



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 September 2001
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Qmedia chooses Net Insight for its North American media network**
- **Important product launches carried out**
- **Net Insight transfers its share of ProStream to Carrier1**
- **Tomas Duffy new CEO**
- **Action program to halve costs**
- **Order from Carrier1**
- **Continued extension of the Tele2 media network**

MARKET PROSPECTS AND FUTURE OUTLOOK

The market climate in the IT and telecom industry is currently characterized by low activity and restraint. Several companies have seen drastic cuts in their revenue during the year and have thus been forced to adopt various action programs to reduce expenditure and raise efficiency. Greater caution and restraint has been perceived in operators, who are delaying making planned investments in infrastructure and additional services, which has in turn resulted in extended sales cycles and a slow-down in the inflow of orders to their suppliers. In spite of this, investments are being made and those companies that can clearly show that their solutions are based on achieving revenue and cost-savings in a relatively short term have a good outlook for the future. Comparative studies show that the Net Insight technology has clear cost benefits compared with competitive technologies, in terms of both dealing with bandwidth and guaranteeing quality.

Paradoxically, the world situation and the anxiety caused by the terror attacks in the USA have increased the demand for on-line news in the form of streaming media. Surveys by analyst company Nielsen Netrating showed that, in September this year, 56% of all American office employees used some form of streaming media in order to keep abreast of the news coming across the Internet. The comparable figure for the previous year was only 5%. This trend means that the TV and media industry is now looking for new ways of satisfying consumer demand. This has considerably heightened interest in various types of high-quality transmission services for streaming video, which favors Net Insight's cost-effective fiber-optic media solutions.

On two occasions, Tele2 has ordered equipment for the continued extension of its media network, where TV4 is gradually linking up several TV stations at the same time as new customers are becoming connected to the network. In the USA, Qmedia has chosen Net Insight equipment for the construction of its media network. This company's media services are currently being tested by one of the largest media companies in the USA, which is now sending 270 Mbps video streams between Washington DC and New York. Other US media companies are now waiting to test this media solution. Net Insight still has the advantage that it has no real competitor when it comes to the transmission of real-time-critical video across fiber-optic networks.

"Our concentration on the media segment is proving to be very timely. The deals with Tele2 and Qmedia are just two of many indications that support this. The media companies are under pressure to improve and simplify the way they deal with high-quality video, while operators can see new earning potential by using our cost-effective solutions," says Tomas Duffy, CEO of Net Insight.

SIGNIFICANT EVENTS DURING THE PERIOD

Sales

The US service provider Qmedia has chosen the Net Insight Nimbra platform for constructing a North American media network. The network will link up some fifty media-intensive cities, including New York, Los Angeles, Chicago, Atlanta, Miami, Toronto and Vancouver, and will involve more than 16,000 km of fiber-optic cable. Media companies that connect up to the fiber-optic media network will, by using the Qmedia services for video and data transmission, be able to reduce their production and distribution costs while achieving the highest possible sound and picture quality. The network will be seen as a cost-effective complement to the satellite links and physical transportation of video cassettes that the media companies currently use. Qmedia aims to invest around USD 20 million in the project over a two-year period. In conjunction with its selection of Net Insight, Qmedia has placed its first order for network equipment for tests and verification.

In September, Net Insight announced that its customer and business partner, Carrier1, will be taking over full ownership of the joint marketing company, ProStream, which was formed with the aim of selling and marketing professional media services to TV and production companies throughout Europe. ProStream will now be integrated into the existing Carrier1 organization as a specific business area. This integration will enable Carrier1 to achieve greater synergy effects between the various customer segments and product lines, and to offer customers a comprehensive range of services. The use of Net Insight DTM equipment in Carrier1's pan-European network will enable Carrier1 to offer media companies comprehensive and cost-effective solutions.

Net Insight has received an order from Carrier1 BV for the modular network switch Nimbra One, equipped with plug-in boards for data and telephony.

Products

Net Insight has extended its product portfolio with Nimbra 291, a multi-service switch especially developed for aggregating large flows of real-time-critical traffic and long-distance transmission between fiber-optic metro networks. Nimbra 291 can help operators avoid the high investment costs and uneven levels of utilization otherwise associated with upgrades of infrastructure on SDH/Sonet networks. The switch is supplied with a 2.5-Gbps interface for SDH/Sonet, which gives new functionality to OC-48 and STM-16 links already commissioned, by the integration of a multi-service DTM transport layer thanks to the possibility of dynamically distributing the link's capacity between different users and services. The first switches have already been delivered to customers in the USA and Europe.

The ASI Transport Access Module (Asynchronous Serial Interface) for the modular network switch Nimbra One was also introduced in September. The ASI Module enables streaming MPEG video to be distributed without tying up more bandwidth than required by the transmission in question. By using a module for ASI transmission across a DTM-based media network, Net Insight is the first in the world to supply an ASI solution with adjustable bandwidth for optimum utilization of network resources. The ASI Transport Access Module has four ports, two for incoming and two for outgoing signals, and is supplied with a function for configuration of bandwidth in channel sizes from 512 kbps up to 213 Mbps.

Installations and technical verification

In a world-first at the IBC2001 trade fair in Amsterdam in September, a pan-European media network for professional video transmission in real time was demonstrated. In conjunction with IRT (Institut für Rundfunktechnik), EBU (European Broadcasting Union), Carrier1 and Tandberg Television, Net Insight was able to demonstrate the advantages of a fiber-optic contribution network for digital production. Services for streaming video of various qualities were sent via the network, which linked displays of the above companies with IRT's main studio in Munich. Applications included the real-time transfer of 270 Mbps uncompressed SDI studio-quality video, compressed video of professional quality (MPEG-2 4:2:2 profile@ML) DVB/ASI across IP, and PC-based IP-streaming with transfer rates of 300 kbps up to 2 Mbps. The demonstration clearly showed differences between the various streams in terms of both quality and delays.

The Croatian system integrator, Netiks, has completed the first phase of installation of a DTM network on the Croatian island Krk on behalf of the energy company Ponikve d.o.o. Allied Telesyn has supplied DTM

equipment for the network, known as VOSOKNET, where the second phase involving the connection of a further two nodes will be initiated during the second quarter of 2002.

Organization

On 1 September, Tomas Duffy formally took up his post as CEO of Net Insight, succeeding Bengt Olsson. Tomas Duffy, born in 1955, was previously a member of Telia's executive management as Deputy CEO with responsibility for business solutions and service development. He has also been CEO of Mannesman Impuls and most recently was CEO of the strategy and IT consultancy Halogen.

In September, Net Insight initiated an action program to cut costs within the company. The aim is that costs should be halved by December this year. The program involves a drastic reduction in consultancy services and external development coupled with staff reductions and a company-wide review of costs in general. During October, around 40 staff left the company. Up to the current time, development has been the prime source of expenditure. Since the company now has products that are ready for delivery to customers, additional development costs can be reduced without inconveniencing customers. In spite of the cut-backs, Net Insight will continue to have considerable development resources and the capability of developing new products. Cut-backs in development will also free up resources for increased customer orientation with a particular focus on sales.

SIGNIFICANT EVENTS DURING THE YEAR

Tele2 continues to extend the TV4 media network

In June, Tele2 ordered equipment for continued extension of the TV4 media network. This order was for network switches linking together the main and local studios in Stockholm with TV4's local station in Gothenburg. This was 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 also means that Net Insight is regarded as a certified business partner of Tele2.

Allied Telesyn to build four pilot networks

Allied Telesyn ordered network equipment in June for the construction of four pilot networks, each in a different European country. The equipment will be primarily installed in what is known as 'Multi-Tenant Units', such as office blocks and business parks.

Nimbra 210 and Nimbra 290 launched

The first switches in the 200 series, the access unit Nimbra 210 and the network switch Nimbra 290, were introduced in May. Nimbra 210 is a 24-port access unit connecting local networks to metro networks. Nimbra 290 is the first Net Insight switch based on the Twintin chip and is a cost-effective junction between links in fiber-optic metro networks based on DTM technology. Products in the 200 series are especially suited for demanding real-time services within broadband networks.

Second-generation DTM software launched

A second generation of system software for DTM switches was launched in March. 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 media solutions via fiber-optic networks.

DTM standardized

The European standardization body ETSI has approved the backbone of the Swedish-developed technology DTM. The standard was published on 23 March with the designation ES 201 803-1.

New share issue

During May/June, Net Insight 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 issue, there are 55 005 020 Net Insight shares each with a nominal value of SEK 0.04. In addition, those shareholders who subscribed to the new issue received an additional share option for every two new B-shares purchased. Each option, for its part, entitles the holder to purchase a further share in June 2002; if fully utilized, these options will provide a further SEK 118 million to the company.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Tele2 orders yet more equipment

Tele2 is continuing to build up its media network, with orders for yet more network equipment from Net Insight. The order covers extension of the network, not only for TV 4 but also for new customers. The Tele2 drive for a national media network has already produced results, and several TV and media companies have become interested in the newly-launched Media Highspeed service. On behalf of TV 4, Copenhagen, Malmö and Sundsvall will also be hooked up to the network that has for some time linked together the main and local studios in Stockholm with TV4's local TV station in Gothenburg. This order is the second call-off in accordance with the previously-mentioned outline agreement.

First test in the Qmedia media network

One of the largest media companies in the USA has conducted successful tests regarding the transmission of 270 Mbps video streams. This real-time-critical traffic has been sent between the media company's studios in Washington DC and New York. There has been a great deal of interest in the Qmedia media services, and several other media companies are on the brink of testing this approach.

EARNINGS TREND

Sales revenue amounted to a total of SEK 10.6 million (6.0).

The bulk of the company's expenses are attributable to development activities to the tune of SEK 129.6 million (88.6). During the period, the company initiated a cost-saving program, which will reduce expenditure on staff and in other areas. The re-structuring expenditure in order to achieve this amounts to SEK 16.0 million, which has been accounted for in its entirety during this period. The bulk of this re-structuring expenditure comprises staff redundancies and the cost of disposing of the company's Joint Venture, Prostream.

There was an operating deficit of SEK 219.5 million (152.4) and the deficit after appropriations and tax amounted to SEK 217.1 million (144.3). Net interest income amounted to SEK 2.4 million (8.1).

Staff

On 30 September, there were 142 employees in the parent company and 5 in the US subsidiary.

Liquidity

Liquid funds at the end of the period amounted to SEK 87.9 million.

Investments

Investments in instruments, equipment and the refurbishment of premises during the first nine months amounted to SEK 0.3 million (0.8). No development expenses were activated.

The parent company

Net sales amounted to SEK 10.6 million (6.5). There was an operating deficit after appropriations and tax of SEK 217.3 million (139.9). Investments during the period amounted to SEK 0.3 million (0.8). Liquid funds amounted to SEK 84.2 million (246.9).

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months july-september 2001	3 Months july-september 2000	9 Months jan-september 2001	9 Months jan-september 2000	12 Months oct 2000-sept 2001	1 jan 2000- 31 dec 2000
Net Sales	4 574	5 502	10 631	5 981	13 666	9 016
Cost of goods sold	-2 865	-4 419	-6 070	-4 773	-7 423	-6 126
Gross earnings	1 709	1 083	4 561	1 208	6 243	2 890
Marketing expenses	-15 637	-11 074	-51 510	-36 820	-66 258	-51 568
Administration expenses	-9 704	-5 994	-26 907	-28 268	-39 163	-40 524
Development expenses	-39 664	-39 713	-129 634	-88 557	-170 009	-128 932
Restructuring expenses	-16 034		-16 034		-16 034	
Operating earnings	-79 330	-55 698	-219 524	-152 437	-285 221	-218 134
Net financial items	739	3 875	5 833	8 126	7 077	9 370
Earnings before tax	-78 591	-51 823	-213 691	-144 311	-278 144	-208 764
Tax	0		0	0	0	0
Net Income for the period	-78 591	-51 823	-213 691	-144 311	-278 144	-208 764

Earnings per share	-1,43	-1,32	-3,88	-3,67	-5,06	-5,31
Number of shares	55 005 020	39 289 300	55 005 020	39 289 300	55 005 020	39 289 300

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	30 September 2001	30 September 2000	31 December 2000
Assets			
Tangible fixed assets	1 732	2 053	2 011
Total tangible fixed assets	1 732	2 053	2 011
Inventory	29 617	17 718	10 703
Customer receivables	7 798	5 114	4 024
Other receivables	19 941	7 995	14 118
Cash and bank balances	87 874	247 171	176 004
Total current assets	145 230	277 998	204 849
Total assets	146 962	280 051	206 860
SHAREHOLDERS' EQUITY AND LIABLES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	2 200	1 572	1 572
Restricted reserves	314 555	382 959	381 731
Non-restricted shareholders' equity	-215 444	-142 941	-205 738
Total shareholders' equity	101 311	241 590	177 565
Current liabilities			
Accounts payable	12 716	23 052	17 791
Other liabilities	32 935	15 409	11 504
Total liabilities	45 651	38 461	29 295
Total liabilities and equity	146 962	280 051	206 860

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	30 September 2001 9 months	30 September 2000 9 months	30 September 2001 12 months	31 Dec 2000
<i>Ongoing operations</i>				
Operating earnings	-219 524	-152 437	-285 221	-218 134
Depreciation	613	543	817	747
Other items not affecting liquidity	130	1 859	-487	1 242
Net financial items	2 389	6 267	4 250	8 128
<i>Cash flow ongoing operations before change in working capital</i>	-216 392	-143 768	-280 641	-208 017
<i>Change in working capital</i>				
Increase in inventories	-18 914	1 437	-11 899	8 452
Increase in receivables	-9 597	-3 436	-14 630	-8 469
Increase in current liabilities	16 356	15 339	7 190	6 173
Cash flow from ongoing operations	-228 547	-130 428	-299 980	-201 861
<i>Investment activity</i>				
Acquisitions of tangible fixed assets	-331	-750	-492	-911
Cash flow from investment activity	-331	-750	-492	-911
<i>Financing activity</i>				
New share issue	140 748	253 323	141 175	253 750
Cash flow from financing activity	140 748	253 323	141 175	253 750
Increase/decrease in liquid funds	88 130	122 145	159 297	50 978
Liquid funds, opening balance	176 004	125 026	247 171	125 026
Liquid funds, closing balance	87 874	247 171	87 874	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		-2 846		130	-2 716
Net earnings				-214 351	-214 351
Closing balance	2 200	319 330	0	-220 219	101 311

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

Forthcoming report from Net Insight

Press release of unaudited figures 2001, 4 April 2002

Stockholm, 29 October 2001

Tomas Duffy
CEO Net Insight AB

For more details please contact:

Tomas Duffy, CEO Net Insight AB
Tel. +46 8 685 04 00, e-mail: tomas.duffy@netinsight.net
Carl-Johan Blomberg, CFO, Net Insight AB
Tel. +46 8 685 06 20, e-mail: carl.johan.blomberg@netinsight.net
Carolén Ytander, VP Corporate Communications, Net Insight AB
Tel. +46 8 685 04 50, e-mail: carolen.ytander@netinsight.net