

BENEFON

BENEFON OYJ

ANNUAL REPORT 2006

BENEFON OYJ

BOARD REPORT AND FINANCIAL STATEMENTS FY 2006

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1. Essential events during the financial year

The Company's most important development goal during the year was finishing the new TWIG product range and starting its manufacturing in China, together with ramping up the TWIG-brand and marketing and distribution. These activities caused a significant increase of the operating costs compared to the prior year.

The market introduction of the new product range was delayed from the plan causing also deviations in delivered amounts and financial plans and invoking a need to strengthen financing. Acquisition of the needed additional financing caused further costs.

Deliveries of TWIG Discovery to customers in Western Europe and USA started in the final quarter of the year. Deliveries of TWIG Locator started in selected European markets.

Sales of the Company's prior products to EU area were discontinued in June 2006 due to the so called RoHS directive banning the usage of lead in electronics production process, coming in force then and preventing continuing manufacturing of prior products. The Company's new TWIG-product range is manufactured with a no-lead process.

The premises of the Company were re-arranged during the summer by concentrating Finland operations to Salo and closing the Turku office.

The result of the year was adversely affected by significant one-off charges primarily comprising additional R&D costs of about 1.0 million euros related with aborted or delayed product launches, by booked charges of about 3.0 million euros related with the given option rights

during the year, detailed in section 15 hereinafter in accordance with IFRS 2 (payments made in shares) and not affecting the cash flow, and the costs of about 1.3 million euros related with the due diligence review and other clarifications of a potential but subsequently cancelled acquisition project. In addition, the said project caused costs of about 1 million euros booked on the first quarter of this on-going year.

The Company's new TWIG-brand and product were introduced

In February 2006, at the Barcelona 3GSM conference, the Company introduced its new TWIG-brand and a new personal navigation phone TWIG Discovery.

At the annual CeBIT fair held in Hannover in March, the Company introduced its next TWIG product, the personal security device called TWIG Locator.

The deliveries of the first TWIG product TWIG Discovery were planned to begin in the first quarter of 2006. The project was delayed due to unforeseen delays in the finishing of the product and the sales deliveries started at the end of the third quarter of 2006.

The Company's TWIG-products are mainly manufactured by industrial partners in China.

The Company's financial foundation was strengthened

In January 2006 for realising the planned financing, the Company arranged a share issue directed to the shareholders and investors. The offering and listing prospectus prepared for the share issue was disclosed on January 18, 2006. In the Issue, 53 shareholders and 25 investors subscribed for a total of 78.293.102 new S-series shares of the Company (BNFSV) at a share subscription price of 0,21 euros a share. The total subscription price received by the Company was 16.441.551,42 euros, of which 11.676.082,32 euros was paid in cash and 4.765.469,10 euros in a set-off using receivables from the Company.

As a result of the subscriptions, the share capital of the Company was increased by the decision of the extraordinary general meeting of January 31, 2006, by 782,931.02 euros from 1,312,540.46 euros to 2,095,471.48 euros and the number of the outstanding shares increased from 131,254,046 shares to 209,547,148 shares. The increase of the share capital was registered on February 9, 2006, and the new shares listed for public trading at Helsinki Exchanges alongside with the old S-series shares (BNFSV) on February 10, 2006.

The Company's external network was re-enforced

The Company's annual general meeting of May 24, 2006, approved the management agreement with Octagon Consulting Limited ("OCOL") proposed by the Board. The material contents of the terms of the agreement have been detailed in the bulletin released on May 5, 2006.

In addition, the said general meeting decided, according to the Board proposal, to offer a total of 20,000,000 option rights 2004A as follows:

Ning Po Limited	10,750,000
LAIP Limited	7,250,000
Vanguard Limited	2,000,000

R&D resources increased

The Company informed on May 9, 2006, that it has agreed about exclusive utilisation of the St. Petersburg based mobile software technology team of UK firm DataArt. The team is developing the navigation software used in TWIG mobile terminals and localising the software for various market areas with different languages.

The Company informed on May 10, 2006, that it had retained industrial designer Ross Lovegrove to design the Company's new personal navigation product range.

Finland R&D concentrated in Salo

The Company concentrated its Finnish R&D function by transferring the Turku R&D unit to the Company head office in Salo. This arrangement was part of the productivity improvement program with the objective of increasing the productivity by enhancing the co-operation and communication between the teams. This re-organisation did not affect the number of personnel or their employment conditions.

The Company's partner network for TWIG program expanded

In August 2006, the Company signed an agreement with NAV2, a joint venture between NAVTEQ and NAVINFO, a leading Chinese firm producing digital maps, for NAV2 to provide map data for use on Company's TWIG personal navigation devices for distribution in China.

On August 29, 2006, the Company informed about the plans to strengthen its in-house technology platform by licensing from its long-standing technology partner Pollex a complete software platform Opna. Opna is used in Benefon's first TWIG-branded personal navigation product TWIG Discovery.

The Company informed on August 24, 2006, about the global partnership with its Finnish partner Geowell, specialised in tracking technology. According to the agreement, Benefon holds an exclusive right to design and manufacture integrated GPS/GSM tracking devices for Geowell. With the same, Benefon appointed Geowell as its global distributor for such special versions of TWIG-branded products.

The Company informed on August 31, 2006 that it had expanded its agreement with the Australian company Locatrix Communications in order to develop further various value added services and solutions based on the core navigation and locationing services of Benefon. For instance, Locatrix has participated in the development of the TWIGWORLD.COM locationing service offered by Benefon.

The Company informed on September 5, 2006, that it had signed a licensing agreement with Karputer, specialised in advanced computer systems for cars.

The Company's organisation was re-arranged

In September 2006 the Company's organisation was re-arranged such that the operations in Salo were combined into a business unit focusing on business to business (B2B) activities and a second B2C business unit focusing on consumer business established in UK. The objective of the Company is to build up position in B2B market and to strengthen the overall position in consumer navigation market. As a result of the solution, a total of six employees were dismissed.

TWIG-product delivery start delayed, FY result outlook updated and additional financing agreement received

At the end of September, the Company informed that the TWIG Discovery delivery start would be postponed to October 2006 due to delays in mass production ramp-up, updated its prior result forecasts and informed that it could not precisely forecast the result of the final quarter nor that of the whole year.

With the same, the Company informed about the new financing arrangement of a total of 7.35 Meuros, detailed below in section 12.

The deliveries of the first TWIG-products began

At the end of October, the Company informed to have started the commercial deliveries of the TWIG Discovery-product.

In early November, the Company informed to have commenced the deliveries of TWIG Locator locationing device, intended for improvement of personnel security and product protection, in Sweden, Finland, UK, Switzerland, France, Italy and Australia.

The CEO changed

In mid-December, the Company informed that CEO Jonathan Bate is leaving the Company and that former CEO Tomi Raita will assume the responsibilities of interim CEO.

2. Essential events after the end of the financial year

Financing agreement continued

The Company's financing agreement announced on September 28, 2006, was extended in January 2007 as detailed below in section 12.

China distribution agreement expanded

In mid-January Benefon announced an expansion of its distribution agreement with China Potevio's Capitel group and Lextel to cover the sales, marketing, and distribution of Benefon's navigation and location products.

Under the terms of the agreement, Lextel Group committed to order for the amount of €3,750,000 Benefon's mobile devices. The order is conditional on getting CTA approval and Benefon expects the deliveries to start during the third quarter of 2007.

Benefon received a major order for TWIG Discovery

On February 9, 2007, Benefon announced that Travel Safety Group from Florida has placed an order in excess of \$10 million USD for Benefon's TWIG mobile navigation device to be shipped during the first half of the year 2007.

Benefon disclosed new-product roadmap for 2007

On February 21, 2007, Benefon announced three new smart devices for its 2007 product portfolio. The new range, comprising the products TWIG Talisman, TWIG Totem and TWIG Monolith, is a sophisticated collection of WiFi enabled 2.75G and 3.5G Windows smartphone solutions to suit individual preferences.

The first new Twig devices are expected to be available starting in June 2007, with other versions being released in the last half of the year.

Benefon announced an intended acquisition

Benefon Oyj announced on March 5, 2007, that it has signed a letter of intent to acquire GeoSolutions BV, a developer of location-based technologies, products, and services for mobile and Internet-connected devices. This start-up firm employs 13 people and it did not have significant sales in 2006.

Benefon will acquire GeoSolutions BV for approximately €6 million in stock. Completion of the transaction, which will be made through a Dutch subsidiary to be established, is subject to regulatory and other customary closing conditions and is expected to be completed by April 30.

3. Assessment and key figures regarding the financial position and result

The Company continued to operate at a loss. Notwithstanding, due to the financing program of the year, mostly with capital instruments, the Company retained good solidity and reasonable liquidity.

Key figures characterising the Company's financial position and result:

Financial year	2006	2005	2004
Net sales (teuros)	6959	7562	7033
Operating result (teuros)	-11543	-3398	-3890
Operating result (% of net sales)	-166	-45	-55
Yield on shareholders' equity (%)	-286	n/a	n/a
Solidity (%)	61	-47	-4

4. Assessment about likely future development

The market outlook for navigation devices continues to be promising. The Western European market alone is projected to need more than 100 million devices over the next five years (source: Canalys, August 2006). A number of new competitors are expected to enter the market during 2007, and the Company believes the price competition will heat up. On the other hand, the growing supply is expected to increase customer awareness of GSM/GPS products and through this to increase the demand for and market share of mobile phones with navigation functionality.

The operations in year 2007 have been systematically prepared during 2006 when the Company expanded its sales organisation to secure the favourable development of the current product sales and to shorten the time needed for launch of new products. TWIG Discovery and TWIG Locator have been launched in a number of Western European countries, and the TWIG Discovery has also been launched in the U.S.

The focus in the current year is in growing the sales volumes and expansion of the market, launch of TWIG Discovery Pro product for business users and increased marketing efforts of the web-based back-end applications and solutions.

Key tasks in the first half of 2007 include starting and managing deliveries and related sales and marketing programs in Europe and USA, acquisition of new accounts especially in Europe and development of existing accounts in USA.

Sales of TWIG Discovery in China are expected to start in the third quarter of 2007. The products marketed in China will be sold with combined "China Potevion Capitel" brand. Capitel is a leading mobile phone seller in China and China Potevion a division of one of the biggest state-owned telecommunications firms in China.

The Company will make an effort to increase the deliveries of TWIG Locator tracking device to new user groups, for example in security applications and in animal locating.

The planned market launch in the beginning of the second quarter of the new product version TWIG Discovery Pro directed to the business market is expected to strengthen the position of the Company in B2B-markets.

The special focus in 2007 is the market introduction of new products in accordance with the Company's roadmap which will improve the Company's market position. The success in this, regarding the timing and

generated new business volume, will significantly affect the development of net sales and result of the Company in the on-going financial year 2007.

5. Assessment about significant operational risks

An investor group led by Octagon Solutions Ltd. uses control power in Benefon. The Company trusts that the regulation and information obligation, binding public companies, supported by the pursued maximum compliance with the corporate governance recommendations, together with the continuous auditing activity maintained by a skilled and reputable auditing firm suffice to pre-empt a misuse of control power.

The Company's business, operations and industry carry significant risks

There is no certainty for the success regarding the start and realisation of the business plan of Benefon. Continuing expansion into the international market is an important part of our long term strategy that will bring with it, among others, new business, operative, political, financial, economic and regulatory risks that may increase our costs and slow down the growth. The result is affected also by foreign currency valuation changes. The technology of mobile communication and positioning equipment is changing fast, and it is not sure we are able to offer competitive products and solutions. This may significantly adversely affect the business and the result. The Company intends to enter also new business segments, failure in which may also adversely affect the business and the result.

The Company's sales and result may be endangered also if it is not able to arrange effectively its manufacturing and procurement operations, or if its products or service solutions will not fulfil the quality, safety or other requirements by customers, officials or by itself, or it is not able to deliver them in agreed schedule.

The Company is developing new products in co-operation with new partners. Should these partners fail to perform their obligations, the Company probably would not be capable of successfully bringing those new products and related service solutions to market, anyway not in the planned schedule. The Company is dependent on sub-contractors and parts suppliers for deliveries of a number of components. Should any or several of subcontractors not be able to keep their related commitments, the Company's capability to deliver its own products and service solutions to own customers on agreed time may be at risk.

Should the Company not be able to sufficiently protect our industrial rights and other intangible assets, its competitive position may suffer. It is also possible that other parties will sue the Company on grounds of alleged infringement of industrial rights and, should they be successful, the Company may be obligated to pay significant compensations. As made public by the Company, it is involved in a patent case in Italy, in which the Company has forcefully refuted all claims made towards the Company.

In case the risks outlined above would substantially materialise, the Company would also have an obvious financing risk.

The financial statements of the Company have been prepared on going-concern principle. The Company's business plan has been prepared by assuming that the Company's result and cashflow will improve significantly. Should the result and cashflow essentially fail to meet the planned figures, the Company's financing plan may turn out to be insufficient causing a need to acquire additional financing.

Also the Share of the Company carries risks. Old shareholdings may be diluted in the future due to new share capital increases possibly arranged by the Company. The low liquidity of the Share may restrict the possibilities of the shareholder to trade with the Company Share. The share price may fluctuate greatly depending on the often rapidly changing views of the Market about the value of the Company share which views may relate to the Company, its industry or to general developments.

6. Review of the volume of R&D-activities

In the financial year, the volume of the Company's R&D activities in relation to the net sales was high due to the on-going R&D-programs by means of which the Company intends to significantly expand its business over the next few years. The Company has own R&D units in Salo and Windsor and, in addition, its subcontractors have units working for the Company in Russia, China and Australia. The development of R&D costs in years 2004-2006 was the following:

Year	R&D costs		Of which capitalised	
	teuros	% of sales	teuros	% of sales
2004	1325	18.8	0	0
2005	2726	36.0	0	0
2006	5510	79.2	4163	59.8

7. Investments

Gross investments in financial period were 4393 teuros, of which amount capitalisations of R&D expenses were 4163 teuros and other investments 230 teuros. In year 2005 gross investments were 40 teuros and in year 2004 101 teuros.

8. Personnel

The number of employed personnel at Benefon in 2006 averaged 82, of which 29, at most, were affected by alternate forced leaves. After the end of the financial period on February 26, 2007, the Company agreed locally with personnel that alternate forced leaves will be applied also in year 2007 as needed in regard of the capacity situation. The average number of personnel in year 2005 was 76 and in year 2004 91.

9. Environmental issues

The Company changed into a no-lead manufacturing process according to so called ROHS-directive during summer 2006. The Company pays for its products a statutory recycling fee and has organised the recycling of disposed materials contractually through Jalopinta Ky. Altogether, the Company's operations cause no significant environmental impact.

10. Company's organisation, top management and auditors

The Board of Directors of the Company comprised four members in the beginning of the year and five members at the yearend. The number of Board members was increased in the extraordinary general meeting of January 31, 2006. Mr. Brian Katzen served as the Chairman of the Board.

As the Company's CEO in the financial year served Mr. Jonathan Bate until December 15 and thereafter Mr. Tomi Raita.

The Company's organisation was re-arranged in September 2006 when the operations in Salo were combined into a business unit focusing on business to business (B2B) activities and a second B2C business unit focusing on consumer business was established in UK.

In financial years 2004 and 2005, the audit firm Ernst & Young Oy has served as the ordinary auditor of the Company, with Mr. Tapio Ali-Tolppa, CPA, as the responsible auditor, and Mr. Veikko Soinio, CPA, as the deputy auditor. In financial year 2006, the audit firm Ernst & Young Oy continued to serve as the ordinary auditor of the Company, but with Mr. Erkkka Talvinko, CPA, as the responsible auditor. Mr. Veikko Soinio, CPA, continued to serve as the deputy auditor.

Mr. Ali-Tolppa has served as the responsible auditor of the Company in years 1996-1999 and thereafter again from year 2001 until May 2006, when Mr. Erkkka Talvinko, CPA, was elected as the responsible auditor for Ernst & Young Oy. Mr. Soinio has served as the responsible auditor of the Company from year 1997 until 21.5.2003 when the number of responsible auditors in the Company was decided to be reduced to one, and he was elected as the deputy auditor.

11. Structural arrangements

In the latter half of the financial year, the Company initiated a process for transferring into the mother company the assets and liabilities of its wholly owned French subsidiary Ismap S.A., upon which the intention is to dissolve Ismap S.A. The process is due to be completed during the first half of 2007 and it has no significant effect in the Company's financial statements.

After the end of the financial period on March 5, 2007, the Company informed about the intended acquisition in Holland, as detailed above

in section 2., and which is due to be realised through a Dutch subsidiary to be established by the Company.

12. Financing arrangements

In addition to the directed share issue mentioned in section 1., the finances of the Company were re-enforced with the new finance plan announced on September 28, 2006, and comprising share subscriptions, convertible loans and option rights for a total maximum of 7.35 million euros. The financing was divided in five tranches. With this committed finance package, the number of shares in the Company may increase by a maximum of 38,786,905 shares, decreasing the existing share capital increase authority of the Board correspondingly. The total amount of the raised financing in share issues was 4,400,000 euros and as loans 2,950,000 euros. The financing was received from companies Octagon Solutions Ltd, Ashland Partners LP and Luben Limited.

The first tranche was raised on October 5, 2006, when the Board decided to offer a maximum of 5,523,810 new S-series shares of the Company and a convertible loan of 290,000.00 euros to be subscribed by companies Octagon Solutions Ltd. and Ashland Partners LP. Of the shares, 2,714,286 were offered to be subscribed by Octagon Solutions and 2,809,524 shares by Ashland Partners. Of the convertible loan, amount of 142,500.00 euros was subscribed by Octagon Solutions and 147,500.00 euros by Ashland Partners.

The second tranche was raised on October 24, 2006, when the Board decided to offer a maximum of 5,714,286 new S-series shares and a convertible loan of 300,000.00 euros to be subscribed by companies Ashland Partners LP and Luben Limited. Of the shares, 1,484,952 were offered to be subscribed by Ashland Partners and 4,229,334 by Luben Limited. Of the convertible loan, amount of 77,960.00 euros was subscribed by Ashland Partners and 222,040.00 euros by Luben Limited.

The third tranche was decided to be raised on November 7, 2006, when the Board decided to offer a maximum of 5,523,810 new S-series shares and a convertible loan of 290,000.00 euros to be subscribed by Luben Limited.

The fourth tranche was decided to be raised on November 27, 2006, when the Board decided to raise from Luben Limited an interest free loan of 1,450,000 euros, to be paid back in years 2009-2012 and, related with the loan, to offer for subscription without subscription price to Luben Limited 2,175,000 option rights of series 2006A. Each option right entitles to subscribe for one new S-series share at the share subscription price of 0.10 euros per share.

The fifth tranche was raised on December 15, 2006, when the Board decided to raise from Luben Limited an interest free loan of a total of 1,500,000 euros, to be paid back in years 2009-2012 and, related to the loan, to offer for subscription without subscription price to Luben Limited 2,250,000 option rights of series 2006B. Each option right entitles to subscribe for one new S-series share at the share subscription price of 0.10 euros per share.

In addition to the above after the end of the reporting period, the Company announced on January 12, 2007, that it had agreed with Octagon Solutions Limited about extending the financing commitment between the parties announced on September 28, 2006, to cover also the agreed additional financing, and that the Board had accordingly decided to raise the sixth tranche of the extended commitment. With that decision, the Board directed shares and a convertible loan of a total of 400,000 euros to Ashland Partners LP. The maximum number of new S-series shares was 1,666,667 and the subscription price 0.21 euros per share. The amount of the convertible loan was 50,000 euros and the maximum number of shares it entitles to be subscribed for at a share subscription price of 0.09 euros per share is 555,556.

To enable the Company to extend the financing program, the extraordinary general meeting of the Company convened on February 1, 2007, decided to grant an authorization to the Board to decide on the increase of share capital by a maximum of EUR 526,832.71 and on issue of new investment series shares, option rights or specific rights in terms of Article 1 of Chapter 10 of the Companies Act in one or more installments such that the maximum number of new investment series shares issued is 52,683,271.

On February 26, 2006, the Company announced that the Board of Directors had decided to change the terms of the two loans granted by Luben Limited in connection with tranches 4 and 5 described above into a convertible bond loan such that each EUR 0.14 (approximately) of the loan principal entitles to subscribe for one new investment series share by December 31st, 2012. The maximum number of shares that can be subscribed for by virtue of the loan is 21,071,429. The change has been accepted by Luben Limited. The reason for changing the terms is to enable the company to continue its ongoing financing plan as required and at the same also to keep its capital structure in balance.

Benefon also announced on February 27, 2007 that it has decided to call the seventh tranche of financing according to the extended Financing Agreement. The Board of Directors of the company decided to issue shares and convertible bond loan for a total maximum amount of EUR 1,400,000 to Villiers Securities Limited. The maximum number of new investment series shares offered for subscription is 5,104,167 and subscription price is EUR 0.21 (approximately) per share. The principal amount of convertible bond loan is EUR 328.125, and each EUR 0.05 of the loan principal entitles to subscribe for one new investment series share. The maximum number of shares that can be subscribed for by virtue of the loan is 6,562,500.

13. Capital loans

In the beginning of the financial year, the Company had capital loans for 3300 teuros. The whole of this loan amount was used for share subscriptions in the share issue detailed above in section 1. wherefore, at the end of the year, there was no capital loan.

14. Convertible loans

The extraordinary general meeting of the Company convened on 26.2.2004 decided about a convertible bond loan on equity terms Benefon 2004A for the amount of 1,130,440.73 euros which was subscribed by a total of eight investors in the investor group led by Octagon Solutions Ltd. and a total of six private investors being part of the management of the Company or customers of the Company. The convertible bond loan may be converted in the period of 1.6.2004-31.12.2008 into a total maximum of 113,044,073 new investment series shares BNFSV of the Company with a book parity value of 0.01 euros.

Of the convertible bond loan Benefon 2004A, until now, an amount of 175,502.69 euros has been converted into a total of 17,550,269 new investment series shares of the Company. The remaining loan totalling 954,938.04 euros may be converted until 31.12.2008 into a total maximum of 95,493,804 new investment series shares of the Company. According to the terms of the loan, the unconverted portion of the loan will be paid back in years 2005-2008 in four equal portions in each year on June 30 providing that the requirements set in the Companies' Act regarding pay back of equity loans are met. Until now, no payments have been made of the Loan. The loan will accrue a fixed annual interest of 4% also paid on mentioned date of June 30 of each year providing that the requirements set in the Companies' Act regarding interest payments on equity loans are met. Until now, no interest has been paid on the loan.

Based on the authorisation given by the annual general meeting of the Company of May 24, 2006, the Board of the Company decided to enter into a Financing Agreement with Octagon Solutions Limited. According to the terms of the agreement, the Board of the Company may call a maximum of EUR 7.35 million financing consisting of share subscriptions, convertible loans and loans. As a part of the Financing Agreement, the Company has issued convertible bond loans Benefon 2006A, Benefon 2006B and Benefon 2006C with a total maximum of EUR 880,000. The convertible bond loan may be converted by 31.12.2012 into a total maximum of 17,600,000 new investment series shares of the Company. A fixed annual interest of two (2) percent shall be paid to the principal of the loan. The loan with the interest accrued will fall due for repayment in four equal parts during 2009-2012 on the annual due date of June 30, excluding the convertible bonds converted into the Company's shares.

Board decided on 5.10.2006 to issue a convertible bond loan Benefon 2006A of a total maximum of EUR 290,000 subscribed for by Octagon Solutions Limited and Ashland Partners LP. The loan may be converted until 31.12.2012 into a total maximum of 5,800,000 new investment series shares of the Company. The entire loan has been converted into shares.

Board decided on 24.10.2006 to issue a convertible bond loan Benefon 2006B of a total maximum of EUR 300,000 subscribed for by Luben Limited and Ashland Partners LP. The loan may be converted until 31.12.2012 into a total maximum of 6,000,000 new investment series shares of the Company. The entire loan has been converted into shares.

Board decided on 7.11.2006 to issue a convertible bond loan Benefon 2006C of a total maximum of EUR 290,000 subscribed for by Luben Limited. The loan may be converted until 31.12.2012 into a total

maximum of 5,800,000 new investment series shares of the Company and the entire loan has been converted into shares.

The Board of the Company decided on January 12, 2007, to issue a convertible loan Benefon 2007A, with a maximum capital of 50.000 euros. The loan was subscribed by Ashland Partners. The loan may be converted until December 31, 2012, into a maximum of 555,556 new S-series share of the Company. The entire loan is now being converted into shares.

15. Option rights

The Company has the following decided option rights:

Option rights Benefon 2004A

Option decision: EGM 26.2.2004, registered 16.12.2004
 Option amount: 39,597988 pcs
 In book entry system: From 23.9.2005
 Subscriber: Options have been subscribed for holding by Octagon Capital Limited
 Options given: By Board decisions to a total of 35 parties a total of 35,800,000 options.
 Options not given: 3,797,988 pcs
 Share subscription period: 1.12.2004-31.12.2009
 Share subscription price: 0.14 euros per share
 Used for share subscription: 3,100,000 pcs

Option rights Benefon 2005A

Option decision: EGM 5.9.2005, registered 8.9.2005
 Option amount: 1,500,000 pcs
 In book entry system: From 15.2.2006
 Subscriber: Tomi Raita
 Share subscription period: 15.12.2008-31.12.2012
 Share subscription price: 0.10 euros per share
 Used for share subscription: None

Option rights Benefon 2005B

Option decision: EGM 5.9.2005, registered 19.10.2005
 Option amount: 20,000,000 pcs, divided in four classes:
 A: 3,000,000 pcs
 B: 5,000,000 pcs
 C: 7,000,000 pcs
 D: 5,000,000 pcs
 In book entry system: From 2.5.2006
 Subscriber: Options subscribed for by Octagon Capital Limited for holding
 Share subscription period: 15.8.2007-31.12.2012
 Share subscription price: A: 0.4250 euros
 B: 0.5100 euros
 C: 0.6800 euros

D: 1.0200 euros

Used for share subscription: None

Option rights Benefon 2006A

Option decision: Board on authority by AGM of 24.5.2006,
registered 17.11.2006

Option amount: 2,175,000 pcs

In book entry system: No

Subscriber: Luben Limited

Share subscription period: 2.1.2007-31.12.2012

Share subscription price: 0.10 euros per share

Used for share subscription: None

Option rights Benefon 2006B

Option decision: Board on authority by AGM of 24.5.2006,
registered 17.11.2006

Option amount: 2,250,000 pcs

In book entry system: No

Subscriber: Luben Limited

Share subscription period: 2.1.2007-31.12.2012

Share subscription price: 0.10 euros per share

Used for share subscription: None

Of granted options have been booked option costs for 3000 teuros in year 2006 and 258 teuros in year 2005. In years 2007-2009 will be booked costs of these granted options for a total of 424 teuros.

16. Company's shares and shareholders

According to 5 § of Articles of Association, the Company's shares are divided into base shares and investment series shares. All base shares have in year 2004 been converted into investment series shares. According to 6 § of Articles of Association, in a new share issue and in a bonus issue, the Company can give only investment shares. Therefore, in the Company, there can be only investment series shares that cannot be converted back into base shares. Holder of an investment series share is entitled to vote at the General Meeting of the Shareholders with one vote per share. Related with the shares there are no special rights, privileges or restrictions in deviation from the companies' act and the Helsinki exchanges. Because of the said stipulations of 5§ and 6§ of the Articles of Association, also the redemption clause of 17 § of the Articles of Association regarding the base shares is meaningless. The share has no nominal value and its book-parity value is 0.01 euros.

The investment series shares of Benefon Oyj (BNFSV) are listed at the Helsinki Exchanges (OMX The Nordic Exchange) on the Small Cap-list and issued in the book entry system held by the Finnish Central Securities

Depository, address PL 110, FIN-00131 Helsinki, Finland. The ISIN-code of the share is FI 0009004204.

The Company has not issued shares that are not included in the shareholders' equity. The Company or its subsidiaries do not have the Company's shares owned by or administered for the Company.

The number of investment series shares of the Company BNFSV on December 31, 2006, was 263.416.356, all fully paid. The number of issued shares in the beginning of the financial year 2006 was 131.254.046.

The biggest shareholders as of information on 31.12.2006:

Shareholder	Shares	Votes, % of all
Nordea Pankki Suomi Oyj (custodian shares, including shareholdings over 1%, according to information at the Company, as follows:	154.321.752	61.6 %
Octagon Solutions Ltd.	(48.460.500)	(19.4 %)
Luben Limited	(19.993.944)	(8.0 %)
Ashland Partners	(11.869.454)	(4.7 %)
Cercle Investment Ltd.	(10.362.673)	(4.1 %)
AWM Holdings Inc.	(7.268.690)	(2.9 %)
Darkrose Investment Ltd.	(2.907.476)	(1.2 %)
The amount of other custodian shares)	(53.459.015)	(21.4 %)
Jonninen Henry	8.087.057	3.2 %
Halyard Oy + Jorma Nieminen	6.621.251	2.6 %
Solidium Oy	4.667.584	1.9 %
(Halyard Oy)	(4.126.444)	(1.6 %)
<u>Total holdings over 1 %</u>	<u>120.238.629</u>	<u>48.0 %</u>
<u>Total of shares owned or controlled by Board members and the CEO</u>	50.163.064	19.0 %
<u>Total holdings of the close circle according to the companies' act</u>	<u>121.941.193</u>	<u>48.7 %</u>
All shares in the Company	250.325.556	100.00 %

17. Equity issue authority of the Board

The Extraordinary General Meeting convening on February 1, 2007, resolved according to Board proposal to cancel the authorization given to the Board on May 24, 2006 and authorized the Board of Directors, within one (1) year from the date of the meeting to decide on the increase of share capital by at maximum EUR 526,832.71 and on issue of new investment series shares, option rights or specific rights in terms of Article 1 of Chapter 10 of the Companies Act in one or more installments such that the maximum number of new investment series shares issued is 52,683,271. The authorization entitles the Board of

Directors to deviate from the pre-emptive right of shareholders and also accept set-off or other consideration in kind as a payment for the shares, option rights or specific rights. The Board of Directors has the right to decide the terms of any issue by virtue of the authorization for all other parts.

18. Board proposal regarding the handling of the result

The Board proposes to the general meeting that no dividend is distributed and that the loss of the period is booked on the prior years' result account.

Notice

In the Notes to the Financial Statements there is more detailed additional information about the Company's operations in financial year 2006.

In Salo March 30, 2007

Brian Katzen
Chairman of the Board

Jeffrey Crevoiserat
Member of the Board

Philip Parker
Member of the Board

Juha Kiikeri
Member of the Board

David Francis
Member of the Board

Tomi Raita
CEO

BENEFON OYJ GROUP INCOME STATEMENT

1000 EUR	Note	1.1.-31.12.2006	1.1.-31.12.2005
Net sales	3	6959	7562
Other operating income	5	25	85
Increase (+)/decrease (-) in inventories of finished products		2625	-41
Production for own use		0	0
Use of raw materials and consumables		-7190	-4187
Total expense of employees	8	-4915	-3247
Depreciations	7	-563	-185
Business value adjustments	7	-872	0
Other (operating) expenses	6	-11775	-3385
Capitalised R&D expenses	9	<u>4163</u>	<u>0</u>
OPERATING RESULT		-11543	-3398
Financial income	10	145	1630
Financial expenses	11	<u>-162</u>	<u>-1423</u>
RESULT BEFORE TAXES		-11560	-3191
Income taxes	12	<u>0</u>	<u>0</u>
RESULT FOR THE PERIOD		-11560	-3191
Earnings per share, EUR	13		
Basic earnings per share, EUR		-0,05	-0,03

In computing the earnings per share, neither reorganization debt cuts nor additional payments have been included.

Diluted earnings per shares has not been computed because dilution effect would improve the key figure.

BENEFON OYJ GROUP BALANCE SHEET (IFRS)

1000 EUR	Note	31.12.2006	31.12.2005
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	244	132
Development costs	15	2841	0
Other intangible assets	15	32	27
Other financial assets	16	61	61
Deferred tax assets	17	0	0
		<u>3178</u>	<u>220</u>
CURRENT ASSETS			
Inventories	18	6194	1282
Trade receivables and other receivables	19	4585	1566
Prepaid expenses		898	569
Cash and cash equivalents	20	2542	1337
		<u>14219</u>	<u>4754</u>
TOTAL ASSETS		17397	4974
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	21	2634	1313
Share issue		400	0
Share premium account	21	15936	1211
Invested distributable equity account	21	4866	0
Retained earnings		-13415	-4855
		<u>10421</u>	<u>-2331</u>
Total shareholders' equity		10421	-2331
Non-current liabilities			
Deferred tax liabilities	17	0	0
Interest bearing debt	24,25	2319	985
		<u>2319</u>	<u>985</u>
Current liabilities			
Trade payables and other payables	26	4500	1516
Provisions	23	157	47
Interest bearing debt	24,25	0	4757
		<u>4657</u>	<u>6320</u>
Total liabilities		6976	7305
Total shareholders' equity and liabilities		17397	4974

GROUP CASH FLOW STATEMENT

1000 EUR	Note	1.1.-31.12.2006	1.1.-31.12.2005
CASH FLOW FROM OPERATIONS			
Result of the period		-11560	-3191
Adjustments	28	4391	-764
Changes in working capital:			
Change of trade and other receivables		-3343	-1211
Change of inventories		-4912	1024
Change of trade and other liabilities		2540	-142
Benecap product development license agreement		0	1300
Paid interests		-62	-44
Received interest payments		140	14
Cash flow from operations, net		-12806	-3014
Cash flow from investments, net		-4393	-40
CASH FLOW FROM FINANCING			
Proceeds from issue of share capital		16476	434
Transaction expenses of share issues		-1022	-9
Proceeds from long term borrowings, equity		1225	313
Proceeds from long term borrowings, liability		1725	2637
Payments of reorganization dept		0	-357
Net cash flow from financing		18404	3018
Change in cash, increase (+)/decrease (-)		1205	-36
Cash on January 1		1337	1373
Cash on December 31	20	2542	1337

BENEFON OYJ GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital (1000eur)	Share issue (1000eur)	Share prem account (1000eur)	Inv. distrib. equity account (1000eur)	Accrued result (1000eur)	Total (1000eur)
Shareholders' equity 31.12.2004	1278	4	26034	0	-27500	-184
Share issues	35	-4	403	0	0	434
Paid prior year losses	0	0	-25577	0	25577	0
Share issue expenses	0	0	-9	0	0	-9
Booked expense of stock options to key personnel and partners	0	0	0	0	258	258
Equity portions of liabilities	0	0	360	0	0	360
Result of the period	0	0	0	0	-3190	-3190
Shareholders' equity 31.12.2005	1313	0	1211	0	-4855	-2331
Share issues, cash	723	400	11120	3352	0	15595
Share issues, offset with capital loans and trade receivable	227	0	4407	0	0	4634
Conversion of convertible bonds into shares	371	0	425	704	0	1500
Share issue expenses	0	0	-1227	-415	0	-1642
Booked expense of stock options to key personnel and partners	0	0	0	0	3000	3000
Equity portions of liabilities	0	0	0	1225	0	1225
Result of the period	0	0	0	0	-11560	-11560
Shareholders' equity 31.12.2006	2634	400	15936	4866	-13415	10421

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1. BASE INFORMATION OF THE COMPANY

The group is a provider of navigation devices intended for personal and professional use, and that of services enabling navigation, tracking and locationing through mobile devices.

The group sells products in 30 countries.

The parent company of the group is Benefon Oyj. The registered domicile is Salo, Finland, with street address Meriniitynkatu 11, 24100 Salo, Finland, and mail address PL 84, FIN-24101 Salo, Finland.

Copy of the group financial statements is available at the internet address www.benefon.com or at the company head office at address Meriniitynkatu 11, FIN-24100 Salo, Finland.

The Board has approved this group financial statements for public distribution on March 30, 2007.

2. ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Accounting principles:

The group financial statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS") and applying the IAS and IFRS standards and the SIC and IFRIC interpretations valid on 31.12.2006 and as approved by the EU have been followed.

The notes to the group financial statements fulfil also the requirements in the Finnish legislation concerning accounting practices and companies

The group financial statements have been prepared on the basis of original purchase costs except financial assets and liabilities, except sellable financial assets or financial assets and liabilities expensed at fair value. Payments with shares have been booked at fair value on their provision date. Numeric information is presented in thousands of euros.

Preparation of financial statements according to IFRS standards prescribes by the management certain valuations and consideration in application of the preparation principles.

Management evaluations have affected eg. the amounts of assets, liabilities and expenses in reporting period. Evaluations are based on the best view of the management at the moment but it is possible that the realised figures deviate from the estimates used in the financial statements.

The group financial statements has been prepared on going concern principle. The going concern principle is based on the business and financing plan approved by the Board, and on assesment about sufficiency of cash. The biggest risks relate to actual timing of new product market launches and their reception in the market. If realised, these risks will impair the financing position of the Company and may endanger the continuity of its operations.

Accounting principles:

2.1. Consolidation principles:

The group financial statements include the parent company Benefon Oyj and the 100% owned subsidiaries Ismap S.A. and Benefon UK Ltd started in year 2005.

Intragroup shareholdings have been eliminated by means of purchase method.

Intragroup business transactions and internal receivables and liabilities have been eliminated.

2.2. Foreign currency transactions:

The group financial statements are presented in euros, being both the operational and presentation currency. Business transactions in currencies are converted into euros by using the parity value of the transaction date, and the receivables and liabilities by using the parity values on the date of the financial statements.

2.3. Tangible assets:

Tangible assets are valued at the original acquisition cost less the accrued amortizations and devaluations. Asset items are amortized with even write-offs over the economic utility period which for machines and furniture has been 5 years. Residual value of the asset items and their economic utility period are checked at with every financial statement and adjusted as needed.

Sales profits and losses incurred with decommissioning and sale of asset items are included either in other income or in other expenses of operations.

2.4. Public subsidies

The received public subsidies are booked on the expenses and have not been netted against acquisitions of non-current assets. Look at note 5, "Other operating income"..

2.5. Intangible items:

As value of business has been booked that part of the acquisition cost exceeding the share of the group of the net assets acquired by the acquired unit at fair value at the time of acquisition.

Goodwill is not amortized but values are tested annually for impairment. The goodwill is valued at original cost less impairment.

Purchase expense of software is booked as intangible assets if they will generate future economic benefit. Capitalized software is amortized with straight-line method over useful life which has been 5 years. Other intangible assets are amortized with straight-line method over 10 years.

Research costs are expensed.

Research expenses are capitalized in the balance sheet as intangible asset items on date when the product is technically realizable, it can be exploited commercially and it is expected to generate future economic benefits. The financial pre-requisites for such capitalization have first been met with the completed financial arrangement in first part of 2006.

De-valuations of an asset item are booked at the time it is launched to market.

Asset items not yet ready to be deployed are reviewed regularly in regard of possible signs of decreased value. De-valuation may also be revoked in case sales outlook of a product improves.

The economic utility period for capitalized product development expenses is 1-3 years, within which they are booked as expense with straight line method.

2.6. Inventories:

Inventories are valued at acquisition cost or a lower net realization value. Acquisition cost is based on FIFO-principle. Acquisition cost of finished and work-in-process consists of raw materials, cost of direct labour and other direct costs and of a proportion of fixed manufacturing costs determined at normal factory load. Net realization value is the estimated sales price received in normal business situation less the costs of completion and selling expenses.

Components assessed to be used for manufacturing of end-products are valued at acquisition cost.

Value of components exceeding the estimated manufacturing need is booked as cost.

2.7. Trade receivables

Trade receivables are originally booked at nominal value and are subsequently adjusted for credit loss outlook. Credit loss adjustment is booked when it is likely that the receivable will not produce payment according to original terms. The amount of credit loss adjustment is booked as the difference between the book value of the receivable and the lesser present value of the cash accruable from the receivable.

2.8. Rental agreements:

The company has no financing leasing agreements. Other rental agreements may be terminated with 1-12 month notice. Rent payments based on other rental agreements are expensed.

2.9. Impairment:

The group evaluates continuously whether there are indications that the value of some asset item has been decreased. With any such indication, the potentially available cash from such item is estimated. However, the potentially available cash is always in any case estimated for business value, intangible assets and non-finished intangible asset items.

The accruable amount of cash equals to the fair value of an asset item less the expenses of its sale, or the use value higher than that. The use value means estimated accruable future net cash flows, discounted to present moment, of the said asset item or cashflow producing unit.

De-valuation loss is booked in the result report immediately when the book value of an asset item is greater than the accruable cash of it.

De-valuation loss from other than business value is revoked in case that a change has occurred in assessments used for determining the cash accruable from an asset item.

De-valuation loss revoke, however, cannot be more than the amount of the book value of the asset item without booking of the de-valuation loss.

2.10. Employee benefits:

Pension arrangements are continually paid and their cost has been expensed.

In the group, there are option programs as part of incentive programs.

Option rights are assessed at fair value on the date of grant and such fair value is booked in the result report as cost in the period of earning the right. The group updates the assumption of the final amount of option rights on every book closing date. Changes in the assumed amounts are booked in the result report.

2.11. Provisions:

A provision is booked in the balance sheet in case, as the result of some prior event, some legal or factual liability has been incurred for the group, realization of the liability is probable and the amount of the liability can be estimated reliably. A product warranty provision is booked when a product under such warranty is sold. The amount of a warranty provision is based on empirical estimate of realization of warranty expenses.

2.12. Income taxes:

Tax expense in the result account consists of the taxable income in the period and of the deferred tax.

Accounted taxes are computed from the temporary difference between book value and taxation value.

Accounted tax receivables and liabilities are offset by taxation authority. Accounted tax receivable due to losses is booked at the amount up to which it is likely that in the future there will be accrued taxable income against which the interim difference may be exploited.

2.13. Financing instruments:

The book value of financing instruments with first booking is their fair value which usually is the same as the acquisition cost. For the subsequent valuation for financial statements financing instruments are classified according to IAS 39 into financial assets and liabilities, loans and other receivables, investments to be held until due date, sellable financial assets and other liabilities, all expensed at fair value.

Loans and other receivables, investments to be held until due date and other liabilities are valued at sequenced acquisition expense. Financial assets and liabilities expensed at fair value are valued nominally. Sellable assets are valued at fair value in the balance sheet and value adjustments are booked in equity in the fair value fund.

The book value of asset items belonging to current financial assets and liabilities is regarded to match their fair value. In case no market value or other reliably determinable value is available for sellable shares, the acquisition expense is used as their book value.

As the capital loans and one convertible loan and a part of the R&D-loan have been used for set-off in the share issue arranged in the beginning of year 2006, and the remaining part of the R&D-loan has been paid back, no fair values are presented for them in the notes. The book value of the remaining convertible loan is considered to approximately correspond to its fair value.

Eventual impairment of financing instrument items is considered regularly.

An item of financing assets or liabilities is booked in the balance sheet with the company becoming a party of the instrument terms.

An financing instrument item is removed from the balance sheet as the contractual rights related with its cashflow have ceased to exist or the item has been transferred to another party in way that the related risks and benefits have essentially been transferred to the receiver. Financing liability is removed from the balance sheet when the liability has ceased to exist because of pay-back or other reason.

Capital loans and convertible loans are divided, on basis of loan terms or other contractual terms related with the said transactions into components of equity and liability as detailed in IAS 32.

No derivative contracts have been in use.

2.14. Revenue recognition:

Sales of deliverables is booked as income when the significant risks and benefits related with the ownership have been transferred to the buyer and the group no more has products in possession and factual control of them.

The group has not had long term projects but partial booking as income is applied when needed.

Portion of map license from sales is booked as income when the license has been sold, technical useability of maps has been verified and the product distributor has been equipped with technical skills to include the maps in the sales package of the end-customer.

2.15. Financing expenses

Financing expenses of asset items are booked as expenses in the period they were incurred.

2.16. Preparation principles needing management consideration and related uncertainty factors:

In preparing the financial statements, the Company needs to make assessments and assumptions about the future, which may deviate from the actual outcome. In addition, the Company has to use consideration when applying the financial statements preparation principles. The estimates are based on the best view of the management at the moment of book closing. Eventual changes in assessments and assumptions are booked in the period of adjustment.

The most significant items in the Company requiring management consideration are payments in shares, de-valuations, determination of loans and equity components and R&D capitalisations.

These are presented in noted 7, 9, 22, 24, 25 and 31

2.17. New standards and interpretations:

IASB has published new standards and interpretations and changes in existing standards, application of which is mandatory on 1.1.2007 or thereafter, and which the group has not adopted earlier voluntarily.

The group will adopt the following standards (and their amendments) and interpretations from 1.1.2007 onwards:

IAS 1, Presentation of financial statements, amendments in sections 124A-C. The company will clarify the effect of the amendment in information presented in the financial statements.

IFRS 7, Financing instruments: Notes. The changes introduced by the standard expand presented notes.

IFRS 8, Business segments. The Company provides an assessment about segment reporting in context of the business acquisition described in section 32.

IFRIC 11, Group and Treasury Share transactions. The Company clarifies the effect of the amendment to information provided in the financial statement.

IFRIC 12, Service Concession Arrangements. New interpretation is not applicable to our industry.

3. SEGMENT INFORMATION

The primary reported segments of the group comprise business segments. Separable segments for moment are one, or mobile telematics equipment. Its share of net sales, result and assets was almost 100% in the period and in the prior period.

Secondary segments comprise geographic areas by customer location. Assets are located in Finland. Risks and profitability of the geographic areas do not significantly differ from each other.

NET SALES BY GEOGRAPHIC AREA

1000 EUR	2006	2005
Finland	1219	1629
Rest of Europe	3977	4703
Rest of world	1763	1230
Total	<u>6959</u>	<u>7562</u>

4. ACQUISITIONS

There were no business acquisitions in the financial period nor in the preceding period.

In March 2007 Benefon acquired a Dutch firm GeoSolutions BV.

The purchase price of approximately 6 million euros will be paid in shares.

The effect of the acquired firm is estimated to be small in 2007 but growing thereafter.

The said firm is in pre-revenue phase of commercialising products and services.

See note 32 Events after the end of the period.

5. OTHER OPERATING INCOME

1000 EUR	2005	2005
Profit from sales of tangible assets	5	57
Public subsidies	20	0
Insurance compensations	0	28
Total	<u>25</u>	<u>85</u>

27.

6. OTHER OPERATING COSTS

1000 EUR	2006	2005
Rental costs	470	279
Travel expenses	467	151
Credit losses/de-valuations of receivables	207	3
Market communications	869	61
R&D outsourcings	3142	1587
External services	1158	526
Due diligence costs	1296	0
Option costs	2942	135
Other cost items	1224	643
Total	<u>11775</u>	<u>3385</u>

7. DEPRECIATIONS AND VALUE ADJUSTMENTS / WRITE-DOWNS

1000 EUR	2006	2005
Depreciations of tangible assets:		
Machinery and equipment	98	163
Depreciations of intangible assets:		
Development costs	450	0
Other intangible assets	15	22
Impairment:		
Development costs	872	0
Total of depreciations and devaluations	<u>1435</u>	<u>185</u>

De-valuation of R&D costs was caused by decided cancellation of market introduction of one product due to an overlapping other own product, for which there is no expected income from that product.

8. TOTAL EXPENSE OF EMPLOYEES

1000 EUR	2006	2005
Salaries	3992	2568
Pension costs - defined contribution plans	604	420
Granted stock options	228	123
Cancelled options	-170	0
Other social security costs	261	136
Total	<u>4915</u>	<u>3247</u>
Average number of personnel	82	76

Information about management benefits are presented in note 30 Related party transactions.

9. RESEARCH AND DEVELOPMENT EXPENSES

1000 EUR	2006	2005
R&D expenses	5496	2726
R&D capitalisations	-4163	0
Research and development costs expensed	<u>1333</u>	<u>2726</u>

10. FINANCING INCOME

1000 EUR	2006	2005
Interest income	140	7
Dividend income	3	2
Currency exchange profits	2	5
Booking as income of bank debt with interest accord to settl agrt	0	1616
Total	<u>145</u>	<u>1630</u>

11. FINANCING COSTS

1000 EUR	2006	2005
Interest cost	141	544
Exchange rate losses	20	0
Additional payments to reorganization creditors	0	720
Reorganization cost	0	139
Other financing costs	1	20
Total	<u>162</u>	<u>1423</u>

12. INCOME TAXES

1000 EUR	2006	2005
Income tax from ordinary operations	0	0
Change in booked tax deduction	0	0
Adjustment calculation between tax cost and computed tax with group tax base		
Result of sustained operations	-11560	-3191
Tax base	26 %	26 %
Tax from sustained operations with Finnish tax base	-3006	-829
From settlements (FOS-debt, reorganization debt cut)	0	-386
From non-booked losses deductible in taxation	2954	783
From items non-deductible in taxation	834	455
From items deductible in taxation	-782	-23
Total tax in the income statement	<u>0</u>	<u>0</u>
Effective tax rate	0,0 %	0,0 %

Income taxes have been computed with a tax base of 26 %. For prudence reasons income taxes have not been booked as the company has made a taxable loss since year 1998. The oldest taxable

losses will be rendered obsolete in 2008.

13. EARNINGS PER SHARE

	2006	2005
Result of the period 1000 EUR	-11560	-3191
Reorganization debt cuts and additional payments	<u>0</u>	<u>-896</u>
Adjusted result	-11560	-4087
Average weighted number of shares, 1000 pcs	213490	128218
Basic earnings per share, euros	-0,05	-0,03

Earnings per share with adjustment for dilution has not been computed as the dilution would improve the key figure.

14. TANGIBLE ASSETS

1000 EUR	2006	2005
Machinery and equipment		
Acquisition cost per 1.1.	1257	1917
Additions	210	23
Subtractions	-867	-683
Acquisition cost per 31.12.	600	1257
Accrued depreciations per 1.1.	-1126	-1646
Depreciations in the period	-98	-163
Accrued depreciations of the subtractions	867	683
Accrued depreciations per 31.12.	-357	-1126
Book value per 1.1.	132	271
Book value per 31.12.	244	132

15. INTANGIBLE ASSETS

1000 EUR	2006	2005
Development costs		
Acquisition cost per 1.1.	0	0
Additions	4163	0
Subtractions	-872	0
Acquisition cost per 31.12.	3291	0
Accrued depreciations per 1.1.	0	0
Depreciations in the period	-450	0
De-valuations in the period	-872	0
Accrued depreciations of the subtractions	0	0
Accrued depreciations per 31.12.	-1322	0
Book value per 1.1.	0	0
Book value per 31.12.	2841	0

30.

1000 EUR	2006	2005
Other intangible assets		
Acquisition cost per 1.1.	133	824
Additions	20	20
Subtractions	-59	-711
Acquisition cost per 31.12.	94	133
Accrued depreciations per 1.1.	-105	-794
Depreciations in the period	-15	-22
Accrued depreciations of the subtractions	59	711
Accrued depreciations per 31.12.	-61	-105
Book value per 1.1.	27	30
Book value per 31.12.	32	27

16. OTHER FINANCING ASSETS

1000 EUR	2006	2005
Pledged deposit	41	41
Telephone shares	19	19
Other shares	1	1
Total	<u>61</u>	<u>61</u>

17. TAX RECEIVABLES AND LIABILITIES

1000 EUR	1.1.2005	Booked in result account	31.12.2005	Booked in result account	31.12.2006
Tax receivables					
Confirmed losses	18275	0	19087	0	22030
Temporary difference	32	0	436	0	466
Total	<u>18307</u>	<u>0</u>	<u>19523</u>	<u>0</u>	<u>22496</u>
Net from accounted tax liability	-3	0	-35	0	-48
Accounted net tax credit	<u>18304</u>	<u>0</u>	<u>19488</u>	<u>0</u>	<u>22448</u>
Tax credit in the balance sheet	0	0	0	0	0
Tax liabilities:					
Depreciation difference	0	0	0	0	0
Temporary difference	3	0	35	0	48
Total	<u>3</u>	<u>0</u>	<u>35</u>	<u>0</u>	<u>48</u>
Net from accounted tax credit	-3	0	-35	0	-48
Accounted net tax liability	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Tax liability in the balance sheet	0	0	0	0	0

Confirmed losses:		Loss (1000eur)	Tax 26% (1000eur)
Loss in fiscal year 1998	Expires in 2008	6435	1673
Loss in fiscal year 1999	Expires in 2009	11377	2958
Loss in fiscal year 2000	Expires in 2010	10810	2811
Loss in fiscal year 2001	Expires in 2011	7363	1914
Loss in fiscal year 2002	Expires in 2012	9997	2599
Loss in fiscal year 2003	Expires in 2013	20414	5308
Loss in fiscal year 2004	Expires in 2014	3894	1012
Loss in fiscal year 2005	Expires in 2015	3123	812
Loss in fiscal year 2006 estim.	Expires in 2016	<u>11320</u>	<u>2943</u>
Total		84732	22030

18. INVENTORIES

1000 EUR	2006	2005
Raw materials and consumables	3508	1221
Finished products	<u>2686</u>	<u>61</u>
Total	6194	1282

Excess component inventory was booked as cost for 223 teuros (265 teuros in 2005).

19. SALES RECEIVABLES AND OTHER RECEIVABLES

1000 EUR	2006	2005
Sales receivables	3373	984
Deferred receivables	103	382
Other receivables	<u>1109</u>	<u>200</u>
Total	4585	1566

A total of 207 teuros of credit losses were booked in 2006 (3 teuros in 2005).

In the trade receivables and other receivables of the Company, there is a total of 2,4m€ receivable from the biggest customer and a big subcontractor. There are no other significant risk concentrations.

20. CASH ASSETS

1000 EUR	2006	2005
Cash at hand and in the banks	2169	975
Pledged bank accounts	<u>373</u>	<u>362</u>
Total	2542	1337

The pledged cash is collateral for contingent debt (bank loans with interest booked as income in 2005).

21. SHAREHOLDERS' EQUITY

	Number of shares (1000)	Share capital (1000eur)	Sh prem account (1000eur)	Invested distribut. equity acc (1000eur)	Total (1000eur)
31.12.2004	127781	1278	26034	0	27312
Share issue 3.3.2005	373	4			4
Compensation of prior year losses			-25577		-25577
Share issue 15.12.2005	3100	31	403		434
Costs of share issues			-9		-9
Equity components separated from liabilities			360		360
31.12.2005	131254	1313	1211	0	2524
Share issue 9.2.2006	78293	783	15527		16310
Share conversion of CBL2004A 20.2.2006	1865	19			19
Share conversion of CBL2005A 20.2.2006	2381	24	425		449
Share conversion of CBL2004A 4.4.2006	6783	68			68
Share conversion of CBL2004A 23.10.2006	2331	23			23
Share issue 23.10.2006	5524	55		1105	1160
Share conversion of CBL2004A 17.11.2006	6147	61			61
Share conversion of CBL2006A 17.11.2006	2950	30		118	148
Share issue 17.11.2006	5714	57		1143	1200
Share conversion of CBL2006B 8.12.2006	1559	16		62	78
Share issue 8.12.2006	5524	55		1105	1160
Share conversion of CBL2006A 31.12.2006	2850	28		114	142
Share conversion of CBL2006B 31.12.2006	4441	44		178	222
Share conversion of CBL2006C 31.12.2006	5800	58		232	290
Costs of share issues			-1227	-415	-1642
Equity components separated from liabilities				1225	1225
31.12.2006	263416	2634	15936	4867	23437

The maximum number of shares is 500.5 million (1.2.2007 alkaen 1000 miljoonaa), of which investment shares are 500 million and base shares 0.5 million.

Base shares were converted into investment shares in 2004. According to bylaws, base shares converted into investment shares cannot be converted back into base shares and in paid share issue and in fund issue may be issued only investment shares.

The shares carry no nominal value but the book parity value at the moment is 0.01 euros per share.

Maximum share capital is 50 million euros. All outstanding shares are fully paid.

22. OPTION RIGHTS

The company carries five on-going stock option programs. In all of these, one option right entitles to to subscribe for one new S-share of Benefon Oyj.

Option program Benefon 2004A:

The EGM of Benefon Oyj decided on 26.2.2004 in connection with the reorganization arrangements to issue option rights to be offered to key personnel at employ of or being recruited by Benefon Oyj as nominated by the Board. The amount of option rights was eventually determined to be 39,597,988 and the share subscription price 0.14 euros.

The AGM of Benefon Oyj decided on 26.5.2005 to expand the target group to include also chosen co-operation partners and other parties providing the company with services it needs, time to time.

The EGM of Benefon Oyj decided on 5.9.2005 to amend the terms of option rights so that with a Board decision the option rights may be granted to Company's top management, Board members, key personnel and to the strategic suppliers, sellers, consultants and other co-operation parties regardless whether any of them is a share holder or not. Among the recipients of the option rights, there may be natural or judicial persons who may be part of the related party of the company.

The annual general meeting of Benefon Oyj of 24.5.2006 decided to amend the terms of the option program such that the share subscription period was extended by one year until 31.12.2009.

A total of 3,797,988 of these option rights held by Octagon Capital Limited remain at Board's disposal. A total of 35.800.000 of these options have been granted and a total of 3,100,000 options have been used for share subscriptions.

Conditional option program Benefon 2005A:

The EGM of Benefon Oyj decided on 5.9.2005 to issue a maximum of 1.500.000 option rights to the prior CEO of the company Mr. Tomi Raita. The option rights are divided into A, B and C class options, with the amount of options in each class being a maximum of 500.000. For each option class there are separate conditions the fulfilment of which entitles the reception and exercise of options of that option class. For all option classes, the set conditions shall be fulfilled by 1.7.2007, at the latest.

Share subscription price with all option rights is a fixed 0,10 euros.

The extraordinary general meeting of Benefon Oyj of 1.2.2007 decided to amend the option terms such that all conditions limiting the exercise of option rights were removed and they may be exercised within the share subscription period. The share subscription period begins for options A and C on 15.12.2008 and on options B on 15.8.2007. Subscription period for all options will expire on 31.12.2012.

Option program Benefon 2005B:

The EGM of Benefon Oyj decided on 5.9.2005 to issue a maximum of 20.000.000 option rights to be key personnel, related parties and strategic partners. Option rights are divided into A, B, C and D class options. The maximum amounts of option rights are 3,000,000 for class A, 5,000,000 for class B, 7.000.000 for class C and 5.000.000 for class D. The subscription period for the option rights began on 19.10.2005 and will end on 19.4.2006. The share subscription price was determined to be 0.425 euros for class A, 0.510 euros for class B, 0.680 euros for class C and 1.020 euros for class D. The share subscription period will begin on 1.1.2006 for class A, 1.1.2007 for class B, 1.1.2008 for class C and 1.7.2008 for class D. Share subscription period for all option classes will expire on 31.12.2008. All option rights 2005B have been subscribed for holding by Octagon Capital Limited company. None of these options have been granted yet.

Option programs Benefon 2006A and 2006B:

The Board of Benefon Oyj based on authorisation by the annual general meeting of 24.5.2006 decided to issue a total of 4,425,000 option rights to Luben Limited as a compensation for the no-interest loans of a total of 2,950 teuros to the Company. The share subscription period of the option rights began on 2.1.2007 and it will end on 31.12.2012. The share subscription price is 0.10 euros per share.

The base information of the option programs is presented by program in the below schedule.

Option program	Shares total pcs	Class	Share subscript period begins	Share subscript period ends	Subscript price euroa/ share	Shares per option
2004A	39.597.988		begun	31.12.2009	0,140	1:1
2005A	500.000	A	15.12.2008	31.12.2012	0,100	1:1
2005A	500.000	B	15.8.2007	31.12.2012	0,100	1:1
2005A	500.000	C	15.12.2008	31.12.2012	0,100	1:1
2005B	3.000.000	A	begun	31.12.2008	0,425	1:1
2005B	5.000.000	B	1.1.2007	31.12.2008	0,510	1:1
2005B	7.000.000	C	1.1.2008	31.12.2008	0,680	1:1
2005B	5.000.000	D	1.7.2008	31.12.2008	1,020	1:1
2006A	2.175.000		2.1.2007	31.12.2012	0,100	1:1
2006B	2.250.000		2.1.2007	31.12.2012	0,100	1:1
Total	65.522.988					

In the option program 2005A there have been performance clauses to be met prior to receiving share subscription rights. By decision of the extraordinary general meeting of 1.2.2007 the performance clauses were removed.

As on December 31, 2006, the Board had at its disposal a total of 23,797,988 option rights, comprising 3,797,988 options in program 2004A and 20,000,000 options in program 2005B.

Number of shares subscribed with options and their average weighted subscription price:

	Shares pcs	Act. Price/ weighted average
Outstanding in the beginning of 1.1.2005	0	-
Granted in the period	14.800.000	0,136 EUR
Lost in the period	0	-
Realised in the period	3.100.000	0,140 EUR
Become due in the period	0	-
Outstanding at the end of period 31.12.2005	11.700.000	0,135 EUR
Granted in the period	29.425.000	0,134 EUR
Lost in the period	2.500.000	0,140 EUR
Realised in the period	0	-
Become due in the period	0	-
Outstanding at the end of period 31.12.2006	38.625.000	0,134 EUR
Useable for share subscription 31.12.2005	7.700.000	0,140 EUR
useable for share subscription 31.12.2006	37.125.000	0,135 EUR

At the end of period 31.12.2006 the weighted remaining validity time of outstanding options was 3,3 years and the fluctuation range of the exercise price 0.10 - 1.02 euros per share.

Used methods and assumptions for determining the fair value of options.

The fair value of personnel options on grant date according to IFRS 2 has been determined with Black & Scholes -model. The same procedure has been applied to the 20,000,000 options granted to Ning Po, LAIP and Vanguard by the general meeting of 24.5.2006, as the counter value could not be determined reliably.

The cost effect of the options has been booked in entirety for on year 2006.

The expected volatility used in valuation is based on the realised volatility in the 12 month period preceding the grant date.

The fair value of the 5.000.000 options (OCOL) granted by the general meeting of 24.5.2006 has been determined according to the fair value of the counter service. Cost effect 490 teuros is booked as cost in years 2006-2009. The costs of the option rights related to loans have been booked as financing costs.

The weighted assumptions used in valuation are as follows:

	2006	2005
Share subscription price	0,13 euros	0,13 euros
Share market price	0,22 euros	0,38 euros
Expected volatility	70 %	97 %
No-risk interest yield	3,40 %	2,30 %
Expected validity time of options	3,64 years	2,4 years
Dividend yield	0,00 %	0,00 %
Weighted fair value of granted options on date of grant	0,14 euros	0,30 euros
Weighted average share price on the day of exercise regarding options exercised in the period	-	0,32 euroa
1000 EUR	2006	2005

Cost of options booked in the period according to IFRS 2. Consideration is given as options.

The counter-item of cost bookings in income statement is shareholders' equity.

Lextel	0	135
Jonathan Bate	116	54
Jonathan Bate, cancelled options	-170	0
Tomi Raita	112	69
Ning Po, Laip, Vanguard	2806	0
OCOL	136	0
Total	<u>3000</u>	<u>258</u>

23. PROVISIONS

1000 EUR	2006	2005
Warranty provision 1.1.2006	47	45
Increase in warranty provision	219	109
Used warranty provision	<u>-109</u>	<u>-107</u>
Warranty provision 31.12.2006	157	47

Increase in warranty provision is caused by deliveries of new generation products concentrated towards end of year.

24. DEBTS WITH NOMINAL INTEREST

1000 EUR	Nominal loan value 2006	2006	2005
Non-current:			
Cbl 2004A	955	985	985
Current:			
Cbl 2004A		0	19
Capital loan 350 teur, v.2004		0	324
Capital loan 500 teur, v.2004		0	463
Capital loan 1250 teur, v.2005		0	1095
Current total		<u>0</u>	<u>1901</u>

Bank loans

Bank loans 1484 teur with interest has been booked as income in June 2005, because according to the decision by the district court regarding the conclusion of the reorganization program of the company. they have ceased to exist. Based on the signed settlement agreement, the banks waived their receivables on condition that the controller of the reorganization calls off the regression suites. The debt may be reinstated only in case that the company would be rendered in new reorganization or declared bankrupt before 30.9.2008.

Should the debt return, it will return with interest, the total value on 31.12.2006 was 1689 teuros.

Convertible bond loan 2004A:

This loan with a nominal principal of 1130 teuros was decided on 26.2.2004. The pay-back was due in four even annual allotments starting in 2005. The interest is 4%. The loan may be converted between 1.6.2004-31.12.2008 into a maximum of 113.044.073 S-shares of the company with book parity value of 0.01 euros.

The loan capital, interest and other benefit may be paid in case of dismantling or bankruptcy of the company only with priority after the other creditors. The principal may be returned otherwise only providing that a full coverage for the bound equity and other non-distributable items in the confirmed financial statements for the latest expired financial year is retained. Interest or other benefits may be paid only in case the paid amount may be used for profit distribution in the confirmed balance sheet for latest expired financial period.

Share swaps:	1000 EUR	1000 PCS
Loan amount when raised	1130	113044
Share conversion 30.6.2004	-4	-424
Share conversion 20.2.2006	-19	-1865
Share conversion 4.4.2006	-68	-6783
Share conversion 23.10.2006	-23	-2331
Share conversion 17.11.2006	-61	-6147
Loan amount on 31.12.2006	<u>955</u>	<u>95494</u>

Capital loans with nominal principals of 350 teur and 500 teur in 2004:

The loans were raised in April-June 2004. The pay-back was due annually in four even allotments from year 2005 onwards. The loan interest was 6%, not paid.

The loans were used in the company's share issue on 31.1.2006 for share subscription in set-off.

Capital loan with nominal principal of 1250 teur, in 2005:

This loan was raised in July 2005. The loan was due to be paid back on 31.12.2007. The loan interest was 8%, not paid. The loan was used in the share issue on 31.1.2006 for share subscription in set-off.

The above cbl and capital loans have been divided in the financial statements into equity and liabilities. The liability component of the loans have been booked in the balance sheet at fair value determined by using a market interest of a corresponding loan at the time of raising the loan. The equity components have been computed as a difference between the received cash and the fair value of the debt. Discount interest is interest the company could expect to negotiate for a corresponding loan from third parties. The interest consists of no-risk interest and of a company specific risk premium. Related with some loans there are stock options and transaction costs, included in the interest cost. Risk premium estimated by management is 6 %. Effective loan interests range from 14,0 to 17,0 %.

25. DEBTS WITH NO NOMINAL VALUE

1000 EUR	Nominal loan value 2006	2006	2005
Non-current loans:			
Interest-free loan 1450 teur, year 2006	1450	703	0
Interest-free loan 1500 teur, year 2006	1500	<u>718</u>	<u>0</u>
Total		<u>1421</u>	<u>0</u>
Current loans:			
Capital loan 1200 teur, in 2005		0	1146
Product development loan 1300 teur, in 2005		0	1265
Cbl 2005A		<u>0</u>	<u>445</u>
Total		<u>0</u>	<u>2856</u>

Capital loan with nominal principal of 1200 teur, in 2005:

The loan was raised in April 2005. The loan was due to paid back on 31.12.2007.

The loan was used in the share issue on 31.1.2006 for share subscription in set-off.

Product development loan with a nominal principal of 1300 teur, in 2005:

R&D license agreement with Benecap was interpreted to be a financing arrangement. Therefore, the R&D expenses paid by Benecap were booked as expense of Benefon and, therefore, a liability. The expenditure from the agreement and the amount of the stock options falling to the period have been treated as financing costs. Of the loan, 746.500 euros was used in the share issue on 31.1.2006 for share subscription in set off, rest of the loan was paid back in February 2006 in cash.

Convertible loan 2005A:

The loan with a nominal principal of 500 teuros was raised in November 2005. The loan was interest-free and due to pay-back on 31.12.2007, unless converted into company shares before.

The loan may be converted into the company's S-shares at 0,21 euros per share. The loan was converted into 2.380.952 shares on 20.2.2006, with a share capital increase of 23.809,52 euros.

Interest-free loans with nominal value of 1450 teur and 1500 teur, year 2006:

The loans were raised in December 2006. The loans are interest-free and due to pay-back in four equal allotments on June 30 in years 2009-2012. The Company is entitled to pay off the loans earlier.

In the loans there are related option rights 2006A and 2006B for a total of 4,225,000 pcs.

The expense portion of the options and transaction costs falling on the financial period has been booked as financing cost. The transaction cost of a total of 311 teuros of the said loans has been subtracted from the loan value. The Benefon Board has in February 2007 decided to amend the loan terms by adding a right to use the loan capital for share subscription in setoff at share subscription price of 0.14 euros a share. The loan provider has accepted the amendment of the loan terms and thus the conversion of the loans into convertible loans.

The above loans have been divided in the financial statements into equity and liabilities as detailed in section 24 above.

26. OTHER DEBTS

1000 EUR	2005	2005
Purchase debt	3354	560
Deferred liabilities	690	823
Other liabilities	456	133
Total	<u>4500</u>	<u>1516</u>

27. MANAGEMENT OF FINANCING RISKS

Currency risk:

As invoicing currency, the company uses mostly the company's operational currency, the euro, but the proportion of US-dollar is increasing. Material purchases are made also in other currencies. The exchange rate risk will increase in future. The Company pursues to hedge against the risk by balancing the sales and purchases in currencies.

In the balance sheet, foreign currencies are included only in sales receivables and purchasing liabilities.

Interest risk:

Only financing liabilities include interest-bearing items. The interest are fixed and related with equity loans. Of these loans, majority were used in spring 2006 for subscription of company shares in set-off and therefore no interest needs to be paid of these loans.

Credit risk:

In payment terms, the Company policy is to limit the term at shortest practical. The receivable situation is checked always before new deliveries. Customers considered to carry a risk are served only against advance payment or a letter of credit.

Liquidity risk:

The liquidity of the group has stayed rather tight, but the principal shareholder has arranged sufficient financing mainly as equity financing instruments. For the Company to raise loan financing at free market at reasonable costs would provide a challenge until the Company is able to show permanently positive results.

28. ADJUSTMENT OF OPERATIONAL CASHFLOWS

1000 EUR	2006	2005
Booking as income of bank debts	0	-1484
Booking as income of bank debt interests	0	-132
Depreciations	563	185
Devaluations	872	0
Unrealized exchange rate differences	33	-5
Interest costs	162	544
Interest income	-145	-7
Stock options to personnel and marketing	3000	258
Other adjustments	-94	-123
Total	<u>4391</u>	<u>-764</u>

29. COLLATERAL COMMITMENTS AND CONTINGENCIES

1000 EUR	2006	2005
Contingent liability		
Debt to banks with interest until 31.12.	1689	1633
This debt was booked as incom, see note 24 interest bearing debts.		
Collateral for own liabilities:		
Chattel mortgage as collateral for own liability	12068	12068
Pledged non-current financial assets	41	41
Pledged current financial assets	373	362

30. RELATED PARTY TRANSACTIONS

The parent and subsidiary company relations in the group were as follows:

Parent company Benefon Oyj. Subsidiaries with parent company ownership and voting rights of 100 % are Ismap S.A. and Benefon UK Ltd.

1000 EUR	2006	2005
Employee benefits of the management:		
Salaries and bonuses	782	462
Pension payments	104	77
Consulting fees	131	112
Myönnetyt osakkeina toteutettavat ja maksettavat optiot	228	123
Peruutetut optiot, Bate	-170	0
Total	1075	774

The management on 31.12.2006 comprised five Board members and five other managers.

The Board members were Brian Katzen, Jeffrey Crevoiserat, Philip Parker, Juha Kiikeri and David Francis.

The top team comprised Jonathan Bate, Tomi Raita, Simon Button, Jeremy Newing and Robin Halliday.

The CEO until 13.12.2006 was Jonathan Bate and beginning from 14.12.2006 Tomi Raita.

The Board members are not paid salary or bonuses.

The CEOs was paid in year 2006 salary and bonuses a total of 400 teuros.

The present CEO Tomi Raita received in 2005 option program 2005A, based on which there are booked costs of 112 teuros in 2006 and 69 teuros in 2005.

The terms of the option program were amended on 1.2.2007, as detailed in note 22 Option rights.

The former CEO of the Company Jonathan Bate had been promised a maximum of 2,500,000 options of option program 2004A with performance clause. This option promising was cancelled in connection of resignation of Mr. Bate and the costs of 170 teuros booked of the options until then were cancelled.

With resignation, Mr. Bate was paid compensations of a total of approximately 100 teuros.

Other close circle transactions:

Based on shareholdings exceeding 1%, the close circle of the Company comprised on 31.12.2006 Octagon Solutions Ltd, Luben Limited, Ashland Partners, Cercle Investment Ltd, AWM Holdings Inc. (Airo Wireless Media and Virtual Wave Inc.), Darkrose Investment Ltd, Jonninen Henry, Solidium Oy, Halyard Oy and Nieminen Jorma.

In addition, close circle on basis of shareholdings comprises companies in which the Board members or the CEO have control power. Such companies are Octagon Capital, Benecap Limited, Thousand Lake Investment, Horizon Trustees and Campbell Investment Group.

40.

1000 EUR	2006	2005
Liabilities towards close circle:		
Cbl 2004A, portion of Octagon Solutions	800	800
Capital loan 350 teur, Octagon Solutions	0	326
Capital loan 500 teur, Octagon Capital	0	500
Capital loan 1250 teur, Benecap Limited	0	1250
Capital loan 1200 teur, Benecap Limited	0	1200
R&D loan, Benecap Limited	0	1300
Interest-free loan 1450 teur, Luben Limited	1450	0
Interest-free loan 1500 teur, Luben Limited	1500	0
Purchase debt, Campbell Investment	556	0
Total	<u>4306</u>	<u>5376</u>

The above liabilities are presented at nominal value and include equity components.

The loan terms are presented in notes 24 and 25.

Related with the mentioned Benecap loans, the 26 investors providing the loan capitals were granted a total of 7.000.000 option rights 2004A.

In autumn 2006 the Company's Board entered Financing Agreement with Octagon Solutions Limited by virtue of which the Company raised in five tranches financing of a total of 7,350,000 euros, consisting of, share issues, convertible loans, interest-free loans and options rights. The Company issued convertible loans 2006A, 2006B and 2006C, a total of 880,000 euros, subscribed by Octagon Solutions, Ashlan Partners and Luben Limited. The said convertible loans were converted into shares almost immediately. Interest-free loan was raised from Luben Limited a total of 2,950,000 euros.

Luben Limited was given, related to the loans, a total of 4.225.000 option rights 2006A and 2006B.

Terms of the said option programs are detailed in note 22 "Option rights".

Related to year 2006 financing arrangements, close circle companies have invoiced transaction costs of financing for a total of 1445 teuros: Thousand Lake Investment 719 teuros, Horizon Trustees 15 teuros, Benecap Limited 50 teuros, Octagon Consulting 105 teuros and Campbell Investment 556 teuros. Thousand Lake Investment used the purchase debt of 719 teuros in January share issue for share subscription in setoff. The 556 teuros invoiced by Campbell Investment was on 31.12.2006 purchase debt. Transaction costs, on part of the share issues, have been deducted directly from shareholders' equity.

In prior years, the company has had sales to close circle companies Airo Wireless Media and Virtual Wave. Related with this, the Company has a non-collateralised due receivable of 278 teuros from Virtual Wave Inc., which is a credit risk. Of this, a de-valuation of 142 teuros has been booked in 2006.

The Company's annual general meeting of 24.5.2006 approved the Board proposal for a management agreement with Octagon Consulting Limited. The agreement included 5,000,000 option rights 2004A. The value of these options has been determined according to assessed fair value of the counter service.

1000 EUR	2006	2005
Summary of costs booked on basis of close circle transactions:		
Fringe benefits of the management (see preceding page)	1075	774
Interest cost of close circle debts	152	515
Devaluations of trade receivable, Virtual Wave	142	0
Management agreement, invoiced costs	258	0
Management agreement, option costs	136	0
Total	<u>1763</u>	<u>1289</u>

31. BALANCE SHEET ITEMS WITH SIGNIFICANT RISK

1000 EUR	2006	2005
Inventories	6194	1282
R&D capitalisations	2841	0
Total	<u>9035</u>	<u>1282</u>

In the above asset items, there is included a significant risk depending on the reception of the products in the market and on their future sales.

32. EVENTS AFTER THE END OF THE PERIOD

Bulletin 16.1.2007

3750 teuro order from China, deliveries will start on the second quarter of year 2007.

Bulletin 1.2.2007

EGM authorised the Board to decide on share capital increase and decided to amend the Articles of Association such that the maximum number of shares is 1,000,000,000.

Also the restrictions in the usage of option rights of CEO Tomi Raita were removed.

Bulletin 9.2.2007

10 million USD order from USA, the first allotments have already been delivered and the rest will be delivered in the first half of 2007.

Bulletin 21.2.2007

Company published the product plan with three new products for year 2007.

The first new product is expected to be available from June 2007 onwards and the other versions during the latter part of 2007.

Bulletin 27.2.2007

The Board decided to change the interest free loans of a total of 2950 teuros raised in December 2006 into a convertible loan. In addition, the Board decided to direct shares and convertible loan for a total of 1400 teuros to Villiers Securities Limited.

Bulletin 5.3.2007

Benefon has signed a letter of intention about acquisition of GeoSolutions BV.

The acquisition price, approximately 6 million euros, is to be paid in Benefon shares.

Bulletin 15.3.2007

Benefon has received and accepted share subscriptions for a total of 1290 teuros from Villiers Securities Limited and decided to offer for 561 teuros shares and convertible loan to two other parties.

Bulletin 29.3.2007

Benefon signed the agreement about acquisition of GeoSolutions BV.

The acquisition price 6.000.000 euros will be paid by giving 30 million new shares of Benefon Oyj.

The transaction is expected to be closed by 30.4.2007.

33. FIVE YEAR STATISTICS

	2006	2005	2004	2003	2002
	IFRS	IFRS	IFRS	FAS	FAS
Net sales	6959	7562	7033	6737	14737
Export share of net sales %	82,5	78,5	74,0	79,3	92,1
Operating result, 1000 EUR	-11543	-3398	-3890	-20206	-8059
Share of net sales %	-165,9	-44,9	-55,3	-299,9	-54,7
Result before taxes, 1000 EUR	-11560	-3191	8717	-20767	-10329
Share of net sales %	-166,1	-42,2	123,9	-308,3	-70,1
ROE %	-285,8	n/a	n/a	n/a	-281,1
ROI %	-142,9	-102,0	n/a	n/a	-55,4
Solidity %	61,1	-47,2	-3,8	-235,9	15,7
Gross investments, 1000 EUR	4393	40	101	32	5804
Share of net sales %	63,1	0,5	1,4	0,5	39,4
R&D expenses, 1000 EUR	5510	2726	1325	4623	7740
Share of net sales %	79,2	36,0	18,8	68,6	52,5
Average personnel	82	76	91	140	251
EPS, EUR	-0,05	-0,03	-0,04	-1,44	-1,21
Equity per share, EUR	0,04	-0,02	-0,00	-0,73	0,38
Dividend per share, EUR	0,00	0,00	0,00	0,00	0,00
P/E	neg.	neg.	neg.	neg.	neg.
Share price 31.12., EUR	0,22	0,25	0,12	0,38	0,72
Period's low, EUR	0,18	0,12	0,11	0,16	0,64
Period's high, EUR	0,41	0,58	0,50	1,05	4,20
Period's average, EUR	0,27	0,33	0,24	0,42	1,77
Market cap 31.12., milj. EUR	58,0	32,8	15,3	7,2	7,0
Share turnover 1000 pcs	119794	85096	44699	29546	4684
Share turnover %	56,1	66,4	48,1	205,6	54,8
Weighted average number of shares in period, 1000 pcs	213490	128218	92876	14373	8547
Number of shares 31.12. 1000 pcs					
S-share	263416	131254	127781	18439	9260
K-share	0	0	0	500	500
Total	263416	131254	127781	18939	9760

COMPUTING FORMULAS OF KEY FIGURES

ROE %	$100 \times \frac{\text{Result of period}}{\text{Equity} + \text{minority share (average)}}$
ROI %	$100 \times \frac{\text{Operating result}}{\text{Total of balance sheet} - \text{non-interest debt (average)}}$
Solidity %	$100 \times \frac{\text{Equity} + \text{minority share}}{\text{Total of balance sheet} - \text{received advance payments}}$
EPS, EUR	$\frac{\text{Result of period}}{\text{Weighted average number of shares}}$
Equity/share, EUR	$\frac{\text{Equity}}{\text{Number of shares}}$
P/E	$\frac{\text{Share price 31.12.}}{\text{EPS}}$

33. DISTRIBUTION OF SHARE HOLDINGS AND INFORMATION ABOUT SHAREHOLDERS

Stock distribution by sector:

According to share register on 31.12.2006	% share capital	% votes
Financing and insurance companies (mostly custodian shares)	63,3	63,3
Households	25,3	25,3
Companies	6,9	6,9
On special accounts and common accounts	4,3	4,3
Others	0,2	0,2
Total	100,0	100,0

Distribution by holding amount:

According to share register on 31.12.2006

Shares pcs	Number of sharehold	% of sharehold	Nr of shares 1000 pcs	% of shares
1- 100	1039	15,0	80	0,0
101 1000	2359	34,2	1247	0,5
1001- 10000	2567	37,2	11081	4,4
10001-	937	13,6	227164	90,7
	6902	100,0	239572	95,7
On common accounts and special accounts			10754	4,3
Total in book entry system			250326	100,0
Missing from share register (added in 2007)			13090	
Registered shares in trade register			263416	

Biggest shareholders:

According to share register on 31.12.2006

	% share capital	% of votes
Jonninen Henry	3,2	3,2
Solidium Oy	1,9	1,9
Halyard Oy	1,6	1,6
Nieminen Jorma U.	1,0	1,0
Lounais-Suomen verovirasto	0,9	0,9
Uutela Keijo	0,6	0,6
Finnvera Oyj	0,5	0,5
Kiiveri Erkki	0,5	0,5
Juusti Timo	0,3	0,3
Nieminen Jukka	0,2	0,2
Custodian account shares	62,9	62,9
Others	26,4	26,4
Total	<u>100,0</u>	<u>100,0</u>

The Board members and the CEO held or controlled on 31.12.2006 a total of 50.163.064 shares, representing 19,0 % of all shares and votes.

PARENT COMPANY FINANCIAL STATEMENTS (FAS)

PARENT COMPANY RESULT REPORT

1000 EUR	Note	1.1.-31.12.2006	1.1.-31.12.2005
Net sales	1	6959	7562
Inventory change of finished products and work-in-process		2615	-36
Manufacturing for own use		0	0
Other operating income	2	25	85
Material and services			
Material and consumables			
Purchases in period		9464	3339
Change of inventories	4	<u>-2286</u>	<u>983</u>
External services		-19	-45
Cost of personnel	3	-3344	-2991
Depreciations and value adjustments			
Depreciations according to plan	4	523	185
Devaluations	4	<u>872</u>	<u>0</u>
Other operating expense	5	<u>-7669</u>	<u>-2461</u>
Operating result		-10006	-2393
Financing income		143	14
Financing costs	6	<u>-1581</u>	<u>-798</u>
Profit before one-off items		-11444	-3177
Profit before appropriations and taxes		-11444	-3177
Profit in the period		<u><u>-11444</u></u>	<u><u>-3177</u></u>

PARENT COMPANY BALANCE SHEET

1000 EUR	Note	31.12.2006	31.12.2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Development costs	7	2841	0
Intangible rights	7	30	21
Other non-current expenditures	7	<u>2</u>	<u>6</u>
		2873	27
Tangible assets			
Machinery and equipment	8	129	129
Investments			
Shares in the group companies	9	8	8
Other receivables	9	41	41
Other investments	9	<u>20</u>	<u>20</u>
		69	69
CURRENT ASSETS			
Inventories			
Material and consumables		3508	1221
Finished products		2671	56
Advance payments		<u>898</u>	<u>569</u>
		7077	1846
Current receivables			
Trade receivables		3373	984
Receivables from group companies		6	55
Other receivables		1056	186
Accrued income / prepaid expense		<u>60</u>	<u>67</u>
		4495	1292
Cash at hand and in the banks		2491	1277
		<u>17134</u>	<u>4640</u>
LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	10	2634	1313
Share premium fund	10	16538	403
Share issue	10	400	0
Invested distributable equity fund	10	4056	0
Retained earnings	10	-4973	-1796
Result of the period	10	<u>-11444</u>	<u>-3177</u>
		7211	-3257
OBLIGATORY PROVISIONS			
Other obligatory provisions	11	157	47
LIABILITIES			
Non-current liabilities			
Convertible loan		955	1126
Other non-current liabilities		<u>2950</u>	<u>0</u>
		3905	1126
Current liabilities			
Loans from financial institutes		1484	1484
Convertible loan		0	531
Capital loan		0	3300
Procurement liabilities		3145	560
Other current liabilities		447	98
Accruals and deferred income / accrued expense		<u>785</u>	<u>751</u>
		5861	6724
		<u>17134</u>	<u>4640</u>

PARENT COMPANY CASHFLOW STATEMENT

1000 EUR	1.1.-31.12.2006	1.1.-31.12.2005
Operating cashflow		
Result before one-off items	-11444	-3177
Adjustments:		
Depreciations according to plan	523	185
Devaluations of non-current liabilities	872	0
Devaluations of inventories	223	266
Un-realized exchange rate profits and losses	33	-9
Financing income and costs	1438	34
Other adjustments	-81	59
Changes in working capital		
Changes in trade and other receivables	-3203	-710
Changes in inventories	-5454	255
Changes in trade and other liabilities	3045	44
Paid interests	-62	-44
Received interest payments	138	14
Net operating cashflow	-13972	-3083
Net investment cashflow	-4240	-40
Financing cashflows		
Payments of share issues	16476	434
Convertible loans, capital loans	2950	2950
Payments of reorganization debt	0	-357
Net financing cashflow	19426	3027
Change of cash	1214	-96
Cash in the beginning of period	1277	1373
Cash at the end of period	2491	1277

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The financial statements of the parent company have been prepared according to the Finnish Accounting Standards.

Tangible assets:

Acquisition expenses comprise immediate expenses. Acquisition expense includes items the acquisition expenses of which have not yet been expensed as amortization according to plan.

Amortizations according to plan have been made with straight-line method based on the useful life of the asset items.

Inventories:

Inventories are valued with fifo-principle at purchase cost or at re-purchase cost, if lower, or at probable sales price.

Purchase cost of inventories includes variable costs.

Items in foreign currency:

Receivables and liabilities in foreign currencies have been converted into euros at exchange rate of the day published by the European Central Bank.

R&D-costs:

R&D-costs are capitalized on parts fulfilling the pre-requisites stipulated in the resolution 50/1998 of the Ministry of Trade and Industry. However, costs are capitalized only to the extent allowed by the IFRS-standards.

Obligatory provisions:

In the financial statements, as obligatory provisions are booked projected future warranty costs incurred by repair or replacement of delivered products within the warranty period. Provision is determined on basis of historical experience about the level of the warranty costs.

Accounted tax credit::

Accounted tax credit has not been booked in the balance sheet. On basis of confirmed losses from prior periods and from this period the Company is entitled to a tax credit of approximately 22.030.000 euros.

1. NET SALES BY MARKET AREA

1000 EUR	2006	2005
Finland	1219	1629
Rest of Europe	3977	4703
Rest of world	1763	1230
Total	<u>6959</u>	<u>7562</u>

2. OTHER OPERATING INCOME

1000 EUR	2006	2005
Profits from tangible asset sales	5	57
Public subsidies	20	0
Insurance compensation	0	28
Total	<u>25</u>	<u>85</u>

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3. COST OF PERSONNEL

1000 EUR	2006	2005
Salaries	2681	2459
Pensions, defined contribution plans	447	404
Other personnel social security costs	216	128
Total	<u>3344</u>	<u>2991</u>
Average number of personnel	70	73

MANAGEMENT SALARIES AND BONUSES

1000 EUR	2006	2005
CEO and Board members	400	146

4. DEPRECIATIONS AND VALUE ADJUSTMENTS

Depreciation according to plan has been recorded on straight-line basis over the estimated useful life. The length of useful economic life in depreciation calculations for capitalised R&D expenses is 1-3 years, 5 years for intangible assets, 10 years for other long term expenditures and 5 years for machines and furniture.

1000 EUR	2006	2005
Depreciation according to plan		
Development costs	450	0
Intangible rights	12	18
Other long term expenditures	3	4
Machines and furniture	58	163
Total	<u>523</u>	<u>185</u>
Value adjustments or write-downs of non-current assets:		
Development costs	872	0
Devaluations of current assets:		
Materials and consumables	223	265

5. OTHER OPERATING COSTS

1000 EUR	2006	2005
Rental costs	269	267
Travel costs	273	137
Credit losses/de-valuations of receivables	207	3
Marketing communications	1317	61
R&D outsourcings	5338	287
R&D capitalisations	-4163	0
External services	2313	1088
Due diligence costs	1208	0
Other cost items	907	618
Total	<u>7669</u>	<u>2461</u>

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6. FINANCING COSTS

1000 EUR	2006	2005
Interest costs	45	46
Exchange rate losses	20	0
Additional payments to reorganization creditors	0	720
Other financing costs	1516	32
Total	<u>798</u>	<u>798</u>

7. INTANGIBLE ASSETS

1000 EUR	2006	2005
Development costs		
Acquisition cost 1.1.	0	0
Additions	4163	0
Subtractions	-872	0
Acquisition cost 31.12.	3291	0
Accrued depreciations 1.1.	0	0
Depreciations in period	-1322	0
Accrued depreciations of subtractions	0	0
Accrued depreciations 31.12.	-1322	0
Book value 1.1.	0	0
Book value 31.12.	2841	0
Intangible rights		
Acquisition cost 1.1.	90	141
Additions	20	20
Subtractions	-51	-71
Acquisition cost 31.12.	59	90
Accrued depreciations 1.1.	-68	-121
Depreciations in period	-12	-18
Accrued depreciations of subtractions	51	71
Accrued depreciations 31.12.	-29	-68
Book value 1.1.	22	20
Book value 31.12.	30	22
Other long term expenditures		
Acquisition cost 1.1.	43	683
Additions	0	0
Subtractions	-8	-640
Acquisition cost 31.12.	35	43
Accrued depreciations 1.1.	-37	-673
Depreciations in period	-3	-4
Accrued depreciations of subtractions	8	640
Accrued depreciations 31.12.	-32	-37
Book value 1.1.	6	10
Book value 31.12.	2	6

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8. TANGIBLE ASSETS

1000 EUR	2006	2005
Machines and furniture		
Acquisition cost 1.1.	1254	1917
Additions	57	20
Subtractions	-867	-683
Acquisition cost 31.12.	444	1254
Accrued depreciations 1.1.	-1126	-1646
Depreciations in period	-58	-163
Accrued depreciations of subtractions	867	683
Accrued depreciations 31.12.	-317	-1126
Book value 1.1.	129	271
Book value 31.12.	129	129

9. INVESTMENTS

1000 EUR	2005	2005
Ismap S.A.	8	8
Pledged deposit	41	41
Telephone shares	19	19
Other shares	1	1
Total	<u>69</u>	<u>69</u>

10. SHAREHOLDERS' EQUITY

	Share capital (1000eur)	Share issue (1000eur)	Share prem account (1000eur)	Inv. distrib. equity fund (1000eur)	Accrued profits (1000eur)
Equity 31.12.2004	1278	4	25577	0	-27373
Share issues	35	-4	403	0	0
Coverage of prior year losses	0	0	-25577	0	25577
Capital loan	0	0	0	0	0
Capital loan	0	0	0	0	0
Result of period	0	0	0	0	-3177
Equity 31.12.2005	1313	0	403	0	-4973
Share issue 9.2.2006	783	0	15659	0	0
Share conv. CBL2004A 20.2.	19	0	0	0	0
Share conv. CBL2005A 20.2.	24	0	476	0	0
Share conv. CBL2004A 4.4.	68	0	0	0	0
Share conv. CBL2004A 23.10.	23	0	0	0	0
Share issue 23.10.2006	55	0	0	1105	0
Share conv. CBL2004A 17.11.	61	0	0	0	0
Share conv. CBL2006A 17.11.	30	0	0	118	0
Share issue 17.11.2006	57	0	0	1143	0
Share conv. CBL2006B 8.12.	16	0	0	62	0
Share issue 8.12.2006	55	0	0	1105	0
Share conv. CBL2006A 31.12.	0	400	0	0	0
Share conv. CBL2006B 31.12.	28	0	0	114	0
Share conv. CBL2006C 31.12.	44	0	0	178	0
Costs of share issues	58	0	0	232	0
Result of period	0	0	0	0	-11444
Equity 31.12.2006	2634	400	16538	4057	-16417

Main terms of the convertible equity bond loans and capital loans:

Capital, interest and other benefits can only be paid, in dissolution or bankruptcy of the company, with priority after all other loans.

Capital can only be redeemed if there is full coverage on non-distributable income, according to the financial statements confirmed from the latest fiscal year, on share capital and all other non-distributable income.

Any interest and/or any other benefit may only be distributed to the loan holders provided that payable amount does not exceed the amount of profit freely distributable to shareholders, according to the latest balance sheet.

Distributable assets 31.12.

1000 EUR	2006	2005
Result from prior periods	-4973	-27373
Coverage of prior year losses 26.05.2005	0	25577
Result of period	-11444	-3177
Interest of convertible loans and capital loans	-105	-208
Distributable assets 31.12.	-16522	-5181

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11. OBLIGATORY PROVISIONS

1000 EUR	2006	2005
Warranty provision	157	47

12. COLLATERAL COMMITMENTS AND CONTINGENCIES

1000 EUR	2006	2005
Collateral provided for own liabilities		
Bank loans against chattel mortgage	1689	1633
Provided chattel mortgage	12068	12068
Pledged non-current financing assets	41	41
Pledged current financing assets	<u>373</u>	<u>362</u>
Total	<u>414</u>	<u>403</u>
Other liabilities	105	208

BOARD PROPOSAL TO THE GENERAL MEETING FOR MEASURES REGARDING
THE LOSS OF THE PERIOD

The company has no distributable assets.

The result of the period of the parent company is -11.443.590,07 euros (FAS).

The Board proposes to the General Meeting that no dividend is distributed and that loss for the period is booked on the account of Retained earnings.

Salo, Mars 30, 2007

Brian Katzen
Chairman of the Board

Jeffrey Crevoiserat
Board Member

Philip Parker
Board Member

Juha Kiikeri
Board Member

David Francis
Board Member

Tomi Raita
CEO

The financial statements and the Board report have been prepared according to generally accepted accounting practices. A separate Auditor's report has been given today.

Salo, April 2, 2007

Ernst & Young Oy
KHT-yhteisö

Erkka Talvinko, CPA

USED BOOKS	Daily book.	ADP printouts
	Main book	ADP printouts
	Cash book	ADP printouts
	Sales register	ADP printouts
	Procurement register	ADP printouts
	Inventory books	ADP printouts
	Salary books	ADP printouts

VERIFICATIONS	10	Domestic purchase invoices
	11	Foreign purchase invoices
	12	Domestic purchase invoices/inventory
	15	Domestic payments
	16	Foreign payments
	20	Domestic sales invoices
	21	Domestic rebate invoices
	22	Foreign sales invoices
	23	Foreign rebate invoices
	24	Memo invoices
	29	Payments
	30	Bank receipts
	35	Receipts of Moscow office
	40	Hand cash receipts
	45	Financing events
	50	Memo receipts
	90	Management accounting receipts
	91	Accounting bookings, management accounting
	92	Sales appropriations, management accounting
	93	Material costs, management accounting

Accounting material is stored as paper copies.

AUDITORS' REPORT**To the shareholders of Benefon Oyj**

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Benefon Oyj for the period 1.1. – 31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

Consolidated financial statements

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

Parent company's financial statements, report of the Board of Directors and administration

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

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

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

Salo, April 2, 2007

Ernst & Young Oy
Authorized Public Accountant Firm



Erkka Talvinko
Authorized Public Accountant