



To the shareholders and employees of Elcoteq Network Corporation

REPORT BY THE BOARD OF DIRECTORS ON CONVERTING ELCOTEQ NETWORK CORPORATION INTO A EUROPEAN PUBLIC LIMITED-LIABILITY COMPANY

Elcoteq Network Corporation's Board of Directors has drawn up a report in accordance with paragraph 4 of Article 37 of Council Regulation (EC) No. 2157/2001 clarifying and explaining the legal and economic aspects of converting into a European public limited-liability company (formally called Societas Europaea, hereafter "European company" or "SE") and indicating the implications for the Company's shareholders and employees of adopting the SE form of company.

Background and reasons for converting into a European public limited-liability company (SE)

The Annual General Meeting of Elcoteq Network Corporation (hereafter "Elcoteq") held on March 26, 2003 instructed the Board of Directors to assess whether the Company could achieve a competitive advantage if, among other things, the location of the Company's management or the location in which the Company is listed or registered were elsewhere than at present. One issue explored by Elcoteq's Board of Directors and President & CEO is the possibility of converting the Company into a European company. The President & CEO presented a report on this possibility to the Annual General Meeting held on March 17, 2004. The conversion would be implemented in accordance with Council Regulation (EC) No. 2157/2001 on the Statute for a European company (SE) (hereafter "European Company Regulation") and the Finland's Act on the European Company (13.8.2004/742).

The main purpose for converting the Company's form of incorporation is to create an effective structural basis for the continuous improvement of the Company's competitiveness. Converting into a European company is a part of Elcoteq's internationalization strategy. A strong pan-European identity is attached to the form of a European company. A European company is a "European-level public limited-liability company" as opposed to "national" public limited-liability companies, which are directly based only on national laws. Of the largest international corporations in Elcoteq's business sector, Elcoteq is the only European one - the others being numerous American companies and one Asian company. Elcoteq wants a clear European identity, but without forgetting the Company's Finnish roots. A European company, as a form of incorporation, is easier to identify and accept throughout Europe than national forms of company incorporation. A European company also has a certain European guarantee with regard to the level of employee involvement.

Elcoteq wants to be among the first to adopt this new form of incorporation. It will support the Company's reputation as a pioneer and it can help the Company achieve a considerable amount of positive international visibility.

In the longer term, being incorporated as a European company will enable a single corporate structure in all 28 countries of the European Economic Area (EEA) instead of having numerous subsidiary companies as at present. That would generate savings in administration and enhance the efficiency of decision-making processes from the legal perspective.

Being incorporated as a European company will also entail employee involvement at the European level. Since Elcoteq has a large number of employees outside Finland, it makes sense to arrange employee involvement at the EEA level also.

A European company can change its domicile within the EEA by decision of a shareholders' meeting without needing to dissolve the Company. This option creates flexibility in the future, should the focus

of the Company's operations shift and the location of the Company's domicile need to be reviewed afresh.

The legal status of a European company is a public limited-liability company, which corresponds to a public limited-liability company registered in Finland. Elcoteq is already a Finnish-registered public limited-liability company. The abbreviation for a European company will be "SE", which is derived from the Latin name *Societas Europaea*. In Finland, the abbreviation corresponds to "Oy" for limited-liability companies and "Oyj" for public limited-liability companies. Converting into a European company, therefore, will not change Elcoteq's legal status; nor will it be necessary to change the Articles of Association except for the Company name and minimum requirement for the frequency of Board meetings.

Legislation applicable to a European company

The legislation concerning a European company will enter into force on October 8, 2004. The Council Regulation on the Statute for a European Company is a legal instrument that must be directly applied in all EEA countries. The Council Regulation includes provisions for setting up a European company, the minimum subscribed capital, the registered office and transfer of the registered office, and certain issues regarding the administrative organs of a European company.

A European company is based on the Council's European Company Regulation and on supplementary national legislation on companies. In Finland the Council Regulation is supplemented by the Act on the European Company, which also enters into force on October 8, 2004. The Act on the European Company provides for setting up and registering a European company, for protecting the interests of creditors and minority shareholders in the case of a merger and/or transfer of the domicile, for the Company's management and liquidation proceedings in matters based on the European Company Regulation, and for the liability for damages and criminal responsibility of members of the Company's management and auditors. The provisions mostly correspond with the regulations for public limited-liability companies.

The rights of employees to receive information and to be involved in the affairs of a European company are laid out in Council Directive (EC) 86/2001 (hereafter "Employee Involvement Directive"). The Council Directive has been embodied in Finnish law in the Act on Employee Involvement in a European Company 13.8.2004/758 (hereafter "Employee Involvement Act"). The provisions ensure that employee involvement in European companies remain at least at the same level as in the companies prior to forming a European company.

Under the European Company Regulation, a European company is treated in the same way as a public limited-liability company under the law of the country of its domicile. Thus, in accordance with the report (Ministry of Justice, working party reports 2003:9) of the working group appointed by the Ministry of Justice, national regulations and EU rules concerning, for instance, taxation, employment and working conditions, competition, consumer protection, environmental conservation, intellectual property and a company's insolvency apply to a European company in the same way as to other companies.

Forming a European company

A European company can be formed in five different ways. Elcoteq has chosen the option of conversion into a European company.

An existing Finnish public limited-liability company can convert into a European company if its statutory domicile and head office are located in an EEA country and if it has had a subsidiary for at least two years that is governed by the law of another Member State. Elcoteq's domicile and head office are located in Finland. Elcoteq has owned the entire capital stock of Elcoteq Elektronik GmbH, Elcoteq Deutschland GmbH, Elcoteq Sweden AB, AS Elcoteq Tallinn and Elcoteq Hungary Ltd for at least two years. The Company's subsidiaries are specified in more detail in Annex 1 of the Conversion Plan.

In Elcoteq's case, forming a European company means that Elcoteq converts into a European company with the name Elcoteq Network SE.

Elcoteq's Board of Directors has prepared a Conversion Plan dated October 8, 2004 which, together with this report, will be registered and published in the manner required by Finland's national legislation. There is no common EEA-wide register of European companies. They are instead entered in the trade register of the country in which they were established or to which they are later transferred.

After a decision by the Board of Directors, Elcoteq will start negotiations on employee involvement. Since the duration of these negotiations cannot be reliably estimated in advance, it is not yet possible to specify a time for arranging a general meeting of shareholders to make a decision about the conversion. Existing companies convert into a European company only if a shareholders' meeting specifically approves the draft plan for converting into a European company.

A European company can convert back into a public limited-liability company. An SE registered in Finland can, if necessary, convert into a Finnish public limited-liability company. However, the conversion can only take place two years after conversion into a European company.

Legal implications of converting into an SE

Legal implications for the Company and the Group

Elcoteq will be registered in Finland's trade register after the conversion. The Company's home country will continue to be Finland and its statutory domicile Lohja.

The Company's corporate identity code and VAT registration number will remain the same after the conversion.

The head office of the European company must be located in the country where the Company is registered. When Elcoteq Network Corporation converts into a European company, its head office will remain in its current location in Espoo.

The Company's conversion into a European company does not affect its listing. If Elcoteq converts into a European company, it will continue to be listed on the Helsinki Exchanges. The disclosure of information required under the Securities Market Act continues as normal.

Conversion into a European company does not affect existing contracts and agreements nor does it affect ownership and other rights.

Legal implications for the Company's shareholders

A European company will not directly affect the position of a shareholder. When a public limited-liability company converts into a European company, the same shares remain in the shareholders' ownership. A shareholder is not deemed to have exchanged his or her shares for shares in the new company.

Legal implications for employees of the Company and the Group

Converting the Company into a European company will not affect employees' employment contracts. Employees will continue to be employees of the Company on the same terms and conditions as before conversion.

A European company must provide for employee involvement. Employee involvement must be on at least the same level as in Elcoteq Network Corporation. A special negotiating body will negotiate about employee involvement in the SE before the conversion can be registered.

Special negotiating body and negotiation procedures

As soon as possible after approving the conversion plan Elcoteq Network Corporation's Board of Directors will implement all the measures necessary for starting negotiations with the companies' employee representatives on the arrangements for employee involvement in the SE.

Elcoteq Network Corporation's employees in subsidiaries in Member States of the European Union will be represented in the special negotiating body. Members of the body will be elected or appointed in proportion to the number of employees in the companies and offices of each Member State; for each Member State a seat for one member is allocated for each part of the personnel working in that Member State that represents ten per cent, or a part thereof, of the total number of employees in all participating companies and relevant subsidiaries and offices when employees in all Member States are totaled. The

procedure for appointing or electing members is laid down in the national law on employee representation valid in each country.

The task of the special negotiating body and Elcoteq Network Corporation's Board of Directors is to specify in a written agreement the arrangements pertaining to employee involvement in the SE. For this purpose, Elcoteq's Board of Directors will provide the special negotiating body with information about the plan for forming an SE and about progress in establishing the SE until the time when the SE has been registered.

The special negotiating body will make its decisions based on an absolute majority of its members provided that this majority also represents the absolute majority of the Company's employees in the EEA. Each member will have one vote. However, if the negotiated result would cause a reduction in participation rights, a decision on approving such an agreement will require two-thirds of the votes of those members of the special negotiating body who represent at least two-thirds of the Company's employees in the EEA, including the votes of those members who represent employees working in at least two Member States.

For the purposes of the negotiations, the special negotiating body may ask experts that it selects, for example representatives of relevant Community-level trade unions, to assist it in its work. These experts can attend negotiation meetings as advisors at the request of the special negotiating body when this is necessary to promote uniformity and harmonization at the Community level. The special negotiating body can decide to notify representatives of the appropriate external organizations, including trade unions, about starting negotiations.

Elcoteq's special negotiating body will probably comprise 13 members, as follows: 2 members from Finland, 1 member from Sweden, 5 from Estonia, 4 from Hungary and 1 from Germany. This distribution is based on the situation in August 2004, which will still be reviewed against the situation on October 8, 2004.

Agreement on employee involvement in the SE

The agreement between Elcoteq Network Corporation's Board of Directors and special negotiating body will specify the following:

the scope of the agreement,

the composition of its representative body, i.e. the number of members and distribution of seats, that is the negotiating partner of the SE's Board of Directors in arrangements concerning informing and consulting the employees of the SE and its subsidiaries and offices,

the duties of the representative body, and the procedure to be followed in informing and consulting it,

how often the representative body meets,

the financial and material resources to be granted to the representative body,

if the parties decide in their negotiations about establishing participation arrangements, the main points of these arrangements, and

the date of entry into force of the agreement and its duration, as well as cases in which the agreement would be re-negotiated and the procedure for re-negotiation.

Negotiations must be started immediately after the special negotiating body has been formed and can continue for six months after that date. If an agreement on employee involvement in the affairs of the SE is not reached within six months from the start of negotiations, and the competent body of Elcoteq Network Corporation wants to continue the registration process, the secondary provisions laid down in

the Act on Employee Involvement will be applied to employee involvement in the SE by decision of Elcoteq's Board of Directors. The parties can also agree directly to apply the secondary provisions.

Employee involvement in the affairs of the SE will in all respects be on at least the same level as employee involvement in the Company converting into an SE.

Financial implications of converting into an SE

Financial implications for the Company and the Group

The long-term objective of incorporating as a European company is to achieve savings in administrative costs. Changing the company does not in itself reduce the activities relating to administration, but the possibility of merging subsidiaries in other countries into the Company can later reduce the amount of corporate administration in Europe as a whole. The Company believes that adopting the form of European company will have a positive impact on the Company's image and thereby support the Group's business operations. Converting into a European company has no effect on the Company's tax status. Neither does conversion itself have any tax impact on the Company. Since taxation of a European company is a new phenomenon, the Company has verified the matter by applying for and receiving an advance ruling from the Central Tax Board (Central Tax Board's Advance Ruling 35/2004).

Financial implications for the Company's shareholders

Converting into a European company will not have any financial implications for the Company's shareholders. The Company does not believe that conversion will have any direct impact on the value of its shares. The number of shares will not change as a result of converting and they will continue to be listed on the Helsinki Exchanges. The trading code for the shares will remain unchanged.

Shareholder taxation

Converting into a European company will not have any tax implications for the Company's shareholders. A European company registered in Finland is considered equivalent to a public limited-liability company registered in Finland. Since the operations of a European company correspond to the operations of a public limited-liability company in Finland, taxation of the European company also corresponds to the tax treatment of the shares of a Finnish public limited-liability company. The shares of a European company are counted as being part of the shareholder's assets and subject to capital taxation in the same way as the shares of a public limited-liability company at present. The Company has verified the matter by applying for and receiving an advance ruling from the Central Tax Board (Central Tax Board's Advance Ruling 35/2004).

Financial implications for employees of the Company and the Group

Converting into a European company will not have any effects on the employment relationships of the Company's employees. The employer will be the same and the accrued benefits linked to an employment relationship will remain the same as before the conversion. The Company's employees will therefore continue to work for a Finnish employer. The taxation of employees will also remain the same as at present.

The position of employees will only change in respect of employee involvement, which in all respects will remain on at least the same level as at present.

Summary

Converting into a European company will in itself have rather few direct tangible effects. The largest change will be arranging employee involvement at the European level. Adopting the new company form will, however, have a positive impact on the Company's image and identity in a global context. Moreover, it will bring flexibility in the future by enabling transnational mergers, the streamlining of administrative structures and the transfer of the Company's domicile.