

INTERIM REPORT

For the period January 1, 1999 – June 30, 1999
Net Insight AB (publ), org nr. 556533-4397

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IMPORTANT EVENTS DURING THE PERIOD

- During the period, test installations have been made at ICG Communications, Denver, Colorado and at Norrköpings Miljö & Energi.
- Net Insight has, by successful cooperation with major telecom companies, paved the way for European DTM standardization through the European standardization body ETSI.
- In May, Net Insight launched Nimbra One™ and Nimbra 101™ at Networld+Interop '99 in Las Vegas. In January 1999, Nimbra One™ was also listed as one of the 50 hottest products for 1999, by the trade magazine Data Communications.
- On June 2 1999, Net Insight was awarded the Red Herring prize "Best Strategic Financing from Venture Market Europe 1998".
- On June 7 1999, Net Insight B shares were listed on the Stockholm Stock Exchange.
- During the spring, Net Insight signed agreements with Cygate (previously Salcom) and Fiberdata regarding cooperation on the sales of Net Insight products in Sweden and the other Nordic countries.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

- Net Insight and Bredbandsbolaget have signed an agreement of intent to supply digital broadband services to households using Net Insight's DTM as the one of the underlying technologies.
- TeleCyber has chosen Net Insight's DTM products in order to be able to offer building owners and companies access to broadband services with fixed connections to the Internet, IP telephony, music, games, real-time video and TV channels.
- ABB and Net Insight have signed an agreement regarding cooperation on the sales of Net Insight's products to, initially, city networks in Nordic and Europe.
- Net Insight has sold Nimbra One city network switches to Karlstads Elnät, which will be the first commercial implementation of DTM in a city network in Sweden. The products will be installed in August/September.

MARKET OVERVIEW

Net Insight is a rapidly growing hi-tech development company specializing in products based on DTM technology. During 1999, DTM has achieved a high degree of acceptance on the market. On the development front, Net Insight has set up a partnership with Cadence, one of the world's leading development companies in the field of electronic design, enabling Net Insight's DTM resources and expertise to be offered to other companies throughout the world. This will enable faster dissemination of the DTM technology, especially when Net Insight's chip, Twintin™, becomes available on a license basis. Another important event for Net Insight was the decision by ETSI (European Telecommunications Standards Institute) to open its doors to the standardization of DTM. Here, Net Insight, together with a number of other Nordic operators, plays a leading role.

Net Insight's target market comprises city network switches and regional networks, for which we offer a simple but powerful solution. Our customers include not only the traditional operators but also the growing number of new operators that have emerged as a result of deregulation or through investments in fibre networks. Fibre networks are enjoying strong international development. In the USA, 30% of all households are expected to have access to a broadband connection by year 2003 according to independent market analysts.

The growth of new services is typical of the current revolution in tele and data communication. The Internet is not just changing our way of doing business; it is also changing the way we acquire news, knowledge and entertainment. A new technology is required to do away with the bottlenecks in the networks and raise the level of services. This is where new business opportunities are opening up for those who own fibre channels within city networks. We made our first installation in a Swedish city network in June at Norrköpings Miljö & Energi. The first commercial order to a city network operator in Sweden was to Karlstads Elnät. The installation will be made during third quarter 1999.

The city network segment is a rapidly growing market. Municipalities have shown a great deal of interest, and during 1999 we will be installing our products for evaluation purposes and directing campaigns towards this growing market. In order to obtain a broader and more rapid deployment of our products, agreements have been signed with

Fiberdata, Cygate (previously Salcom) and ABB Communications regarding cooperation on the sales and support of Net Insight products. We also plan to create an international distributor network.

The need to be able to offer multi-dwelling buildings and business premises access to the range of digital multimedia services of today and tomorrow has been highlighted in recent months. There has been a great deal of interest from property owners wanting to meet increased tenant requirements. TeleCyber and Bredbandsbolaget are active in this market and have signed agreements with Net Insight so that they can offer solutions based on our DTM products.

During the second quarter, we increased our marketing efforts by recruiting new staff, participating in seminars and trade fairs and through direct marketing activities. Nimbra One™ and Nimbra 101™ have been launched, and production in partnership with Flextronics has been directed at completing products for delivery during the next quarter.

1999 will continue to be characterized by international marketing efforts, and we will also be initiating strategic alliances with our business partners. Product development will also continue with increased intensity. Overall, this means that we will need additional capital in order to achieve our ambitious objectives.

STAFF

In March 1999, Net Insight engaged Magnus Stålbrandt as Sales Manager. His duties include the continued build-up of a strong sales organization in Sweden and the rest of the world. Magnus joins us from Xylan Nordic where he held the positions of MD and Nordic Manager.

Bruce Sherman has been taken on as Sales Manager for Net Insight in North America. Bruce, who joined us in June 1999, has more than 20 years' experience of working in the IT and network industries. He was most recently with Xylan Corp.

During the period, the number of employees has increased from 50 to 65.

BUSINESS COSTS AND BOOK LOSS

The company currently has no operating income. Business costs for the first six months amounted to SEK 51 732 000, of which SEK 30 033 000 are for the second quarter. The company will be devoting further resources to building up the US subsidiary. Currently, this constitutes only a small part of the overall business, and consequently the costs of the parent company are virtually identical with those of the group.

INVESTMENTS IN FIXED ASSETS

Investments in instruments, equipment and improvements to premises for the first quarter amounted to SEK 441 000. No development costs were activated.

LIQUIDITY AND FINANCING

The business has been financed through three new share issues, of which the latest was carried out during February 1999 and contributed SEK 74.2 million after deduction of issue costs. At the Annual General Meeting held on 31 May 1999, the meeting voted to authorize the board to decide on the issue of new shares. Liquidity in the form of cash and bank balances amounted to SEK 57 million on 30 June 1999.

FORTHCOMING REPORTS FROM NET INSIGHT

- Interim report for the period July – September 1999 - 14 October 1999
- Press release of annual figures for 1999 - 31 January 2000

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousand	Jan 1, 1999 - June 30, 1999	Jan 1, 1998 - June 30, 1998	Jan 1, 1998 - Dec 31, 1998
Net Sales	-	-	25
Marketing costs	- 6 660	- 3 335	- 8 381
Administrative expenses	- 4 090	- 2 031	- 4 303
Development expenses	- 40 982	- 16 852	- 40 295
Operating loss	- 51 732	- 22 218	- 52 954
Interest income	803	1 286	2 008
Interest expenses	- 4	- 1	- 9
Loss before financial items	- 50 933	- 20 933	- 50 955
Tax on profit/loss for the period	-	-	-
Net loss for the period	- 50 933	- 20 933	- 50 955

CONSOLIDATED BALANCE SHEET

Amount in SEK thousand	June 30, 1999	June 30, 1998	Dec 31, 1998
Assets			
Tangible assets	1 681	1 122	1 497
Current receivables	2 813	2 681	3 062
Prepaid expenses	2 289	-	716
Cash and bank balances	57 003	57 521	28 412
Total assets	63 786	61 324	33 687
Equity			
Share capital	1 202	1 075	1 075
Share premium reserve	182 242	107 083	108 101
Accumulated loss	- 82 589	- 31 634	- 31 634
Profit/loss for the period	- 50 933	- 20 933	- 50 955
	49 922	55 591	26 587
Current liabilities			
Accounts payable-trade	6 380	2 667	3 713
Other liabilities	1 289	793	1 238
Accrued expenses	6 195	2 273	2 149
	13 864	5 733	7 100
Total equity and liabilities	63 786	61 324	33 687

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	June 30, 1999	June 30, 1998	Dec. 31, 1998
<i>Current operations</i>			
Operating loss	- 51 732	- 22 218	- 52 954
Depreciations	257	148	426
Interest received	803	1 286	2 008
Interest paid	- 4	- 1	- 9
<i>Cash flow from current operations before change in working capital</i>	- 50 676	- 20 785	- 50 529
<i>Changes in working capital</i>			
Increase in receivables	- 1 324	- 763	- 1 860
Increase/decrease in current liabilities	6 764	1 091	276
Cash flow from current operations	- 45 236	- 22 639	- 52 113
<i>Investment activity</i>			
Acquisition of tangible assets	- 441	- 734	- 1 387
Cash flow from investment activity	- 441	- 734	- 1 387
<i>Financing activities</i>			
warrant program/share issue	74 268	172	1 190
Cash flow from financing activities	74 268	172	1 190
Increase/decrease in liquid assets	28 591	- 23 201	- 52 310
Liquid assets at beginning of year	28 412	80 722	80 722
Liquid assets at year-end	57 003	57 521	28 412

Stockholm, August 9, 1999

Bengt Olsson
Chief Executive Officer

Review Report

We have reviewed this interim report in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants. A review is significantly limited compared to an audit. Nothing has come to our attention that causes us to believe that the interim report does not fulfill the requirements of the Swedish Annual Accounts Act.

Stockholm August 9 1999

Marcus Johansson
Authorized Public Accountant

Bertil Johanson
Authorized Public Accountant



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