

# Interim Report January-June 2002

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BENEFON OYJ BULLETIN AUGUST 14, 2002 at 14.00

## General

The Company focused sales, marketing and product development efforts on the mobile telematics market.

Benefon is providing solutions for saving lives, securing assets and improving mobile business processes, by combining three enabling technologies: mobile cellular access, mobile Internet and mobile precision location.

Benefon mobile telematics solutions are built around a range of mobile handsets and associated software applications and services, marketed through sales channels being developed in approximately 50 countries world wide. The product range will be extended to also cover certain in-vehicle and machine-to-machine applications.

## Business environment

The general capital goods market conditions in the reporting period remained quite unfavourable. The interest of businesses and mobile operators in mobile telematics solutions appeared to be growing. Telematics in general is perceived as a growth market, but the growth has been slower than expected and the industry is characterised by strong consolidation.

## Development of the business

Extension of sales and marketing network was focusing especially on South and North America. In other areas, the focus was on commercialising complete solutions as well as developing client projects and sales pipeline in cooperation with distributors and business partners.

In May, a new product range comprising Benefon Esc! NT2002, Benefon Track Pro NT and Benefon Track One NT was launched. In addition to the unique telematics functionality, the new models feature substantially improved power consumption.

Product development efforts were concentrating on new mobile telematics products that are compatible with existing solutions but will extend application possibilities. These new products will complement the existing product range from 2003 onwards.

Under the costs saving program decided in May, production personnel was reduced to adjust capacity to estimated near term sales volume. The Company is prepared to either again increase in-house capacity or use contract manufacturing services for demand in excess of current capacity, if needed.

## Elcoteq agreement

At the end of the reporting period the company agreed with Elcoteq Network Corporation about an extensive and close co-operation in the R&D domain. According to the agreement, three quarters of the R&D unit of Benefon was transferred in an eleven million euro deal into the Elcoteq Design Center, a wholly owned subsidiary of Elcoteq. The MoU about the deal became effective on July 1, 2002 and the final agreement on August 1, 2002. The agreement carries along a number of significant positive effects to Benefon, as detailed hereinafter.

## Financial performance in the period

The net sales of the whole 1H02 were 8.4 Meuros and in 2Q02 they were 3.7 Meuros. The same figures for the previous year were 22.0 Meuros in 1H01 and 11.6 Meuros in 1Q01. The significant fall in the sales was mainly caused by the fall in GSM and NMT 450 sales. The NMT 450 sales fell substantially short of the sales a year before but recovered again in the summer. The sales of GSM phones fell as the marketing efforts followed the strategy and shifted to mobile telematics products. The mobile telematics sales in the second quarter were affected by the change of the product range into the new NT range which, however, substantially increased the demand of these products. The tight financial situation also interfered with the sales.

The operating result of the whole 1H02 was -6.4 Meuros and in 2Q02 it was 2.7 Meuros, both figures including the R&D expense capitalization. The corresponding comparable figures in the year before were -7.5 Meuros in 1H01 and -3.5 Meuros in 2Q01. The financing costs were unusually high due to the costs of the share issue in the spring. The net result of the whole period 1H02 was -8.0 Meuros and in 2Q02 it was -3.7 Meuros. The corresponding comparable figures in the previous year were -8.1 Meuros in 1H01 and -3.8 Meuros in 2Q01.

The total of the balance sheet at the end of 2Q02 was 28.1 Meuros, including R&D capitalizations of 5.3 Meuros. The total of the balance sheet at the end of the previous quarter 1Q02 was 39.9 Meuros and at the end of the same period 2Q01 a year before it was 47.7 Meuros. The amount of Shareholders' equity at the end of 2Q02 was 5.9 Meuros, ie. 21 percent of the total. The interest-carrying net debt was 9.7 Meuros, and the gearing ratio was

165 percent at the end of the period. The total liabilities continued to go down and at the end of the period they were 22.2 Meuros, of which long term liabilities were 8.8 Meuros and current liabilities 13.4 Meuros. Cash in hand and at banks totalled 0.3 Meuros at the end of the period. After the reporting period, the Elcoteq deal will strengthen the balance sheet and the cash flow significantly. However, the financing situation will stay very tight due to the continuing program of reducing the current liabilities, and the program to strengthen the finances further will continue.

## **Investments**

The investments in the period were 1.3 Meuros and consisted almost entirely of the capitalization of the R&D expenses.

## **Personnel**

The number of personnel in the period 2Q02 averaged 326 which was 11 percent less than the corresponding number 365 a year before. Due to the reduction program of personnel costs, initiated in the period, and to the Elcoteq deal, the effective number of personnel will be reduced in the current quarter 3Q02 to less than one half of the mentioned average figure in the reporting period.

## **Special measures for improving the finances**

The strong cost-cutting program for improving the finances of the company, initiated in May, has now been mostly executed. Due to this, the fixed cost level of the company will shrink significantly in the current quarter 3Q02.

Meeting the set cost savings targets was not possible without the significant reduction of the number of effective personnel which was agreed in the statutory industrial negotiations process. The reductions comprised both forced leaves and lay-offs.

## **Future outlook**

The operative result of the current period 3Q02 is still seen to stay at a loss but it seems to improve significantly due to sales growth and falling operating costs. The financial development towards the end of the year will depend on the development of the sales which is now receiving special attention and also new resources. The upcoming new markets and new products and product versions will support the growing of the sales. For year 2003, the company targets already good result with significantly higher sales. The Elcoteq deal will have a significant positive effect to the finances of the company and, starting from the current quarter 3Q02, it will show as extraordinary sales income, reduction of the effective fixed cost and improved cashflow. The agreement will also show as extraordinary write-offs of capitalized R&D-expenses.

## **Funding program**

The program to improve the strained finances of the company continued and at 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.

As reported before, the additional directed share issue worth almost 3.5 Meuros that had been planned to be realized in May did not, however, materialize because of the last minute announcement of the largest committed investor Airo Wireless Media Inc., that they could not fulfill their subscription commitment. As also reported before, the company arranged in July a separate directed share issue for other subscribers of the said planned share issue and the company has initiated negotiations with Airo Wireless Media about the fulfillment of their subscription commitment.

In the mentioned share issue of March, 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.

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.

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.

The mentioned Elcoteq-deal will significantly improve the financial situation of the company from the current quarter 3Q02 onwards.

BENEFON OYJ

Jorma Nieminen  
President

## Interim Report 1-6/2002

	1-6/02 EUR million	1-6/01 EUR million
Net sales	8,4	22,0
Other operating income	0,1	0,4
Costs of operations	-14,2	-29,1
Depreciation	-0,7	-0,8
Operating loss	-6,4	-7,5
Financial income and expenses	-1,6	-0,5
Loss before extraordinary items	-8,0	-8,1
Extraordinary income		
Loss before income taxes	-8,0	-8,1
Loss for the period	-8,0	-8,1
<b>Fixed assets</b>		
Intangible assets	5,7	1,6
Tangible assets	1,7	2,9
Investments	0,2	2,1
<b>Current assets</b>		
Inventories	16,5	30,9
Receivables	3,7	9,3
Cash in hand and banks	0,3	0,9
Share holders' equity	5,7	5,7
Obligatory reserves	0,2	0,0
Long-term liabilities	8,8	1,2
Current liabilities	13,4	40,8
Balance sheet total	28,1	47,7
Gross investments and fixed assets	2,6	1,2
Average number of personnel	327	377
<b>Pledged assets and contingencies</b>		
Liabilities relating to chattel mortgage	7,9	16,8
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,2	0,2
Leasing commitments	0,8	1,7
Other commitments	0,9	0,0
Earnings/share, EUR	-1,09	-1,49
Shareholders' equity/share, EUR	0,59	1,01

The comparison figures 1-6/01 has concerns the capitalized development expenses have been adjusted to improve comparability. The int  
statements have not been audited.

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