.0	52.2	-87.1
Financial items and taxes	-10.3	-8.1	-5.7	-3.3	-13.4	-2.9	-2.7	-1.2
Cash flow from operating activities	25.6	60.6	69.3	-27.3	33.1	18.6	74.1	-65.9
Cash flow from investing activities	-20.1	-47.1	-22.3	-14.3	-77.1	-36.2	-2.8	-24.2
Cash flow before financing activities	5.5	13.5	47.0	-41.6	-44.0	-17.6	71.3	-90.1
Proceeds from share issue	2.4	0.1	0.1	0.8	0.8	0.2	0.0	1.0
Change of current debt	-12.7	-16.8	-67.3	71.0	-2.0	18.2	-47.9	71.3
Issuance of long-term debt	0.0	49.4	30.2	0.0	49.7	0.0	0.0	0.0
Repayment of long-term debt	-1.1	-0.5	-2.1	-0.7	-2.1	-4.1	-0.3	-1.2
Dividends paid and other distributions of earnings	0.0	0.0	-20.0	0.0	0.0	0.0	-0.9	-26.4
Cash flow from financing activities	-11.5	32.1	-58.9	71.0	46.4	14.3	-49.1	44.7
Change in cash and cash equivalents	-6.1	45.7	-11.9	29.4	2.4	-3.2	22.3	-45.5
Cash and equivalents at the beginning of the period	106.7	60.5	70.2	39.2	37.3	40.7	18.4	63.7
Effect of exchange rate changes on cash held	0.7	0.5	2.3	1.5	-0.4	-0.2	0.0	0.2
Cash and equivalents at the end of period	101.4	106.7	60.5	70.2	39.2	37.3	40.7	18.4

BUSINESS AREAS

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net sales, MEUR								
Terminal Products	999.5	999.3	795.0	645.2	688.8	660.0	489.8	461.4
Communications Network Equipment	182.6	195.4	187.1	165.1	175.9	168.6	152.2	125.1
Continuing operations, total	1,182.0	1,194.7	982.1	810.3	864.6	828.7	641.9	586.6
Industrial Electronics (discontinued operation)	-	-	-	-	-	-	-	31.9
Total	1,182.0	1,194.7	982.1	810.3	864.6	828.7	641.9	618.5
Segment´s operating income, MEUR								
Terminal Products	32.2	26.6	19.4	16.9	28.3	23.8	10.3	15.4
Communications Network Equipment	2.9	9.7	8.0	2.6	2.5	1.7	7.4	4.7
Group´s non-allocated expenses/income	-9.6	-10.7	-11.5	-10.0	-10.3	-5.8	-8.6	-12.0
Continuing operations, total	25.5	25.6	15.9	9.5	20.4	19.7	9.1	8.1
Industrial Electronics (discontinued operation)	-	-	-	-	-	-	10.0	3.0
Total	25.5	25.6	15.9	9.5	20.4	19.7	19.0	11.1

GEOGRAPHICAL AREAS

	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net Sales, MEUR								
Europe	641.6	686.5	550.9	466.0	569.4	513.8	393.2	366.6
Asia-Pacific	344.7	321.0	226.6	177.1	210.2	207.0	137.2	159.7
Americas	195.8	187.1	204.5	167.2	85.0	107.9	111.5	60.2
Industrial Electronics (discontinued operation)	-	-	-	-	-	-	-	31.9
Total	1,182.0	1,194.7	982.1	810.3	864.6	828.7	641.9	618.5

Elcoteq is committed to increasing the value of the company through profitable and successful business practices.

Corporate Governance

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

General Meetings

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

Group Administration

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

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

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

The company also has a Management Conference which, in addition to the Management Team, includes 11 senior managers responsible for key Group functions. The Management Conference convenes at the discretion of the President and CEO 3–4 times a year. The purpose of the Management Conference meetings is to provide a senior management forum for planning the company's operations and sharing information.

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

The Board of Directors

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

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

- Composition and constitution of the Board of Directors
- Conduct and number of meetings
- Information on the company to be regularly submitted to the Board
- Matters requiring regular consideration at Board meetings, and
- Assessment of the Board's performance.

The Board's Rules of Procedure stipulate that a majority of the Board members must be independent of the company and at least two of this majority must be independent of the company's principal shareholders. Four of the seven Board members elected by the Annual General Meeting in 2005 are independent of the company and its principal shareholders. The term of office of the Board members expires at the close of the first AGM following their election. After the close of the Annual General Meeting the Board elects a chairman and a deputy chairman from among its members and decides on the establishment of its committees and their members.

According to the Rules of Procedure the Board of Directors assesses its own activities and performance annually and develops its activities based on the results of this assessment. The first assessment was carried out concerning the year 2004.

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

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

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

The Board of Directors has seven members during the term of office ending at the 2006 Annual General Meeting. Since the Annual General Meeting in 2005 the Chairman of the Board has been Mr Antti Piippo and the Deputy Chairman Mr Juha Toivola.

The Board of Directors met 14 times during 2005. The attendance of its members at these meetings averaged 97%.

The Board's Committees

The Board of Directors has four committees: a Working Committee, Audit Committee, Compensation Committee and Nomination Committee. The Board can also establish other committees for specific purposes. The tasks of each committee are stipulated in their own rules of procedure which are approved by the Board of Directors. The committees report on their work to the Board at the Board's meetings.

Working Committee

The Working Committee prepares matters for the Board related to the company's business operations, particularly matters concerning the company's strategy and business development. The Working Committee consists of at least three members and it is convened by its chairman. During the 2005–2006 period the Working Committee was chaired by Mr Antti Piippo, Chairman of the Board, and the members were Mr Henry Sjöman, Mr Juha Toivola and Mr Jorma Vanhanen. The Committee met five times during 2005.

Audit Committee

The Audit Committee supervises and prepares for the Board matters related to financial reporting, external auditing, internal audit and risk management. It also supervises and enhances these functions in the company. The Committee consists of at least three independent Board members, who must have sufficient financial expertise for the task. The Committee meets regularly, and at least four times during its term of office. The Committee is in regular contact with the company's auditors. During the 2005–2006 period the Audit Committee was chaired by Mr Juha Toivola, and its other members were Mr Martti Ahtisaari, Mr Heikki Horstia and Mr Eero Kasanen. The Committee met six times during 2005.

Compensation Committee

The Compensation Committee prepares for the Board matters related to the remuneration, performance-based compensation, benefits and perquisites policies applied to the company's executive management and the remuneration policy of the company. The Committee consists of at least three independent Board members. The Committee meets during its term of office as necessary and is convened by its chairman. During the 2005–2006 period the Compensation Committee was chaired by Mr Juha Toivola, and its other members were Mr Martti Ahtisaari, Mr Heikki Horstia and Mr Eero Kasanen. The Committee met five times during 2005.

Nomination Committee

The Nomination Committee prepares matters related to the nomination and remuneration of the Board members, and seeks suitable individuals for nomination to the Board. The Committee consists of at least three members and it is convened as necessary by its chairman. During the 2005–2006 period the Nomination Committee was chaired by Mr Antti Piippo, and its other members were Mr Henry Sjöman, Mr Juha Toivola and Mr Jorma Vanhanen. The Committee met twice during 2005.

Fees Paid to the Board of Directors

As decided by the Annual General Meeting held in the spring of 2005, the Board members are each paid an annual fee of the Board work amounting to 45,000 euros, 60% of which is paid in cash and 40% in shares. In 2005, with respect to the latter payment, the Elcoteq shares were acquired between April 29 and May 13 within the limits set by the rules governing insider trading. The acquired shares may not be surrendered before the following Annual General Meeting unless the individual's membership of the Board ends earlier.

The Annual General Meeting 2005 decided to pay an additional monthly fee of 35,000 euros to the full-time Chairman of the Board and an additional monthly fee of EUR 8,000 to the Deputy Chairman

Board's Fees Approved by the Annual General Meeting on March 23, 2005

Chairman	45,000 euros/year + 35,000 euros/month
Deputy Chairman	45,000 euros/year + 8,000 euros/month
Other members	45,000 euros/year

of the Board. The salaries, fees and fringe benefits paid to the Board of Directors of the Board work in 2005 totaled some 817,000 euros.

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

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

The President and CEO

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

President and CEO's Remuneration

The President and CEO's monthly salary is 87,356 Swiss francs, i.e. approximately 56,000 euros and he also receives the usual fringe benefits. In addition to his monthly salary, the President and CEO receives a performance-based bonus in accordance with the incentive scheme in force to a maximum amount of 50% of his annual salary. The salary, other short-term benefits and share-based payments paid to the President and CEO in 2005 totaled some 1,306,000 euros.

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

The CEO's notice period is six months. In the event that the CEO's employment contract is terminated by the company without proper cause, the CEO will be paid severance compensation equivalent to 12 months' monetary salary. Furthermore, owing to the relocation of the CEO to Switzerland, additional fixed-term severance compensation has been agreed with the CEO to the effect that should the CEO's employment contract be terminated by the company without proper cause before September 1, 2006, the CEO will be paid every month an amount corresponding to his monthly salary as severance compensation from the date of dismissal until September 1, 2006.

Management Remuneration and Incentive Schemes

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

The company operates a bonus system under which a part of the bonus is based on achievement of the Group's financial targets and a part on achievement of each director's individual targets. The Board of Directors determines the criteria for the financial targets based on a proposal by the Compensation Committee. Individual targets are determined during performance appraisal discussions. The maximum amount to be paid to members of the Management Conference for 2005 is 50% of their basic annual salaries.

The company also has other incentive plans. The 2001 option scheme covers members of the Management Conference and other key personnel.

On August 3, 2004 Elcoteq's Board of Directors agreed on the motivation and commitment of the management and key personnel of the Group by means of a stock option plan, a share ownership plan and a reward plan. The stock option and share ownership plans cover the members of the company's Management Conference. The reward plan is intended for key employees not covered by the stock option and share ownership plans. Further information on the reward plan is given under Shares and Shareholders on page 65.

Further information on the stock option schemes of the Management Team and Management Conference is given on page 82.

Internal Control

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

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

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

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

	Salaries and Other Short-Term Benefits 2005	Salaries and Other Short-Term Benefits 2004	Share-Based Payments* 2005	Share-Based Payments* 2004	Total 2005	Total 2004
President and CEO	1,098	437	208	216	1,306	653
Deputy CEO	454	410	194	141	648	551
Other Management Team members**	744	479	469	325	1,213	804

* Includes costs of stock options and share incentive plans.

** The other members of the Management Team consisted of three persons from the beginning of 2004 and four from November 2004. The number of other Management Team members increased to five on November 16, 2005.

focus on in the following year. Internal audit projects assigned for 2005 and 2006 relate to examining the effectiveness of the company's enterprise resource planning system and its tender and sales processes. The internal audit function is independent of the company's external auditors.

Insider Matters

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

The company's statutory list of insiders comprises the members of the Board of Directors, the President and CEO, the COO and the auditor. Other permanent insiders are the members of the company's Management Conference, as well as individuals who by virtue of their responsibilities or position receive information regarded as insider information. The company also maintains project-specific insider registers. Under the company's Insider Rules, insiders may engage in trading in the company's shares only at times when the market has the fullest possible knowledge of matters that could influence the share value. For this reason Elcoteq's permanent insiders are not permitted to trade in the company's shares for 21 days before the release of its interim or annual financial results.

Elcoteq's Insider Rules and insider registers were updated at the beginning of 2006 due to the changes to the provisions of the Securities Markets Act. Henceforth Elcoteq maintains a public insider register that comprises the individuals previously included in its register of permanent insiders, as well as a non-public insider register of individuals who by virtue of their duties regularly receive information regarded as insider information, and also insider registers specific to individual projects.

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

The Auditor

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

Elcoteq SE's auditors are the firm of authorized public accountants KPMG Oy Ab, under the supervision of Principal Auditor Mauri Palvi, APA. In 2005 the auditing associations belonging to the KPMG Group were paid approximately 600,000 euros in auditing fees and approximately 780,000 euros for other consultation assignments. The latter consisted mainly of consulting work regarding Elcoteq's conversion into a European Company, as well as tax consultation.

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

Board of Directors

Martti Ahtisaari, born 1937, Teacher Training Course Graduate, University of Oulu
Independent member of Elcoteq's Board of Directors since 2000; member of the Audit and Compensation Committees
Work experience: Mr Ahtisaari forged a prestigious career as a diplomat working for both Finland's Ministry for Foreign Affairs and for the United Nations. Mr Ahtisaari was President of Finland between 1994 and 2000. After leaving office he has held posts in various international organizations and trusts. Mr Ahtisaari also holds honorary doctorates from a number of universities.
Other key posts: board member of UPM-Kymmene, board chairman of Crisis Management Initiative and Special Envoy of the UN Secretary-General for the future status process for Kosovo

Heikki Horstia, born 1950, BSc (Econ.)
Vice President, Treasurer of Wärtsilä Corporation
Independent member of Elcoteq's Board of Directors since 1991; member of the Audit, Compensation and Nomination Committees
Work experience: Mr Horstia has had a career in the financial management of industrial enterprises (Teollisuuden Voima Oy, Oy Lohja Ab, Metra Corporation) since 1976, and has occupied management and board positions in the electronics industry since 1983.

Eero Kasanen, born 1952, DBA
Rector of the Helsinki School of Economics and Professor of Finance
Independent member of Elcoteq's Board of Directors since 2001; member of the Audit and Compensation Committees
Work experience: Professor of the Helsinki School of Economics since 1989
Other key posts: Dr Kasanen is a board member of several companies, for example Kesko Corporation and Kaleva Mutual Insurance Company. He is also chairman of the boards of directors of the Helsinki School of Economics Holding Ltd and Finland Post Corporation.

Antti Piippo, born 1947, BSc (Eng.)
Founder and principal shareholder of Elcoteq
Member of Elcoteq's Board of Directors since 1991; Chairman in 1991–2001 and again since 2003. Chairman of the Working and Nomination Committees.
Work experience: Mr Piippo has held management positions in the electronics industry since 1971, first in Aspo Oy (1971–1984) and then in Oy Lohja Ab (1984–1991). He was head of the electronics divisions of both companies.
Other key posts: supervisory board member of Varma Mutual Pension Insurance Company and chairman of the board of Piippo Oy

Henry Sjöman, born 1950, BSc (Eng.)
Founder-shareholder of Elcoteq
Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees
Work experience: Mr Sjöman has worked in the electronics industry since 1974 and has held various management positions in Elcoteq and its predecessors since 1984.

Juha Toivola, born 1947, MSc
Independent member of Elcoteq's Board of Directors since 1997; Deputy Chairman of the Board in 1997–2001 and again since 2003; Chairman of the Board in 2001–2003.
Chairman of the Audit and Compensation Committees, member of the Working Committee
Work experience: Mr Toivola has over 30 years of experience from both Finnish and international industrial corporations and the insurance sector. Between 1971 and 1995 Mr Toivola worked for Fiskars Corporation, and between 1996 and 2001 he was Managing Director of Industrial Insurance Company Ltd and Deputy Managing Director of the Sampo Group.
Other key posts: Mr Toivola is a board member or board chairman of several companies. He is also a member of the Association of Finland's Board Professionals.

Jorma Vanhanen, born 1959, MSc (Eng.)
Founder-shareholder of Elcoteq;
Member of Elcoteq's Board of Directors since 1991; member of the Working and Nomination Committees
Work experience: Mr Vanhanen has held various management positions in Elcoteq and its predecessors since 1985.

Board's Shareholdings on December 31, 2005

Name	A Shares	K Shares	Change from 2004
Antti Piippo	1,588,930	5,411,000	+1,160
Henry Sjöman	587,725	2,583,000	+1,160
Jorma Vanhanen	602,725	2,583,000	+1,160
Martti Ahtisaari	10,600	-	+1,160
Heikki Horstia	6,350	-	+1,160
Eero Kasanen	8,000	-	+1,160
Juha Toivola	12,850	-	+1,160

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

Elcoteq Management Team

Jouni Hartikainen, born 1961, MSc (Eng.)
President and CEO
Joined Elcoteq in 2000; member of the Management Team since 2000 and President and CEO since 2004
Area of responsibility: overall management of the Elcoteq Group
Work experience: Mr Hartikainen has previously worked in Elcoteq as the head of the geographical area Asia-Pacific, the Communications Network Equipment business area and global sales and customer service. Before joining Elcoteq, Mr Hartikainen held several positions in Tecnomen Corporation. Mr Hartikainen has also worked several years in Canada and Malaysia.
Key posts: board member of Technology in Finland (Teknologiateollisuus ry) and Cellon International

Jukka Jäämaa, born 1965, LSc (Eng.)
Chief Operating Officer (COO) and Deputy CEO
Joined Elcoteq in 1998; member of the Management Team since 1998 and Deputy CEO since 2004
Areas of responsibility: geographical areas, operations, sourcing, supply chain management, and information management
Work experience: Previously in Elcoteq Mr Jäämaa has been heading up the geographical area Europe, the Communications Network Equipment business area and the Industrial Electronics business area, as well as Europe's sales and account management. Prior to Elcoteq, Mr Jäämaa held a variety of positions since 1990 in Perlos Corporation.

John-James Farquharson, born 1956, MA, MBA
Senior Vice President, Human Resources
Joined Elcoteq and the Management Team in 2004
Areas of responsibility: human resources and corporate responsibility
Work experience: Mr Farquharson joined Elcoteq from Hayes Lemmerz International in Germany, where he worked as Vice President, Human Resources. Prior to this, he has experience in managing a manufacturing site, with sales and marketing responsibilities in Japan, Canada, Germany, Switzerland and the UK in the BASF Group and BP Oil International.


Jouni Hartikainen


Jukka Jäämaa


John-James Farquharson

Vesa Keränen, born 1970, MSc (Eng.)
Senior Vice President, Corporate Development
Joined Elcoteq in 1997; member of the Management Team since 2001
Areas of responsibility: corporate development, business areas, mergers and acquisitions, and corporate strategy planning
Work experience: Mr Keränen has worked in various business development and strategy planning positions in Elcoteq since 1997. Prior to joining Elcoteq he held positions in various international companies in Finland and Germany.

Anssi Korhonen, born 1965, MSc (Electrical Engineering)
Senior Vice President, Product Development Services
Has worked in Elcoteq in 1992–1995 and again since 1997, member of the Management Team since November 2005
Areas of responsibility: development of Elcoteq's ODM service offering and the Terminal Products business area
Work experience: Prior to his current position Mr Korhonen has worked in Elcoteq as Senior Vice President, Terminal Products. Earlier he has held various project, product line and account management positions since 1997 and worked as Development Engineer in 1992–1995. During 1995–1997 Mr Korhonen worked for Ericsson Mobile Communications AB's R&D site in Sweden.

Nils Kämpe, born 1955, BSc (Eng.)
Senior Vice President, Sales and Marketing
Joined Elcoteq in 2003; member of the Management Team since 2004
Areas of responsibility: sales and marketing
Work experience: Mr Kämpe joined Elcoteq in 2003 as Director, Sales and Account Management in Terminal Products, Europe organization. Prior to Elcoteq he has held sales and business management positions in IBM and Nokia Networks.

Teo Ottola, born 1968, MSc (Econ.)
Chief Financial Officer (CFO)
Joined Elcoteq in 1996; member of the Management Team since 2000
Areas of responsibility: business control and accounting, treasury, communications and investor relations, legal affairs and risk management
Work experience: Mr Ottola has held various finance and accounting positions in the company since 1996. Before joining Elcoteq, Mr Ottola worked in Rautaruukki Corporation's treasury department.

Management Conference

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

Douglas Brenner, President, Americas
Bruno Cathomen, Vice President, Communications Network Equipment
Tuula Hatakka, Senior Vice President, Treasury
Reeta Kaukiainen, Director, Communications and Investor Relations
Hannu Keinänen, President, Asia-Pacific
Sari Kolu, Director, General Counsel, Corporate Legal Affairs
Petteri Laaksomo, Vice President, Global Operations and Quality
Mirja Lammi, Director, Business Control and Accounting
Harri Ojala, President, Europe
Harri Ollila, Senior Vice President, Corporate Relations
Esa Retva, Vice President, Sourcing, Supply Chain Management and Information Management

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

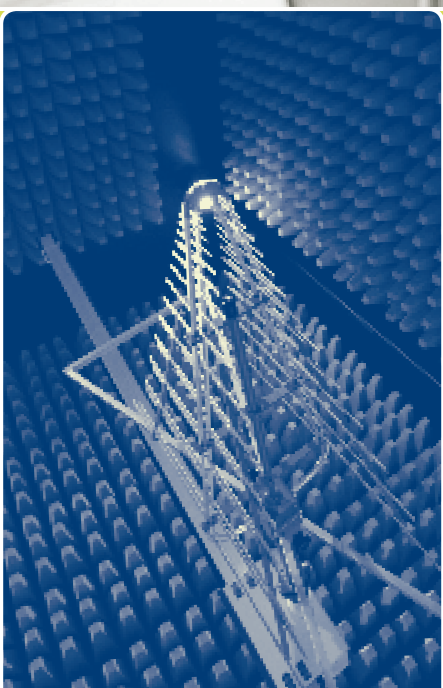
Option and Share Ownership of the Management Conference

The number of shares and options held by the members of the Group's Management Conference on February 9, 2006:

Name	2001 Stock Option Plan	2004 A and B Stock Options	Number of Shares*
Douglas Brenner	10,000	50,000	2,418
Bruno Cathomen	4,000	34,500	1,684
John-James Farquharson	-	46,000	2,352
Jouni Hartikainen	150,000	120,000	6,132
Tuula Hatakka	30,000	39,500	1,974
Jukka Jäämaa	43,000	91,000	5,596
Reeta Kaukiainen	5,000	34,500	1,684
Hannu Keinänen	31,600	50,000	2,418
Vesa Keränen	10,000	62,000	3,232
Sari Kolu	10,000	23,000	700
Anssi Korhonen	8,500	39,500	1,924
Nils Kämpe	14,000	62,000	3,232
Petteri Laaksomo	-	34,500	1,684
Mirja Lammi	4,000	34,500	1,684
Harri Ojala	25,000	26,000	764
Harri Ollila	17,000	39,500	1,924
Teo Ottola	19,000	62,000	3,262
Esa Retva	21,000	34,500	1,684

* Includes the shares to be obtained based on the share ownership plan 2005. The shares will be acquired from the Helsinki Stock Exchange by the end of April 2006 within the regulations regarding insiders.

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

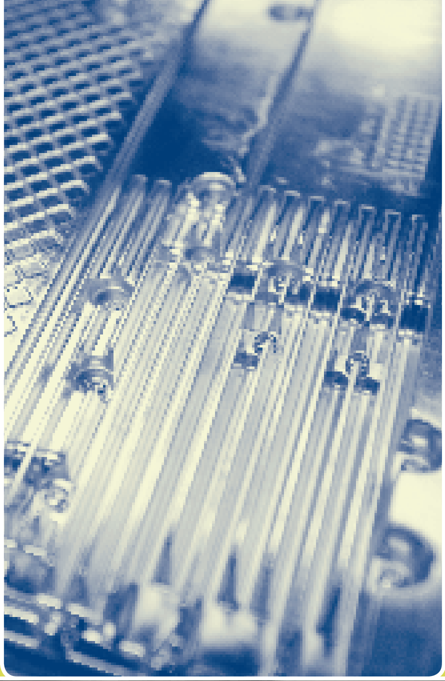


We recognize the need for change and development and respond rapidly.

Glossary

Bluetooth	Technology that enables short-range wireless connections
BOM	Bill of Materials = A comprehensive listing of all subassemblies, components, and raw materials that go into a parent assembly
Box build	Business model, in which an EMS company delivers finished products in consumer packages directly to the customers' distribution channel
CDMA	Code Division Multiple Access
CNE	Communications Network Equipment (Elcoteq's business area)
EDC	Elcoteq Design Center
EDGE	Enhanced Data Rates for Global Evolution
EMS	Electronics Manufacturing Services
EMS company	Company providing manufacturing services for OEMs
EuP	EU directive on Eco-design of Energy-using Products
Free float	Shares freely available for investors
GPRS	General Packet Radio Service
GSM	Global System for Mobile Communications
IEEE 802.11	Standard for WLAN
IPR	Intellectual Property Rights
MBO	Management Buy-Out
NPI	New Product Introduction
ODM	Original Design Manufacturing
OEM	Original Equipment Manufacturer
PCB	Printed Circuit Board
PCBA	Printer Circuit Board Assembly
PDA	Personal Digital Assistant
RF	Radio Frequency
RoHS	EU directive on Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment
SMA	Surface Mount Assembly
SMD	Surface Mount Device
SMT	Surface Mount Technology
TDMA	Time Division Multiple Access
TP	Terminal Products (Elcoteq's business area)
UMTS	Universal Mobile Telecommunications System
W–CDMA	Wideband Code Division Multiple Access
WEEE	EU directive on Waste Electrical and Electronic Equipment
WiMAX Forum	An industry-led corporation formed to promote and certify compatibility and interoperability of broadband wireless products
WLAN	Wireless Local Area Network

Our customer relationships are based on commitment, mutual trust, openness and co-evolution.



Investor Relations (IR)

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

Investor Meetings

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

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

Private investors are invited to meet the company's representatives at the Annual General Meeting in the spring and at the Sijoitus-Invest exhibition in Helsinki, Finland, at the end of the year.

Silent Period

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

Prospects

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

Financial Reporting in 2006

- Financial Statements Bulletin, February 9, at 9.00 am (EET)
- Annual Report, week starting on March 6
- Interim Report January–March, April 27, at 9.00 am (EET)
- Interim Report January–June , July 26, at 9.00 am (EET)
- Interim Report January–September, October 25, at 9.00 am (EET)

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

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

Changes of Address

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

Investor Relations Contacts

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

Heidi Lehmuskumpu, Manager, Investor Relations
Tel. +358 10 413 1552, fax +358 10 413 1938
E-mail: heidi.lehmuskumpu@elcoteq.com
Ms Lehmuskumpu co-ordinates meeting requests and road show arrangements.

Eija Toivio, Communications Assistant
Tel. +358 10 413 1718, fax +358 10 413 1938
E-mail: eija.toivio@elcoteq.com
Ms Toivio is responsible for the distribution of Elcoteq's publications.

Analysts Covering Elcoteq

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

Brokerage House	Analyst	Telephone	E-mail
ABG Sundal Collier	Magnus Innala	+46 8 5662 8633	magnus.innala@abgsc.se
Alfred Berg/ABN Amro	Veikko Valli	+358 9 2283 2706	veikko.valli@alfredberg.fi
Carnegie Investment Bank AB, Finland Branch	Janne Rantanen	+358 9 6187 1237	janne.rantanen@carnegie.fi
Crédit Agricole Cheuvreux International Limited	Peter Knox	+44 20 7621 5182	pknox@cheuvreux.com
Deutsche Bank AG, Helsinki Branch	Jussi Uskola	+358 9 2525 2551	jussi.uskola@db.com
Enskilda Securities, Helsinki Branch	Sasu Ristimäki	+358 9 6162 8727	sasu.ristimaki@enskilda.fi
eQ Bank Ltd	Jari Honko	+358 9 681 781	jari.honko@eQonline.fi
Evli Bank Plc	Ilkka Rauvola	+358 9 4766 9250	ilkka.rauvola@evli.com
FIM Securities	Erik Sucksdorff	+358 9 6134 6398	erik.sucksdorff@fim.com
Handelsbanken Capital Markets	Petri Arjama	+358 10 444 2408	pear02@handelsbanken.se
Impivaara Securities Ltd	Jeffery Roberts	+44 20 7284 3937	impivaara@pomor.com
J.P. Morgan Securities Limited	Sophie Ameln	+44 20 7325 0905	sophie.ameln@jpmorgan.com
Kaupthing Bank Oyj	Michael Schröder	+358 9 4784 0287	michael.schroder@kaupthing.fi
Mandatum Stockbrokers Ltd	Erkki Vesola	+358 10 236 4712	erkki.vesola@mandatum.fi
Nordea Markets	Karri Rinta	+358 9 3694 9433	karri.rinta@nordea.com
Opstock	Hannu Rauhala	+358 10 252 4392	hannu.rauhala@opstock.fi
Standard & Poor's Equity Research	Inger Söderbom	+46 8 5450 6958	inger_soderbom@standardandpoors.com

Annual General Meeting

The Annual General Meeting (AGM) of Elcoteq SE will be held on Thursday March 23, 2006 at 2.00 pm (EET), in the Ballroom of the Hilton Hotel Helsinki Strand, John Stenbergin ranta 4, Helsinki, Finland.

Shareholders who have registered themselves in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd. on March 13, 2006 may attend the Annual General Meeting.

Shareholders wishing to attend the AGM are requested to notify the company no later than at 4.00 pm (EET) on March 17, 2006 either:

- On the company's website at www.elcoteq.com
- In writing to Elcoteq SE, Ms Marja Vihavainen, P.O. Box 8, FI-02631 Espoo, Finland
- By telefax on +358 10 413 1804/Ms Marja Vihavainen, or
- By telephone on +358 10 413 1558 between 9.00 am and 11.00 am and 1.00 pm and 4.00 pm (EET)/Ms Marja Vihavainen

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

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

Dividend Proposal

The Board proposes to the Annual General Meeting that a dividend of 0.66 euros be distributed on the financial year 2005. The dividend approved by the AGM will be paid to shareholders registered in the Elcoteq shareholder register maintained by the Finnish Central Securities Depository Ltd on the record date.

Dividend Payment in 2006

Annual General Meeting	March 23
The dividend record date	March 28
The dividend payment date	April 4

Contact Information

Group Office

Elcoteq SE
P.O. Box 8
Sinimäentie 8B
FI-02631 Espoo, Finland

Tel. +358 10 41 311
Fax +358 10 413 1209

E-mail

info@elcoteq.com

environment@elcoteq.com

purchasing@elcoteq.com

sales@elcoteq.com

Other Addresses

Contact information of all Elcoteq sites is available at www.elcoteq.com.

Contact information can also be obtained by e-mail: info@elcoteq.com.

www.elcoteq.com

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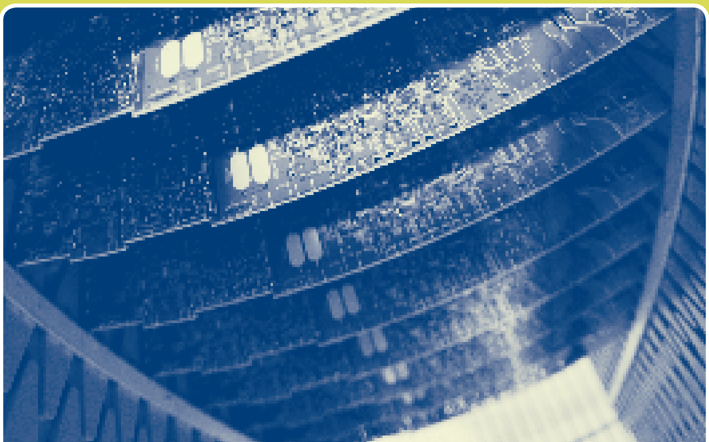

We know our customers' needs and respond to them quickly with the best possible service.

ELCOTEQ

www.elcoteq.com