



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 United States. The Company is listed on the O-list of the Stockholm Stock Exchange. Further information is available at www.netinsight.net

UNAUDITED FIGURES 2001

Net Insight AB (publ), Corporate Registration Number 556533-4397

- **Qmedia places large order for the extension of North American media network**
- **Tele2 continues to expand media network for TV 4 and new customers**
- **Collaboration with HP concerning systems for high-quality video conferencing**
- **Sales for the year increased by 139 percent to SEK 21.5 million**
- **Operating loss for the full year was SEK –266.4 million (-218.1)**
- **Operating loss for the fourth quarter was SEK –46.9 million (-65.7)**
- **Costs have been halved further to implementation of a savings program**

MARKET PROSPECTS AND FUTURE OUTLOOK

The year 2001 has provided definitive confirmation that Net Insight's focus on the professional media industry was absolutely the right strategy. In spite of a difficult economic climate, the Company increased its sales during the year by 139 percent – and just in the fourth quarter, sales increased from SEK 3 million to SEK 10.9 million. With sales to Tele2, Qmedia and KPN, several media networks are currently being constructed in Europe and the United States. End-customers, who in this case are various TV and production companies, have realized at an early stage the important cost-savings that can be made with fiber-based video transmission. In Sweden, TV4 was the first to use Tele2's network to transmit material between its main studio and its various local stations – and now more customers are waiting their turn. Qmedia's media services are currently being tested in the United States by several large TV and production companies.

The market for digital media networks has been rated as one of the ten hottest trends for the coming year, according to the sector medium Red Herring Magazine. With several established professional media networks, the corporate market will push development with various internal and external company solutions. The analysis firm, Aberdeen Group, believes that the North American market for digitally distributed material will increase its sales to approximately USD 4.3 billion up to the year 2005. In Europe, one expects to see annual growth of 33 percent and to have sales of approximately USD 2.6 billion by the year 2005. The driving force lies in the considerable cost-savings that companies can achieve by rendering more effective their processes for further training, news communication and conferencing.

During the year, Net Insight successfully completed the first part of its resource-demanding development work. With today's powerful product portfolio, the Company can face the demands of the prioritized market segments. Operators are offered the possibility to gradually upgrade their existing infrastructure, thereby maintaining a significantly better capacity utilization, at the same time as more services with richer content can be offered. This provides the operators a rapid return on investment, which in turn will be a decisive competitive advantage in the current vulnerable telecom market.

SIGNIFICANT EVENTS DURING THE FOURTH QUARTER

Sales

Net Insight has considerably increased its market presence during the year with several domestic and international media networks under construction with customers in Europe and the United States. Sales have increased by SEK 12.5 million to a total of SEK 21.5 million compared with last year.

In October, Tele2 made a second sub-order in accordance with the previously announced general agreement. The purchase included equipment for the continued extension of their media network for both TV4 themselves and for new customers. TV4 is now also connecting Copenhagen, Malmö and Sundsvall to the network that already connects the main and local studios in Stockholm with the local studio in Gothenburg. Tele2's investment in a domestic media network with the recently launched service Media Highspeed, has aroused considerable interest with several TV and media companies.

In December, the American service provider, Qmedia, placed an order worth more than SEK 10 million for Net Insight's Nimbra platform for the extension of the first part of their North American media network. Qmedia carried out tests and controls of Net Insight's media network solutions during the autumn. Successful tests have also been carried out by one of America's largest media companies, which sent real-time critical video at 270 Mbps between its studios in Washington DC and New York. The attention surrounding Qmedia's services has been considerable, and several other media companies are about to test the solution, which has resulted in that Qmedia is extending the network for commercial traffic to three cities – New York, Washington and Los Angeles.

Collaboration

HP (Hewlett-Packard) and Net Insight announced in December a collaboration agreement concerning a new system for high-quality video conferencing. The joint project has resulted in a solution for video meetings with perfect picture and sound. A demonstration network for video conferencing over 270 Mbps connects HP's office in Kista with the Royal Institute of Technology in the center of Stockholm and Net Insight in Västberga. The solution is based on Net Insight's platform for media networks, and HP will be responsible for integration, software and related equipment. The Company intends to launch a commercial solution for video conferencing with full studio quality.

New Share Issue

A directed new share issue in the amount of SEK 18 million was carried out in December. The authority of the shareholders' meeting to increase the share capital was thereby fully utilized, with or without preferential right for previous shareholders. In accordance with the authorization, the board of directors of Net Insight issued 3 750 000 new B shares, representing a dilution of approximately 6.4 percent in the number of shares and 4.3 percent in the number of votes in the Company.

Organization

In view of the increase in sales and market interest, Net Insight has further strengthened the Company's management by appointing Olle Waktel as VP International Sales. Olle Waktel has a solid background within marketing and sales of IT services and data communication solutions. He comes from the position as CEO of Nextra AB, a company with the Telenor group.

SIGNIFICANT EVENTS DURING THE YEAR

Sales

In June, Allied Telesyn ordered network equipment for the extension of four pilot networks in four different countries in Europe. The installations will primarily be made in what are known as Multi-Tenant Units such as office blocks and business parks.

Tele2 ordered equipment in June for the continued extension of TV4's media network. The purchase included network switches for the connection of the main and local studios in Stockholm with TV4's local station in Gothenburg. The purchase was a first sub-order in accordance with the general agreement that was signed in May between Net Insight and Tele2. The general agreement also implies that Net Insight has become a certified business partner of Tele2.

In July, it was announced that the American service provider, Qmedia, had chosen Net Insight's Nimbra platform for the extension of a North American media network. With Qmedia's services for video and data transmission, media companies that connect themselves to the fiber-optic media network will be able to reduce their production and distribution costs, whilst simultaneously maintaining the highest possible sound and picture quality. In conjunction with the announcement, Qmedia placed a first order for network equipment for tests and control.

Vasa Läns Telefon continued during the autumn the extension of their city network, and ordered further network equipment. In December, A DTM link was also set up over the Gulf of Bothnia in order to connect Vasa in Finland with Umeå in Sweden. The link of 155 Mbps goes via an SDH network and constitutes the primary connection for Vasa's Internet traffic.

In September, Net Insight announced that Carrier1 will take over the full ownership of the joint marketing company, ProStream. ProStream, which was formed at the beginning of the year with the objective of selling and marketing professional media services to TV and production companies, will now be integrated into Carrier1's existing organization.

In addition, Net Insight received in September an order from Carrier1 BV. The order concerned network equipment for the extension of Carrier1's city network in Amsterdam.

Products

During the year, Net Insight has successfully completed the first part of its ambitious product development program with several finished products for both media customers and broadband operators. The new products in the 200-series have already been delivered to several customers in Europe and the United States. A significant milestone was also reached with the standardization of DTM, which will encourage a more rapid market development.

The second generation of system software for DTM switches was launched in March. The new software NIMOS 2.0 works in all Nimbra platforms, including the new switches in the 200-series. NIMOS 2.0 provides powerful support to those operators and production companies that would like to offer new types of media solutions via fiber-optic networks.

In March, the European Telecommunications Standards Institute – ETSI, approved the structural system of the Swedish-developed DTM technology. Work with the standardization was started by Net Insight in the winter of 1998/99, and the members that took a positive position in the vote include Telia, Telenor, Deutsche Telecom, France Telecom, Telefonica and British Telecom. The standard was published on 23 March under the reference ES 201 803-1.

In May, the first switches in the 200-series, the access unit Nimbra 210 and the network switch Nimbra 290 were introduced. The products in the 200 series are particularly suitable for demanding real-time services in broadband networks. Nimbra 210 is a 24-port access unit that connects local networks with city networks. Nimbra 290 is Net Insight's first network switch based on the Twintin chip, and is a cost-effective connection point between links in optic city networks based on DTM technology.

Net Insight introduced the Nimbra 291 multi-service switch in September. This switch is specially developed for aggregating large flows of real-time critical traffic and remote transport between optic city networks. Nimbra 291 helps operators to avoid high investment costs and irregular degrees of utilization that are often associated with the upgrading of infrastructure in the SDH/Sonet network. The first switches have been delivered to customers in the United States and in Europe.

The ASI Transport Access Module (Asynchronous Serial Interface) was also launched in September to the Nimbra One modular network switch. With a module for ASI transport over DTM-based media networks, Net Insight will be first in the world with an ASI solution with adjustable band breadth for maximum utilization of the network's resources. The ASI module has four ports and is delivered with a feature for the configuration of band breadth in channel sizes from 512 kbps up to 213 Mbps.

Installations and Technical Verifications

At the IBC2001 fair in Amsterdam in September, a world-unique demonstration was carried out of a Pan-European media network for professional video transport in real time. Together with IRT (Institut für Rundfunktechnik), EBU (European Broadcasting Union), Carrier1 and Tandberg Television, the

advantages of a fiber-optic contribution network for digital production were presented by Net Insight. The demonstration showed clear differences in both quality and time-lag between the different video flows.

The Croatian system integrator Netiks has completed the first phase of the installation of a DTM network on the Croatian island of Krk on behalf of the energy company Ponikve d.o.o. Allied Telesyn has delivered the DTM equipment to the network, called VOSOKNET, where the second phase of the connection of two further nodes will be started during the second quarter 2002.

Organization

During the year, Net Insight strengthened both the board of directors and the company's management with several new people. In January, Lars Berg took up the office of new chairman of the board of Net Insight. At the same time, the American sales organization was strengthened with John Kostak as VP Global Marketing and Dan Lutter as VP Sales. In September, Tomas Duffy commenced as new CEO of Net Insight and thereby replaced Bengt Olsson. Tomas Duffy has previously been a member of Telia's executive management as deputy CEO, and CEO of Mannesman ipulsys as well as CEO of the strategy and IT consultancy firm, Halogen.

After having completed the first resource-demanding part of product development, Net Insight started in September to implement an action program in order to reduce the level of costs in the Company. The program implies a substantial reduction in consultancy services and external development. At the same time, a general review of costs and a reduction in personnel was carried out whereby 40 employees left the Company in October. In spite of these rationalization measures, the Company has maintained a substantial development force and ability to design new products in accordance with the demands of the market. In December, the Company had halved the level of direct costs.

New Share Issue

During May/June, Net Insight carried out a new issue of shares to the value of SEK 157 million with preferential right for all of the Company's shareholders. The issue was fully subscribed. Further to the new issue, the number of shares in Net Insight amounted to 55 005 020 with a nominal value of SEK 0.04. In addition, those shareholders who subscribed to the new issue received one warrant for every two new B shares. Each warrant in turn entitles the holder to subscribe to a further share in June 2002, which if fully utilized will provide a further SEK 118 million to the Company.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Extraordinary Shareholders' Meeting

In January, an extraordinary meeting of shareholders authorized the board of directors for the period up until the next annual general meeting, to upon one or several occasions, with or without shareholders' preferential right, to decide a new share issue. The authorization concerns the issue of new B shares or convertible debt instruments with detachable warrants for subscription to B shares. Such issues may not however imply that the Company's share capital increases, or could increase, by more than a total of SEK 400 000, equivalent to 10 million shares.

Net Insight delivers Media Network to the Dutch KPN

The Dutch network operator KPN is investing in an optic media network, and has chosen Net Insight as supplier of the technical platform. As part of a general agreement, KPN has placed an order for network equipment for the extension of the first part of the domestic media network with delivery in January 2002. KPN will initially focus on high-quality video services where connected TV and production companies will be able to benefit from the real-time transmission of 270 Mbps video over a Serial Digital Interface (SDI). The general agreement enables KPN to rapidly sub-order further deliveries of equipment as and when the extension of the network continues and new customers become connected.

Dealer Agreement with the Polish TTI Inventel

Net Insight has signed a dealer agreement with the Polish systems integrator TTI Inventel. The agreement implies that TTI Inventel will market and sell Net Insight's platform in Poland, Latvia and the Ukraine, as well as to be responsible for customer support and the fulfilment of service contracts.

As a part of the investment, TTI has ordered equipment for a reference network for tests together with a local TV company.

EARNINGS TREND

Sales revenue amounted in total to SEK 21.5 million (9.0).

The majority of the Company's costs pertain to development activities in the amount of SEK 161.3 million (128.9). During the year, the Company carried out a cost-savings program that has resulted in the reduction of personnel costs and other costs. Related reorganization costs amounted to SEK 16.0 million and were accounted for in their entirety in the third quarter. The reorganization expenses consist essentially of staff redundancy costs. Inventory adjustments amounted in the fourth quarter to SEK 7.8 million.

The operating loss for the fourth quarter amounted to SEK -46.9 million (-65.5). For the full year, the operating loss amounted to SEK -266.4 million (-218.1). Net financial items were SEK 6.2 million (9.4).

Personnel

The number of employees as at 31 December amounted to 103 people in the parent company, and 5 people in the American subsidiary.

Liquidity

Liquid funds amounted at the end of the year to SEK 47.0 million.

Investments

Investments in instruments, equipment and improvements to premises for the year 2001 amounted to SEK 0.8 million (0.9). No development costs were activated.

Parent Company

Net total sales amounted to SEK 21.5 (9.0). The loss after financial items amounted to SEK -283.1 million (-202.7). Investments during the year amounted to SEK 0.8 million (0.9). Liquid funds amounted to SEK 44.2 million (172.7).

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months October-December 2001	3 Months October-December 2000	Year 2001	Year 2000
Net Sales	10 897	3 035	21 528	9 016
Cost of goods sold	-4 004	-1 353	-10 074	-6 126
Gross earnings	6893	1 682	11 454	2 890
Marketing expenses	-16 132	-14 748	-67 642	-51 568
Administration expenses	-5 989	-12 256	-32 896	-40 524
Development expenses	-31 657	-40 375	-161 291	-128 932
Restructuring expenses	0		-16 034	
Operating earnings	-46 885	-65 697	-266 409	-218 134
Net financial items	366	1 244	6 199	9 370
Earnings before tax	-46 519	-64 453	-260 210	-208 764
Tax	0	0	0	0
Net Income for the period	-46 519	-64 453	-260 210	-208 764

Earnings per share	-0,79	-1,64	-4,43	-5,31
Number of shares	58 755 020	39 289 300	58 755 020	39 289 300

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	31 december 2001	31 december 2000
Assets		
Tangible fixed assets	1 978	2 011
Total tangible fixed assets	1 978	2 011
Current assets		
Inventory	34 418	10 703
Customer receivables	13 659	4 024
Other receivables	8 220	14 118
Cash and bank balances	47 041	176 004
Total current assets	103 338	204 849
Total assets	105 316	206 860
SHAREHOLDERS' EQUITY AND LIABLES		
Shareholders' equity		
Restricted shareholders' equity		
Share capital	2 350	1 572
Restricted reserves	334 213	381 731
Accumulated deficit		
Brought forward deficit	-2 972	3 026
Net Income for the period	-260 210	-208 764
Total shareholders' equity	73 381	177 565
Current liabilities		
Accounts payable	14 583	17 791
Other liabilities	17 352	11 504
Total liabilities	31 935	29 295
Total liabilities and equity	105 316	206 860

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	31 December 2001 12 months	31 December 2000 12 months
<i>Ongoing operations</i>		
Operating earnings	-266 409	-218 134
Depreciation	828	747
Other items not affecting liquidity	84	1 242
Net financial items	2 755	8 128
<i>Cash flow ongoing operations before change in working capital</i>	-262 742	-208 017
<i>Change in working capital</i>		
Increase in inventories	-23 715	8 452
Increase in receivables	-3 737	-8 469
Increase in current liabilities	2 640	6 173
Cash flow from ongoing operations	-287 554	-201 861
<i>Investment activity</i>		
Acquisitions of tangible fixed assets	-795	-911
Cash flow from investment activity	-795	-911
<i>Financing activity</i>		
New share issue	159 386	253 750
Cash flow from financing activity	159 386	253 750
Increase/decrease in liquid funds	-128 963	50 978
Liquid funds, opening balance	176 004	125 026
Liquid funds, closing balance	47 041	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	-5 998	208 764	0
New share issue	778	154 132			154 910
Translation difference for the period		1 116			1 116
Net earnings				-260 210	-260 210
Closing balance	2 350	334 213	-2 972	-260 210	73 381

The Unaudited Figures 2001 has been prepared with the application of the same accounting principles and basis of calculation as the annual report & accounts for the year 2000. This financial bulletin has not been reviewed by the Company's auditors.

Forthcoming reports from Net Insight

Preliminary date for Annual General Meeting of Shareholders: 20 March 2002

Interim report January – March, 25 April 2002

Stockholm, 4 February 2002

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