Interim Report January-September 2002

BENEFON OYJ BULLETIN NOVEMBER 14, 2002 at 15.00

General

The Company focused sales, marketing and product development efforts on the mobile telematics market.

Benefon is providing solutions for saving lives, securing assets and improving mobile business processes, by combining three enabling technologies: precision location, mobile cellular access and mobile Internet.

Benefon mobile telematics solutions are built around a range of mobile handsets and associated software applications and services, marketed through sales channels being developed in approximately 50 countries world wide. The product range has been extended to cover now also applications for vehicular and machine-to-machine environment and for asset management, including animal tracking.

Business environment

The general ICT market conditions have not improved. However, the interest of businesses and mobile operators in mobile telematics solutions appears to be growing all of the time and mobile telematics is perceived as a promising growth market, let it be that the growth has been slower than expected.

Business development

The marketing focus was on commercialising complete solutions as well as on developing client projects and sales prospects in cooperation with distributors and trade partners. Expansion of the sales network was focused especially on South and North America and Europe.

The reception of the NT mobile telematics product range of the Company has been very good and also the sales of the new tracking device Benefon Track Box, fielded in early autumn, have started well.

A special Benefon Track Box application, the "Pointer Dog GPS" realized for Oy Pointer Solutions Ltd., attracted world wide attention with its introduction in late summer. This application essentially comprises Benefon Track Box tracking device and Benefon Esc! personal navigation phone as the display unit.

The downward trend of the NMT 450 market seems to continue, let it be that the sales in the third quarter exceeded that of the previous quarter. Benefon has now a clear dominance in the NMT 450 market and plans to continue NMT 450 production for years to come.

Product development efforts were focused on the new mobile telematics product range that will be compatible with and extending existing solutions and will thus complement and extend the present product range in a major way beginning in next year. Aside with this, the 900/1900 MHz versions of the present mobile telematics product range needed in the Americas were being finished. The sales deliveries in North and Latin America should start in this quarter but the deliveries of the initial 6 MUSD order received from Brightstar in the spring will in most part be shifted over the year end.

Despite the general industry gloom, the Company is optimistic about the development of its own business. The optimism is founded eg. on the fact that mobile telematics sales are now growing fast accross a large number of markets and even larger number of customers. This base development is taking place without any of the big contracts the company is actively working on having yet won. Any realized such big contract would significantly accelerate the growth of the Company.

Under the costs saving program decided in May and implemented over the summer, production personnel was reduced to adjust the capacity to the estimated near term sales volume. The Company is prepared to either re-increase the in-house capacity or use contract manufacturing services for demand in excess of current capacity, if needed.

Elcoteq agreement

In the beginning of August, the Company closed an agreement with Elcoteq Network Corporation about an extensive and close co-operation in the R&D domain. According to the 11 Meuro deal, three quarters of the R&D unit of Benefon was transferred into the Elcoteq Design Center ("EDC"), a wholly owned subsidiary of Elcoteq. Of the total value of the deal, 7 Meuros were booked in the third quarter and the rest are bound to be booked monthly by the next summer. The operations within the new framework have started well and the EDC agreement carries along a number of significant positive effects to Benefon regarding finances, cost structure and operational flexibility.

Financial performance in the period

The net sales in the third quarter 7-9/2002 were 4.2 Meuros, which was 15 % over the net sales of 3.7 Meuros in the second quarter, and the net sales in the entire period 1-9/2002 were 12.7 Meuros. The net sales in the third quarter of the previous year 2001 were 16.3 Meuros and the net sales in the entire period 1-9/2001 were 38.3 Meuros. The sales growth from the second to the third quarter came mostly from the growing mobile telematics sales.

The operating result in the third quarter 7-9/2002 was 0.6 Meuros, which was 3.3 Meuros more than the operating result -2.7 Meuros in the second quarter, and the operating result in the entire period 1-9/2002 was -5.8 Meuros. The operating result in the third quarter of the previous year 2001 was -0.5 Meuros and the operating result in the entire period 1-9/2001 was -8.0 Meuros. All of the operating result figures hereafore comprise the booked capitalizations of R&D expenses.

Included in the operating result of the third quarter 7-9/2002 there are also the booked 7 Meuro sales income from the EDC deal, the 2.7 Meuro write-off of the capitalized R&D expenses and the 0.4 Meuro write-off of the capital goods transferred to EDC with the deal. Also included are 1.4 Meuro write-offs from the some material inventory items. All together, these adjustments improve the operating result of the third quarter by 2.6 Meuros. Without these adjustments the operating result for the third quarter would have been -2.0 Meuros which would have meant 26 % improvement from the operating result of the second quarter.

The total of the balance sheet at the end of the third quarter 7-9/2002 was 24.6 Meuros, including R&D capitalizations of 3.6 Meuros. The total of the balance sheet at the end of the previous quarter 4-6/2002 was 28.1 Meuros, including R&D capitalizations of 5.3 Meuros, and at the end of the same quarter 7-9/2001 a year before it was 37.1 Meuros, including R&D capitalizations of 1.6 Meuros. The amount of Shareholders´ equity at the end of 2Q02 was 6.1 Meuros, ie. 25 percent of the total. The interest-carrying net debt was 6.7 Meuros, and the gearing ratio was 97 percent at the end of the period. The total liabilities continued to go down and at the end of the period they were 18.3 Meuros, of which long term liabilities were 5.3 Meuros and current liabilities 13.0 Meuros. Cash at hand and in the banks totalled 0.8 Meuros at the end of the period.

Investments

The investments in the third quarter 7-9/2002 were 1.0 Meuros and they consisted almost entirely of the capitalization of the R&D expenses.

Personnel

The number of actively employed personnel at the end of the third quarter was 157 which was 52 % below the corresponding number 327 at the end of the previous quarter 4-6/2002 and 55 % below the corresponding number 347 at the end of the third quarter 7-9/2001. This radical change was due to the reduction program of personnel costs, started in the second quarter, and to the EDC deal.

Special measures for improving the finances

Due to the cost-cutting program and the EDC deal, the fixed cost level of the company has been reduced and the balance sheet and the cash flow have improved significantly. However, the financial situation has stayed very tight due to the continuing payment program of the short term liabilities and, therefore, the program for strengthening the finances further is continuing and the Company is preparing a directed new share issue.

Future outlook

The result of the on-going quarter 10-12/2002 is very dependent on the sales. The monthly sales of mobile telematics have in recent months been growing fast and the fast growth seems to continue whereas the trend in other sales appears to be downward.

The operating result for the on-going quarter, including the R&D capitalization and the proceeds from the EDC deal booked in this quarter, seems to become somewhat negative depending, however, on the actual sales and the realized expenditures.

The financial development in next year 2003 will depend much on the continuing development of the now fast growing mobile telematics sales, which are now receiving special attention and also new resources. The opening new markets and up-coming new product versions, products and solutions will support the growing of the sales. For next year, the Company targets a good result with significantly higher sales.

Prior share issues of this year

At the end of March, the company realized a major directed share issue which brought in just over 10 Meuros worth of new capital which was used for reducing the liabilities. As reported before, the additional directed share issue worth almost 3.5 Meuros that had been planned to be realized in May did not, however, materialize because of the last minute announcement of the largest committed investor Airo Wireless Media Inc., that they could not fulfill their subscription commitment. As also reported before, the company arranged in July a separate directed share issue for other subscribers of the said planned share issue, and the Company continues the negotiations with Airo Wireless Media.

In the mentioned share issue of March, the Company's share capital was raised by EUR 1.358.509,06 with an issue of 4.038.664 new S-shares of the Company, each with a book parity of EUR 0,34 (not the exact value). The raise in the share capital was registered in the trade register on April 15, 2002. As the result of this issue, the share capital of the Company increased from EUR 1.889.160,80 to EUR 3.247.669,86 and the number of issued shares from 5.616.220 shares to 9.654.884 shares, of which 9.154.884 are quoted S-shares.

In the July issue the share capital was raised by EUR 35,252.19 with an issue of 104,800 new S-shares, each with a book parity of EUR 0,34 (not the exact value). The raise in the share capital was registered in the trade register on July 23, 2002. As the result of this issue, the share capital of the Company increased to EUR 3,282,922.05 and the number of issued shares to 9,759,684, of which 9,259,684 are quoted S-shares.

Issue authorization of the board

The ordinary Shareholders´ Meeting of May 17, 2002, 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 installments such that in the issue of convertible bonds or options or in the rights issue, in total a maximum of 1.930.977 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 649.533,97.

This authorization was used in the July new share issue for 104,800 shares meaning that the remaining authority is good for 1,826,177 shares, with which the share capital may be increased by a maximum of EUR 614,281.85.

The authorization includes the right to deviate from the pre-emptive right of the shareholders, referred to in Chapter 4, Section 2 of the Companies Act, to subscribe for new shares, convertible bonds or options and the right to decide on prices of the subscriptions, those entitled to subscription, the terms and conditions of the subscription and the terms and conditions of the convertible bonds and options. The authorizations may be used in deviation from the shareholders' pre-emptive right provided that there is a weighty financial reason from the company's point of view, such as financing of corporate acquisition or other arrangement relating to the development of the company's business operations or strengthening the company's balance sheet, to do so. When the share capital is increased by a rights issue on other basis than convertible bonds or options, the Board of Directors is authorized to decide that the shares can be subscribed for in kind, using the right of set-off or on other specific terms.

BENEFON OYJ

Jorma Nieminen
President

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	1-9/2002 EUR million	1-9/2001 EUR million
Net sales	12,7	38,3
Other operating income	4,1	1,3
Costs of operations	-21,6	-46,4
Depreciation	-1,0	-1,2
Operating loss	-5,8	-8,0
Financial income and expenses	-2,0	-1,2
Result before extraordinary items	-7,8	-9,2
Extraordinary income		2,6
Result before income taxes	-7,8	-6,6
Result for the period	-7,8	-6,6
Fixed assets		
Intangible assets	3,9	2,2
Tangible assets	1,1	2,5
Investments	0,2	0,2
Current assets		
Inventories	14,8	22,3
Receivables	3,8	7,7

Cash at hand and in the banks	0,8	2,2
Share holders' equity	6,1	7,1
Obligatory reserves	0,2	0,8
Long-term liabilities	5,3	1,2
Current liabilities	13,0	28,0
Balance sheet total	24,6	37,1
Gross investments and fixed assets	3,6	1,9
Average number of personnel	285	375

The order back-log cannot be defined accurately due to the characteristics of operations

Pledged assets and contingencies		
Liabilities relating to chattel mortgage	4,9	11,8
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,2	0,2
Leasing commitments	0,6	1,5
Other commitments	1,7	0,0
Earnings/share, EUR	-0,96	-1,68
Shareholders´ equity/share, EUR	0,63	1,27

The reference figures in the period 1-9/2001 have been adjusted regarding the R&D capitalizations to make them comparable with the fig
9/2002.

This interim financial statement has not been audited.