



BENEFON OYJ

ANNUAL REPORT 2003

BOARD REPORT FROM FISCAL YEAR 2003

GENERAL

Essential changes took place in the company in FY 2003. Years long change process, deepened into a financial crisis, culminated in filing of a re-organization application in April and the decision to begin re-organization procedure was received at the end of June. As a result of a successful procedure, a re-organization program was confirmed for the company in March 2004. According to the re-organization plan the company was heavily down-sized further during the year and the resources were concentrated into the new business of mobile telematics. With the same, the ownership of the company changed essentially as a result of the re-org-related debt conversions, equity placements and merging of the share categories. First part of the debt conversions took place in summer 2003 and the other arrangements in the first quarter of 2004. Altogether, the total debt of the company has decreased by about 80% from the debt the company had in the beginning of year 2003 and, through the implemented one-off devaluations and write-offs of inventories, receivables, and R&D expenditure activations also the booked asset values have been decreased essentially. As a result of all this the total of the balance sheet has been decreased to about a third and the shareholders equity that had turned negative is again positive and meets the requirements in the companies act. As a result of the equity investments that were part of the overall arrangements Octagon Solutions Ltd. has become the principal shareholder of the company and the Board and the managing director of the company have changed.

DEVELOPMENT OF THE BUSINESS

The business of the Company is to offer mobile telematics terminals, software and solutions for securing lives and property and for improving field management.

The range of GSM+GPS terminals covers personal security and field management applications, vehicular and machine communications (M2M) applications as well as asset tracking.

In the beginning of 2003 an acquisition offer was made about a French company Ismap S.A., accepted by almost all shareholders of Ismap. However, the share swap according to the offer had to be left waiting for the stabilization of the situation of the company.

In the first half, the company implemented heavy cost cutting including significant forced leaves agreed in the industrial procedure, which naturally interfered with the operations. Also the very tight financing situation interfered with the sales but the company managed to keep going all key functions needed to serve the customers. The sales in FY 2003 decreased significantly from that of prior year 2002 due to the decrease of GSM and NMT sales. Of the sales of whole year about 70% came from mobile telematics. The weight of mobile telematics sales increased further during the year. In the second half of the year the sales were also hampered by the uncertainty within the customers about the company receiving the re-org solution, especially regarding larger supply projects.

Despite the difficulties, the company managed to keep going the development programs of new products most critical to securing the near future of the company and thus bring new products and services to the market. But the development work of the new product platform had to be put on hold in May 2003.

The company continued the cost cutting program and in the industrial procedure conducted at the end of the year new alternate forced leaves and forced leaves for the time being were agreed. Due to this, the number of actively employed personnel was reduced to about 90 and the cost of personnel was reduced further. On the other hand, the still continuing re-organization procedure incurred extra costs.

ESSENTIAL EVENTS AFTER THE END OF FISCAL YEAR 2003

The final stages of the re-organization and related arrangements dominated the activities of early year 2004. On 26.1.2004, the Board called an extraordinary general meeting to handle the company decisions needed in the re-organization package, including amending the bylaws, decreasing the share capital, directing share and convertible equity bond loan issues to K-share holders, creditors, shareholders, personnel and investors, election of a new Board, cancelling the old share issue authorization and providing new authorization to the Board and raising a capital loan.

The extraordinary general meeting, held on 26.2.2004, approved unanimously the package proposed by the Board. The details of the package handled by the general meeting as well as information about the re-organization program were made public in market bulletins issued on 26.1.2004 and 27.2.2004, in the listing prospectus made public on 9.2.2004 and in the result report bulletin of 19.2.2004.

The district court of Turku decided on 19.3.2004 to confirm the re-organization program proposed to the company. With this decision came in force also the financial statements of FY 2002 and financial statements of the interim reports of FY 2003, all of which were made conditional to the confirmation of the re-org program.

The equity placements totalling 2 million euros, connected to the re-org package, were paid to the company by 26.3.2004 and the corresponding increases of share capital were registered in the beginning of April. The company has also made interim financial statements on 19.3.2004, according to which the shareholders' equity again meets the requirements of the companies' act. Regarding also the cash brought by the said equity placements and the cash flow projection according to the re-organization plan, it now can be considered that the financial statements of the company can again be made using the going-concern principle.

COMPARISON OF THE MOTHER COMPANY BALANCE SHEETS OF 31.12.2003 AND 31.3.2004

As the re-organization solution and the connected equity placement have essentially changed the balance sheet of the company, a main title comparison between the balance sheet of the mother company as of 31.12.2003 and the same as of 31.3.2004 is presented herewith.

Balance sheet of mother company (1000 euros)	31.12.2003	31.3.2004
Non-current assets		
Intangible assets	124	100
Tangible assets	535	447
Investments	68	68
Current assets		
Inventories	4508	4358
Receivables	744	867
Cash at hand and in banks	54	921
Shareholders' equity	-13645	1129
Equity bond loan	1750	1130
Accrued accelerated depreciations	141	141
Obligatory reservations	41	42
Non-current liabilities	0	1822
Current liabilities	17746	2147
Total of the balance sheet	6033	6761

The balance sheet of 31.3.2004 of the interim report includes the effects of the re-organization solution confirmed on 19.2.2004 and those of the related equity placements of 2 million euros.

ELCOTEQ-AGREEMENT

The business activity according to the Elcoteq agreement signed in August, 2002, proceeded in broad terms as planned until the company in spring 2003 had to put in hold the development work related with the agreement. Altogether, of the 11 million euro purchase price of the agreement, 8.5 million euros were booked in 2002 and 2.5 million euros in 2003. Incurred expenses caused by the discontinuation of the planned activities are included in the financial statements of FY 2003.

FINANCIAL PERFORMANCE IN THE PERIOD

The net sales in the fiscal year 1-12/2003 were 6737 teuros, in addition to which there were other income of 3884 teuros, mostly from the Elcoteq agreement. The net sales in the entire period 1-12/2002 of the year before were 14737 teuros.

Because of the situation and proceedings of the company during the year, there was an exceptional amount, a total of 15146 teuros, of one-off expense items mainly caused by the massive situational write-offs of R&D expenses and inventories over the year.

The operating result in the whole fiscal year 1-12/2003 before one-off items was - 5060 teuros.

The actual operating result after one-off expense items in the fourth fiscal year 1-12/2003 was –20206 teuros. In the whole prior fiscal year 1-12/2002 it was -8059 teuros.

The total of the balance sheet at the end of 2003 was 6154 teuros. After the write-offs in early year 2003, there have been no R&D-capitalizations in the balance sheet. At the end of 2002, a year before, the total of the balance sheet was 24269 teuros, including R&D capitalizations of 5793 teuros. The amount of shareholders' equity at the end of 2003 was -13904 teuros, in addition to which there was an equity loan of 1750 teuros. At the end of year 2002, the amount of shareholders' equity was 3750 teuros. The total liabilities at the end of the period they were 18267 teuros, all of it current liabilities. At the end of 2002, the total liabilities were 20419 teuros. The interest-carrying net debt at the end of 2003 was about 7209 teuros. Cash at hand and in the banks totalled 55 teuros at the end of the period.

The mentioned write-off of the capitalized R&D expenses was made because the outlook regarding the finishing and market introduction of the products related with these capitalizations had become uncertain.

The inventory write-offs totalling 7692 teuros during the year are based on the prudent estimate of the consumption of the components in the stock. These off-written components are mostly in use in the currently sold product range.

Poor liquidity of some customers interfered with the operations and the cash situation and caused a reservation for bad debts totalling 668 teuros.

Also the extremely tight cash situation, general uncertainty and the extra work caused by the re-organization procedure retarded the business and financial development of the company.

The investor participated the business management of the company already towards the end of year 2003 and the investor group also provided guarantees for the liabilities of the company at the end of the year.

INVESTMENTS

There were no significant investments in the company in FY 2003.

PERSONNEL

In active employment of the company at the end of year 2003 there were 129 people of which significant number were on alternating forced leaves. The number of personnel was 12 percent below the figure 146 at the end of prior year 2002.

SPECIAL MEASURES FOR IMPROVING THE FINANCES

The cash situation of the company has continued to be very tight and, therefore, the program for further cost cutting, for increasing sales and sales margins and for establishing a healthy balance sheet and cash situation through re-organization

solution and related equity funding has remained a key area in the operations of the company. The fixed cost level is approaching one third of the cost level of that of a year ago.

FUTURE OUTLOOK

The confirmed re-org program prescribes positive cash flow and that the company will reach also positive result. The core of the draft re-org plan consists of the significant reduction of the costs and of gradual increase of the sales.

After the debt re-arrangements and the equity placements totalling 2 million euros, connected with the re-organization solution, the amount of shareholders' equity in the balance sheet meets the legal requirements.

The most important uncertainty factor in the future outlook is development of sales. The business outlook for 2004 is partially based on new products in development. Delays in market introduction of the new products may also affect the sales and financial result of the company.

EQUITY ISSUES AND AUTHORISATIONS IN YEAR 2003

Xpediant share issue

The Board of Benefon Oyj decided in its meeting of 10.3.2003 and with the authority by the Annual Shareholders' Meeting of 17.5.2002 and registered in the trade register on 18.6.2002, to increase the share capital of the company with a share issue directed to Xpediant LLC, a subsidiary of NRJ International LLC, by a maximum of 445,203.54 euros by offering for subscription a maximum of 1,323,530 new S-shares of the company with a book equivalent value of 0.34 euros (not exact value) at the total subscription price of 450,000 euros. The offered shares were eventually subscribed only in part so that Xpediant subscribed a total of 294,117 shares by paying the subscription price of 99,999.78 euros according to the subscription terms on the bank account of the company. The share capital of the company was increased by 99,933.86 euros by issuing 294,117 new S-shares with a book equivalent value of 0.34 euros (not exact value).

The increase was registered on 2.4.2003. As a result, the share capital rose from 3.282.922,05 euros to 3.381.855,91 euros and the number of outstanding shares from 9.759.684 shares to 10.053.801 shares of which the number of listed S-shares was 9.553.801. The new shares were listed for trading along with the existing shares on 21.5.2003.

Debt conversion equity issues

Share issue

The extraordinary shareholders' meeting of 26.6.2003 decided to offer, deviating from the first right of shareholders, the creditors of the company and a maximum of

five domestic and foreign investors for subscription shares and convertible equity bond loans so that the combined number of subscribers was no more than 100. The creditors could subscribe the shares and equity bond loans in set-off.

The share capital was increased in the share issue by 2,988,744,22 euros by offering to creditors and investors for subscription 8,885,133 new S-shares of the company with book equivalent value of 0.34 euros (not exact value) all of which were subscribed by creditors. As a result, the share capital of the company rose by 2.988.744,22 euros to 6.370.600,13 euros.

Equity bond loan issue

In addition, the extraordinary shareholders' meeting of 26.6.2003 decided to increase the share capital by issuing a convertible bond loan on equity terms (Equity bond loan 2003A).

In the issue, share capital was increased by a maximum of 1.731.579,15 euros by offering to 12 creditors of the company for subscription an equity bond loan with a capital of a maximum of 1.750.237,42 euros. Of the loan were issued transferable bonds of a minimum of one euro each which as a total can be converted into a maximum of 5.147.751 new S-shares of the company. The creditors subscribed the bond loan in set-off. The bonds were delivered after the loan was registered and the loan was not listed for public trading.

EQUITY ISSUE AUTHORITY OF THE BOARD

The ordinary Shareholders' Meeting of May 21, 2003, authorized the Board of Directors, within the time limit of one year from the meeting granting the authorization, to decide on the increase of share capital by rights issue, issue of options or convertible bonds in one or more instalments such that in the issue of convertible bonds or options or in the rights issue, in total a maximum of 2,010,760 new investment shares with a book parity value of EUR 0.34 (not the exact value) per share, shall be entitled to be subscribed for. The share capital may, based on the authorization, therefore be increased by a maximum of EUR 676,371.12.

This authorisation which was not used was cancelled in the extraordinary general meeting of 26.2.2004 and was replaced with a new authorisation covering altogether a total maximum of 3,787,786 new S-shares with a book parity value 0.01 euros. Based on the authorisation, the share capital may thus be increased by a maximum of 37,877.86 euros.

BENEFON OYJ

FINANCIAL STATEMENTS

FY 2003

BENEFON OYJ

CONSOLIDATED GROUP INCOME STATEMENTS

		1.1.-31.12.2003		1.1.-31.12.2002
		EUR 1000		EUR 1000
NET SALES	1)	6 737		14 737
Increase (+)/decrease (-) in inventories of finished products		-265		-348
Production for own use		0		0
Other operating income	2)	3 884		5 643
Materials and services				
Raw materials, consumables and products				
Purchases in the financial period	4)	2 308		7 180
Increase (-)/decrease (+) in inventories	4)	<u>8 787</u>	-11 095	<u>5 445</u>
External services		-34		-286
Personnel expenses	3)	-5 589		-9 176
Depreciation and value adjustments				
Depreciation according to plan		563		1 160
Value adjustments	4)	<u>5 793</u>	-6 356	<u>0</u>
Other operating expenses	5)	<u>-7 488</u>		<u>-4 844</u>
OPERATING RESULT		-20 206		-8 059
Financial income and expenses	6)	<u>-561</u>		<u>-2 270</u>
RESULT BEFORE EXTRAORDINARY ITEMS		-20 767		-10 329
Extraordinary items		0		0
RESULT BEFORE TAXES		<u>-20 767</u>		<u>-10 329</u>
Income taxes				
Change in deferred tax liability		<u>0</u>		<u>19</u>
RESULT FOR THE PERIOD		<u><u>-20 767</u></u>		<u><u>-10 310</u></u>

BENEFON OYJ

CONSOLIDATED GROUP BALANCE SHEET

ASSETS	31.12.2003 EUR 1000		31.12.2002 EUR 1000	
NON-CURRENT ASSETS				
Intangible assets				
Development expenses	7)	0	5 793	
Intangible rights	7)	45	104	
Other capitalized expenses	7)	79	148	6 045
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Tangible assets				
Machinery and equipment	7)	535	940	
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Non-current securities				
Deposits		7	193	
Shares		23	23	216
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CURRENT ASSETS				
Inventories				
Raw materials and consumables		4 142	12 935	
Finished products		123	388	
Prepaid expenses		250	404	13 727
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Current receivables				
Trade receivables		576	2 668	
Other receivables		269	314	
Prepaid expenses and accrued income		50	181	3 163
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Cash at hand and in the banks		55	178	
		6 154	24 269	
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SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	9)	6 371	3 283	
Share premium account	9)	22 273	22 240	
Result from previous financial years	9)	-21 781	-11 463	
Result for the financial period	9)	-20 767	-10 310	
Convertible equity bond loan	9)	1 750	0	3 750
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PROVISIONS				
Obligatory provisions	10)	41	100	
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LIABILITIES				
Non-current liabilities				
Loans from credit institutions		0	5 371	
Other long-term liabilities		0	3	
Deferred tax liabilities		41	41	5 415
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Current liabilities				
Loans from credit institutions		7 197	2 617	
Advances received		260	324	
Trade payables		4 753	7 048	
Other current liabilities		3 162	2 016	
Accrued liabilities and deferred income	12)	2 854	2 999	15 004
		6 154	24 269	
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BENEFON OYJ

PARENT COMPANY INCOME STATEMENT

		1.1.-31.12.2003		1.1.-31.12.2002
		EUR 1000		EUR 1000
NET SALES	1)	6 663		14 718
Increase (+)/decrease (-) in inventories of finished products		-265		-348
Production for own use		0		0
Other operating income	2)	3 750		5 643
Materials and services				
Raw materials, consumables and products				
Purchases during the financial period	4)	2 305	7 179	
Increase (-)/decrease (+) in inventories	4)	<u>8 787</u>	<u>5 445</u>	-12 624
External services		-34		-286
Personnel expenses	3)	-5 004		-9 022
Depreciation and value adjustments				
Depreciation according to plan		563	1 159	
Value adjustments	4)	<u>5 793</u>	<u>0</u>	-1 159
Other operating expenses	5)	<u>-7 664</u>		<u>-4 931</u>
OPERATING RESULT		-20 002		-8 009
Financial income and expenses	6)	<u>-561</u>		<u>-2 270</u>
RESULT BEFORE EXTRAORDINARY ITEMS		-20 563		-10 279
Extraordinary items		<u>0</u>		<u>0</u>
RESULT BEFORE APPROPRIATIONS AND TAXES		-20 563		-10 279
Appropriations				
Change in accelerated depreciation		<u>0</u>		<u>67</u>
RESULT FOR THE PERIOD		<u><u>-20 563</u></u>		<u><u>-10 212</u></u>

BENEFON OYJ

PARENT COMPANY BALANCE SHEET

	31.12.2003		31.12.2002	
ASSETS	EUR 1000		EUR 1000	
NON-CURRENT ASSETS				
Intangible assets				
R&D-expenses	7)	0	5 793	
Intangible rights	7)	45	104	
Other capitalized expenses	7)	79	148	6 045
Tangible assets				
Machinery and equipment	7)	535	940	
Non-current securities				
Shares in subsidiaries	8)	38	38	
Deposits		7	193	
Other shares		23	23	254
CURRENT ASSETS				
Inventories				
Raw materials and consumables		4 135	12 923	
Finished products		123	388	
Prepaid expenses		250	404	13 715
Current receivables				
Trade receivables		548	2 649	
Receivables from group companies		58	19	
Other receivables		88	265	
Prepaid expenses and accrued income		50	181	3 114
Cash at hand and in the banks		54	153	
		6 033	24 221	
SHAREHOLDERS´ EQUITY AND LIABILITIES				
SHAREHOLDERS´ EQUITY				
Share capital	9)	6 371	3 283	
Share premium account	9)	22 273	22 240	
Result from previous financial years	9)	-21 726	-11 515	
Result for the period	9)	-20 563	-10 212	
Convertible equity bond loan	9)	1 750	0	3 796
APPROPRIATIONS				
Accelerated depreciation		141	141	
PROVISIONS				
Obligatory provisions	10)	41	100	
LIABILITIES				
Non-current				
Loans from credit institutions		0	5 371	
Other long-term liabilities		0	3	5 374
Current				
Loans from credit institutions		7 197	2 617	
Advances received		260	324	
Trade payables		4 726	6 980	
Other current liabilities		2 781	1 949	
Accrued liabilities and deferred income	12)	2 782	2 940	14 810
		6 033	24 221	

BENEFON OYJ

PARENT COMPANY CASH FLOW STATEMENT

	EUR 1000 1.1.-31.12.2003	EUR 1000 1.1.-31.12.2002
CASH FLOW FROM OPERATIONS		
Loss before extraordinary items	-20 563	-10 279
Adjustments		
Depreciation according to plan	563	1 160
Write-off of non-current intangible assets	5 793	0
Write-off of inventories	7 692	1 639
Unrealized currency exchange differences	-136	188
Financial income and expenses	561	2 270
Other adjustments	-121	51
Cash flow before change in working capital	<u>-6 211</u>	<u>-4 971</u>
Change in working capital		
Non-interest-bearing current receivables, increase (-)/decrease (+)	2 309	2 891
Inventories, increase (-)/decrease (+)	1 515	3 760
Non-interest-bearing current liabilities, increase (+)/decrease (-)	<u>-1 776</u>	<u>-2 062</u>
Cash flow from operations before financial items and taxes	-4 163	-382
Interest paid for other financial expenses from operations	-301	-2 851
Dividend received from operations	10	3
Interest and other financial income received from operations	<u>3</u>	<u>15</u>
Cash flow from operations	<u>-4 451</u>	<u>-3 215</u>
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-32	-5 804
Proceeds from sale of intangible and tangible assets	123	3 165
Other investments	0	-5
Reduction of deposits	<u>186</u>	<u>0</u>
Cash flow from investments	<u>277</u>	<u>-2 644</u>
CASH FLOW FROM FINANCING		
Share issue	3 121	10 359
Convertible bond loan	1 750	0
Raised current loans	0	0
Payments of current loans	-69	-11 707
Raised non-current loans	0	9 138
Payments of non-current loans	-727	-3 000
Non-current receivables, increase (-)/decrease (+)	<u>0</u>	<u>97</u>
Cash flow from financing	<u>4 075</u>	<u>4 887</u>
Change in cash, increase (+)/decrease (-)	-99	-972
Cash on January 1, 2003	153	1 125
Cash on December 31, 2003	54	153

Consolidated cash flow statements have not been made, because they would not deviate essentially from those of the parent company.

NOTES TO THE FINANCIAL STATEMENTS

PRINCIPLES OF PRODUCING THE FINANCIAL STATEMENTS

Group:

The consolidated financial statements of the group include the accounts of the parent company , Benefon Oyj, and its subsidiary Benefon S.A., consolidated using the acquisition cost method of accounting.

All intercompany transactions and receivables and payables have been eliminated. Minority interests in equity of the subsidiary have been separated and shown as a separate item.

Non-current assets:

Acquisition costs comprise all direct costs. The acquisition costs of non-current assets include items not yet fully depreciated according to plan. Depreciations according to plan have been calculated on straight-line basis according to the useful financial life-span of the non-current asset items.

Inventories:

The cost of inventories include variable costs only. Inventories are valued at lower of the purchase cost, re-purchase cost or probable resale value. The cost has been determined on first in - first out (FIFO) basis.

Foreign currencies:

Receivable and payable balances outstanding at year end are translated to Euro using the year end exchange rate of European Central Bank.

Development costs:

The development costs for certain projects are capitalized if the project plays a central role in the profit outlook and it at the same time represents a significant expenditure.

The other development costs are booked as expense in the financial period during which they are incurred.

Obligatory provisions:

The estimated liability to repair or replace products under warranty is booked as obligatory provisions.

The provision is calculated based on historical experience of the level of repair and replacement costs.

Deferred taxes:

Deferred taxes have not been accounted for in the financial statements.

On the basis of the confirmed losses from prior fiscal years and from this fiscal year, the company is entitled to a deferred tax credit of approximately 19,240,000 euros

NOTES TO INCOME STATEMENT

1. NET SALES BY MARKET AREA / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Finland	1 395	1 169	1 395	1 169
Other European countries	4 909	11 697	4 835	11 678
Other countries	433	1 871	433	1 871
Total	<u>6 737</u>	<u>14 737</u>	<u>6 663</u>	<u>14 718</u>

2. OTHER OPERATING INCOME/ EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Licensing of intellectual property rights and partial sale of R&D department	2 638	5 504	2 638	5 504
Sales of tangible assets	384	89	384	89
Development subsidy	862	50	728	50
Total	<u>3 884</u>	<u>5 643</u>	<u>3 750</u>	<u>5 643</u>

3. PERSONNEL EXPENSES AND AVERAGE PERSONNEL

PERSONNEL EXPENSES / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Salaries and wages	4 529	7 497	4 115	7 389
Pension expenses	744	1 142	706	1 131
Other personnel expenses	316	537	183	502
Total	<u>5 589</u>	<u>9 176</u>	<u>5 004</u>	<u>9 022</u>

Pension expenses above consist of contributions to a pension insurance company and there are no off-balance pension liabilities.

SALARIES PAID TO THE PRESIDENT AND OTHER MEMBERS OF THE BOARD

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
The President and other members of the Board	250	207	172	129

AVERAGE PERSONNEL

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Production	91	147	84	145
Other	49	104	49	104
Total	<u>140</u>	<u>251</u>	<u>133</u>	<u>249</u>

4. DEPRECIATIONS JA DEVALUATIONS / EUR 1000

Depreciation according to plan is computed as equal allotments from the original purchase value of the asset over its economic life.

The length of useful economic life in depreciation calculations:

Intangible assets	5 years
Other long-term expenses	10 years
Machinery and equipment	5 years

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
<u>Depreciations according to plan</u>				
Intangible assets	63	124	63	124
Other long-term expenses	69	110	69	110
Machinery and equipment	431	926	431	925
Total	<u>563</u>	<u>1 160</u>	<u>563</u>	<u>1 159</u>
<u>Devaluations of non-current assets</u>				
R&D-expenditures	5 793	0	5 793	0
<u>Devaluations of current assets</u>				
Raw materials and consumables	7 440	1 639	7 440	1 639
Prepaid expenses	252	0	252	0
Total	<u>7 692</u>	<u>1 639</u>	<u>7 692</u>	<u>1 639</u>

5. OTHER OPERATING EXPENSES / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Rents	815	1 846	726	1 792
Travel	196	604	170	593
Credit losses	668	207	679	439
Marketing	221	859	221	859
R&D subcontracting	3 683	4 343	4 061	4 343
R&D expense capitalisation	0	-5 710	0	-5 710
Administrative expenses	1 239	1 645	1 165	1 592
Other expenses	666	1 050	642	1 023
Total	<u>7 488</u>	<u>4 844</u>	<u>7 664</u>	<u>4 931</u>

6. FINANCIAL INCOME AND EXPENSES / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Dividend income	12	18	12	18
Reduction in value of investments held as non-current assets			0	-91
Interest expenses	-557	-1 554	-557	-1 554
Exchange rate losses	-11	-81	-11	-81
Total other financial expenses	-5	-562	-5	-562
Total financial expenses	<u>-573</u>	<u>-2 197</u>	<u>-573</u>	<u>-2 197</u>
Financial income and expenses total	-561	-2 179	-561	-2 270

The interest expense during the reorganisation period (26.06.-31.12.2003) has not been recorded as expense in the P&L account. According to the re-organization plan, these interests will not be paid.

7. CHANGES IN FIXED ASSETS / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
<u>Development expenses</u>				
Cost 1.1.	5 793	2 751	5 793	2 751
Increase	0	5 710	0	5 710
Decrease	-5 793	-2 668	-5 793	-2 668
Cost 31.12.	0	5 793	0	5 793
Accumulated depreciation 31.12.	0	0	0	0
Net book value 31.12.	0	5 793	0	5 793
<u>Intangible assets</u>				
Cost 1.1.	586	891	586	891
Increase	4	13	4	13
Decrease	-276	-318	-276	-318
Cost 31.12.	314	586	314	586
Accumulated depreciation 1.1.	-483	-646	-483	-646
Accumulated depreciation of decrease	277	288	277	288
Depreciation for the period	-63	-125	-63	-125
Accumulated depreciation 31.12.	-269	-483	-269	-483
Net book value 31.12.	45	104	45	104
<u>Other long-term expenditure</u>				
Cost 1.1.	1 105	1 105	1 105	1 105
Increase	0	0	0	0
Decrease	-409	0	-409	0
Cost 31.12.	696	1 105	696	1 105
Accumulated depreciation 1.1.	-957	-846	-957	-846
Accumulated depreciation of decrease	409	0	409	0
Depreciation for the period	-69	-111	-69	-111
Accumulated depreciation 31.12.	-617	-957	-617	-957
Net book value 31.12.	79	148	79	148
<u>Machinery and equipment</u>				
Cost 1.1.	4 346	6 635	4 346	6 635
Increase	28	81	28	81
Decrease	-1 931	-2 370	-1 931	-2 370
Cost 31.12.	2 443	4 346	2 443	4 346
Accumulated depreciation 1.1.	-3 406	-4 424	-3 406	-4 424
Accumulated depreciation of decrease	1 929	1 942	1 929	1 942
Depreciation for the period	-431	-925	-431	-925
Accumulated depreciation 31.12.	-1 908	-3 406	-1 908	-3 406
Net book value 31.12.	535	940	535	940
Share of machinery and equipment of net book value 31.12.	511	888	511	888

8. SHARES IN SUBSIDIARIES

	Share capital EUR 1000	Group holding %	Parent company holding %	Book value EUR 1000
Subsidiaries:				
Benefon S.A.	38	100	100	38

9. SHAREHOLDERS' EQUITY / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Subscribed capital 1.1	3283	1889	3283	1889
Share issue 15.4.2002	0	1359	0	1359
Share issue 23.7.2002	0	35	0	35
Share issue 2.4.2003	99	0	99	0
Share issue 3.7.2003	2989	0	2989	0
Subscribed capital 31.12.	<u>6371</u>	<u>3283</u>	<u>6371</u>	<u>3283</u>
Share premium account 1.1.	22240	13274	22240	13274
Share premium 15.4.2002	0	8739	0	8739
Share premium 23.7.2002	0	227	0	227
Share premium 2.4.2003	1	0	1	0
Share premium 3.7.2003	32	0	32	0
Share premium account 31.12.	<u>22273</u>	<u>22240</u>	<u>22273</u>	<u>22240</u>
Profit from previous financial years	-21781	-11463	-21726	-11515
Loss for the period	-20767	-10310	-20563	-10212
Convertible bond loan 2003A 3.7.2003	1750	0	1750	0
Shareholders' equity total	-12154	3750	-11895	3796

Main terms of equity loan 2003A:

1. Capital, interest and other benefits can only be paid, in dissolution or bankruptcy of the company, with priority after all other loans.
2. 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.
3. 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 the shareholders, according to the latest balance sheet. The repayment of the loan will be done four times a year beginning in 2008 and the interest shall be 2% p.a.

The interest has not been recorded as interest expense as the total loan has been converted into new shares in the company in March 2004 *)

Distributable funds / EUR 1000	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Profit from previous financial years	-21 781	-11 463	-21 726	-11 515
Loss for the period	-20 767	-10 310	-20 563	-10 212
Capitalized development expenses	0	-5 793	0	-5 793
Share of accumulated depreciation difference recorded in shareholders' equity	-100	-100	0	0
Interest of equity loan 2003A *)	-18	0	-18	0
Total	<u>-42 666</u>	<u>-27 666</u>	<u>-42 307</u>	<u>-27 520</u>

The parent company's share capital by types of shares as of 31.12.2003

	Number of shares	Book parity value EUR 1000	Voting rights
K shares	500 000	168	35,2 %
S shares	<u>18 438 934</u>	<u>6 203</u>	<u>64,8 %</u>
Total	<u>18 938 934</u>	<u>6 371</u>	<u>100,0 %</u>

10. PROVISIONS / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Warranty	41	100	41	100

11. BOND LOAN WITH STOCK OPTIONS

The AGM of 27.4.2001 of Benefon Oyj decided to issue a maximum of 200 000 option rights to be offered to key personnel of Benefon and its subsidiaries and/or to key personnel to be recruited by the company or its subsidiaries. The subscription period for the options was 7.5.2001-29.6.2001. The subscription price for each share is for A-, B-, C-, and D-options EUR 0,34. The share subscription period began on 1.6.2002 for A-options and on 1.6.2003 for B-options, and it will begin on 1.6.2004 for C-options and on 1.6.2005 for D-options. The subscription period for all options will end on 1.6.2006.

Based on the options and as of 31.12.2003, the proportion of shares to be subscribed for was 1,1 % of the company's registered shares and 0,7 % of the votes produced by those shares.

12. ACCRUED LIABILITIES AND DEFERRED INCOME / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Accrued personnel expenses	1 197	1 591	1 197	1 524
Royalties	801	904	801	904
Marketing support accrued	0	247	0	247
Accrued interest	357	84	357	84
Other accrued liabilities and deferred income	499	173	427	181
Total	<u>2 854</u>	<u>2 999</u>	<u>2 782</u>	<u>2 940</u>

13. REORGANIZATION DEBT / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Loans from financial institutes	7 197		7 197	
Trade debtors	3 922		3 922	
Deferred liabilities	1 476		1 476	
Other current debts	2 488		2 488	
Total	<u>15 083</u>		<u>15 083</u>	
Debt cut ordered by the court 19.3.2004	<u>12 829</u>		<u>12 829</u>	
Amount to be paid	2 254		2 254	

14. PLEDGED ASSETS AND CONTINGENCIES / EUR 1000

	GROUP		PARENT COMPANY	
	2003	2002	2003	2002
Pledges and mortgages given on own behalf:				
Liabilities secured by chattel mortgage				
Loans from credit institutions	6 389	6 138	6 389	6 138
Chattel mortgage nominal value	12 068	12 068	12 068	12 068
Pledged deposits	7	178	7	178
Commitments:				
Other commitments	0	1 377	0	1 377
Leasing commitments				
Due next year	0	360	0	341

15. OTHER CONTINGENT LIABILITIES

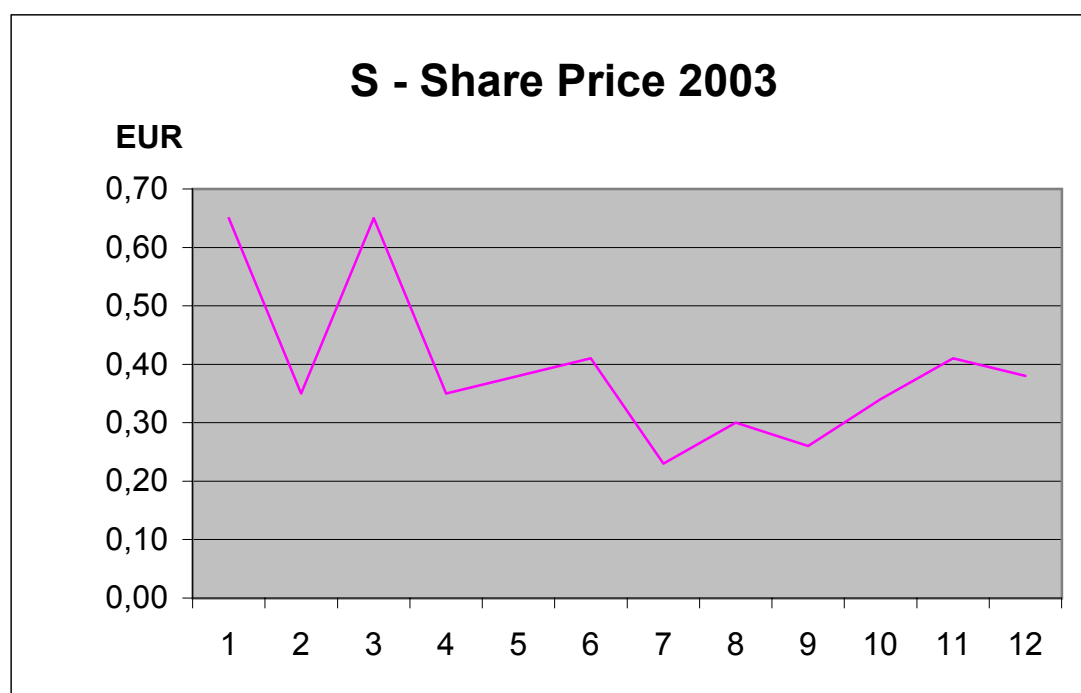
1. The prosecutor of Helsingin kihlakunta has on 17.3.2004 filed a court suit regarding financial reporting in FY 2000. In the suit she demands fines to the then Board members and the President of the company and a community fine of a minimum of 10.000 euros to the company.
The then Board members and the President and the company have denied all allegations and demands.
2. According to the re-organization program, it is possible that the controller or creditors may demand additional payments in case the result development is exceptionally good.
3. In the reorganisation procedure, the re-organization administrator filed several regression suits of significant value in the District court of Helsinki. According to the information to the Board, the outcome of the suits should not have essential financial effect on the Company.

KEY FIGURES/ EUR 1000

	2003	2002	2001	2000	1999
Net sales	6 737	14 737	47 310	59 416	39 190
Export % of net sales	79,3	92,1	95,7	92,4	89,1
Operating profit or loss	-20 206	-8 059	-10 593	-10 119	-11 929
% of net sales	-299,9	-54,7	-22,4	-17,0	-30,4
Profit or loss before extraordinary items	-20 767	-10 329	-12 729	-11 281	-12 232
% of net sales	-308,3	-70,1	-26,9	-19,0	-31,2
Profit or loss before taxes	-20 767	-10 329	-10 099	-11 281	-12 232
% of net sales	-308,3	-70,1	-21,3	-19,0	-31,2
Return on equity, %	neg.	-281,1	-165,1	-92,8	-66,8
Return on investment, %	neg.	-55,4	-43,0	-39,1	-58,1
Equity ratio, %	-206,2	15,7	11,7	26,6	49,1
Gearing ratio, %	-58,9	208,7	343,7	144,7	-14,8
Current ratio	0,3	1,1	1,0	1,2	1,7
Gross investments in fixed assets	32	5 804	3 025	1 279	1 507
% of net sales	0,5	39,4	6,4	2,2	3,8
R&D expenses	4 623	7 740	8 052	13 283	8 419
% of net sales	68,6	52,5	17,0	22,4	21,5
Non-interest bearing liabilities	11 058	12 416	14 955	17 701	9 973
Average number of personnel	140	251	366	377	296

KEY FIGURES PER SHARE

	2003	2002	2001	2000	1999
Earnings per share, EUR	-1,44	-1,21	-2,30	-2,33	-2,63
Equity per share, EUR	neg.	0,38	0,64	2,20	2,64
Dividend per share, EUR					
Dividend per earnings, %					
Effective dividend yield, %					
P/E ratio	neg.	neg.	neg.	neg.	neg.
Share price 31.12., EUR	0,38	0,72	2,46	8,15	12,70
Lowest price, EUR	0,16	0,64	1,80	7,90	3,86
Highest price, EUR	1,05	4,20	9,45	22,15	13,70
Average price, EUR	0,42	1,77	4,30	13,96	7,45
Market capitalization of the Company 31.12., MEUR	7,2	7,0	13,8	43,8	59,1
Supposing that the market price of the K share is the same as that of the S share					
Trading of shares, S share	29 545 837	4 684 375	2 319 006	4 679 664	3 726 836
%	160,2	50,6	45,3	96,0	89,7
Average of adjusted number of shares during the year	14 373 477	8 547 334	5 531 025	4 823 874	4 653 370
Number of shares, S share	18 438 934	9 259 684	5 116 220	4 877 020	4 153 370
Number of shares, K share	500 000	500 000	500 000	500 000	500 000
Total	18 938 934	9 759 684	5 616 220	5 377 020	4 653 370



SHAREHOLDERS

BREAKDOWN BY TYPE OF OWNER

Share register 31.12.2003

	shares, %	votes, %
Private individuals	51,6	37,4
Companies	21,5	44,7
Financial institutions	17,1	11,4
Public entities	8,3	5,5
Non-profit organizations	0,6	0,4
Others	0,9	0,6
Total	100,0	100,0

DISTRIBUTION OF SHAREHOLDING

Share register 31.12.2003

Number of shares hold	Number of shareholders	% of shareholders	Number of shares	% of share stock
1- 100	1 414	26,2	110 966	0,6
101- 1 000	2 545	47,1	1 184 957	6,3
1001- 10 000	1 206	22,3	4 235 560	22,3
10001-	237	4,4	13 320 055	70,3
	5 402	100,0	18 851 538	99,5
On joint book-entry accounts			87 396	0,5
Total			18 938 934	100,0

BIGGEST SHAREHOLDERS

Share register 31.12.2003

	shares, %	votes, %
Keskinäinen Työeläkevakuutusyhtiö Varma	8,3	5,5
Finnvera Oyj	6,3	4,2
EBV Elektronik	4,1	2,7
Halyard Oy	2,8	28,2
Powerfinn Oy	1,3	0,9
Rintamaa Henri	1,1	0,7
Juusti Timo	0,8	0,5
Lehtinen Risto	0,7	0,5
Head-Invest Oy	0,7	0,4
Keskinen Tarmo	0,6	0,4
Nieminen Jorma U.	0,4	2,3
Administrative registered shares	10,8	7,2
Others	62,1	46,5
Total	100,0	100,0

The Board of Directors and the President own and administer in total 625 105 shares which correspond to 3,3 % of all shares and 30,6 % of all votes.

CALCULATION OF KEY RATIOS

$$\text{Return on equity (ROE), \%} = 100 \times \frac{\text{Profit before extraordinary items - income taxes}}{\text{Shareholders' equity+ minority interest (average)}}$$

$$\text{Return on investment (ROI), \%} = 100 \times \frac{\text{Profit before extraordinary items + financial items}}{\text{Total assets - non-interest bearing liabilities (average)}}$$

$$\text{Equity ratio, \%} = 100 \times \frac{\text{Shareholders' equity+ minority interest}}{\text{Total assets - advances received}}$$

$$\text{Gearing ratio, \%} = 100 \times \frac{\text{Interest bearing liabilities - cash and cash equivalents}}{\text{Shareholders' equity+ minority interest}}$$

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

$$\text{Earnings / share, EUR} = \frac{\text{Profit before extraordinary items - income taxes}}{\text{Average of adjusted number of shares during the year}}$$

$$\text{Equity / share, EUR} = \frac{\text{Shareholders' equity}}{\text{Number of shares}}$$

$$\text{Dividend / share, EUR} = \frac{\text{Dividend}}{\text{Number of shares}}$$

$$\text{Effective dividend yield-\%} = 100 \times \frac{\text{Dividend / share}}{\text{Share price 31.12.}}$$

$$\text{P/E -ratio} = \frac{\text{Share price 31.12.}}{\text{Earnings per share}}$$

Proposal of the Board of Directors to the Annual General Meeting

The Group's distributable funds total EUR -42.666.000. The parent company distributable funds total EUR -42.307.000 of which the result for the financial year amounted to EUR -20.563.271,99.

The Board of Directors proposes to the Annual General Meeting that no dividend will be distributed and that the loss for the financial year will be booked to the account "profit from previous financial years".

Salo, May 6, 2004

Brian Katzen

Jeffrey Crevoiserat

Juha Kiikeri

Translation from the Finnish original

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BENEFON OYJ

We have audited the accounting, the financial statements and the corporate governance of Benefon Oyj for the period 01.01.2003 – 31.12.2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

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

The financial statements as at 31.12.2003 as well as the Interim Financial Statements that have been issued during the financial year 2003 have been prepared on the going concern principle. The reorganisation programme of Benefon Oyj that was confirmed by the District Court of Turku on 19.03.2004 has strengthened significantly the balance sheet structure of the parent company and at the same time improved its operational preconditions. However, due to continued loss making operations there are still uncertainties relating to continuation of the company. Significant improvements in profitability and cash flows as well as possible additional funding are the prerequisites for continued operations of Benefon Oyj.

Inventories in the financial statements consist mainly of electronical components. The book keeping value of these components is based on their estimated consumption in production, which again is based on sales estimates of terminals. Inventories that are in excess of estimated consumption have been charged to income as costs in the financial statements. Realised sales have repeatedly fallen short of estimated sales in the past. Therefore we consider that valuation of inventories in the financial statements carries significant risk.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the

financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding handling of the loss is in compliance with the Companies Act.

Salo May 21, 2004

Ernst & Young Oy
Authorized Public Accounting Firm

Tapio Ali-Tolppa
Authorised Public Accountant