Interim Report January-June 2003

BENEFON OYJ BULLETIN AUGUST 12, 2003 at 17.00

General

As reported earlier, 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 company debt needs to be re-organized for re-constructing a legally 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 prepared in the procedure so that the company can again be considered to fulfil the criteria of a going concern. The same meeting decided also to approve the proposed debt conversion equity issues in which creditors converted about 4.8 Meuros worth of their receivables into shares and convertible equity bond loan.

Consequently, the interim financial report of March 31, 2003, published at the end of June, was also conditional to the confirmation of the re-org program. Regarding the drafted re-org plan, it comprised two significant extraordinary asset write-offs. The first one comprised the write-off of the 5.8 Meuro capitalisation of the R&D expenditures of the new mobile telematics product platform. This because the completion of the development of the said product platform had had to be put in hold for the time being. The second one comprised a 2 Meuro write-off of the parts inventory for the purpose of valuating the parts inventory according to the prudently projected development of the sales and component consumption in the draft re-org plan.

The interim financial report of June 30, 2003, is also conditional to the confirmation of the re-org program. In this financial report, in addition to the write-offs in the previous interim report 1Q2003, a further write-off of 0.5 Meuros of the parts inventory has been made for the purpose of fine-tuning the inventory value. In addition, it contains also re-org process related extraordinary expense write-offs and reservations with a total worth of about 1,3 Meuros.

The company has realized a sharp cost cutting including the implemented temporary forced leaves as a result of the industrial co-operation procedure that ended in May. The situation has naturally interfered with the operations but the company has nevertheless succeeded in keeping crucial business operations and customer service fuctions 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. Continuing reduction of the material inventory is an essential part of the cashflow plan. The cash situation of the company has nevertheless stayed very tight.

Development of the business

The business of the Company is to offer mobile telematics terminals, software and solutions for securing lives and property and for improving field management.

The safety and field management solutions of Benefon carry a competitive advantage from their in-built capability for global wide area operation at low acquisition and operating cost. Often they are also the only available practical solution to the needs of the customer. For shortening the sales cycle it is essential that, in addition to terminals and software products, Benefon now can offer, as needed, also total solutions to business customers.

New products brought to the market in the second quarter are
-New Benefon Trackbox terminal for machine-to-machine (M2M) communications and vehicle and asset tracking
-Benefon TrackKeeper terminal for mobile asset management
-Benefon Life Line control center software for security applications including street maps for Europe and North America
-Field management encryption solution for exacting security and official applications

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 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 impeded the sales in an essential manner even though the company has managed to secure customer service and product deliveries. Nevertheless, the sales in April-June increased 5 % from the sales in the previous quarter due to the increase of mobile telematics and NMT sales, whereas the sales of GSM phones decreased to an insignificant level. The gross sales margin grew 9 % from the previous quarter.

Financial performance in the period

The net sales in 2Q2003 were 1.7 Meuros whereas in the preceding quarter 1Q2003 they were 1.6 Meuros and in the same quarter 2Q2002 a year before they were 3.7 Meuros. The small increase in the sales came from the growth of mobile telematics and NMT sales whereas the GSM phone sales were reduced to almost nil. In addition to the sales income, the company received in the reported period 1.8 Meuros of other income, mostly from the EDC agreement and from the received partial waiver of an R&D loan by TEKES. The tight financial situation of the company interfered with the sales.

The operating result in 2Q2003 before extraordinary items was -1.1 Meuros. The comparable figure in the previous quarter 1Q2003 was -2.0 Meuros and the same in the same quarter 2Q2002 a year before was -4.0 Meuros. As detailed in the beginning, this interim report includes extraordinary one-time charges for about 1.8 Meuros and extraordinary income for about 0.7 Meuros, booked from 2Q2003, after which the actual operating profit was -2.2 Meuros. This includes for two months the other operating income and R&D service purchases from the EDC agreement. It should also be noted that, in the new situation, R&D expenditures have not been capitalised after the end of last year.

The net result in the period 2Q2003 was -2.5 Meuros.

The total of the balance sheet at the end of 2Q2003 was 15.3 Meuros. The total of the balance sheet at the end of the previous quarter 1Q2003 was 15.4 Meuros and at the end of the same period 2Q2002 a year before it was 28.1 Meuros. The amount of shareholders´ equity at the end of 2Q2003 was -4.2 Meuros, ie. -27 %, when at the end of 1Q2003 it was -6.4, ie. -41 percent of the total. The interest-carrying net debt was 7.2 Meuros. The total liabilities at the end of the period were 19.4 Meuros, when they were 21.8 Meuros at the end of the prior quarter 1Q2003 and 22.2 Meuros at the end of the same quarter 2Q2002 a year before. Of the total liabilities at the end of 2Q2003, long term liabilities were 1.0 Meuros and current liabilities 18.4 Meuros. Cash at hand and in the banks at the end of the period was 0.2 Meuros and the financing situation stayed very tight.

Report on sufficient liquidity in period 07/2003-06/2004

The account on the sufficient cashflow provided hereinafter is based on the prepared re-organization plan whereupon a standing presumption is the approval of the re-organization program.

The account does not assume new equity but is based on cost-cutting measures and, further, on sharp focusing on business producing cash flow and profit already in short term and, furthermore, on continuing reduction of inventories. The sales income making a central element of the operating result, the starting point of the account, has been assessed prudently in the account but the monthly sales are estimated to gradually increase in the next 12 months.

The account takes no standpoint regarding the change of loans or actual re-organization debt during the period, being part of the re-org program. However, no new non-interest bearing debt is assumed.

Cashflow account of period 07/2003-06/2004

Operating result before extraordinary items	-1.5
Depreciations	0.6
Reduction of current receivables	0.5
Reduction of inventories	2.3
Change of non-interest bearing debt	-0.3
Paid interests	-0.3
Investments	-0.5
Paid share issue	0.0
Extraordinary income	0.0
Change of interest bearing debt	0.0
Change of cash at hand	0.8

Should the sought re-organization program or other development deviate from current information, it may substantially affect the construed cashflow account.

Investments

The total investments in the period were 0.0 Meuros.

Personnel

The number of employed personnel in the period 2Q2003 averaged 147. At the end of the period the number of personnel was 144 when at the end of the prior quarter 1Q2003 it was 151 and at the end of the same quarter

2Q2002 a year before it was 327.

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 already in June 2003 reached 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.

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Future outlook

The future outlook depends in a decisive manner on the confirmation of the re-org program construed 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 resulting in the shareholders´ equity meeting 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 drafted re-org plan does not presume such additional funding. In this regard, as also reported, the company announced in June it has initiated the preparations of a new share issue to be offered to all shareholders with the targeted amount of 1-2 Meuros and with target schedule of August.

For the eventuality that the re-org program proposal to be submitted soon would includ a new opportunity to creditors for equity conversion of their debt, the Board has resolved to postpone the decision about the all shareholders´ issue and will return to the matter after the re-org proposal and the interest of creditors in the equity conversion is known.

Equity issue authority of the board

The ordinary Shareholders´ Meeting of May 21, 2003, 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 2,010,760 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 676,371.12.

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.

For the time being, this authority has not been used.

BENEFON OYJ

Jukka Nieminen
President

INTERIM REPORT 1-6/2003
(By quarters)

	4-6/03	1-3/03
	EUR	EUR

	million	million
Net sales	1,7	1,6
Other operating income	1,1	1,8
Costs of operations	-3,7	-5,2
Depreciation according to plan	-0,2	-0,2
Operating profit before extraordinary one-off items	-1,1	-2,0
One-off items	-1,1	-8,1
Operating profit	-2,2	-10,1
Financial income and expenses	-0,3	-0,2
Profit before extraordinary items	-2,5	-10,3
Profit before income taxes	-2,5	-10,3
Profit for the period	-2,5	-10,3
Fixed assets		
Intangible assets	0,2	0,2
Tangible assets	0,7	0,8
Investments	0,1	0,1
Current assets		
Inventories	10,0	10,9
Receivables	4,1	3,1
Cash at hand and in the banks	0,2	0,3
Share holders' equity	-4,2	-6,4
Obligatory reserves	0,1	0,1
Long-term liabilities	1,0	1,1
Current liabilities	18,4	20,6
Balance sheet total	15,3	15,4
Gross investments in fixed assets	-0,1	0,1
Average number of personnel	145	149
Pledged assets and contingencies		
Liabilities relating to chattel mortgage	6,1	6,1
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,1	0,1
Leasing commitments	0,0	0,1
Other commitments	1,0	1,7
Earnings/share, EUR	-0,25	-1,05
Shareholders´ equity/share, EUR	Neg	Neg

The interim financial statements have not been audited.

INTERIM REPORT 1-6/2003
(Whole period)

	1-6/03 EUR million	1-6/02 EUR million
Net sales	3,4	8,4
Other operating income	2,9	0,1
Costs of operations	-9,1	-14,2
Depreciation according to plan	-0,3	-0,7
Operating profit before extraordinary one-off items	-3,1	
One-off items	-9,2	
Operating profit	-12,3	-6,4
Financial income and expenses	-0,5	-1,6
Profit before extraordinary items	-12,8	-8,0
Profit before income taxes	-12,8	-8,0
Profit for the period	-12,8	-8,0
Fixed assets		

Intangible assets	0,2	5,7
Tangible assets	0,7	1,7
Investments	0,1	0,2
Current assets		
Inventories	10,0	16,5
Receivables	4,1	3,7
Cash at hand and in the banks	0,2	0,3
Share holders' equity	-4,2	5,7
Obligatory reserves	0,1	0,2
Long-term liabilities	1,0	8,8
Current liabilities	18,4	13,4
Balance sheet total	15,3	28,1
Gross investments in fixed assets	0,0	2,6
Average number of personnel	147	327
Pledged assets and contingencies		
Liabilities relating to chattel mortgage	6,1	7,9
Chattel mortgage nominal value	12,1	12,1
Pledged investments	0,1	0,2
Leasing commitments	0,0	0,8
Other commitments	1,0	0,9
Earnings/share, EUR	-0,29	-1,09
Shareholders´ equity/share, EUR	Neg	0,59

The interim financial statements have not been audited.