



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 such as studio-quality video and Internet communication to traditional telephony and data. These services can be supplied simply and cost-effectively across one and the same infrastructure. 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

Interim report

*For the period 1 January – 30 June 2001
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Qmedia selects Net Insight for North American media network**
- **Tele2 extends the TV4 media network**
- **Allied Telesyn International orders equipment for four European networks**
- **Switches in the 200 series ready for shipment**
- **Fully-subscribed new share issue worth SEK 157 million**
- **Operating deficit of SEK135.2 million for the period**
- **Turnover of SEK 6.1 million**
- **Tomas Duffy is the new CEO**

SIGNIFICANT EVENTS DURING THE PERIOD

Sales

Tele2 has placed an order for network equipment for the continued extension of the TV4 media network. The order includes network switches for linking together both the main and local studios in Stockholm with TV4's local station in Gothenburg. The media network enables TV4 to send data and video signals efficiently across the fiber-optic network, either compressed as IP traffic or uncompressed as 270-Mbps video. This enables TV4 to digitize its production process all the way from camera to actual transmission. This order for network equipment constitutes the first call-off in accordance with the outline agreement between Net Insight and Tele2 that was signed in May this year. This outline agreement certifies Net Insight as a supplier and means that Tele2 can quickly call off equipment as and when it wants to extend the media network.

Net Insight's OEM partnership with Allied Telesyn has been further reinforced. In June, Allied Telesyn ordered network equipment for the extension of four pilot networks around Europe. The equipment will primarily be installed in what is known as 'Multi-Tenant Units', such as office blocks and business parks. The increasingly fast roll-out of broadband in Europe has meant an increased demand for flexible network solutions with more integrated services, both as packet and PDH based traffic. DTM technology, which offers intelligent resource management with guaranteed quality of service for all users, is well suited to the new demands posed for coping with varying user requirements.

Products

In May, the first switches in the 200 series, the access unit Nimbra 210 and the network switch Nimbra 290, were introduced. Nimbra 210 is a 24-port access unit that connects local networks with metro networks. Nimbra 210 can be used to connect an Ethernet in an apartment complex to a central metro network via a DTM uplink. Nimbra 290 is, on its part, Net Insight's first network switch based on the DTM chip Twintin. With 8 Gbps spread across 8 ports, it forms a cost-effective junction between links in fiber-optic metro networks based on DTM technology. Networks constructed using the new products in the 200 series are particularly suited for demanding broadband services based on real-time transmission. DTM technology makes it possible to guarantee bandwidth throughout the entire network, which gives service providers full control over quality all the way to the end user – one

criteria for getting paid for advanced broadband services such as video-on-demand and streamed music. These products are now completely ready for shipment.

Installations and technical verification

In June, the first delivery of network products to Carrier1 was made as planned. Carrier1 has already begun installations designed to link up a number of major European cities within a media network - these include London, Amsterdam and Munich. Carrier1 and Net Insight are jointly offering customized network solutions for the professional media industry in Europe, enabling customers to rationalize and digitize their production and distribution processes. In the next implementation phase of products for the Carrier1 network, several more European cities will be linked together.

New share issue

During May/June, Net Insight has carried out a new issue of shares to the value of SEK 157 million with preferential rights for all the company's existing shareholders. The issue was fully subscribed. After the new issue, there are 55 005 020 Net Insight shares with a nominal value of SEK 0.04 per share. In addition, those shareholders who subscribed to the new issue received an additional share option for every two new B-shares purchased. Each option, on its part, entitles the holder to purchase a further share during June 2002. If these options are fully utilized, a further SEK 118 million will be provided to the company in June 2002. Since 18 July 2001, these options have been listed on the Stockholm Stock Exchange.

SIGNIFICANT EVENTS DURING THE FIRST QUARTER OF 2001

Launch of second-generation DTM software

In March, a second generation of systems software for DTM switches was launched. The new software, NIMOS 2.0, can run on all Nimbra platforms, including the new switches in the 200 series. NIMOS 2.0 can provide powerful support to those operators and production companies that want to offer new types of solution via fiber-optic networks.

DTM standardized

In March, the European standardization body ETSI approved the backbone of the Swedish-developed network technology DTM. Approval of complementary parts of the technology is expected in the future. The standard was published on Friday 23 March with the designation ES 201 803-1.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Net Insight platform for North American media network

The American service provider Qmedia has chosen the Net Insight Nimbra platform for constructing a North American digital network. The network is intended to link together companies active in media production and distribution and will cover some fifty media-intensive cities throughout North America, including New York, Los Angeles, Chicago, Atlanta, Miami, Toronto and Vancouver. Media companies linked to this fiber-optic network will be able to utilize Qmedia services for video and data transmission to reduce their costs for production and distribution while maintaining the highest level of sound and picture quality. The network will offer these companies a cost-effective complement to the current use of satellite links and physical transportation of video cassettes. Qmedia's planned services for the new media network will include program distribution, digital video production services, point-to-point and point-to-multipoint transfers. Roll-out will start during the autumn of 2001 and Qmedia expects to invest around USD 20 million in the project over a two-year period. On the basis of its choice of Net Insight, Qmedia has given its first order to the company for network equipment in order to carry out tests and verification.

Tomas Duffy new CEO of Net Insight

Tomas Duffy has been appointed the new CEO of Net Insight and thus succeeds Bengt Olsson. Tomas Duffy was born in 1955. He was previously a member of Telia's executive management as Deputy CEO with responsibility for business solutions and all service development. He has been CEO

of Mannesman ipulsys, Mannesman's unit for international IP services. He will formally take up the post of CEO of Net Insight on 1 September, when he will also leave his current post as CEO of the strategy and IT consultancy company Halogen.

MARKET PROSPECTS AND FUTURE OUTLOOK

The net profits of the world's major manufacturers of computer equipment have fallen by more than 85% in the first six months of this year, compared with same period last year. This is a clear sign of the decline that is taking place in the telecom market. Companies are cutting back on investments while they are attempting to find tools to aid their competitiveness. Net Insight can offer cost-effective solutions and has the unique position of being the only supplier that can offer the real-time supply of uncompressed video to the media industry.

The trend within Net Insight's prioritized market segment, the professional media industry, indicates dramatic growth in the next few years. According to the analyst companies Aberdeen Group and Van Dusseldorp & Partners, there will be a pronounced increase in the market for digitally distributed content alone right up to 2005. Analyses show that the European market will increase from USD 350 million to approximately USD 1.9 billion by 2005. The corresponding forecast for the American market is for an increase from USD 1.01 billion to USD 3.43 billion - an annual increase of 40% and 30% respectively. The motivation is primarily in the quality improvements and cost savings that can be made using digitized distribution.

The agreements with Tele2, Carrier1 and Skanova confirm that Net Insight was right to go in for the media industry. Media companies are using digital equipment more and more, and there is already a need to simplify and rationalize the handling and distribution of material between different sites. Net Insight products can satisfy these needs, thereby reinforcing its position on the market. Thus, Net Insight has an excellent prospect of being the major supplier within this niche.

EARNINGS TREND

Sales revenue amounted to a total of SEK 6.1 million (0,5).

The bulk of the company's expenses are attributable to development activities to the tune of SEK 90.0 million (48.8). During the period, the company has strengthened its sales and marketing organizations in both Sweden and the USA. Expenses during the first six months for this activity amounted to SEK 35.9 million (25.7).

There was an operating deficit of SEK 140.2 million (96.7) and the deficit after appropriations and tax amounted to SEK 135.2 million (92.5). Net interest income amounted to SEK 5.0 million (4.3).

Staff

The number of employees increased during the first six months from 124 to 145. In the US subsidiary, the number of employees increased by 4 to a total of 5 people.

Liquidity

Liquid funds at the end of the period amounted to SEK 14.4 million. In addition to this, receivables of SEK 157.2 million are due from Swedbank Markets in conjunction with the new share issue.

Investments

Investments in instruments, equipment and the refurbishment of premises during the first six months amounted to SEK 0.3 million (0.6). No development expenses were activated.

The parent company

Net sales amounted to SEK 6.1 million (0.5). There was an operating deficit after appropriations and tax of SEK 142.7 million (90.6). Investments during the period amounted to SEK 0.3 million (1.1). Liquid funds amounted to SEK 12.8 (258.7).

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months april-june 2001	3 Months april-june 2000	6 Months jan-june 2001	6 Months jan-june 2000	12 Months july 2000-june 2001	1 jan 2000- 31 dec 2000
Net Sales	5 110	165	6 057	479	14 594	9 016
Cost of goods sold	-2 564	-120	-3 205	-354	-8 977	-6 126
Gross earnings	2546	45	2 852	125	5 617	2 890
Marketing expenses	-20 164	-13 652	-35 873	-25 746	-61 695	-51 568
Administration expenses	-8 295	-11 796	-17 203	-22 274	-35 453	-40 524
Development expenses	-46 596	-24 508	-89 970	-48 844	-170 058	-128 932
Operating earnings	-72509	-49 911	-140 194	-96 739	-261 589	-218 134
Net financial items	1 720	2 467	5 041	4 251	10 160	9 370
Earnings before tax	-70 789	-47 444	-135 153	-92 488	-251 429	-208 764
Tax	0	0	0	0	0	0
Net Income for the period	-70 789	-47 444	-135 153	-92 488	-251 429	-208 764

Earnings per share	-1,29	-1,22	-2,56	-2,38	-4,57	-3,97
Number of shares	55.005.020	38.780.900	55.005.020	38.780.900	55.005.020	38.780.900

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	30 June 2001	30 June 2000	31 December 2000
Assets			
Tangible fixed assets	1 897	2 122	2 011
Total tangible fixed assets	1 897	2 122	2 011
Inventory	23 898	25 809	10 703
Customer receivables	7 073	0	4 024
Other receivables	187 416	25 536	14 118
Cash and bank balances	14 434	260 099	176 004
Total current assets	232 821	311 444	204 849
Total assets	234 718	313 566	206 860
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	1 572	1 551	1 572
Unregistered shared capital	629	10 728	0
Restricted reserves	317 406	374 907	381 731
Non-restricted shareholders' equity	-139 547	-92 488	-205 738
Total shareholders' equity	180 060	294 698	177 565
Current liabilities			
Accounts payable	30 829	8 224	17 791
Other liabilities	23 829	10 644	11 504
Total liabilities	54 658	18 868	29 295
Total liabilities and equity	234 718	313 566	206 860

CONSOLIDATED CASH FLOW STATEMENT

	30 June 2001	30 June 2000	30 June 2001	31 Dec 2000
Amount in SEK thousand	6 months	6 months	12 months	
<i>Ongoing operations</i>				
Operating earnings	-140 194	-96 739	-261 589	-218 134
Depreciation	418	354	811	747
Other items not affecting liquidity	227	138	1 331	1 242
Net financial items	1 650	4 113	5 665	8 128
<i>Cash flow ongoing operations before change in working capital</i>	-137 899	-92 134	-253 782	-208 017
<i>Change in working capital</i>				
Increase in inventories	-13 195	-6 654	1 911	8 452
Increase in receivables	-176 347	-15 863	-168 953	-8 469
Increase in current liabilities	25 363	-4 254	35 790	6 173
Cash flow from ongoing operations	-302 078	-118 905	-385 034	-201 861
<i>Investment activity</i>				
Acquisitions of tangible fixed assets	-305	-630	-586	-911
Cash flow from investment activity	-305	-630	-586	
<i>Financing activity</i>				
New share issue	140 813	254 608	139 955	253 750
Cash flow from financing activity	140 813	254 608		
Increase/decrease in liquid funds	-161 570	135 073	-245 665	50 978
Liquid funds, opening balance	176 004	125 026	260 099	125 026
Liquid funds, closing balance	14 434	260 099	14 434	176 004

CHANGES IN GROUP SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Non-restricted reserves	Net earnings	Total shareholders' equity
Opening balance	1 572	381 731	3 026	-208 764	177 565
Rellocation of net earnings		-202 766		202 766	
Rellocation of restricted reserves		3 026	-3 026		
Shares being registered	628	140 185			140 813
Translation difference for the period		-3 163			-3 163
Net earnings				-135 155	-135 155
Closing balance	2 200	319 013	0	-141 153	180 060

This interim report has been prepared in accordance with recommendation no. 20 of the Swedish Accounting Standards Council, with application of the same accounting principles and calculation methods as used for the Annual Report for year 2000.

Forthcoming report from Net Insight

Interim report January – September 2001, 29 October 2001

Stockholm, 20 August 2001

The Board of Net Insight AB

This interim report has not been subjected to inspection by the Company auditors.

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