

### **About Net Insight**

*Net Insight develops and markets network switches for fiber-optic broadband networks. Using Net Insight solutions, operators can offer everything from new advanced real-time services to studio-quality video, and from interactive Internet to traditional telephony and data. The services can be supplied across one and the same infrastructure simply and cost-effectively. Net Insight has around 140 employees in Sweden and the USA. The company is listed on the Attract40 O-list of the OM Stockholm Exchange. For more information, please see [www.netinsight.net](http://www.netinsight.net)*

## **PRESS RELEASE OF UNAUDITED FIGURES FOR 2000**

*Net Insight AB (publ), org no. 556533-4397*

- **Video/media application generates sales agreement**
- **Launch of Twintin – real-time switch on one chip**
- **Operating loss of SEK 218.1 million**
- **Liquid funds amounted to SEK 176.0 million**

## **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

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### **Razor-sharp position**

According to many analysts, streaming media will in future make up the bulk of network traffic, as much as 90%. Net Insight can already today meet the high level of quality and security required by the media industry in terms of streaming real-time services. During the year, Net Insight has developed a very strong concept for the TV and media industry which cater for the industry's need to be able to transmit streaming media of full studio quality across fiber-based networks. The concept is primarily based on three competitive advantages:

- communications network for very high quality real-time services
- simple provision of services regardless of type: IP, telephony and video
- very cost-effective platform

"During the past year, we have strengthened our organisation primarily in terms of marketing, sales and support. The development of our products in the Nimbra 200 series is in its final stages and will be commercially available during the first quarter of 2001. All of which feels most satisfactory," says CEO Bengt Olsson.

### **Sales**

Net Insight significantly increased its market presence during the year and several new sales agreements have been signed. In April, one of Net Insight's dealers', Fiberdata, signed an outline agreement with RegNet/Norrskan involving the provision of broadband access using DTM technology to 40 Swedish districts. The agreement led to Gavle Net buying the Net Insight Nimbra One switch as the backbone of its new city network.

Norrtälje Energi and Ålcom have bought the Net Insight Nimbra network family as the platform for a regional network that stretches from Åland via Norrtälje to Stockholm. The deal was effected in collaboration with Fiberdata; it initially covers eight nodes.

During the year, Net Insight's business partner Allied Telesyn invested in DTM equipment in order to build demonstration installations in both Japan and Europe. In addition, a support and training center is under construction in Albenga in Italy for Allied's customers in Europe.

In August, Tele 2 signed an agreement with TV4 concerning datacom services for the transfer of uncompressed video in real-time together with high-speed transfers between the TV4 head office and the local TV4 station in Stockholm. Tele 2's national service, popularly known as 'fatband', is based on DTM equipment from Net Insight. Installation, initially of five nodes, took place in September and it was taken into operation in November.

December saw the signing of yet another agreement that will enhance the Net Insight focus on the distribution of uncompressed video in real-time for the media industry. Skanova, a network company in the Telia group, has started building a media network from into the company's existing networks, and Net Insight will be supplying the infrastructure. It is anticipated that the network will be operational at the start of 2001; it is part of the development project in which Skanova is investigating the technical criteria for having a fiber network especially for the media industry. The network will be tailored to the needs of TV and production companies to be able to distribute, archive and trade in video material online.

### **Collaboration agreements**

In accordance with the Net Insight business model of establishing strategic partnerships in development as well as sales and distribution, partnerships have been entered into with several hi-tech partners.

In April, Net Insight signed a collaboration agreement with ABB AG with the aim of establishing a global dealer network. The agreement covers the sales and implementation of Net Insight network solutions for ABB AG's customers in Austria and eastern Europe. There has been a similar agreement in respect of the Nordic countries for some time.

A partnership with the US firm Allied Telesyn International (ATI) has been initiated in which ATI will be selling Net Insight products for city networks under its own brand name. In addition, an exclusive 'OEM' (Original Equipment Manufacturer) agreement for the Japanese market has been signed with the Japanese firm Allied Telesis KK.

In July, there was an amplification of the strategic collaboration on technology with Tality, an electronics company in the Cadence group. Tality will be an authorized design center for the Net Insight Twintin chip and will be supplying the latest design services in the DTM area. This will make it easier for other manufacturers of network equipment to integrate Twintin into their own products.

During September, Net Insight signed an Agreement on Intent with the pan-European operator Carrier1. The agreement covers sales, marketing and the development of video and other real-time services for the TV and media industry. The services involve major savings due to improved efficiency, now that uncompressed video material can be carried directly via the fiber network instead of being processed in costly OB (Outside Broadcasting) buses or sent via satellite links. Carrier1's pan-European fiber network links up more than 1000 locations in 12 countries and 50 towns, and, when linked with Net Insight real-time technology, will create a competitive platform for services such as streaming video. This means that, by using DTM, TV and film companies will be able to utilize networks as, say, vehicles for transferring streaming media in real-time.

### **Products and launches**

In January 2000, a broadband video conference was transmitted via opto-fiber between the AGM of Svenska Stadsnätöföreningen [*the Swedish city network association*] in Gothenburg and a studio in Stockholm. The Nimbra One switch and the newly-developed video card ensured perfect studio quality at 270 Mbps in real-time.

On 26 April, the Twintin chip was launched concurrently in Sweden and the USA. Twintin, which is a complete broadband switch on a single chip, provides unique real-time characteristics with a switching capacity of 8 Gbps. The chip will be the motor in the Nimbra 200 series but will also be sold separately, primarily to the OEM market.

During the fourth quarter, two new products based on the Twintin chip were tested - Nimbra 210 and Nimbra 290. The Nimbra 210 switch is primarily intended for smaller local networks, while Nimbra 290

is a pure DTM switch with the task of merging traffic from a large number of Nimbra 210s in order to send it further on its way.

### **Installations and technical verification**

Net Insight has made the first delivery to Gavle Net as part of the outline agreement signed with RegNet/Norrskan at the start of the year. A base system has now been installed and put into operation in the fiber-based broadband network covering the majority of Gävle.

The Net Insight system between the Backup center on Ljusterö and Sandhamn in the Stokab network was installed in September.

Net Insight has successfully verified its new SDH interface at Vasa Läns Telefon OY. SDH is the dominant technology with almost all operators. This new interface means that Net Insight can now help other operators with SDH-based networks to implement real-time communication and broadband transmission of movies and sound.

### **Directed placement and stock split**

A directed placement was carried out in January/February 2000 for a total of SEK 230 million to the Fourth AP fund, Brummer & Partners Zenith hedge fund and SPP Kapitalförvaltning.

In accordance with a decision by the AGM, a 5:1 split of the Net Insight B-shares was carried out on 15 May. There was a total of 39 289 300 shares with a nominal value of SEK 0.04 per share.

### **Board and organization**

Lars Berg, Bo Dimert and Lage Jonasson were re-elected as regular members of the Board at the AGM on 26 April.

The number of employees has grown during the year from 81 to 122. A major part of the recruitment has been in the area of marketing, sales and support to underpin the company's focus on marketing. During the year, the management team has been reinforced by several new members including: Carl-Johan Blomberg - CFO, Anders Persson - VP Product Development, Carolen Ytander - VP Corporate Communications. Lars Borwing was engaged as COO of the sales subsidiary in the USA, Net Insight Inc.

In March, the Board decided to recommend the AGM to introduce a staff options scheme comprising a total of 322 000 staff options. For this purpose, a promissory note was issued with 435 000 separable option rights for subscription of new shares. If completely utilized, the scheme will represent a dilution of the total share capital by around 5%, and of the total number of votes by around 3%.

### **Patents**

During the year, Net Insight has continued the work of improving its patent rights to ensure its technological head start. This work has involved the continued pursuit of existing patent cases, and the presentation of new patent applications in respect of the fresh development work that is continually in progress.

As of 31 December, the Net Insight patent portfolio comprised 50 patent families, each of which included patents or patent applications in one or more countries.

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

### **Lars Berg new Chairman of the Board**

During January 2001, Lars Berg will assume the post of chairman of the Net Insight board. The previous chairman, Håkan Kihlberg remains on the board as a regular member. Lars Berg most recent post was at the head of Mannesmann Telecom, the massive German operator, while prior to that he was Group CEO of Telia.

### **Strengthened sales organization in the USA**

Net Insight is strengthening its sales organization in the USA with two key persons. John Kostak has been engaged as VP Global Marketing and Dan Lutter as VP US Sales. This recruitment is a part of the focus on media networks for professional use that have been successfully launched with the European operators. They took up their posts in January 2001.

### **Negotiations on a joint company with Carrier1**

In January, Net Insight and Carrier1 declared that they intended to form a joint company to develop a media network in Europe. The formation of the company is the result of the Agreement on Intent that was announced in September 2000. Negotiations are still in progress and it is anticipated they should be concluded in February 2001. The market offering is aimed at media and TV companies in Europe that need to send large amounts of video between their various studios and TV stations. The transfers in real time require a capacity of 270 Mbps.

## **MARKET AND FUTURE PROSPECTS**

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### **Media industry a driving force**

We could see at an early stage the trend towards having streaming media in digital broadband networks, and this has also been clearly confirmed by virtue of the agreements with Tele2, Carrier 1 and Skanova. Even today, there is great demand from TV and production companies that want to make their production scenario simpler and more efficient by being able to carry full quality, real-time video across a network. These service producers will be the ones who will put pressure on the development of networks in forthcoming years. Their need to be able to convey video, sound and data without any deterioration in quality across the one and the same network changes the criteria for today's operators. The driving force behind developments lies in the great volumes of traffic that the media industry generates.

### **The city-network and broadband market beginning to take off**

The broadband market has grown at a slower rate than was forecast at the beginning of the year. But, as the networks begin to carry desirable services, the demand on the domestic market will really begin to take off. No end customer is any longer prepared to pay particularly much for Internet connection, so, if operators are going to stay profitable, they must start delivering value-added services. Streaming media such as TV, video, music, interactive games, training, etc. will in future make up the bulk of network traffic, as much as 90% according to many analysts. This is a new mass market that will be highly valued, once it takes off. The merger between the media giant Time/Warner and the America Online operator is just one indication of the way things are going.

The agreements reached during 2000 are an important confirmation, not just of Net Insight's leading-edge skills, but also that a number of sophisticated customers have been able to identify the advantages of the company offerings. The focus on the media industry should not however be interpreted as a re-orientation of the company's strategic aim to be the leading supplier to those fiber-optic city networks that are being developed. There is no incompatibility between the supply of equipment for the broadband connection of homes and companies to city networks, and the offerings tailored to the media industry. The latter should instead be regarded as a strong incentive for operators and service providers to exploit the new business opportunities that are offered when service-producing companies invest in high-quality real-time video.

## **EARNINGS TREND**

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Sales revenue totaling SEK 9.0 million with SEK 3.0 million attributable to the fourth quarter. Income sources include Regnet/Norrskan, Tele 2, Allied Telesyn and Telia/Skanova. Expenses for the year amounted to SEK 221.0 million, SEK 67.4 million of which were attributable to the fourth quarter.

The majority of the company's expenses, SEK128.9 (74.7) million, are attributable to development. During the second half of the year, the company has concentrated on building up the sales and marketing organization to the tune of SEK 51.6 (23.7) million. The administration expenses includes consolidated expenses for the company group, which have not been divided into specific business units. The administration expenses also includes expenses for specific functions such as supply and order administration.

There was an operating loss of SEK 218.1 million, which, after appropriations and tax, amounted to SEK 208.8 million. Net interest income amounted to SEK 9.3 million.

### **Staff**

The number of employees during the year has increased from 81 to 122. In addition, the company employs some 30 consultants. The three founders of the company have been employed by the company since the beginning of 1997. All employees of the company own shares and/or options. Net Insight Inc., the US subsidiary, consisted of two people at the start of the year; these were augmented by a further two this January.

### **Liquidity and financing**

A directed share placement was carried out at the start of the financial year. This raised SEK 230 million. The placement and the company's options scheme generated the net sum of SEK 253.7 million during the year. Liquid funds at the end of the year amounted to SEK 176.0 million.

### **Investments**

Investments in instruments, equipment and the refurbishment of premises during 2000 amounted to SEK 0.9 million. No development expenses were activated.

### **Parent company**

Net sales amounted to SEK 9.2 million. There was an operating loss after appropriations and tax of SEK 202.8 million. Investments during the year amounted to SEK 0.9 million, with liquid funds of SEK 172.7 million.

### **Forthcoming report from Net Insight**

Interim report January- March will be issued on 2 May 2001.

**CONSOLIDATED INCOME STATEMENT**

Amount in SEK thousands	1 jan 2000- 31 dec 2000	1 jan 1999- 31 dec 1999
Net Sales	9 016	2 867
Cost of goods sold	-6 126	-2 531
<b>Gross earnings</b>	<b>2 890</b>	<b>336</b>
Marketing expenses	-51 568	-23 738
Administration expenses	-40 524	-16 367
Development expenses	-128 932	-74 700
<b>Operating earnings</b>	<b>-218 134</b>	<b>-114 469</b>
Net financial items	9 370	2 031
<b>Earnings before tax</b>	<b>-208 764</b>	<b>-112 438</b>
Tax	-	-
<b>Net Income for the period</b>	<b>-208 764</b>	<b>-112 438</b>

**CONSOLIDATED BALANCE SHEET**

Amount in SEK thousands	31dec 2000	31 dec 1999
<b>Assets</b>		
Tangible fixed assets	2 011	1 846
<b>Total tangible fixed assets</b>	<b>2 011</b>	<b>1 846</b>
Inventory	10 703	19 155
Customer receivables	4 024	732
Other receivables	14 118	8 941
Cash and bank balances	176 004	125 026
<b>Total current assets</b>	<b>204 849</b>	<b>153 854</b>
<b>Total assets</b>	<b>206 860</b>	<b>155 700</b>
<b>SHAREHOLDERS' EQUITY AND LIABLES</b>		
<b>Shareholders' equity</b>		
<b>Restricted shareholders' equity</b>		
Share capital	1 572	1 402
Unregistered shared capital	381 731	326 203
Non-restricted shareholders' equity	-205 738	-195 027
<b>Total shareholders' equity</b>	<b>177 565</b>	<b>132 578</b>
<b>Current liabilities</b>		
Accounts payable	17 791	15 971
Other liabilities	11 504	7 151
<b>Total liabilities</b>	<b>29 295</b>	<b>23 122</b>
<b>Total liabilities and equity</b>	<b>206 860</b>	<b>155 700</b>

**CONSOLIDATED CASH FLOW STATEMENT**

Amount in SEK thousand	31 dec 2000	31 dec 1999
<i>Ongoing operations</i>		
Operating earnings	-218 134	-114 469
Depreciation	747	620
Other items not affecting liquidity	1 242	-10
Net financial items	8 128	1 864
<i>Cash flow ongoing operations before change in working capital</i>	-208 017	-111 995
<i>Change in working capital</i>		
Decrease/Increase in inventories	8 452	-19 155
Increase in receivables	-8 469	-5 895
Increase in current liabilities	6 173	16 022
<b>Cash flow from ongoing operations</b>	<b>-201 861</b>	<b>-121 023</b>
<i>Investment activity</i>		
Acquisitions of tangible fixed assets	-911	-969
<b>Cash flow from investment activity</b>	<b>-911</b>	<b>-969</b>
<i>Financing activity</i>		
Warrants programs/new issues	253 750	218 606
<b>Cash flow from financing activity</b>	<b>253 750</b>	<b>218 606</b>
Increase/decrease in liquid funds	50 978	96 614
Liquid funds, opening balance	125 026	28 412
<b>Liquid funds, closing balance</b>	<b>176 004</b>	<b>125 026</b>

Stockholm, 1 February 2001

Bengt Olsson  
Chief Executive Officer

**For more details, please contact:**

Bengt Olsson, Chief Executive Officer, Net Insight AB.

Tel. +46 (0)8 685 04 30, e-mail: [bengt.olsson@netinsight.net](mailto:bengt.olsson@netinsight.net)

Carl-Johan Blomberg, Chief Financial Officer, Net Insight AB

Tel. +46 (0)8 685 06 20, e-mail: [carl.johan.blomberg@netinsight.net](mailto:carl.johan.blomberg@netinsight.net)

Carolén Ytander, VP Corporate Communications, Net Insight AB.

Tel. +46 (0)8 685 04 50, e-mail: [carolen.ytander@netinsight.net](mailto:carolen.ytander@netinsight.net)