

INTERIM REPORT 1-9/2006

1. Highlights of the last quarter

Manufacturing capability expanded to ASMobile

The Company formalised an additional manufacturing partnership with Taiwanese GSM handset manufacturer ASMobile that was announced on August 16th 2006. Under the contract ASMobile will manufacture the second TWIG device as part of the Companies 2007 roadmap. The new TWIG device, yet to be named, is the first of the new generation of 'Lovegrove' designed products and will incorporate the latest Intel XScaleTM application processor and SiRFstarIII chipset. The Company's goal is that the product will be available from the second quarter 2007.

Contract signed with Chinese mapping data partner

The Company signed a contract with leading Chinese digital mapping company NAV2. Under the contract that was announced on August 21st 2006, NAV2 will provide important map data for use on Benefon's forthcoming range of TWIG personal navigation devices, which it is preparing to launch into the Chinese market in late 2006.

Licensing agreement announced with Pollex

The company announced on August 29th 2006 its plans to further strengthen its in-house technology platform, by licensing the complete mobile software platform, Opna, from its long-standing technology partner, Pollex. The Opna is powering Benefon's first TWIG branded personal navigation device, the TWIG Discovery.

Geowell worldwide partnership announced

The company announced on August 24th 2006 a global partnership with Finnish tracking technology company Geowell. Under the agreement, Benefon will have the sole and exclusive rights to design and manufacture integrated GPS/GSM Tracking Devices for Geowell. Benefon appointed Geowell as its global distributor for such special variants of its TWIG branded devices.

Benefon's all-in-one Geowell Hunter solution, is designed for hunters and outdoor enthusiasts, and uses GPS technology to allow real-time monitoring and tracking of either a hunting dog, or other outdoor colleagues. The Geowell Hunter technology makes hunting faster, easier and safer by allowing the outdoor user to locate their dog's precise position and navigate through their surroundings to this position.

Location application development partnership announced

The company announced on August 31st 2006 that it has extended its contract with Australian based Locatrix Communications to further develop additional services and solutions based around Benefon's core navigation and location based services.

Under the agreement, Benefon's forthcoming range of TWIG integrated GPS navigation and mobile phone devices will use the advanced web-based tracking and location technology, in both consumer and commercial applications. The partnership further enhances Benefon's competitiveness

in the location based services market, while also signalling the arrival of new services such as TWIG Alert and TWIG Friend Finder.

Licensing agreement signed with Karputer

The company announced on September 5th 2006 that it has entered into a licensing agreement with Karputer, the specialists in advanced in-car computing systems.

Under the agreement Benefon will develop and supply high-performance navigation systems based on its proprietary navigation technology for deployment in Karputer products. The contract leverages Benefon's extensive location-based technology expertise. Karputer is a producer of next-generation mini PCs that are designed for the automobile market.

The Company started industrial cooperation procedure

The company announced on September 6th 2006 that it commenced a formal industrial cooperation procedure regarding rationalisation and staff re-organisation. Continuing the company's strategy to outsource non-core activities, the presented re-organisation is part of the corporate operations and productivity improvement plans. The plans include consolidating the Salo operation into a B2B business unit and the establishment of a B2C business unit in the UK, with the objective of building on it's position in the business and enterprise market, and developing the company's overall position in the consumer navigation space. The industrial co-operation procedure was concluded during the 3rd quarter as announced on September 29th 2006. As a result of the negotiations a total of six employees were made redundant.

The Company also updated its delivery schedule for TWIG and announced committed financing on September 28th 2006.

The company announced that it would revise the delivery date of its new TWIG Discovery GSM/GPS handset in Europe to October 2006. Launch dates for China and Russia will remain on track for December 2006. The revision of the launch date is caused by a delay in the mass production associated with Benefon's new product introduction. This resulted in an approximate three-week delay of manufacturing in its Chinese facility. Although the challenges caused a critical delay in production timing, the company's production facility is now up and running. As the company did not have sufficient time to recover during the remainder of the quarter, it announced to revisit its forecast guidance published on August 2, 2006, which were cancelled at the same. The company published updated projections on October 3, 2006.

Benefon also announced a new financing plan that was introduced to guarantee the sufficiency of company's working capital. The company has agreed a financing package comprising subscriptions in shares, convertible bond loan issues, options and debt instruments with Octagon Solutions Ltd. and Ashland Partners LP., totaling at maximum of 7.35 million euros. The funding is secured and committed by Octagon Solutions Ltd. and the total number of investors providing the funds may not exceed ten. The agreed funding is divided into five tranches each of which the Board of Directors is entitled to call separately. Investors' financing commitment is valid for six months until March 28, 2007.

2. Outlook for the remainder of 2006

Market outlook

The outlook for navigation devices continues to look extremely buoyant with predictions still to be in excess of 100 million navigation devices for the next 5 years in Western Europe alone.

Q4 Outlook

The company will spend the fourth quarter of the year rolling out its market delivery plans across Europe - delivering first in the company's home market of Finland followed by a market roll out across major countries of Western Europe.

Financial targets

The company published updated projections on October 3, 2006.

Benefon announced to be expecting to receive a delivery of 60,000 TWIG Discovery GSM / GPS handsets during the 4th quarter. The sales were informed to be dependant on the network approvals received in the company's major markets. In the light of the uncertainty as to the timing of sales the company was not able to determine accurately the 4th quarter and the year 2006 results. However it expected that the net sales for 2006 exceed 2005 net sales.

3. CEO Comments

"This is an exceptionally exciting time for Benefon with the launch of its first TWIG branded GPS / GSM handset. We proved that we were able to launch ahead of our major competitors.

During the fourth quarter TWIG Discovery will start to appear on the shelves of retailers across part of Western European. TWIG Discovery has full on-board navigation including 2D and 3D turn by turn voice guidance routing and will be delivered to market with our TWIG FINDER service which allows TWIG handset users to locate one another and navigate to each other. Also TWIG Discovery can send its current location to any mobile phone user. In addition Discovery comes with TWIG POI (Point of Interest) a comprehensive listing of practical destinations such as Airports, Petrol Stations, Banks, Restaurants, Bowling Alley and Shopping Centres to name a few. In case of trouble, TWIG ALERT can provide extra safety and security in unforeseen circumstances by opening a voice call or sending the user's GPS location to a pre-set contact list"

4. Operational Review

Current authorisation of the Board of Directors

The Board of Directors has been authorized by the Annual General Meeting of 24th May, 2006 to decide on issue of new shares and increasing the share capital by a maximum of EUR 441,152.12 and 44,115,212 new investment series shares. The authorization is valid until 24th May, 2007 at the latest.

The company announced a new financing plan on September 28th 2006 comprising of subscription in shares, convertible bond loan issues and option rights totaling at maximum of 7.35 million euros. The funding is divided into five tranches each of which the Board of Directors is entitled to call separately by March 28th 2007. As the result of the committed financing the number of company's shares may be increased by a maximum of 38,786,905, which amount shall also reduce the current authorization correspondingly.

5. Development after reporting period

Benefon expects to take delivery of 60,000 TWIG Discovery GSM / GPS handsets during the quarter ending 31st December 2006 (4th quarter).

The mix of sales between business users and consumers, and the absolute level of sales in the 4th quarter, will partly depend on how quickly network approvals are received in Benefon's major markets. Based upon detailed testing requirements by market it is not possible to state at this time when such individual network approvals will be received.

Although, in light of the uncertainty as to the exact timing of sales it is thus not possible at this time to accurately determine the 4th quarter results and therefore the financial results for the whole year. It is however expected that the net sales for 2006 should exceed the 2005 net sales number.

The company also continues to be encouraged by the positive outlook for 2007. Products planned for launch in 2007 are on track to be launched as scheduled.

During the 4th quarter The Board of Directors has called three tranches of committed financing according to financing commitment announced on September 28th 2006. The total amount of called financing is EUR 4,400,000 of which EUR 2,950,000 has already been received from Octagon Solutions Ltd, Ashland Partners LP and Luben Limited.

The first tranche was called on October 5th 2006 when the Board decided to offer at maximum of 5,523,810 new investment series shares and convertible bond loan of EUR 290,000.00 for subscription by Octagon Solutions Ltd. and Ashland Partners LP. Of the shares 2,714,286 were offered for subscription by Octagon Solutions and 2,809,524 by Ashland Partners and of the convertible bond loan EUR 142,500.00 to Octagon Solutions and EUR 147,500.00 to Ashland Partners.

The second tranche was called on October 24th 2006 when the Board decided to offer at maximum of 5,714,286 new investment series shares and convertible bond loan of EUR 300,000.00 for subscription by Ashland Partners LP and Luben Limited. Of the shares 1,484,952 were offered for subscription by Ashland Partners and 4,229,334 by Luben Limited and of the convertible bond loan EUR 77,960.00 to Ashland Partners and EUR 222,040.00 to Luben Limited.

The third tranche was called on November 7th 2006 when the Board decided to offer at maximum of 5,523,810 new investment series shares and convertible bond loan of EUR 290,000.00 euros for subscription by Luben Limited. The payment of the third tranche is to be received by November 21st 2006.

6. Financial Review

Financial Performance in period

The net sales of the company in Q3/2006 were 644k euros. The comparable net sales in Q3/2005 were 2,142k euros.

The operating profit in Q3/2006 was -1,704k euros. The comparable operating profit in Q3/2005 was -1,251k euros.

The total of the balance sheet at the end of Q3/2006 was 15,074k euros. The total of the balance sheet at the end of the previous quarter Q2/2006 was 15,248k euros and at the end of the same period Q3/2005 the previous year it was 4,847k euros.

The shareholders' equity in the balance sheet at the end of Q3/2006 was 9,606k euros, or about 64%, when at the end of the previous quarter Q2/2006 it was 11,219k euros, or about 74%. At the end of the same period Q3/2005 the previous year it was -1,760k euros, or about -36%.

The book value of interest-carrying net debt at the end of Q3/2006, including the capital loans, was 969k euros. The total liabilities at the end of Q3/2006 were 5,468k euros, whereas they were 4,029k euros at the end of the prior quarter Q2/2006 and 6,607k euros at the end of the same quarter Q3/2005 the previous year. Cash at hand and in the banks at the end of the period was 3,025k euros of which 357k euros were pledged.

The Company adopted the International Financial Reporting System (IFRS) during financial year 2005 and the financial statements for the year 2005 and onwards, including the interim reports, have been prepared according to IFRS. However, the accounts in the interim reports are still presented in the traditional condensed form.

Report on sufficient liquidity in period 10/2006-12/2007

The below cash flow statement assumes that sales targets set in financial projections for financial years 2006 and 2007 are met. As stated in section 2. Outlook for the remainder of 2006 wherefore, the projections are highly dependent on timely delivery and sales success of company's new TWIG branded product line.

Cash Flow Statement 10/2006-12/2007	million euros
Cash flow from operations	
Profit for the period	10,0
Adjustments	1,9
Changes in working capital:	
Change in receivables	-9,7
Change in inventories	1,7
Change in current liabilities	0,6
Paid and received interests	-0,6
Cash flow from operations	3,9
Cash flow from investments	-4,9
Cash flow from financing	
Share subscription payments	3,5
Raised loans	3,9
Payments of loans	-1,4
Cash flow from financing	6,0
Change in cash	5,0
Cash in the beginning of the period	3,0
Cash at the end of the period	8,0

Investments

Gross investments in the reporting period were 3,823k euros.

Personnel

The number of employed personnel at Benefon during Q3/2006 averaged 84. Alternate forced leaves affected 19 people of the employed personnel.

7. Contact information

Investor relations and financial press

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Benefon share (BNFSV) is listed on the small cap -list of Nordic Exchange Helsinki.

About Benefon

Founded in 1988 in Finland by the early GSM pioneers, BENE FON is a leader in GSM/GPS mobile telematics terminals and solutions. Benefon is at the forefront of innovation and research in mobile telephony and GPS navigation. It is now with the dawn of TWIG that BENE FON is able to truly offer the world a navigation system and a series of TWIG handsets that can be easily understood and enjoyed in both professional and leisure contexts.

8. Financial Accounts

INTERIM REPORT 1-9/2006, IFRS

	1-9/2006	1-9/2005	1-12/2005
	1000 EUR	1000 EUR	1000 EUR
Net sales	3904	5809	7562
Other operating income	15	17	85
Costs of operations	-7690	-7993	-10860
Depreciation and value adjustments	-59	-158	-185
Operating profit	-3830	-2325	-3398
Financial income and expenses	-23	386	207
Profit before taxes	-3853	-1939	-3191
Income taxes	0	0	0
Profit for the period	-3853	-1939	-3191
Fixed assets			
Tangible assets	236	127	132
Intangible assets	3687	17	27
Investments	61	60	61
Current assets			
Inventories	3177	1124	1282
Receivables	3079	1855	1566

Prepaid expenses	1809	141	569
Cash in hand and at banks	3025	1523	1337
Share capital	2206	1282	1313
Other shareholders' equity	7400	-3042	-3644
Long-term liabilities	946	1767	985
Current liabilities	4522	4840	6320
Balance sheet total	15074	4847	4974
Gross investments	3823	0	40
Average number of personnel	81	76	76
Pledged assets and contingencies			
Contingent liabilities relating to			
chattel mortgage	1678	1484	1633
Chattel mortgage nominal value	12068	12068	12068
Pledged assets	399	392	403
Earnings/share, EUR	-0.02	-0.02	-0.03
Shareholders' equity/share, EUR	0.04	-0,01	-0.02
Shareholders' equity/share, diluted	0.03		

The key ratios have been computed undiluted as the dilution effect would improve them. In computing the result per share, neither the dept cuts nor the additional payments due to re-organisation have been included.

The interim financial statements have not been audited.

CASH FLOW STATEMENT

	1-9/2006	1-9/2005	1-12/2005
	1000 EUR	1000 EUR	1000 EUR
Cash flow from operations			
Profit for the period	-3853	-1939	-3191
Adjustments	191	292	-764
Changes in working capital:			
Change in receivables	-2753	-1072	-1211
Change in inventories	-1895	1182	1024
Change in current liabilities	957	-378	1158
Paid and received interests	59	-28	-30
Cash flow from operations	-7294	-1943	-3014
Cash flow from investments	-3823	0	-40
Cash flow from financing			
Share subscription payments	11676	0	434
Transaction expenses of share issues	-296	0	-9
Raised loans, equity	0	256	313

Raised loans, liability	1425	2194	2637
Payments of reorganization debt	0	-357	-357
Cash flow from financing	12805	2093	3018
Change in cash	1688	150	-36
Cash in the beginning of the period	1337	1373	1373
Cash at the end of the period	3025	1523	1337