Interim Report January-March 2002

BENEFON OYJ BULLETIN MAY 17, 2002 at 9.40

Important last minute information

Readers of this bulletin are adviced to read first the last chapter regarding the last minute problem in realizing the reported new directed share issue.

General

According to the new strategy, the development and marketing efforts were focused on the mobile telematics market which are seen to offer a firm foundation for the business and growth of the company in the coming many years. Based on the developed globally functional technical product platform, Benefon markets, produces and supplies user terminals needed in the mobile telematics solutions for operations management of organizations and the personal life management of people. The developed product platform utilizes the GSM/GPRS system, the Internet and the GPS system. Current focus segments comprise especially safety and security services, asset management, mobile work force management, telehealthcare, personal navigation and use of location based services. In the reporting period Benefon continued to be the sole supplier of pocket size mobile telematics instruments utilizing the GSM networks. Indeed, the first mobile telematics products Benefon Esc! and Benefon Track have actually become beacons among the experts in this field, propagating also the name of the Company.

Business environment

The general market conditions in the reporting period were quite unfavourable. The situational picture reported by the industry reflected the large unbalance between the actual demand and the global production capacity which has continued for more than a year and which also affected the decision of Benefon to change the strategy and concentrate in the emerging mobile telematics market.

Development of the business

Because the improvement in the coverage and the performance of the sales and marketing network is instrumental in turning the result positive, the company is putting an all-out effort in this domain. The important agreements with Airo Wireless Media and Brightstar Corporation, reported in March and relating with the opening of North and Latin American markets, are significant steps in building the targeted global market position and sales potential.

The R&D force concentrated in the realization of the next generation product family. This new product family will play a central role in boosting the sales and improving the productivity, starting from year 2003.

Financial performance in the period

The net sales of the period 1Q02 were 4.7 Meuros compared with 10.4 Meuros in 1Q01. The significant fall in the sales was mainly caused by the fall in GSM and especially NMT 450 sales. The tight financial situation has also affected the sales. The sales share of mobile telematics products has increased, however.

The operating result of the period was –3.7 Meuros, including 1.3 Meuros worth of capitalization of the R&D expenses. The operating result was 1.2 Meuros lower than the comparable result in the preceding period 4Q01 and 0.3 Meuros better than the comparable result in the same period 1Q01 a year before. The net result of the period was –4.3 Meuros which was 0.9 Meuros lower than the comparable result in the preceding period 4Q01 and the same as comparable result in the same period 1Q01 a year before.

The total of the balance sheet at the end of the period was 39.9 Meuros, including R&D capitalizations of 4.1 Meuros and share issue receivables of 10.1 Meuros. Due to the latter, the total of the balance sheet grew by 23 percent from the end of the preceding period 4Q01 but it was still 12 percent lower than at the end of the same period 1Q01 a year before. The amount of Shareholders´ equity was 9.7 Meuros, ie. 24 percent of the total. The interest-carrying net debt was 12.4 Meuros, and the gearing ratio was 132 percent at the end of the period. Cash in hand and at banks totalled 0.9 Meuros at the end of the period.

Investments

The investments in the period were 1.3 Meuros, ie. 28 percent of the sales and consisted almost entirely of the capitalization of the R&D expenses.

Personnel

The number of personnel in the period 1Q02 averaged 328 which was 10 percent less than the corresponding number 365 a year before.

Special measures for improving the finances

The Board has in its meeting of May 17, 2002, decided to initiate an extensive cost cutting program to help improve the financial situation. The target of the program, based on the financial needs of the company, is to reduce the fixed cost level by one fifth. To reach this, the operations will be focused sharply on the development and sales of the mobile telematics products, according to the strategy, and pruning off the non-essentials not part of that. It is obvious that the target cannot be reached without substantial reduction of the personnel costs. Therefore, it has been decided to initiate the statutory industrial negotiation process with all personnel for agreeing about the reduction of personnel related costs. The company estimates that the possible reductions of the personnel concern at most 140 jobs.

In addition to the above, the company is also studying the possibilities to strengthen the business fundamentals by means of industrial co-operation, strategic alliances or M&A measures.

Future outlook

The result of the current period 2Q02 is seen to stay at a substantial loss but the result is forecast to improve thereafter, starting from 3Q02, based on increasing sales from new markets and new products and product versions, on one hand, and on savings from the cost cutting program, on the other hand. As reported earlier, the company expects to generate a significant increase in sales and a good result for fiscal year 2003.

Funding program

The program to improve the strained finances of the company continued. Towards the end of March, the company realized a major directed share issue. This share issue brought in just over 10 Meuros worth of new capital which was used for further reducing the liabilities. In connection of this share issue and thereafter, the company has received additional subscription commitments, worth almost 3.5 Meuros, for an additional directed share issue to be proposed to the Annual Shareholders´ Meeting in May.

The Annual General Meeting on 27th April, 2001, authorized the Board of Directors, within one year of the Annual General Meeting granting the authorization, to decide on the raising of share capital by a rights issue, and/or an issue of options or convertible bonds in one or more installments. Authorization was given, in such a rights issue, and/or issue of options or convertible bonds, to subscribe to a maximum of 1.075.400 new investment shares with a book counter value of EUR 0,34 (not the exact value) per share. The share capital could, based on the authorization, be raised by a maximum of EUR 361.738,60. This authorization was not used.

As mentioned, the company realized a major directed share issue in March. Out of the minimum of 4.000.000 and the maximum of 4.168.664 shares offered for subscription in the directed share issue, resolved upon by the second continued Extraordinary General Meeting of Benefon Oyj on March 28, 2002, 4.038.664 investment shares were subscribed for. All subscriptions were conducted in accordance with the terms of subscription by paying the share subscription price on the Company’s bank account or into a separate subscription list, if the shares were paid by using set-off. Thus the Board of Directors approved all subscriptions according to the issue resolution of the Extraordinary General Meeting.

Within a range stated in the stock exchange bulletin published on March 28, 2002, the Company’s share capital was raised by EUR 1.358.509,06 in the directed issue with an issue of 4.038.664 new investment 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 a result of the raise in the share capital, the share capital of the Company increased from EUR 1.889.160,80 to EUR 3.247.669,86 and the number of shares issued from 5.616.220 shares to 9.654.884 shares, of which 9.154.884 are quoted investment shares. Trading of the new shares on the I-List of Helsinki Stock Exchange, together with the Company’s old shares, commenced on April 17, 2002.

As reported before, the Board of Directors of Benefon Oyj proposed to the Annual General Meeting of the Shareholders to be held on the May 17th 2002 that the share capital of the company be raised in deviation from the pre-emptive subscription right of the shareholders by means of a directed share issue by a minimum of EUR 336.375,86 and a maximum of EUR 1.332.497,79 by offering a minimum of 1.000.000 and a maximum of 3.961.336 new investment shares of the company, each with a book parity value of EUR 0,34 (not the exact value), for subscription by a maximum of one hundred professional domestic and foreign investors.

Because at the last minute it appeared, that the submitter of the largest subscription commitment, Airo Wireless Media Inc., has encountered problems in fulfilling the submitted subscription commitment by the end of the subscription period ending on 24th May 2002, and there still is no final information whether these problems are solved or not, the Board of Directors has decided to withdraw its proposal for the directed share issue mentioned and to start negotiations for the arrangement of the additional financing, which now may remain missing. For this reason an extraordinary shareholders' general meeting shall be convened if needed or the possible new issue shall be carried out using the authorization proposed by the Board of Directors.

BENEFON OYJ

Jorma Nieminen
President

Interim Report 1-3/2002

	1-3/02 EUR million	1-3/01 EUR million
Net sales	4,7	10,4
Other operating income		
Costs of operations	-8,1	-14,0
Depreciation	-0,3	-0,4
Operating loss	-3,7	-4,0
Financial income and expenses	-0,6	-0,3
Loss before extraordinary items	-4,3	-4,3
Extraordinary income		
Loss before income taxes	-4,3	-4,3
Loss for the period	-4,3	-4,3
Fixed assets		
Intangible assets	4,5	1,2
Tangible assets	2,0	3,1
Investments	0,2	0,4
Current assets		
Inventories	17,1	29,1
Receivables	15,2	9,5
Cash in hand and banks	0,9	1,8
Share holders' equity	9,4	5,4
Obligatory reserves	0,3	0,4
Long-term liabilities	1,9	1,2
Current liabilities	28,3	38,1
Balance sheet total	39,9	45,1
Gross investments and fixed assets	1,3	0,7
Average number of personnel	328	365
Pledged assets and contingencies		
Liabilities relating to chattel mortgage	11,7	16,8
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,2	0,2
Leasing commitments	0,9	1,9
Other commitments	0,9	0,0
Derivative contracts made to hedge against exchange rate risk		
Underlying value	0,0	1,1
Fair value	0,0	0,0
Earnings/share, EUR	-0,76	-0,81
Shareholders´ equity/share, EUR	0,97	1,05

The comparison figures 1-3/01 has concerns the capitalized development expenses have been adjusted to improve comparability. The int
statements have not been audited.