

INTERIM REPORT 1-6/2006

1. Highlights of the last quarter

Second quarter sales increased and existing product inventory sold out

The key goal prior to the launch of TWIG Discovery for the second quarter was to sell out the majority of existing product inventories. Net sales in this period increased by 90% over the first quarter and 2% from the same quarter of previous year reflecting the organizations push to sell out the old product portfolio in preparation for the shipments of the new TWIG Discovery product in Q3.

Navigation software development capability expanded

The Company signed an agreement with DataArt Technologies UK to acquire services of a team of software development engineers based in St. Petersburg, Russia. The team is exclusively subcontracted for Benefon's Mobile Navigation business unit. Located in St. Petersburg, the team will become a new product development center for Benefon specialising in the development of high-end mobile navigation solutions with complete GPS software and user applications.

Ross Lovegrove commissioned to design the next three TWIG products

The Company contracted internationally famed designer Ross Lovegrove to design its future range of personal navigation devices. London based Lovegrove has created consumer products for top brands like Sony, Apple, Louis Vuitton and Tag Heuer and received the World Technology Award for Design last November. The agreement includes 3 phones with 2 year exclusivity provision and an option for a further 3 phones and an additional exclusivity period of two years totaling four years.

Finland R&D activity consolidated in Salo

The Company announced plans to consolidate the Finnish R&D activity in Salo and transfer the Turku R&D personnel to Benefon's Headquarters in Salo. The re-arrangement is part of the corporate operations and productivity improvement plans and targets a productivity boost, especially from improved inter-team working and communications. It does not affect the number of personnel or their employment contracts otherwise.

TWIG Discovery acquires FTA accreditation

Company's integrated GPS/GSM personal navigation device, TWIG Discovery, has passed the legal certification requirements (FTA) and is on schedule to commence shipping in the third quarter to its primary markets.

Product preparations in China and market launch plans proceed on track

All pre-production runs in China have been completed with mass production set to commence in August. Market roll out launch plans are now underway in the primary markets of Western Europe and Scandinavia.

2. Outlook for the remainder of 2006

Market outlook

The company estimates that the demand for navigation devices continues set to grow for the remainder of the year. The long-term outlook of the company is predicted to be in excess of 100 million navigation devices for the next 5 years in Western Europe alone. The need for navigation devices is also growing rapidly in Asia with estimates for growth to be similar to that of Western Europe. (Source - Internal Estimates)

In addition usage patterns suggest that navigation is moving from being traditionally an in-car solution to also being a 'Personal' pedestrian application.

Stand alone navigation only devices, PND (Portable Navigation Devices), have continued to come under price pressure and shown a decline in ASP as products becomes more commoditised in the low end.

Q3/Q4 Outlook

The focus on business development and the engagement with many new channel partners including mobile phone operators, resellers and retailers, plus the individuality of Benefon's integrated GPS/GSM devices, has meant that the company has built a significant pipeline of orders and opportunities for the new TWIG Discovery.

The company will spend the majority of the fourth quarter of the year rolling out its marketing launch plans across Europe - UK, Germany, Spain, Finland, Sweden, Denmark, France, the Netherlands, Russia and Asia - China, Hong Kong and Australia. Ensuring strong brand awareness, channel sales, consumer demand and sell through.

Financial targets

Production and shipment of TWIG Discovery are aimed to commence by the company in Q3 and this will have a positive impact on the companies overall performance.

The eventual shipment of TWIG Discovery will mean significant financial improvements in gross sales, gross margin and profitability. The company anticipates projected 4th quarter 2006 net sales of EUR 17.5M and will show a net profit of EUR 3.3M for the quarter. The company anticipates that it will continue to show a profit in subsequent quarters throughout fiscal year 2007.

As per the bulletin August 4, 2006 the revised financial forecast project's net sales for the fiscal year 2006 of EUR 24.8M and a net profit of EUR 0.5M.

3. CEO Comments

"The twelve months ahead promise to be exceptional for both the navigation and mobile phone industries. This year, Benefon, with the launch of the TWIG brand, aims to be firmly at the forefront of the new integrated GPS / GSM 'personal navigation' category.

During the third quarter we will launch the TWIG Discovery, dubbed as the first mobile phone in the world with an in-built sense of direction. Consumers will therefore have their own Personal Navigation handset, the channel, a premium product to sell, and operators, a new suite of services that will further drive-up data usage. Such services will

include TWIG Finder and TWIG Locator, our friend finder and tracking solutions.

Our research has clearly substantiated that the market is ready for the launch of TWIG Discovery and this will be a significant turning point in Benefon's history, ensuring that TWIG becomes the standard form of personal navigation.

In addition, we continue to invest in our Product and Solution roadmap, with investments in product design, navigation research and development and the up-skilling of our employees. We aim to roll out a world class GPS/GSM product portfolio for 2007, which will include both Smartphone and 3G platforms. All of our products will be supported with a best in class services and solution application, including tracking, telematics and Location Based Services.

This is an extremely exciting time for Benefon."

4. Operational Review

Products update

The key goal for the quarter was to ensure that the majority of existing product inventory had been sold, preparing the channel for the new TWIG branded products.

As stated in the bulletin August 4th 2006, there have been unforeseeable delays in launching TWIG Discovery. Although Benefon recognises that time to market is important to its success, it is also critical that a robust fully tested product is delivered to the market.

As such the product launch date was delayed until Q3 in order to ensure comprehensive testing and field trials were undertaken. Thus making sure the product is successfully accepted by both the mobile phone operators, distributors, retailers and end user.

Annual General Meeting

The Annual General Meeting of the Company was held on May 24, 2006. In addition to ordinary matters belonging to Annual General Meeting according to Articles of Association several other matter were handled and decided. The Board was elected to continue in its current composition consisting Mr. Brian Katzen (Chairman), Mr. Jeffrey Crevoiserat, Mr. Juha Kiikeri, Mr. Phil Parker and Mr. David Francis. Ernst & Young Oy, CPA Erkka Talvinko as main responsible auditor were elected to the auditor of the Company and CPA Veikko Soinio to deputy auditor.

Annual General Meeting accepted and confirmed the management agreement entered into with Octagon Consulting Limited. The agreement guarantees Benefon certain management resources provided by Octagon Consulting subject to payment of agreed management fee. The agreement also entitles Octagon Capital to get 5,000,000 option rights of series 2004A exercise of which is bound to achieving certain performance requirements. Initial term of the agreement is three years. Related to management agreement Annual General Meeting also decided to amend the terms of option rights 2004A such that share subscription period was extended by one year.

Annual General Meeting further decided to offer and transfer in total 20,000,000 option rights of series 2004A as according to proposal of Board of Directors.

Finally the Annual General Meeting resolved to cancel the Board authority to decide on any increase of the share capital and granted the Board new authorization entitling it to decide on increasing the share capital by a maximum of EUR 441,152.12 corresponding to 44,115,212 new investment series shares.

Detailed contents of the Board proposals to Annual General Meeting and resolutions of Annual General Meeting can be found in the bulletins of May 5, 2006, May 17, 2006 and May 24, 2006.

5. Development after reporting period

In order to provide an understanding into the potential opportunity for its products and its acceptance into the marketplace Benefon has provided a rolling 12 month forecast from the 4th quarter 2006 through 3rd quarter 2007 and will continue to provide such rolling 12 month forecast on a quarterly basis commencing after the results of the 3rd quarter 2006 have been released. The forecasted financial figures for the rolling 4 quarters, 4th quarter 2006 through 3rd quarter 2007 are net sales of EUR 64.2M and profit of EUR 7.6M

In order to provide a meaningful comparison to 2006 numbers and to further explain the effect the release of new products will achieve for Benefon, the company has projected that the 12 months results for the fiscal year end 2007 should result in net sales of EUR 81.1M and a net profit of EUR 10.8M being achieved. Above estimates for the year 2007 will be strongly dependent on company succeeding in bringing out a minimum of 3 new models next year and success in their sales.

In order to ensure our competitive edge and a long-term success, Benefon will continue to outsource key support functions while maintaining its core IP in house. Such outsourced functions include manufacturing and logistics of its volume consumer products and non-core software services and solution development.

6. Financial Review

Financial Performance in period

The net sales of the Company increased by 90% from the previous quarter and 2% from the same quarter of the prior year.

The net sales of the company in Q2/2006 were 2,136k euros, as compared to 1,124k euros in the prior quarter Q1/2006. The net sales in the same quarter Q2/2005 the previous year were 2,103k euros.

The operating profit in Q2/2006 was -919k euros. The comparable figure in the prior quarter Q1/2006 was -1,207k euros and the same quarter Q2/2005 the previous year was -698k euros.

The total of the balance sheet at the end of Q2/2006 was 15,248k euros. The total of the balance sheet at the end of the previous quarter Q1/2006 was 14,321k euros and at the end of the same period Q2/2005 the previous year it was 4,238k euros.

The shareholders' equity in the balance sheet at the end of Q2/2006 was 11,219k euros, or about 74%, when at the end of the previous quarter

Q1/2006 it was 12,003k euros, or about 84%. At the end of the same period Q2/2005 the previous year it was -589k euros, or about -14%.

The book value of interest-carrying net debt at the end of Q2/2006, including the capital loans, was 954k euros. The total liabilities at the end of Q2/2006 were 4,029k euros, whereas they were 2,318k euros at the end of the prior quarter Q1/2006 and 4,827k euros at the end of the same quarter Q2/2005 the previous year. Cash at hand and in the banks at the end of the period was 6,057k euros of which 357k euros was 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 07/2006-09/2007

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 launch and sales success of company's new TWIG branded product line.

Cash Flow Statement 07/2006-09/2007 million euros

Cash flow from operations	
Profit for the period	7,0
Adjustments	1,1
Changes in working capital:	
Change in receivables	-8,2
Change in inventories	0,2
Change in current liabilities	1,1
Paid and received interests	-0,1
Cash flow from operations	1,1
Cash flow from investments	-4,7
Cash flow from financing	0,0
Change in cash	-3,6
Cash in the beginning of the period	6,1
Cash at the end of the period	2,5

Investments

Gross investments in fixed assets in the reporting period were 2,816k euros.

Personnel

The number of employed personnel at Benefon during Q2/2006 averaged 82. Alternate forced leaves affected 29 people of the employed personnel.

7. Contact information

Investor relations and financial press

Company Care Communications

Sarah Webb or Kevin Taylor +44 (0) 118 939 5900
Jersey House, 154 Castle Hill, Reading, Berkshire. RG1 7RP

Benefon share (BNFSV) is listed on the I-list of Helsinki Stock Exchange.

About Benefon

Founded in 1988 in Finland by the early GSM pioneers, BENEFON 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 BENEFON 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 1-6/2006, IFRS

	1-6/2006	1-6/2005	1-12/2005
	1000 EUR	1000 EUR	1000 EUR
Net sales	3260	3667	7562
Other operating income	14	17	85
Costs of operations	-5356	-4625	-10860
Depreciation and value adjustments	-44	-133	-185
Operating profit	-2126	-1074	-3398
Financial income and expenses	-57	558	207
Profit before taxes	-2183	-516	-3191
Income taxes	0	0	0
Profit for the period	-2183	-516	-3191
Fixed assets			
Tangible assets	264	148	132
Intangible assets	2667	21	27
Investments	61	60	61
Current assets			
Inventories	1777	1747	1282
Receivables	2378	1450	1566
Prepaid expenses	2044	85	569
Cash in hand and at banks	6057	727	1337
Share capital	2206	1282	1313
Other shareholders' equity	9013	-1871	-3644
Long-term liabilities	954	1734	985
Current liabilities	3075	3093	6320
Balance sheet total	15248	4238	4974
Gross investments in fixed assets	2816	0	40

Average number of personnel	79	77	76
Pledged assets and contingencies			
Contingent liabilities relating to			
chattel mortgage	1667	1484	1633
Chattel mortgage nominal value	12068	12068	12068
Pledged assets	399	392	403
Earnings/share, EUR	-0,01	-0,01	-0,03
Shareholders' equity/share, EUR	0,05	-0,00	-0,02
Shareholders' equity/share, diluted	0,04		

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

	1-6/2006	1-6/2005	1-12/2005
	1000 EUR	1000 EUR	1000 EUR
Cash flow from operations			
Profit for the period	-2183	-516	-3191
Adjustments	147	192	-764
Changes in working capital:			
Change in receivables	-2287	-611	-1211
Change in inventories	-495	559	1024
Change in current liabilities	958	-1094	1158
Paid and received interests	16	-19	-30
Cash flow from operations	-3844	-1489	-3014
Cash flow from investments	-2816	0	-40
Cash flow from financing			
Share subscription payments	11676	0	434
Transaction expenses of share issues	-296	0	-9
Raised loans, equity	0	70	313
Raised loans, liability	0	1130	2637
Payments of reorganization debt	0	-357	-357
Cash flow from financing	11380	843	3018
Change in cash	4720	-646	-36
Cash in the beginning of the period	1337	1373	1373
Cash at the end of the period	6057	727	1337