

Financial statements for financial year 2005 BENEFON OYJ BULLETIN February 28, 2006 at 15:45 hrs

## **GENERAL**

The financial year 2005 of the company was characterised by stabilizing the business and creating basis for sufficient financing solution and realizing new business plan. As major events, the company managed to conclude the reorganisation program in advance, get new product program launched, enter into certain important partnership agreements and make some important groundwork for finding sufficient financing solution for securing the new business plan. Additionally, the company's management was strengthened and marketing operations activated through the UK subsidiary in London.

Company adopted the International Financial Reporting System (IFRS) during financial year 2005 and all financial information in this bulletin has been prepared according to the IFRS standards. The financial statements for financial year 2005 have not yet been audited and the audit report has not yet been issued.

## **MAJOR EVENTS AFTER THE END OF THE FINANCIAL YEAR**

### Directed share issue

The company arranged a directed share issue to shareholders and investors in January 2006 for implementing the prepared financing solution. The offering and listing prospectus for the issue was published on January 18, 2006. In the share issue, 53 shareholders 25 investors subscribed for a total of 78,293,102 new investment series shares (BNFSV) of the company at the share subscription price of 0,21 euros. Total subscription price received by the Company was EUR 16,441,551.42, of which EUR 11,676,082.32 was paid in cash and EUR 4,765,469.10 using receivables from the company for set-off. By virtue of the subscriptions, the company's share capital was increased by EUR 782,931.02 from EUR 1,312,540.46 to EUR 2,095,471.48 and the number of outstanding shares from 131,254,046 shares to 209,547,148 shares. Increase in the share capital was registered in trade register on February 9, 2006, and the new shares listed for trading in Helsinki Stock Exchange along with company's existing investment series shares on February 10, 2006. Relating to the share issue, Mr. Davis Francis was nominated as a new Board member by the decision of the extraordinary general meeting of January 31, 2006.

### Other events

The company launched its new TWIG brand for the consumer market and the first TWIG navigation device on February 14, 2006, in the annual 3GSM convention for the mobile phone industry held in Barcelona.

## **GENERAL FROM PERIOD 10-12/2005**

The company announced on October 17, 2005, a distribution agreement with 20:20 Logistics, the biggest mobile phone distributor in UK. The agreement includes a minimum committed order of 10,000 units.

On October 26, 2005, the company released an update to financial projections for financial year 2005. As emphasized in the company's earlier communications, first projections released in late May 2005 were highly dependent on securing the financing plan and finalizing the new product development. Due to unexpected delays in realizing the financing plan, also new product development was delayed correspondingly, which had direct impact on sales during the last quarter. The company reacted to this information without delay and updated the projections as soon as it appeared that due to extensive preparations the realization of the financing solution was likely to be delayed until early 2006.

The company announced on October 27, 2005, that it had entered into a manufacturing agreement for its new personal navigation phone with China Putian. At the same the company also entered into a distribution agreement with China Putian International who will distribute Benefon products and services to mobile operators, retailers and enterprise customers in all of Mainland China. Relating to the agreed manufacturing and distribution co-operation, it was also agreed with China Putian to examine potential for establishing a joint venture in China for developing and producing Benefon GPS mobile phones and mobile telematics service solutions by the end of April 2006.

The company raised in November and December 2005 additional financing of approximately 934 teuros by issuing a convertible bond loan and from share subscriptions by virtue of issued option rights.

On December 22, 2005, the company published an update regarding the status of prepared financing plan and anticipated financial result for financial year 2005 based on latest information.

The net sales of the Company in period 10-12/2005 was 18% less than the sales in the prior quarter, mostly due to seasonal demand fluctuation of GSM/GPS products used as hunting aids and to completed deliveries of some customer projects. The cost of personnel and other operating costs grew significantly from the prior quarter 7-9/2005 due to the on-going new product program. The operating result in period 10-12/2006 improved from previous quarter but stayed negative. The cash reserves of the Company at the end of the period were 1337 teuros.

## **GENERAL FROM PERIOD 1-9/2005**

The company reported on April 20, 2005, that an agreement had been signed between the company, the controller of the reorganization program and the main collateralized

creditors Finnvera, OKO and Sampo Bank ("FOS"), according to which agreement an application would be submitted for revising the reorganization program confirmed for the company so that the reorganization program would be concluded by June 30, 2005, instead of December 31, 2008, as confirmed earlier in the reorganization program. The agreed application was filed at the district court of Turku on April 28, 2005, and the district court approved application in mid-June, 2005.

According to the approved revision of the reorganization program, the company repaid all non-collateralized debts under the reorganization program ahead of schedule. At the same time the non-collateralized creditors of the Company were paid additional payments which more than doubled their proceeds under the reorganization program. In June 2005, the Company paid approximately 1.1 million euros of reorganization debts and additional payments in total. At the same, the controller of the reorganization program withdrew the regression suits pending in the Helsinki district court.

Furthermore the company and FOS agreed that FOS will waive all demands to all receivables from the Company as well as release all collateral being held, provided that the agreed financial covenants are fulfilled but in any case at the latest on September 30, 2008. The amount of those receivables with accrued interest is approximately 1.6 Meuros, which amount has been booked as income in the consolidated financial statements in accordance with the IFRS-standards.

The company raised an equity loan of EUR 1,200,000 euros arranged by Benecap Limited to finance the payments required by the agreement for early conclusion of the reorganization program. As part of the negotiated loan terms, the company issued a total of 2,160,000 series 2004A option rights to the investors who had provided the funds for the loan capital.

A licensing arrangement for product development deliverables with Benecap Limited was reported by the company on April 12, 2005. The arrangement includes an option for Benefon to purchase the license rights under pre-agreed terms. According to the terms of the licensing agreement, the company committed to issue a maximum of 2,340,000 option rights Benefon 2004A to be directed to investors delivering the funds needed to acquire the licenses.

As published on July 6, 2005 the company raised an equity loan of EUR 1,250,000 arranged by Benecep Limited in order to secure the completion of the published new product program and associated component purchases and to secure the financing program currently in progress. As part of the negotiated loan terms, the company committed to grant a total of 2,500,000 option rights Benefon 2004A to investors providing the funds for loan capital.

On July 18, 2005, the company announced Mr. Jonathan Bate's appointment as the new CEO of the company and the former CEO's Mr. Tomi Raita's transfer to COO position. Mr. Bate started his work as the CEO on September 19, 2005.

The extraordinary general meeting of September 5, 2005, authorized the Board to resolve about increase of share capital by means of a new share issue pursuant to shareholders' pre-emptive rights, which authorisation was later cancelled by the extraordinary general meeting on January 31, 2006.

## **BUSINESS ENVIRONMENT**

The market growth for navigation products developed positively while the competition got harder. In 2005 the market was hit by several personal navigation products operating either as stand-alone products or connected to a mobile phone with a blue tooth-link.

## **SALES, MARKETING AND BUSINESS DEVELOPMENT**

The business of the Company is to offer mobile telematics terminals, software and solutions for securing lives and property, for improving field management and for personal navigation applications and location based services.

Mobile telematics sales are directed to about 20 countries and the sales efforts were focused especially on customer projects in Europe and in the USA. The share of mobile telematics sales of all sales in the reported quarter was almost 100 %.

The range of mobile telematics products covers personal security and navigation applications as well as field management applications, vehicular and machine communications (M2M) applications and asset tracking. New TWIG products will strengthen company's product offerings also in the consumer navigation market.

## **FINANCIAL DEVELOPMENT IN THE REPORTING PERIOD**

The net sales of the Company in quarter 10-12/2005 were 1753 teuros when in the prior quarter 7-9/2005 they were 2142 teuros. In the whole year 1-12/2005 the net sales were 7562 teuros. The net sales in the prior year 1-12/2004 were 7033 teuros.

The operating result in quarter 10-12/2005 was -1073 teuros, which was 178 teuros better than the operating result -1251 teuros in prior quarter 7-9/2005. The operating result in whole year 1-12/2005 was -3398 teuros, which was 492 teuros better than the operating result -3890 teuros in the prior year 1-12/2004.

In the financial period 1-12/2005, the Company had exceptional expense and income items related with the reorganization in form of the additional payments of 720 teuros to reorganization creditors and the booking as profit of the waived bank debts of 1484 teuros, the net effect of which on the result of the period was 764 teuros.

The total of the balance sheet at the end of the quarter 10-12/2005 was 4974 teuros. In the

balance sheet, there were no capitalizations of R&D expenses. At the end of the prior quarter 7-9/2005, the total of the balance sheet was 4847 teuros, and at the end of the prior year 1-12/2004 it was 4964 teuros.

The share of the equity capital of the balance sheet at the end of the quarter 10-12/2005 was -2331 teuros, or about -47%, when at the end of the prior quarter 7-9/2005 it was -1760 teuros, or about -36%, and at the end of the prior year 1-12/2004 it was -184 teuros, or about -4%.

The interest bearing net debt at the end of the quarter 10-12/2005 was 3226 teuros. Of this debt, being in form of capital loans and a convertible loan, a total of 2100 teuros was used for share subscriptions in set-off in the share issue of January 2006 which amount, therefore, was converted into shareholders' equity. The Company has not paid any interest on these loans.

The total of liabilities at the end of the quarter 10-12/2005 was 7305 teuros, of which non-current liabilities amounted to 985 teuros and the current liabilities to 6320 teuros. At the end of the prior quarter 7-9/2005, the total of liabilities was 6607 teuros, and at the end of the prior year 1-12/2004 it was 5148 teuros. The amount of cash at the end of the period was 1337 teuros, of which 285 teuros was pledged.

## **REPORT ON SUFFICIENT LIQUIDITY IN PERIOD 01/2006 - 03/2007**

The following account on sufficient liquidity is based on the latest business plan.

Cashflow account of period 01/2006-03/2007 / million euros

Operating result	12.5
Depreciations (mainly of R&D-capitalizations)	3.3
Increase of current receivables	-10.1
Increase of inventories	-5.5
Increase of non-interest bearing debt	3.0
Paid interests	-0.7
Investments (mainly R&D-capitalizations)	-11.6
Share subscriptions paid in cash	11.7
Change of debt	0.0
Change of cash funds	2.6

Should the future development deviate from current information or estimates, it may significantly affect the construed cashflow account.

## **INVESTMENTS**

The investments of the Company in the financial year 1-12/2005 were 40 teuros which all were realised in the final quarter 10-12/2005.

## **PERSONNEL**

The number of employed active personnel at Benefon in the quarter 10-12/2005 averaged 76, of which 35 were affected by alternate forced leaves. In the prior quarter 7-9/2005, the same number was 76 and in the same quarter 10-12/2004 a year before it was 86.

## **FUTURE OUTLOOK**

After closing the sufficient financing in February 2006, the company will concentrate on finishing its new product range and implementing its published business plan.

## **SPECIAL MEASURES IN THE FINANCIAL PERIOD FOR IMPROVING THE FINANCES OF THE COMPANY**

The finances of the company were strengthened during the reporting period by means of a licensing arrangement of R&D-deliverables, capital loans, a convertible bond loan and option rights, with which the company received an additional financing of approximately 4684 teuros. The Company has reported about the said measures in more detail in market bulletins issued on April 12, 2005, April 20, 2005, July 6, 2005, and November 10, 2005 and in the offering and listing prospectus published on January 18, 2006. The capital of the raised capital loans and the convertible bond loan were used in full for set-off to subscribe for new shares in the directed share issue of January 2006.

## **CONVERTIBLE BOND LOANS**

In November 2005, based on the authorisation given by the annual general meeting of the company of May 26, 2005, the Board decided to increase the share capital of the Company with a maximum of 23,809.52 euros by issuing, in deviation from the shareholders' first right, to MMA Limited and Biggles Limited a convertible bond loan Benefon 2005A of a total maximum of EUR 500,000. The loan was raised to secure financing of the company until implementation of the prepared financing solution. Subsequently, after the end of the reporting period in February 2006, the entire loan capital was converted into 2,380,952 new investment series shares of the company.

Additionally, a part of the convertible loan Benefon 2004A was converted into 1,865,247 new investment series shares of the company in February 2006. After conversion, the remaining loan capital of convertible bond loan 2004A is EUR 1,107,549.07 which may be converted into a maximum of 110,754,907 new investment series shares of the

company by December 31, 2008.

## **OPTION RIGHTS ISSUED OR DECIDED IN THE REPORTING PERIOD**

The extraordinary general meeting of September 5, 2005 resolved on a new option program Benefon 2005A which entitles the prior CEO of the Company Mr. Tomi Raita to subscribe for a maximum of 1,500,000 option rights in three equal classes on certain conditions. The options are granted provided that the set pre-conditions for each class are fulfilled by July 1, 2007 at the latest. The same extraordinary general meeting decided further to adopt a new option program Benefon 2005B consisting of a maximum of 20,000,000 new option rights divided into four classes. In this new program, the share subscription price by option class was determined, according to the option terms, to range from EUR 0.4250 to EUR 1.020. According to the option terms, the subscription period for all options in this program began on October 19, 2005 and end on April 19, 2006.

In August 2005, the company issued the committed option rights, as reported in market bulletins of April 12, 2005, April 20, 2005 and July 6, 2005, relating to the agreed licensing and leasing arrangement for R&D-deliverables and to the two capital loans, all arranged by Benecap Limited, a Jersey, U.K. company. The total amount of the said committed option rights was 7,000,000, distributed between the 25 investors in proportion to their contributions. The issued options were of series 2004A, exercisable at 0.14 euros per share by January 31, 2008.

In October 2005, the company issued an incentive package of 500,000 series 2004A option rights to Lextel Group that has been contracted by the company for marketing services in China and Hong Kong.

In November 2005, the company issued a total of 3,300,000 series 2004A option rights to MMA Limited, Biggles Limited, Ashland Partners and Mr. Tomi Raita. All options were issued on the condition that all subscribers will exercise the agreed proportion of option rights without undue delay. Of the issued option rights, 3,100,000 were used for share subscription in December 2005.

After the said issuances of option rights 2004A, the remaining number of series 2004A option rights parked at Octagon Capital and at the Board's disposal is 28,797,988.

## **EQUITY ISSUE AUTHORITY OF THE BOARD**

The annual general meeting of May 26, 2005, decided to cancel the authorization granted on 28.5.2004, and 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 so that in the issue of convertible bonds or options or in the rights issue a total maximum of 25,630,809 new investment shares with a book parity value of EUR 0.01 per share shall

be entitled to be subscribed for. Therefore, the share capital may, based on the authorization, be increased by a maximum of EUR 256,308.09. The authorization includes the right to deviate from the pre-emptive right of the shareholders and right to decide that the shares can be subscribed for in kind, using the right of set-off or on other specific terms.

The authorisation was used in November 2005 for raising the convertible bond loan of a EUR 500,000, for which the Board decided to increase the share capital of the company by EUR 23,809.52 at the maximum. By virtue of the authorization the share capital may still be increased at maximum by EUR 232,498.57.

## **ADOPTION OF IFRS-ACCOUNTING**

The financial statements of the Company for year 2005 and for the reference year 2004 have been prepared in their entirety according to IFRS-standards.

The Company issued on January 12, 2006, a bulletin regarding IFRS adoption in which the most essential effects of the adoption of IFRS standards were detailed. In addition, the bulletin included financial result and equity comparison calculations.

BENEFON OYJ

Jonathan Bate  
CEO

## **APPENDICES**

1. Consolidated financial statements 2005
2. Cash flow statement

## **CONSOLIDATED FINANCIAL STATEMENTS 2005, IFRS**

	1-12/05 1000 EUR	1-12/04 1000 EUR
Net sales	7562	7033
Other operating income	85	140
Costs of operations	-10860	-10592
Depreciation and value adjustments	-185	-471
Operating profit	-3398	-3890

Financial income and expenses	207	12607
Profit before taxes	-3191	8717
Income taxes	0	41
Profit for the period	-3191	8758
Fixed assets		
Tangible assets	132	271
Intangible assets	27	30
Investments	61	60
Current assets		
Inventories	1282	2306
Receivables	1566	853
Prepaid expenses	569	71
Cash in hand and at banks	1337	1373
Share capital	1313	1278
Other shareholders' equity	-3644	-1462
Long-term liabilities	985	2946
Current liabilities	6320	2202
Balance sheet total	4974	4964
Gross investments in fixed assets	40	101
Average number of personnel	76	91
Pledged assets and contingencies		
Contingent liabilities relating to chattel mortgage	1484	1484
Chattel mortgage nominal value	12068	12068
Pledged assets	403	325
Earnings/share, EUR	-0,03	-0,04
Shareholders' equity/share, EUR	-0,02	-0,00

The key ratios have been computed undiluted as the dilution effect would improve them. In computing the result per share, neither the debt cuts nor the additional payments due to reorganisation have been included. The interim financial statements have not been audited.

## CASH FLOW STATEMENT

	1-12/05	1-12/04
	1000 EUR	1000 EUR
Cashflow from operations		

Profit for the period	-3191	8758
Adjustments		
Debt cuts	0	-12901
Booking as income of the bank debt	-1484	0
Other adjustments	1407	396
Changes in working capital:		
Change in receivables	-1211	221
Change in inventories	1024	1966
Change in current liabilities	1182	-1624
Paid and received interests	-30	10
Additional payments to reorg creditors	-720	0
Cash flow from operations	-3023	-3174
Cash flow from investments	-40	-85
Cash flow from financing		
Share subscription payments	434	2814
Raised loans	2950	1980
Payments of reorganization debt	-357	-217
Cash flow from financing	3027	4577
Change in cash	-36	1318
Cash in the beginning of the period	1373	55
Cash at the end of period	1337	1373