



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 100 employees in Sweden and the USA. The company is listed on the O-list of the Stockholm Exchange. For more information, please see www.netinsight.net

INTERIM REPORT

*For the period 1 January – 30 June 2002
Net Insight AB (publ), corporate ID 556533-4397*

- **American Midwest Tel Net purchases network for broadband TV via ADSL**
- **Germany's Bayerischer Rundfunk purchases Net Insight media solution**
- **Global letter of intent with Telia International Carrier about media networks**
- **American TV giant ABC adopts Net Insight platforms**
- **SEK 110 million share issue fully subscribed**
- **Sales for the period up at SEK 18.9 million (6.1)**
- **Operating deficit for the period: SEK 60.1 million (140.2)**

SIGNIFICANT EVENTS DURING THE SECOND QUARTER

Sales

In fierce competition, Net Insight has won a strategically important order to supply a network for broadband TV in the US. The order came through Net Insight's reseller Allied Telesyn and follows a trial period whereby Midwest Tel Net, a consortium of Incumbent Operator Carriers (IOC), have been evaluating independent alternatives for IP TV, telephony and Internet over ADSL. The completion of the tests showed the supremacy of the Allied Telesyn solution not only being able to provide connected households with fast Internet access and telephony, but as well as with over 100 cable TV channels. Midwest Tel Net is now starting the build-out of the network linking together a number of rural communities in southern Wisconsin where Vernon Telephone Cooperative will be the first operator to offer commercial services.

In June, Bayerischer Rundfunk ordered Net Insight's platform to link together local TV stations in south Germany. The State-owned Bayerischer Rundfunk, a subsidiary of the German national broadcaster ARD, will initially evaluate the technology in a pilot network that connects two local stations in Munich with capacity for uncompressed video over SDI (Serial Digital Interface) and compressed IP video and data traffic over Ethernet. The pilot network was delivered in June and has since been undergoing evaluation by Bayerischer Rundfunk in conjunction with IRT (Institut für Rundfunktechnik). Completion of the tests will be followed by a decision about further expansion to cover stations both in Munich and in the region.

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Collaboration agreements

In April, Chyron Corporation, a provider of broadcast transmission solutions, announced that it had started collaborating with Net Insight with a view to strengthening and expanding its product portfolio. Chyron is a leading supplier of solutions to the media industry with equipment sold to about 80% of the world's TV studios. By combining Net Insight's network platform with its own products for distribution and switching of video streams in local environments, Chyron will be able to offer its customers powerful package solutions that also link geographically separate studios.

In June, Telia International Carrier and Net Insight signed a letter of intent on media network expansion, setting out Telia International Carrier's intention of using Net Insight's platform and sector expertise in a global investment in media intensive network services involving video applications and real-time transmission. Telia has built one of the world's largest international fibre networks covering all major cities throughout Europe and the USA, and also owns its own optical fibre crossing the Atlantic. The two companies are already holding discussions with a number of TV companies that want network capacity for video transport between Europe's larger cities and between Europe and the USA.

A letter of intent has also been signed with Hewlett-Packard (HP) for strategic collaboration on the broadband market. The two companies will jointly market and sell comprehensive solutions for metro optical networks and broadband access in Sweden, with an eye to future global collaboration. As well as providing households with broadband and cable TV, the scope will include such demanding corporate applications as VPN services, Internet wireless roaming, telephony and high quality video conferencing. The concept is based on Net Insight's platform for smarter backbone networks in combination with server technology, access units and management systems from HP. The package also includes availability of HP's organisation for support and system integration.

Installations and technical verifications

In April, Net Insight introduced network support for multicast of the most frequent interfaces used in media production (SDI, ASI - DVB and Ethernet/IP video). The software enables cost-effective broadcasting of loss-less and jitter-free video signals from a source to the desired number of recipients. Adding multicasting to the platform, not only can Net Insight help operators and service providers to provide guaranteed video services, but also make it economically sound to distribute video content over the fibre network.

At the media trade fair NAB2002 in April, Net Insight unveiled its ASI Transport Access Module. ASI (Asynchronous Serial Interface) is an established interface in the media industry, used in equipment for satellite links and in primary networks for cable TV. The module can be configured to match the actual bit rate of a single or multiple streams of MPEG2 encoded video streams. In conjunction with multicasting, the ASI module is an attractive and cost-effective solution for the core of cable TV networks, thus opening up a new market for Net Insight.

May saw the approval of a further stage in the ongoing standardisation of DTM by ETSI (the European Telecommunications Standards Institute). This approval setting an official standard for Ethernet transport over DTM opens the way to broader introduction of streaming IP services. The new standard, designated as ES 201 803-7, was approved unanimously by the members of ETSI and was published on 6 May 2002.

During the summer, the US national broadcaster ABC, which carries popular news programs such as "Good Morning America" and "World News Tonight", has been evaluating Net Insight's media network solution together with Qmedia. During the trial period, ABC transported high-quality live and non-live video content between its news bureau in Washington DC and its central studio in New York. Qmedia's fiber network also gives ABC the ability to transport 270 Mbps uncompressed video over industry standard SDI and compressed video over DVB/ASI. After a successful test period, ABC signed an agreement with Qmedia for continuing supply of network services.

Organisation and new share issue

In June, Net Insight conducted a fully subscribed SEK 110 million share issue open preferentially to all the company's shareholders. This new issue increased the number of series B shares by 68,755,020, bringing the share capital up to SEK 5,500,401.60 and the number of shares to 137,510,010 comprising series A 3,600,000 and series B 133,910,040.

Net Insight has appointed Fredrik Trägårdh as Chief Financial Officer. Fredrik, born in 1956, has broad experience from various senior positions in international financing and economic control. His most recent position was as Senior Vice President and Head of Group Finance at Germany's DaimlerChrysler Rail Systems. Fredrik took up his new post on 1 July 2002 in succession to Carl-Johan Blomberg who is moving on to Micronic Laser Systems AB.

Significant events during the first quarter

Sales

The Dutch network operator KPN is investing in an optical media network and has chosen Net Insight to supply the technical platform. Under an outline agreement, KPN has placed orders for network equipment for setting up the first part of the national media network. Initially KPN will invest in high-quality video services enabling TV and production companies connected to utilise the advantages of real-time transmission of 270 Mbps video over SDI (Serial Digital Interface).

The American TV company MSNBC (a joint operation between Microsoft and NBC) has chosen Net Insight's solution for professional media networks. After a test period, MSNBC has signed contracts with Net Insight's partner Qmedia for video traffic to be carried by a media network linking Washington DC and New York. The uses to which this link will be put include video streaming for various news programs and for production of press conferences transmitted live from the White House and Congress.

During the first quarter, the Swedish operator Tele2 placed further orders for equipment for its media network. Construction is underway in Stockholm and Copenhagen, where the network is being provided with more capacity for both new and existing customers.

Collaboration agreements

In January, Net Insight signed a reseller agreement with the Polish system integrator TTI Inventel whereby the latter will market and sell Net Insight media platforms in Poland, Latvia and Ukraine. Results of the deal include TTI having ordered equipment for a reference network for tests in conjunction with a local TV company.

Share issue and stock option program

In February, a targeted new share issue of SEK 50 million was conducted. The ten million B shares thus issued were targeted at both institutional and private investors.

Net Insight AB's Ordinary General Meeting on 20 March 2002 adopted a new staff option program open to all grades of staff and comprising up to 3,025,500 series B shares. These options are cost-free to employees and run for five years.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Collaboration with Transmode on smarter metro networks

Net Insight has signed a partnership agreement with the fibre-optics company Transmode Systems to promote a solution for smarter metro networks over CWDM (Coarse Wavelength Division Multiplexing). Under the agreement, Net Insight becomes a reseller of Transmode's wavelength systems and the two companies will jointly market a package solution for metro and media networks in Europe and the USA. Transmode is developing CWDM-based products that multiply fibre network capacities by enabling each fibre to carry 16 different wavelengths. In combination with Net Insight's platform, which efficiently utilises each wavelength's bandwidth, the joint solution promises high capacity, flexibility and guaranteed quality of service to an unmatched price level.

ABC to produce TV with media network solution from Net Insight

One of USA's leading broadcasters, ABC Television Network, has signed an agreement with Qmedia for video and data capacity delivered over Net Insight's platform. The network connects ABC's news bureau in Washington DC with its central studio in New York. The agreement Following its June evaluation of Net Insight's platform, the American TV giant ABC has decided to purchase network capacity from the service provider Qmedia. Under the agreement, Qmedia will deliver capacity for an IP based news application from Path Fire and transport of digital video streams. Qmedia's media network solution, which is based on Net Insight's Nimbra platform, is helping ABC to move on from today's analog handling of news material to a completely digital production.

MARKET PROSPECTS AND FUTURE OUTLOOK

Net Insight has had an eventful and successful first half this year. Activity increased substantially in all market segments and the company has built up a strong prospective customer base. Sales revenue totalled SEK 18.9 million, three times that of the same period last year.

Increasing optimism

Despite predictions of continuing modest development of the telecommunications industry, cautious optimism has now been perceptible for some time. Consolidation of the telecom sector has led the remaining companies to look for competitive future-oriented solutions that not only meet customers' immediate needs but also cater for future requirements. However, telecom companies with available funds have been able to make profitable acquisitions of assets from those which have gone under. Telia International Carrier and KPN have acquired parts of the bankrupt KPN Qwest's European network, enabling them to fill geographical gaps and hence offer their customers still better coverage.

The media market yields commercial results

Net Insight's focus on the professional media industry is continuing to yield commercial results. Since Qmedia started setting up its north American media network at the end of last year, the media giants MSNBC and ABC have joined in and several other companies are testing. KPN, which at the beginning of the year adopted Nimbra as the platform for its media network, has installed its first customer and is conducting far-reaching customer discussions with other media companies. During the summer, Germany's Bayerischer Rundfunk evaluated Net Insight's technology in a pilot network with capacity for both uncompressed SDI traffic and compressed video and data over Ethernet.

Solutions for broadband access gain ground

The successes in the media market have led to solutions also finding applications in the segments of broadband access and metro networks. The possibility of distributing high quality video over the same network as telephony and Internet access is attractive to operators wishing to expand their business. The news that the American consortium Midwest Tel Net has started a built-out of a broadband network for IP TV based on Net Insight's platform has attracted much attention among operators on both sides of the Atlantic. The potential is enormous – in the US alone there are over 1000 independent operators like Midwest Tel Net's members that are now in a position to start seriously competing with today's cable TV solutions.

Great interest has also been aroused in Sweden, where the majority of local authorities have completed their IT infrastructure plans with a view to taking advantage of the government's broadband subsidy. Their interest increased further when Net Insight announced its collaboration with Hewlett-Packard. The two companies' joint concept for broadband access and metro optical networks also includes availability of HP's organisation for support and system integration, which is often a consideration in local authorities' choices of supplier at the negotiating stage.

Collaboration agreements boost market presence

All of Net Insight's prioritised market segments show signs of strong growth over the next few years. With a view to realising the growth potential and at the same time covering geographically separate markets, Net Insight has concluded a number of collaboration agreements that strengthen the company's range of offerings and boost its market presence. During the first half of 2002, agreements were signed with such reputable players as Hewlett-Packard, Chyron Corporation, TTI Inventel, Transmode Systems and Telia International Carrier.

EARNINGS TREND

Sales revenue for the period totalled SEK 18.9 million (6.1).

The cost saving program introduced last year has been implemented and become fully effective. Total expenditure amounted to SEK 68.4 million (143.0). There was an operating deficit of SEK 60.1 million (140.2), which, after appropriations and tax, amounted to SEK 59.8 million (135.2). Net interest income amounted to SEK 0.3 million (5.0).

Staff

The number of employees at the end of the period was 97 (138). The American subsidiary had 5 employees (4).

Liquidity

Liquid funds at the end of the period amounted to SEK 18.0 million. The company has also raised SEK 110 million by a fully subscribed new share issue recorded under other receivables.

Investments

Investments in instruments, equipment and refurbishment of premises during the report period amounted to SEK 0.4 million (0.3). During the period the company came into line with the Accounting Council's new recommendations (RR15) for the recording of development costs. This meant that SEK 5.3 million was recorded as intangible fixed assets and not, as in previous periods, as costs.

The parent company

Net turnover was SEK 18.9 million (6.1). The deficit after appropriations and tax was SEK 68.4 million (142.7). Investments during the period amounted to SEK 0.4 million (0.3). Liquid funds amounted to SEK 16.1 million (12.8). The calculated cumulative deficit for tax purposes of the parent company's business activity totalled SEK 772.0 million.

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months Apr-June 2002	3 Months Apr-June 2001	6 Months Jan-June 2002	6 Months Jan-June 2001	12 Months July 2001-June 2002	1 Jan 2001- 31 Dec 2001
Net Sales	11 869	5 110	18 926	6 057	34 397	21 528
Cost of goods sold	-7 139	-2 564	-10 504	-3 205	-17 373	-10 074
Gross earnings	4 730	2 546	8 422	2 852	17 024	11 454
Marketing expenses	-14 868	-20 164	-27 604	-35 873	-59 373	-67 642
Administration expenses	-6 440	-8 295	-14 367	-17 203	-30 060	-32 896
Development expenses	-14 021	-46 596	-26 522	-89 970	-97 843	-161 291
Restructuring expenses					-16 034	-16 034
Operating earnings	-30 599	-72 509	-60 071	-140 194	-186 286	-266 409
Net financial items	171	1 720	288	5 041	1 447	6 199
Earnings before tax	-30 428	-70 789	-59 783	-135 153	-184 839	-260 210
Tax	0	0	0	0	0	0
Net Income for the period	-30 428	-70 789	-59 783	-135 153	-184 839	-260 210

Earnings per share	-0,22	-1,29	-0,43	-2,46	-1,34	-4,43
Number of shares	137 510 040	55 005 020	137 510 040	55 005 020	137 510 040	58 755 020

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	30 June 2002	30 June 2001	31 December 2001
Assets			
Intangible fixed assets			
Capitalized expenditure for development	5 259	0	0
Tangible fixed assets			
Equipment	1 576	1 897	1 978
Total tangible fixed assets	6 835	1 897	1 978
Inventory	26 204	23 898	34 418
Customer receivables	18 549	7 073	13 659
Other receivables	123 456	187 416	8 220
Cash and bank balances	18 025	14 434	47 041
Total current assets	186 234	232 821	103 338
Total assets	193 069	234 718	105 316
SHAREHOLDERS' EQUITY AND LIABLES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	2 750	1 572	2 350
Unregistered share capital	2 750	629	0
Restricted reserves	224 870	317 406	334 213
Non-restricted shareholders' equity	-59 783	-139 547	-263 182
Total shareholders' equity	170 587	180 060	73 381
Current liabilities			
Accounts payable	7 469	30 829	14 583
Other liabilities	15 013	23 829	17 352
Total liabilities	22 482	54 658	31 935
Total liabilities and equity	193 069	234 718	105 316

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	30 June 2002 6 months	30 June 2001 6 months	30 June 2002 12 months	31 Dec 2001
<i>Ongoing operations</i>				
Operating earnings	-60 071	-140 194	-186 286	-266 409
Depreciation	406	418	816	828
Other items not affecting liquidity	-193	227	-337	84
Net financial items	288	1 650	1 394	2 755
<i>Cash flow ongoing operations before change in working capital</i>	-59 570	-137 899	-184 413	-262 742
<i>Change in working capital</i>				
Decrease in inventories	8 214	-13 195	-2 306	-23 715
Increase in receivables	-120 126	-176 347	52 484	-3 737
Decrease in current liabilities	-9 453	25 363	-32 176	2 640
Cash flow from ongoing operations	-180 935	-302 078	-166 411	-287 554
<i>Investment activity</i>				
Aquisition of intangible fixed assets	-5 259		-5 259	
Acquisitions of tangible fixed assets	-4	-305	-494	-795
Cash flow from investment activity	-4	-305	-494	-795
<i>Financing activity</i>				
New share issue	157 182	140 813	175 755	159 386
Cash flow from financing activity	157 182	140 813	175 755	159 386
Increase/decrease in liquid funds	-29 016	-161 570	3 591	-128 963
Liquid funds, opening balance	47 041	176 004	14 434	176 004
Liquid funds, closing balance	18 025	14 434	18 025	47 041

CHANGES IN GROUP SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Non-restricted reserves	Net earnings	Total shareholders' equity
Opening balance	2 350	334 213	-2 972	-260 210	73 381
Rellocation of net earnings		-283 170		283 170	
Rellocation to restricted reserves		-2 972	2 972		
Shares being registered	3 150	154 032			157 182
Translation difference for the period		-194			-194
Net earnings				-59 782	-59 782
Closing balance	5 500	201 909	0	-36 822	170 587

This interim report was compiled on the same accounting principles and calculation bases as for the year 2001, apart from certain development costs being now recorded as required by RR15. This interim report has not been examined by the company's auditors.

Forthcoming report from Net Insight

Interim Report for January–September: 31 October 2002

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