

HIGHLIGHTS

Reorganisation program completed early
Financing for product development secured
New product program announced
Sales Q2/2005 34% higher than Q1/2005
Sales Q2/2005 23% higher than Q2/2004
New CEO appointed

GENERAL

The reorganization program of the Company completed

The reorganization solution which the Company applied for in April 2003, was confirmed in March 2004 and regard to the continuity of the Company, is detailed in the financial report of FY 2004 issued on 24.2.2005 and the company web site www.benefon.com

The Company reported on 20.4.2005 about the agreement between the Company, the supervisor of the reorganization program, Finnvera, OKO Bank and Sampo Bank ("FOS") according to which the reorganization program of the Company will be applied to be amended to end on 30.6.2005 instead of the prior confirmed 31.12.2008. The agreed amendment was presented on 28.4.2005 to Turku District Court which on 13.6.2005 resolved to approve the application of the Company.

The decision of the Turku District Court became legally enforceable on 20.6.2005 and the Company reported on 4.7.2005 that in accordance with the approved program amendment it had paid off all non-collateralized debts. At the same time, the Company also paid to non-collateralized creditors of the Company additional payments which more than doubled the payments to the non-collateralized creditors determined in the reorganization program.

With the Turku District Court having decided to amend the re-organization program in accordance with the agreement, the Supervisor withdrew the regression suits filed in the District Court of Helsinki as reported by the Company in the bulletin released on 16.12.2003.

Further, the Company and FOS have agreed certain financial covenants upon fulfilment of which, but not later than 30.9.2008, FOS will waive all claims towards and receivables from the Company and will release all collateral from them.

The advanced completion of the reorganization program has no direct effect on the alternate forced leaves of the Company which are continuing on production and financial grounds.

Financing arrangements of the operations

On 12.4.2005, the Company reported about the financing arrangement for product development. In the arrangement, the selected leasing company Benecap Limited of Jersey, Channel Islands, will acquire from outside suppliers ce

deliverables needed in the new product program mentioned in the FY 2004 result report issued on 24.2.2005. deliverables, including items like the operating system, molds, Bluetooth software, and other mobile software others, are licensed to Benefon for utilization in the said new product program. In the arrangement, there is a place for Benefon to buy out the ownership of these operating licenses with agreed terms and conditions. In accordance with the terms of such operating license, the Board decided further to commit to issue a maximum of 2,340,000 option rights with share exercise price of 0.14 euros each which shall be directed to the investors providing the funds for the license acquisitions.

Connected with the agreement for the advanced re-organization exit of Benefon Oyj outlined above, the Company reported on 20.4.2005 about raising a capital loan of 1,200,000 euros for financing the payments in the agreement. The loan was granted by the said Jersey company Benecap Limited who arranged the loan capital from investors. The loan interest is 8% p.a. and it will be paid back at the end of 2007, as latest, subject to legal limitations pertaining to capital loans. In accordance with the negotiated terms and conditions of the loan, the Board of the Company committed to issue 2,160,000 option rights with share exercise price of 0.14 euros each to be directed to the investors providing the funds.

After the end of the reporting period, on 6.7.2005 the Company reported further that, in order to ensure the completion of the planned new product development program and to secure sufficient components required for such production, for ongoing strategic financing, the company will raise a capital loan of 1,250,000 euros. This loan was arranged by the said Jersey company Benecap Limited who arranged the loan capital from investors. The interest of the loan is 8% p.a. and it will be paid back at the end of 2007, as latest, subject to legal limitations pertaining to capital loans. As part of the negotiated terms of the loan, the Board committed to issue a total of 2,500,000 option rights with share exercise price of 0.14 euros to the investors providing the funds.

On 3.8.2005, the Company reported further that the Board of the Company has decided to realize the commitments made in the said earlier three decisions, and to issue the committed total of 7,000,000 option rights to the 25 investors as arranged by Benecap Limited in proportion to their contributions. The decision will be implemented by transferring to the investors a total of 7,000,000 options from the option rights granted by the extraordinary general meeting of 26.2.2004 of which the amount of which was set at 39,597,988, which were registered in the Trade Register on 16.12.2004 and which are being parked at Octagon Capital Ltd. All of these options are exercisable at 0.14 euros per share until 31.12.2007.

The longer term financing solution of the Company is proceeding

The Company reported in December 2004 about retaining a New York investment bank Punk, Ziegel to explore and evaluate the various financing alternatives for securing the long term financing of the Company. In the update report issued on 13.5.2005 the Company informed that one of the objectives of the on-going strategic financing project is to secure the financing for the said new product program to be realized during the years 2005 and 2006 in a cost effective manner within the planned timeframe, and that Punk, Ziegel is about to contact interested investors for the purpose of providing a history, current situation and trading information and the ongoing business development projects of the Company. The most central is the said new product program started last autumn.

After the end of the reporting period, in the new update report issued on 1.8.2005, the Company informed that the Company's evaluation of various strategic funding alternatives as referred to in the bulletin dated 26th of May 2005 is on-going and further information will be available towards the end of August 2005.

In the said bulletin of 13.5.2005 the Company also released information about the technical and timeline objectives of the said product program, as re-iterated under the next sub-title.

The principal contents of the new-product program of the Company

The first product of the said new product program, targeted to be introduced this year, will be rugged, splash proof device. The product will be a combination GPS/GPRS smartphone with built-in antennas. The product measures 120 mm and will weigh about 120 grams. Some of the features in the first version to be released to the market will include a high resolution colour screen, Bluetooth connectivity and a slot for a mini-SD memory card for maps and other data along with an email client software. There will also be a USB connection port for data transfer.

The product will cover EGSM/GPRS networks on four frequency bands 850, 900, 1800 and 1900 MHz which provides coverage for all existing GSM/GPRS networks. The GPRS multislot functionality is specified up to class 10, and functionalities include those of phase 2/2+. The GPS functionality is achieved with a 12-channel high performance receiver. Certain of the telematics functions are compatible with the applications developed by Benefon up to now with others being planned. This product will combine Benefon's personal navigation platform along with other telematics and safety solutions, providing a navigation mobile phone with a built-in GPS receiver coupled with the Benefon solutions. A whole range of services are planned to be provided to customers, including traffic updates, weather forecasts, points of interest and speed camera information, where applicable, to name but a few.

The subsequent versions of the product will include the following features, amongst others, a 1.3 megapixel camera, a shell design, a WiFi (wlan)- link, push-to-talk functionality, EGPRS and EDGE functionalities and the AGPS functionality. A 3G-version is planned in the product roadmap.

The new product family will be divided into three distinct market segments. The first will be targeted toward the professional user, the second will be designed for personal consumer use, and the third comprising versions tailored for the enterprise.

International design company Pentagram Design has been retained for overseeing and managing the design and development of the planned product roadmap. Another of the Company's strategic partners China Putian, reported on 28.10.2005, is being extensively utilised in its production planning.

The realization of all of the described product program will require that the strategic financing program being implemented by Punk, Ziegel will be successfully completed within this year. Should there be essential deviations, the Company may limit the scope of the program or extend its timeline, or both. The information provided herein about the characteristics of the products under development is based on the current plan, and the Company withholds the right to change the program during and/or after the program.

Ismap acquisition completed

Ismap acquisition, secured in the end of 2004, was completed in the beginning of April 2005 when the remaining assets of Ismap were transferred to Benefon. Prior to that on 3.3.2005, the increase of share capital of 3,735.20 euros of Benefon through the share swap was registered at the Trade Register.

The product deliveries for the Spain-agreement have commenced

The product deliveries to Vodafone in accordance with the agreement connected with the program of the Spanish government against domestic violence, the Company reported about on 22.3.2005, have been commenced.

Appointment of a new CEO

After the end of the reporting period the Company informed on 18.7.2005 that the Board of the Company has appointed Jonathan Bate to the position of Chief Executive Officer, effective from October 15, 2005, or before if notified by the Company in writing. Tomi Raita, the current CEO, will continue as the Company's Chief Operating Officer.

The Company defends itself against a patent claim in Italy

The Company informed on 25.5.2005 that in 2001 it was summoned to legal proceedings in Italy by a company Magi.tel alleging that the Twin DS product of the Company would have infringed a utility model registered in Italy and claiming damages in an amount of approximately EUR 15 million. The Company carefully investigated through its patent attorneys and the results of this investigation, delivered to the court, pointed out that the said utility model had been awarded without any merit because of the presented multiple prior patent applications and prevented the innovativeness and the inventive step needed for a valid patent or a utility model. Furthermore, from the Company's view, the claim for damages was totally groundless. After this, in December 2002, the Company informed that the judge had issued an interim decision confirming that it was not likely that the utility model granted to Magi.tel was valid. The said case has now re-surfaced, as in accordance with the information received by the Company the court has delivered new arguments for the validity of the utility model which would be the subject of a technical hearing in the second week of June 2005. However, the new review of the case by Benefon has confirmed that nothing has changed and the Company continues to maintain that such claim by Magi.tel is utterly groundless both as to any alleged infringement as well as any liability for damages. The Company intends to vigorously defend its position against Magi.tel's claim which the Company views as groundless. In the said June hearing, the Company filed its response and was informed that the hearing should be expected to continue in October, 2005.

SALES, MARKETING AND BUSINESS DEVELOPMENT

The business of the Company is to offer mobile telematics terminals, software and solutions for securing live data for improving field management and for personal navigation applications and location based services.

Mobile telematics sales are directed to about 20 countries and the sales efforts were focused especially on countries in Europe and in USA. The share of mobile telematics sales of all sales in the reported quarter was almost 100%.

The range of mobile telematics products covers personal security and navigation applications as well as field management applications, vehicular and machine communications (M2M) applications and asset tracking. The objective is the introductions of novel terminal and software products and product versions in the most central markets for increasing sales opportunities. Connected with this, the Company has started the new product program centering on years 2005-2006 outlined previously.

FINANCIAL PERFORMANCE IN THE PERIOD

The persistent strength of euro against US-dollar has challenged the growing of the sales especially in North America and also in other markets outside the euro-zone. However, the Company managed to increase the net sales 34% for the quarter and 23% from the same period of the prior year. Due to successful cost management, the operating loss was reduced further even with the increased R&D expenditure.

The net sales of the company in quarter 4-6/2005 were 2103 teuros, when they were 1564 teuros in the preceding quarter 1-3/2005. The net sales in the same quarter 4-6/2004 a year before were 1706 teuros.

The operating result before one-off items in quarter 4-6/2005 was -401 teuros. The comparable figure in the preceding quarter 1-3/2005 was -454 teuros and the same in the same quarter 4-6/2004 a year before was -865 teuros. The net result in quarter 4-6/2005 was -1140 teuros which includes the additional payments of 720 teuros to the non-collateralized creditors in accordance with the re-organization exit agreement.

The total of the balance sheet at the end of quarter 4-6/2005 was 4137 teuros. The total of the balance sheet at the end of the previous quarter 1-3/2005 was 4406 teuros and at the end of the same period 4-6/2004 a year before it was 6306 teuros. The share of the shareholders' equity of the balance sheet at the end of 4-6/2005, including the capital loans, was 1087 teuros, or about 26%, when at the end of the prior quarter 1-3/2005 it was 996 teuros, or about 23%. The interest-carrying liabilities at the end of the quarter, including the capital loans, was 3099 teuros. The total liabilities at the end of the period were 3036 teuros, whereas they were 3365 teuros at the end of the prior quarter 1-3/2005 and 4441 teuros at the end of the same quarter 4-6/2004 a year before. The total liabilities at the end of quarter 4-6/2005 were 3036 teuros, all of which are collateralized. This figure includes 1616 teuros worth of collateralized debts and interests which in accordance with the re-organization exit agreement will be waived and booked as income by 30.9.2008 at the latest. Cash at hand and in the banks at the end of the period was 727 teuros of which 352 teuros was pledged.

REPORT ON SUFFICIENT LIQUIDITY IN PERIOD 07/2005-09/2006

The cashflow projection provided hereinafter is based on the latest contingency business plan which could be implemented without additional financing.

Cashflow account of period 07/2005-09/2006 / 1000 euros

Operating result before extraordinary items (presuming the said new product program)	4764
Depreciations	159
Increase of current receivables	-2903
Increase of inventories	-977
Increase of non-interest bearing debt	674
Paid interests	-75
Investments	-321
Raised capital loan	1250
Change of interest bearing debt	0
Change of cash at hand	2571

Should the future development deviate from current information or estimates, it may significantly affect the cashflow account.

INVESTMENTS

The Company made no investments in the reporting period.

PERSONNEL

The number of employed personnel at Benefon in the quarter 4-6/2005 averaged 76. At the end of the quarter personnel was 76 when at the end of the prior quarter 1-3/2005 it was 76 and at the end of the same quarter 4 before it was 92. In quarter 4-6/2005, the alternate forced leaves effected about 57 people of the employed pe

FUTURE OUTLOOK

On 26.5.2005 the Company publicised revenue and profitability projections for the year 2005. Accordingly, the Company projected that the sales and the result are in strong growth in the latter part of the year but that the projection is dependent upon its upcoming product development plans and the securing of additional financing in the range of 100 million which was anticipated to be secured by the end of July 2005. In the bulletin released on 1.8.2005, the Company informed that the said financing project is proceeding, that more information will be available at the end of August 2005. The projections given in the earlier bulletin are still reasonably valid.

The Company presented in the said financial projection a number of risk factors that may change the provided projections, the most important uncertainties being actualization of the sales ramp-up schedule of the new product and the evolution of the present product sales plan. Also, the evolution of the euro-dollar parity may affect the outlook.

EQUITY ISSUE AUTHORITY OF THE BOARD

The ordinary general meeting of 26.5.2005 decided to cancel the authorisation granted on 28.5.2004, and authorize the Board of Directors, within the time limit of one year from the meeting granting the authorization, to decide on the issue of share capital by rights issue, issue of options or convertible bonds in one or more instalments so that in the case of convertible bonds or options or in the rights issue a total maximum of 25,630,809 new investment shares with a nominal value of EUR 0.01 per share shall be entitled to be subscribed for. Therefore, the share capital may, based on the authorization, be increased by a maximum of 256,308.09 euros.

The authorization includes the right to deviate from the pre-emptive right of the shareholders, referred to in Chapter 2, Section 2 of the Companies Act, to subscribe for new shares, convertible bonds or options and the right to decide on the terms 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 of the company's balance sheet.

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 special basis.

This authorisation has not yet been used. The option commitments by the Board, detailed in the General section of the Memorandum, will be realized by using the option rights decided by the extraordinary general meeting of 26.2.2004 and paragraph 10 of the Octagon Capital Ltd.

ADOPTING IFRS REPORTING

The Company intends to adopt the IFRS reporting standard in connection with the financial statements of FY 2005. Interim reports in 2005 will be prepared according to the current Finnish regulations. Preparations for IFRS standards are proceeding. No precise estimates for the effects from the adoption of the IFRS standards can yet be offered but they are not seen to essentially affect the balance sheet structure.

BENEFON OYJ

Tomi Raita
CEO

INTERIM REPORT 1-6/2005

	4-6/05 1000 EUR	1-3/05 1000 EUR	4-6/04 1000 EUR
Net sales	2103	1564	1706
Other operating income	0	17	7
Costs of operations	-2437	-1969	-2461
Depreciation according to plan	-67	-66	-117
Operating profit before one-off items	-401	-454	-865
One-off items	0	0	0
Operating profit	-401	-454	-865
Financial income and expenses	-739	-11	16
Profit before extraordinary items	-1140	-465	-849
Extraordinary income	0	0	0
Profit before appropriat. and taxes	-1140	-465	-849
Profit for the period	-1140	-465	-849
Fixed assets			
Intangible assets	21	25	77
Tangible assets	148	209	357
Investments	60	60	63
Current assets			
Inventories	1811	2163	4030
Receivables	1370	1036	1691
Cash in hand and at banks	727	913	302

Shareholders' equity	-2120	-980	61
Convertible equity bond loan	1126	1126	1126
Capital loan	2050	850	850
Obligatory reserves	45	45	42
Long-term liabilities	0	1285	1863
Current liabilities	3036	2080	2578
Balance sheet total	4137	4406	6520
Gross investments in fixed assets	0	0	36
Average number of personnel	76	78	92
Pledged assets and contingencies			
Liabilities relating to chattel mortgage	1484	1484	1484
Chattel mortgage nominal value	12068	12068	12068
Pledged investments	40	40	40
Pledged deposits	352	285	0
Other commitments	115	91	0
Earnings/share, EUR	-0,01	-0,00	-0,01
Shareholders' equity/share, EUR	-0,02	-0,01	0,01

The interim financial statements have not been audited.

INTERIM REPORT 1-6/2005

	1-6/05 1000 EUR	1-6/04 1000 EUR	1-12/04 1000 EUR
Net sales	3667	3364	7033
Other operating income	17	13	140
Costs of operations	-4406	-4755	-9776
Depreciation according to plan	-133	-233	-430
Operating profit before one-off items	-855	-1611	-3032
One-off items	0	0	-1098
Operating profit	-855	-1611	-4130
Financial income and expenses	-750	39	10
Profit before extraordinary items	-1605	-1572	-4120
Extraordinary income	0	12459	12901
Profit before appropriat. and taxes	-1605	10887	8781
Change in deferred tax liabilities	0	0	41

Profit for the period	-1605	10887	8822
Fixed assets			
Intangible assets	21	77	30
Tangible assets	148	357	271
Investments	60	63	60
Current assets			
Inventories	1811	4030	2367
Receivables	1370	1691	775
Cash in hand and at banks	727	302	1373
Shareholders' equity	-2120	61	-515
Convertible equity bond loan	1126	1126	1126
Capital loan	2050	850	850
Obligatory reserves	45	42	45
Long-term liabilities	0	1863	1285
Current liabilities	3036	2578	2085
Balance sheet total	4137	6520	4876
Gross investments in fixed assets	0	41	101
Average number of personnel	77	95	91
Pledged assets and contingencies			
Liabilities relating to chattel mortgage	1484	1484	1484
Chattel mortgage nominal value	12068	12068	12068
Pledged investments	40	40	40
Pledged deposits	352	0	285
Other commitments	115	0	67
Earnings/share, EUR	-0,01	-0,02	-0,04
Shareholders' equity/share, EUR	-0,02	0,01	-0,00

The interim financial statements have not been audited.

Cashflow account from period 1.1.-30.6.2005 (1000 euros)

Cashflow from operations	-1605
Adjustments	
Depreciation according to plan	133
Additional payments to re-organization creditors	720
Cash flow before change in working capital	-752

Change in working capital

Increase of current receivables	-596
Decrease of inventories	557
Decrease of current liabilities	22
<hr/>	
Cashflow from operations	-769
Cashflow from investments	
Tangible and intangible investments	0
<hr/>	
Cashflow from financing	
Paid share issues and capital loans	1200
Payments of re-organization debt	-1077
<hr/>	
Cashflow from financing	123
Change in cash	-646
Cash in the beginning of period	1373
Cash at the end of period	727