

Interim Report January-March 2003

BENEFON OYJ BULLETIN JUNE 30, 2003 at 16.30

General

As stated in the FY 2002 result report of February 11, 2003, the situation of the company turned critical with the delays of the sought funding solution. As informed in the bulletins of early year, the situation evolved through various turns to the effect that on April 24, 2003, the company filed an application for statutory corporate re-organization. The draft business plan attached to the application comprises radical cost cutting measures dimensioned to turn first the cash flow and then the result positive with the foreseen business operations. Further, the proposed program includes debt re-organization for re-constructing an appropriate equity position within the constraints of the projected cash margin.

Further, as also reported, due to the delayed processing of the re-org application, the company requested and was granted extended schedule for the interim report 1Q2003. The Turku court of first instance decided on June 26, 2003, that the re-organization procedure applied for by the company will be started on that date. The extraordinary shareholders' meeting convening on the same day decided to confirm the financial report of FY 2002 on the condition that the court will confirm the re-organization program devised in the procedure so that the company can again be considered to fulfil the criteria of a going concern.

Consequently, the interim report issued now is also conditional to the confirmation of the re-org program. Regarding the draft re-org plan, it comprises two significant extraordinary asset write-offs. The first one comprises the capitalisation of the R&D expenditures of the new mobile telematics product platform worth 5.8 Meuros. This because the completion of the development of the said product platform has had to be put in hold. The second one comprises a 2 Meuro write-off of the parts inventory due to the devaluation of the parts inventory according to the prudently projected development of the sales and component consumption in the draft re-org plan.

The cash situation of the company has stayed very tight which has resulted in extreme cost cutting and which also has interfered with the operations. The utilised cost cutting measures include the implemented temporary forced leaves as a result of the industrial co-operation procedure that ended in May. The company has, however, succeeded in keeping crucial business operations and customer service functions running. New products have been developed and brought to market, through which the company seeks to grow the sales and the value added of the sales. Reduction of the material inventory is an essential part of the cashflow plan.

Development of the business

The sales, marketing and product development efforts of the company in 2002 were focused in the mobile telematics market. In the core of Benefon's mobile telematics solutions there are a range of terminals and supporting software products and services. The terminal range covers both personal security applications and vehicular and machine-to-machine communications (M2M) applications together with asset tracking. The business environment stayed challenging but mobile telematics is considered a promising growth market.

As part of the new strategy of the company, according to which the operations will be extended also to application software products and service solutions, the company made in the beginning of year 2003 an acquisition offer for Ismap S.A. In the offer, the company offered altogether 400,000 shares for the whole stock of Ismap in a share swap. Nearly all Ismap shareholders accepted the swap offer which was intended to be realized in February but which was left waiting for the funding solution of Benefon.

The very tight financing situation of the company has impeded the sales in an essential manner even though the company has managed to secure customer service and product deliveries. The sales in January-March was at a low level due to the drop of the sales of especially GSM products but also of NMT 450 products. However, the sales margin stayed at the level of the preceding quarter which was achieved because the share of mobile telematics sales with better margins has increased further and already makes most of the sales.

The company has managed to keep going the central R&D programs needed to secure the near-term operations despite the difficulties but the development program of the new mobile telematics product platform first had to be slowed down and then put in hold according to the drafted re-org plan.

Financial performance in the period

The net sales in 1Q2003 were 1.6 Meuros whereas in the preceding quarter 4Q2002 they were 2.1 Meuros and in the same quarter 1Q2002 a year before they were 4.7 Meuros. The significant fall in the sales was mainly caused by the essential fall of the GSM and NMT 450 sales. In addition of the sales income, the company received in the reported period 1.8 Meuros of other income, mostly from the EDC agreement. The tight financial situation of the company interfered with the sales.

The operating result in 1Q2003 before extraordinary items was -2,0 Meuros. It should be noted that, in the new

situation, R&D expenditures now have not been capitalised. The corresponding operating result in the previous quarter 4Q2002 was -4.5 Meuros and the same in the same quarter 1Q2002 a year before was -5.0 Meuros.

Coming mostly from the already mentioned write-offs of the R&D expenditure capitalisations of 5.8 Meuros and the parts inventory devaluation of 2.0 Meuros, this interim report includes extraordinary one-time charges altogether worth 8.1 Meuros. Therefore, the operating result turns out to be an exceptional -10.1 Meuros which, consequently, is not comparable with the operating result in the prior quarter or with that in the same quarter a year before.

The net result in the period 1Q2003 was -10.3 Meuros.

The total of the balance sheet at the end of 1Q2003 was 15.4 Meuros. The total of the balance sheet at the end of the previous quarter 4Q2003 was 24.3 Meuros and at the end of the same period 1Q2002 a year before it was 39.9 Meuros. The amount of Shareholders' equity at the end of 1Q2003 was -6.3 Meuros, ie. -41 percent of the total. The interest-carrying net debt was 8.0 Meuros. The total liabilities at the end of the period were 21.7 Meuros, when they were 20.4 Meuros at the end of the prior quarter 4Q2002 and 30.2 Meuros at the end of the same quarter 1Q2002 a year before. Of the total liabilities at the end of 1Q2003, long term liabilities were 1.1 Meuros and current liabilities 20.6 Meuros and the financing situation stayed very tight.

Investments

The total investments in the period were 0.1 Meuros.

Personnel

The number of personnel in the period 1Q2003 averaged 149. At the end of the period the number of personnel was 151 when at the end of the prior quarter 4Q2002 it was 146 and at the end of the same quarter 1Q2002 a year before it was 328.

Special measures for improving the finances

The drafted re-org plan is based on radical cost-cutting measures through eg. forced leaves of the personnel and hard cost control by means of which the company will already in June 2003 reach about 50 % lower level of fixed monthly costs compared with the actual cost level of the early year, and on strict concentration in measures producing cash flow and result already in short term and, further, on continuing reduction of the parts inventory. The development of the sales income, being the base item of the operating result, has been estimated cautiously but the monthly sales are estimated to grow in average over the next 12 months.

Future outlook

The future outlook depends in a decisive manner on the confirmation of the re-org program being devised in the re-org procedure started in June 26, 2003. The confirmed re-org program prescribes positive cash flow and that the company will reach also positive result and, further, that the debt is re-arranged within the payment margin in a way that the amount of the shareholders' equity will meet the legal requirements. The core of the draft re-org plan consists of the significant reduction of the costs and of the gradual increase of the sales. The company is also seeking a moderate amount of equity funding for increasing the cash margin even if the presented draft re-org plan does not presume such additional funding. In this regard, as also reported, the company has initiated the preparations of a new share issue of targeted 1-2 Meuros to be offered to all shareholders.

Equity issue authority 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 authority was used in the directed share issue of July 2002 for 104,800 shares.

In the beginning of year 2003 an acquisition offer was made for Ismap S.A. In the offer, the company offered altogether 400,000 shares for the whole stock of Ismap in a share swap. Nearly all Ismap shareholders accepted the swap offer but the offer was left waiting for the clearing of the financial situation of Benefon.

The authority was used in March 2003 in the share issue for nearly 100,000 euros directed to Xpediant LLC in which share issue 294,117 new S-shares were issued.

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

Jukka Nieminen
President

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	1-3/03 EUR million	1-3/02 EUR million
Net sales	1,6	4,7
Other operating income	1,8	
Costs of operations	-5,2	-8,1
Depreciation according to plan	-0,2	-0,3
Operating profit before extraordinary one-off items	-2,0	
Extraordinary one-off items	-8,1	
Operating profit	-10,1	-3,7
Financial income and expenses	-0,2	-0,6
Profit before extraordinary items	-10,3	-4,3
Profit before income taxes	-10,3	-4,3
Profit for the period	-10,3	-4,3
Fixed assets		
Intangible assets	0,2	4,5
Tangible assets	0,8	2,0
Investments	0,1	0,2
Current assets		
Inventories	10,9	17,1
Receivables	3,1	15,2
Cash at hand and in the banks	0,3	0,9
Share holders' equity	-6,4	9,4
Obligatory reserves	0,1	0,3
Long-term liabilities	1,1	1,9
Current liabilities	20,6	28,3
Balance sheet total	15,4	39,9
Gross investments in fixed assets	0,1	1,3
Average number of personnel	149	328
Pledged assets and contingencies		
Liabilities relating to chattel mortgage	6,1	11,7
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,1	0,2
Leasing commitments	0,1	0,9
Other commitments	1,7	0,9
Earnings/share, EUR	-1,05	-0,76
Shareholders' equity/share, EUR	-0,66	0,97

The interim financial statements have not been audited.