

2001 Annual Report

Thalamus Networks AB (publ)



Business concept

Thalamus Networks AB offers tenants and owners of properties and networks broadband information technology services that serve as a foundation for efficient property management, reliable and fast communications, and value added in their properties or networks.

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Financial Reports and Announcements

Three-month interim report	January–March 2002	May 8, 2002
Semiannual report	January–June 2002	August 15, 2002
Nine-month interim report	January–September 2002	November 7, 2002
Announcement of earnings for 2002	January–December 2002	January 31, 2003

The annual shareholders' meeting will be held in the Company's offices in Stockholm, at Heliosvägen 1A, at 1:00 p.m. on March 21, 2002. To participate in the annual meeting, shareholders must be entered on the record date of March 11 in the shareholders' register kept on behalf of the Company by Värdepapperscentralen (VPC, the Securities Register Center) and no later than 4:00 p.m. on March 15 must notify the Company of their intention to participate.

Shareholders can notify the Company by mail at Thalamus Networks AB, Heliosvägen 1A, SE-120 30 Stockholm, Sweden, by fax at +46 8 691-0991, by phone at +46 8 691-0900, or by e-mail at karoline.persson@thalamus.se.

The notice must include the shareholder's name, personal identification number or company registration number, address, telephone number, and registered shareholding.

Note that if the shares are registered under a trustee, the shareholder must register them under his or her own name well in advance of the record date.

Shareholders can exercise their rights at the annual meeting through representatives holding powers of attorney. A power of attorney must be in writing and must have been issued within the preceding 12 months. Please note that the original power of attorney document must be submitted in advance or brought to the meeting. Shareholders who prefer are allowed to bring no more than two assistants to the meeting. They must notify the Company by specifying the number of assistants at the same time as they notify the Company of their intention to participate, as described above.

Technologies that make people comfortable

The aroma of fresh-baked bread, a pair of snug slippers, a brisk yet comfortable bedroom.

A well lighted stoop, a secure storage area in the attic with good ventilation.

Good relations with the neighbors in a building where you feel at home because it is run efficiently and economically and is located in a neighborhood where people greet one another.

This is what makes people comfortable, makes them feel at home. Holding fast to that vision for 14 years, we have developed sophisticated and functional technology for efficient and economical property management.

During that time, we have mastered this technology. That is why we prefer to talk about safety, light, warmth, security, relationships, togetherness, and everything else that makes people feel comfortable.



President's Message

The Year in Brief

- The acquisition of Engelholms Kabel-TV (EKTv) at February 1, 2001, resulted in savings from synergies as anticipated.
- Halmstads Fastighets AB renewed and expanded its contract for Internet service an additional three years.
- A contract for the extension of an urban network and the provision of Internet and cable-TV services was signed with Bjäre Kraft in April. This will generate sales of at least SEK 7.4 million initially.
- Thalamus Networks concentrated its Internet business in southern and western Sweden, reducing expenses about SEK 12 million on an annual basis.
- A completely new range for the Internet was launched in the autumn.
- Initial steps were completed for the expansion of the urban network in Båstad municipality, and the extension of the wireless network began.
- Net sales advanced 44%, from SEK 27.7 million, to SEK 40 million. The loss after financial items was SEK 17.8 million, compared to a loss of SEK 15.8 million in 2000.
- The consulting and Internet service provider (ISP) businesses were transferred to independent subsidiaries in January 2002.
- New articles of incorporation were adopted to allow the Company to broaden its scope of operations.

The broadband business had begun adjusting to reality back in the autumn of 2000, but the process picked up speed in 2001. Attention turned to the need to generate revenue from services that are feasible and can be sold today, rather than potential commercial winners for the future.

Many observers expected market consolidation to accelerate in the latter half of 2001 and to lead to the failure of numerous companies. But the companies proved more resilient than expected, and many were able to raise fresh funding to keep going. In retrospect, we can see that consolidation of the industry accelerated appreciably, as did the process of elimination.

On the bright side, the situation for users changed, too, in that people generally remain interested in broadband and are accepting higher prices now than before. The benefits of access in and of itself are considered substantial, while the demands on various add-on services (such as films and games) have not increased as much.

Like most other players in the market, we are convinced that many different types of service will light the path to broadband networks of the future, services that must be commercially viable on their own.

Thalamus kicked off the year by acquiring the company Engelholms Kabel-TV, including its roughly 9,000 TV subscribers, a municipal fiber-optic network, and contracts to provide communication services for municipal operations and business-to-business clients.

Integration following the acquisition surpassed our expectations, and at year-end we signed a seven-year contract with Ängelholm municipality to provide them with communication for all municipal operations.

In the autumn, we introduced a new and sophisticated product range not yet offered by anyone else in the market. The product range is based on three packages: one for home Internet users, one for power users, and one for business-



to-business clients. What makes these services unique is that the software and diverse hardware, combined with our recently developed customer database, enable us to add specific components to the packages down to the individual level. Starting with a basic subscription, we satisfy the individual needs of each subscriber for content by adding features such as higher speed, more download capacity, and more space for web pages.

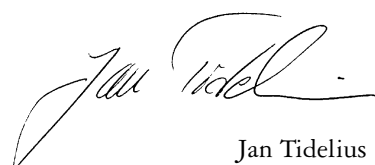
We shifted our focus to markets where we have advanced furthest and see the greatest potential for success in the short term. Consequently, we cut back on staff towards the end of 2001. The impact on costs is permanent and apparent from the results for the fourth quarter. In this position, Thalamus can now make its operations profitable while building a foundation for future expansion.

Thalamus remains strong in financial terms, with cash reserves of SEK 208 million and an equity ratio of 88%.

During the year, several companies were evaluated for acquisition. Now we know that EKTV is clearly the company that has had the best strategic fit, making it possible for us successfully to combine our businesses.

We continue to dedicate energy to evaluating various proposals and possibilities in the market. Expansion, for example through the acquisition of individual network companies or network consultants, is high on our agenda. Acquisitions in neighboring fields are also of interest.

Thalamus is in an enviable position, and we will make sure to exploit our opportunities in a way that proves profitable for our shareholders, our clients, and our employees.



Jan Tidelius

Financial Review

SUMMARY INCOME STATEMENT				Parent Company	
SEK thousand	2001	2000	1999	1998	1996/97
Net sales	39,992	27,744	21,763	18,083	11,059
Goodwill amortization	- 617	- 45	- 45	-	-
Depreciation on other fixed assets	- 7,388	- 1 845	- 1 100	- 773	- 290
Operating expenses	- 58,036	- 49,981	- 29,806	- 20,681	- 10,703
Operating income/loss	- 26,049	- 24,127	- 9,188	- 3,371	66
Financial income and expenses	8,277	8,280	306	94	- 129
Income/Loss after financial items	- 17,772	- 15,847	- 8,882	- 3,277	- 63
Minority share of earnings	-	85	-	-	-
Appropriations	-	-	-	-	69
Taxes paid	52	19	-	-	- 5
Net income/loss for the year	- 17,720	- 15,743	- 8,882	- 3,277	1

SUMMARY BALANCE SHEET				Parent Company	
	Dec. 31 2001	Dec. 31 2000	Dec. 31 1999	Dec. 31 1998	Dec. 31 1997
Assets					
Intangible assets	2,640	137	392	420	310
Tangible fixed assets	46,911	3,934	2,545	2,115	1,267
Long-term financial assets	15	15	255	15	-
<i>Total fixed assets</i>	<i>49,566</i>	<i>4,086</i>	<i>3,192</i>	<i>2,550</i>	<i>1,577</i>
Other current assets	10,978	14,493	8,980	3,283	3,775
Cash and cash equivalents, including short-term investments	207,593	241,586	26,670	14,265	1
<i>Total current assets</i>	<i>218,571</i>	<i>256,079</i>	<i>35,650</i>	<i>17,548</i>	<i>3,776</i>
Total assets	268,137	260,165	38,842	20,098	5,353
Shareholders' equity and liabilities					
Shareholders' equity	235,990	253,710	32,205	16,859	1,197
Provisions					
Non-interest-bearing	3,131	-	15	52	52
Long-term liabilities					
Interest-bearing	13,866	-	787	1,075	1,707
Current liabilities					
Non-interest-bearing	15,150	6,455	5,835	2,112	1,689
Interest-bearing	-	-	-	-	708
<i>Total liabilities</i>	<i>32,147</i>	<i>6,455</i>	<i>6,637</i>	<i>3,239</i>	<i>4,156</i>
Total shareholders' equity and liabilities	268,137	260,165	38,842	20,098	5,353

BUSINESS RATIOS	Group			Parent Company	
	2001	2000	1999	1998	1996/97
SEK thousand					
Sales growth, %	44.1	27.5	n/a	63.5	150.8
Gross margin	neg	neg	neg	neg	3.2
Operating margin	neg	neg	neg	neg	0.6
Profit margin	neg	neg	neg	neg	neg
Capital employed	249,856	253,710	32,992	17,971	3,649
Return on capital employed	neg	neg	neg	neg	3.1
Capital employed excluding short-term investments	44,856	34,991	32,992	17,971	3,649
Equity/assets ratio	88 %	97.5 %	82.9 %	84.1 %	23 %
Interest coverage rate	neg	neg	neg	neg	0.5
Net financial assets	193,742	240,225	26,138	13,205	-1,706
Average number of employees	39	32	21	13	8

PER SHARE DATA, UNDILUTED	Group			Parent Company	
	2001	2000	1999	1998	1996/97
Average number of shares	9,271,456	8,897,386	7,115,000	3,520,840	1,090
Number of shares at year-end	9,271,456	9,271,456	7,190,000	7,040,000	1,680
Earnings per share	-1.91	-1.77	-1.2	-0.9	0.1
Net cash flow per share	-0.2	-2	-1.5	-0.4	-660
Shareholders' equity per share	25.5	27.4	4.5	2.4	734

Per share data with dilution have not been calculated, as the terms of option programs include an exercise price higher than the current market price of the share.

Share Information

Thalamus Networks' series B shares have been quoted on the O list of Stockholmsbörsen, the stock exchange in Stockholm, since September 4, 2000.

The share capital totals SEK 927,145.60, distributed among 9,271,456 shares with a par value of SEK 0.10 each. The shares are divided into 1,033,333 series A shares and 8,238,123 series B shares. One A share entitles the owner to 10 votes, one B share to one vote. An A share can be converted into a B share by a request to the Company's Board of Directors.

Series	No. of shares	Share capital	Pctg. votes
Series A	1 033,333	103 333.30	55.6
Series B	8 238,123	823 812.30	44.4

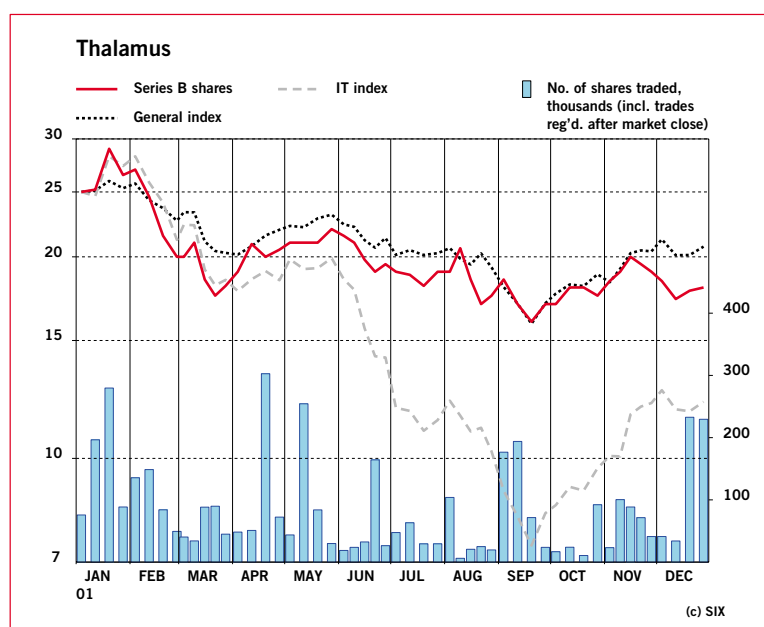
Stock-option program

In fiscal 2001, the Company issued subordinated debentures with detachable warrants corresponding to 500,000 series B shares. Of that total, 113,000 were acquired by employees. Warrant holders can subscribe for shares

through March 31, 2004, at an exercise price of SEK 45.60. There are also 61,391 warrants outstanding from the 1999 program. Holders of those warrants can subscribe for shares through December 31, 2002, at an exercise price of SEK 25. 100,000 warrants remain outstanding from the 2000 program. Warrant holders can subscribe for shares through July 1, 2003, at an exercise price of SEK 136. For additional information, see note 11 to the balance sheets.

Stock market

Thalamus's share price declined 32% in 2001. The stock market's IT index declined 53% during the same period, and the general index declined 14.5%. The closing price at year-end 2001 was SEK 18. During 2001, a total of 4,322,483 shares were traded, corresponding to 52.5% of the total number of quoted shares in the Company. At year-end, Thalamus had a market capitalization of SEK 167 million. The number of shareholders was 3,288 at year-end.



Changes in the price of Thalamus Networks' shares, in comparison with the Affärsvärlden general index and Affärsvärlden IT index during the year 2001. Thalamus Networks is quoted on the O list of Stockholmsbörsen, the stock exchange in Stockholm.

Changes in share capital

Since 1999, Thalamus's share capital has changed as follows.

Year	Transaction	Share capital	No. of shares
1998		704,000	7,040,000
1999	Designated share issues	779,000	7,790,000
2000	Warrants exercised	799,146	7,991,456
2000	Designated share issue	927,146	9,271,456

The Board of Directors has been authorized to approve the issue of a total of 3,000,000 new series B shares to acquire companies or operations. The issue price must correspond to an assessed market price.

Major shareholders

Shareholders at Dec. 28, 2001, accdg. to VPC	No. of A shares	No. of B shares	Pctg. capital	Pctg. votes
Traction	354,667	1,316,316	18.0 %	26.2 %
Andersson Pär-Ola	252,000	268,666	5.6 %	15.0 %
Nilsson Erik	252,000	141,433	4.2 %	14.3 %
Stillström Bengt	86,667	143,716	2.5 %	5.4 %
Magnusson Claes	87,999	5,935	1.0 %	4.8 %
Förenade liv		596,250	6.4 %	3.2 %
Länsförsäkringar small companies fund		358,007	3.9 %	1.9 %
Swedish Union of Clerical and Technical Employees in Industry		238,100	2.6 %	1.3 %
Bergh Bertil		150,000	1.6 %	0.8 %
Catella Reavinstfond		100,000	1.1 %	0.5 %
Other shareholders		4,919,700	53.1 %	26.6 %
Total	1,033,333	8,238,123	100.0 %	100.0 %

Shareholder structure

Size of holdings at Dec. 28, 2001, accdg. to VPC	Shareholders		Shares held	
	Number	% of total	Number	% of total
1–500	2,008	61.2 %	453,126	4.8 %
501–1,000	629	19.1 %	575,022	6.2 %
1,001–5,000	501	15.2 %	1,313,399	14.2 %
5,001–10,000	75	2.3 %	575,200	6.2 %
10,001–50,000	50	1.5 %	1,165,387	12.6 %
50,001–100,000	14	0.4 %	1,027,238	11.1 %
100,001 or more	11	0.3 %	4,162,084	44.9 %
Total	3,288	100.0 %	9,271,456	100.0 %

Energy

When it comes to systems that automatically control and monitor energy, heating, and ventilation, few are in our league.

We are happy to tell you about our technology, that can reduce your costs of heating 15%–30%, and just as happy to tell you how wonderful it feels to wake up in a cool bedroom and eat breakfast in a warm kitchen that smells of freshly baked bread.



Strategy and Organization

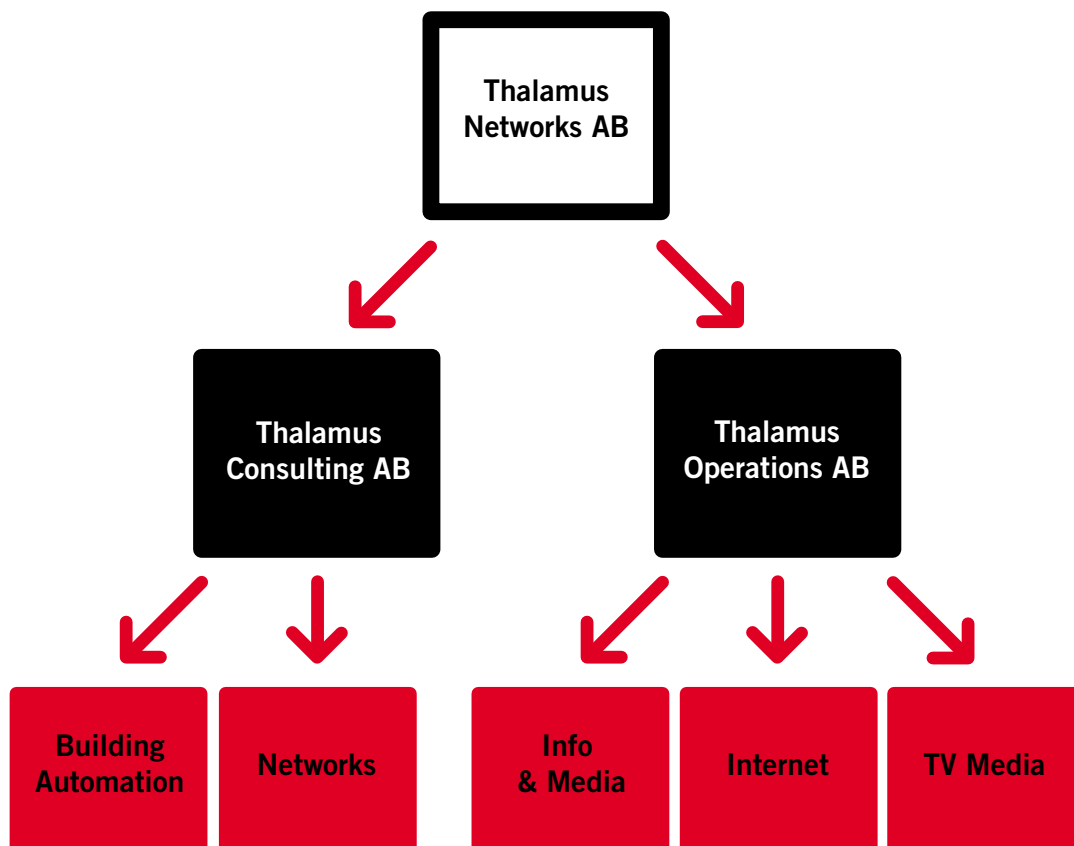
Our many years of experience in building automation enable us to add value for our clients, which leads to intelligent housing and efficient management using technologies that make people feel comfortable.

We offer network and property owners as well as tenants broadband information technology services that serve as a foundation for efficient property management, secure and fast communications, and value added for networks and properties.

Our offers are based on project planning,

system integration, monitoring, and support services as a natural part of the product as well as fast and simple deployment so our clients need only invest a minimum of their own resources.

In January 2002, Thalamus Networks AB was split into two subsidiaries, Thalamus Consulting AB and Thalamus Operations AB, to clarify the division between business activities related to operations and to consulting. Clarity, simplicity, and the independence of the separate businesses were the watchwords for this structural change.



Markets

Size of the market

Sweden currently has more than 4.3 million households. 2.2 million households are in multi-family housing, and 22% of those buildings are publicly owned. Of the total number of households, 2.3 million are connected to a cable-TV network.

The number of Internet subscriptions continues to climb. During the first six months of 2001, the number of Internet subscriptions increased 15%, or 360,000, to exceed 2,767,000. On a 12-month basis, that is, from the end of June 2000 to the end of June 2001, the growth rate was 31%.

This growth was fueled by the opening of more access points with broader bandwidth, a factor likely to continue to have a tangible effect. At mid-year, the three significant means of access to broader bandwidth were ADSL, cable TV,

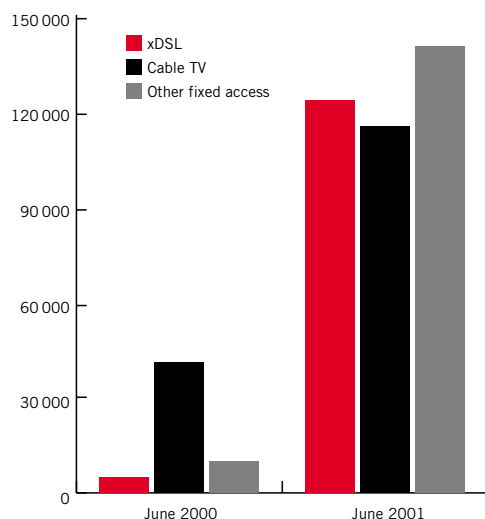
and Ethernet-LAN, each accounted for about 5% of the total number of private Internet subscriptions in Sweden (2,430,000). The significance of the Internet market in the Swedish telecoms market was brought home again in the first half of 2001, when operators began to earn substantial revenues on fixed charges for permanent connections.

Analyses and forecasts agree that for 2002 the European market for broadband connections will double. As before, Sweden and Belgium are expected to reach the highest degrees of market penetration, with 18% and 12% of households connected, respectively. In the United States, Internet use expanded during the preceding year, from 66.9% to 72.3%.

The number of people in Sweden who surf the Internet in any given month has also advanced, from 2,871,000 in 1998, to 4,531,000 in 2001.

(Source: Jupiter.)

Total number of Internet customers with a broadband connection



Source: "Svensk telemarknad första halvåret 2001" (The Swedish telecommunications market in the first six months of 2001), Swedish National Post and Telecom Agency (PTS)

Broadband with technology

As a consequence of technological advances, different electronic services previously tied to specific distribution formats are now converging. Thus, what we call computer networking, telecommunications and television are being distributed together through networks on land and in the air. In practical terms, this is eroding the boundaries between different industries, so companies constantly face new competition.

For Sweden's network owners to have a platform that is technically robust and operationally reliable, they must enter into relationships and partnerships with players who can meet their demands for profitability and a long-term approach.

After a few years of discussions of technology and capacity among suppliers, operators, media,

institutions, and politicians, the spotlight has shifted to the use of access itself. Part of the debate has been about security in networks. Some of our colleagues in the industry now understand how important it is to have carefully designed systems for running networks that are steadily growing. In other words, the industry has begun thinking about what is key to the healthy expansion of broadband in Sweden.

The discussion has also touched upon subscribers who are locked in and cannot get past their operators' portals and whether networks should be built independent of operators.

One idea for achieving this in the long term is to have three or four different operators supply Internet capacity in the same network, but that gradually leads to an oligopoly. In such a situation, the player with the deepest pockets will win, and the one responsible for running the network usually dominates content provisioning to undercut prices in the short term, to build a dominant position.

A content-neutral operator, with or without its own network, who is responsible for operations, security, and the quality of content delivery, is what will make the Swedish market for broadband a success in the short and long term.

Only when market players stop confusing network ownership with operation and content will we have that crucial independence.

Building automation segment

Thalamus adjusted its operations to the prevailing market situation and is focusing its efforts on southern and western Sweden, where new staff have been recruited.

The strategy of applying our experience in network operations and Internet technologies, combined with our knowledge of building automation, has enabled Thalamus to stake out a position in the market for urban networks.

Market forces

Thalamus estimates that the market for households and companies will continue to benefit from the advantages of broadband access during the next three to five years. The number of content- and service-producers will rise dramatically as local, regional, and national broadband networks keep expanding.

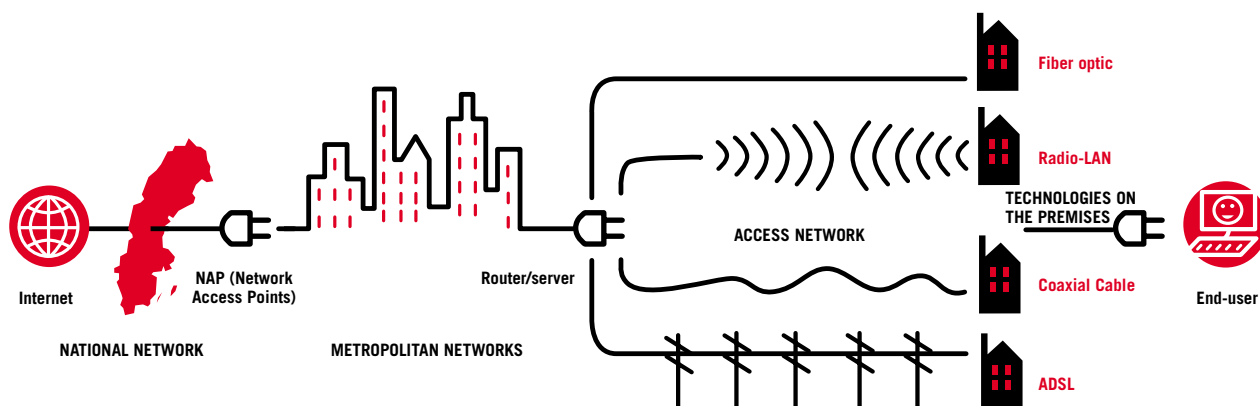
Forcing driving Thalamus Networks' market

As Internet access expands, the market overall will be driven by content. Players in the mass media and entertainment industry have already started by developing services that require a broadband connection. These services will satisfy the needs of individual households and those in the business market.

Various security, measurement, and building access services, together with television and entertainment, will fuel growth in the broadband industry. Thalamus will help to make all this happen in a reliable and cost-effective manner and intends to be the natural choice of partner for operations in this market.

Customers

Thalamus Networks AB puts top priority on contacting potential and existing clients and discussing issues, through the subsidiaries Thalamus Consulting and Thalamus Operations. Direct sales to households and enterprises are



done only in communities where Thalamus's service platform has been installed.

The main target groups are:

- Private and publicly owned property management companies
- Energy utilities
- Network owners (city and municipal networks)
- Operators and installation engineers
- Internet service providers (ISPs)
- Software application developers.

Building owners are a key client group, because they plan projects and carry out new construction in which our No. 1 advantage, technologies that make people comfortable, plays an ever important role.

Increasingly customers will demand access to all services available in the market. So content providers who are independent of a distributor

have better opportunities for selling their services.

Thalamus takes an independent approach that focuses on customers' demands, freedom of choice, and the willingness to invest.

Players

The market for distribution of broadband services has changed dramatically in the past few years. From having been a handful of players, today there are at least 30. The trend towards consolidation and a fewer number of players continues. A few categories are discernible among the players. One category consists of those that build nationwide networks. Many of these are also operators, and their range of services is often limited. Another category consists of organizations that deliver broadband services and lease capacity in existing urban networks. Some play both sides of the field.

Internet

If we ignore all the technical jargon and think about everybody's basic needs for information, closeness, and contact nowadays, it becomes obvious that we need fast Internet access at home in our kitchens.

Yes, it's quite convenient.



Services and Service Development

A broadband network in a building allows a high transfer rate and continuous access. Some services depend on the fast transfer rate, and others also depend on access to a network that ties together users with the service. Taken together, these are the basis for Thalamus offering to install and upgrade broadband networks as well as to carry various kinds of entertainment and functional services on the network. Customers are owners of properties or networks, companies, or households.

In addition to these services, Thalamus offers property owners various operational services, tools, and the installation of comfort and climate control systems in buildings.

Our vision is for technology to provide safety, light, warmth, security, relationships, togetherness, and everything else that makes people comfortable.

New range of services for Thalamus Internet



Thalamus Internet can be offered to tenants in a building that is connected to an urban or area network using Thalamus's system.

In October 2001, three new subscriptions were announced: Websurfer, HomePro, and BusinessPro.

The new subscriptions were launched to boost the quality of services and provide an expanded range of options for subscribers.

Users can choose between different transfer rates and download capacities as well as an array of add-on services.

Thalamus is the only enterprise in Sweden that can offer this freedom of choice for fixed Internet via broadband.

The range of services was modified in consultation with our subscribers, leading to the deve-

lopment of a broader range aimed at different special interests. For example, many private individuals want powerful services for home use. For those, we offer Thalamus HomePro, which is faster than the basic Websurfer subscription, with a fixed IP address at a reasonable price.

Users can also customize their subscription with the help of new add-on services.

Add-on services in the form of extra download capacity and extra speed have been available since December 2001.

About the services

Thalamus Internet subscriptions give subscribers fixed Internet access. The basic services can be extended with add-on services.

Equipment

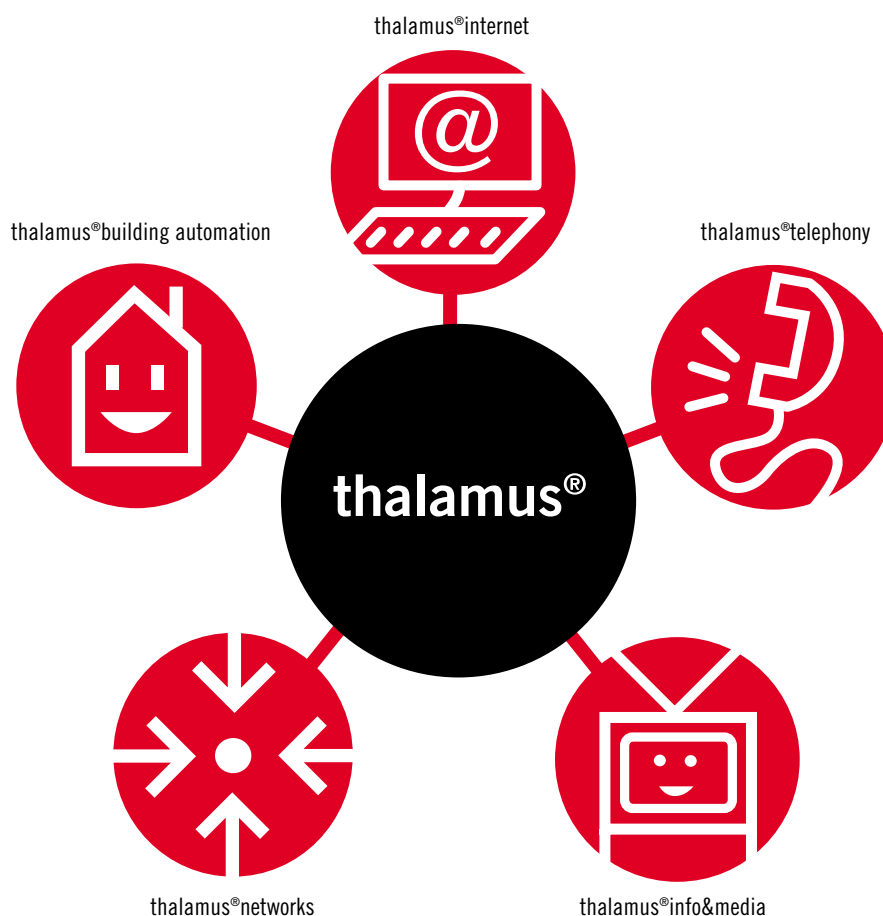
To use a cable-TV network to connect to the Internet, one must have a special modem connected to a computer at home or at work. All other equipment and software is handled by Thalamus's Network Operating Center in Ängelholm, in southern Sweden.

What Thalamus's services mean to customers

Being connected to Thalamus's services means the customer gains access to the Internet with a connection that in its simplest form is up to 10 times faster than a dial-up modem connection. So all information and communication is exchanged with much shorter waiting times, or none at all. The need for higher speeds or more download capacity can be satisfied temporarily or permanently.

Quality requirements

All our Internet services maintain high quality, and our objective is to provide at least 98% availability for all services.



The release of an installation assistant called “Bredbandsguiden” (the broadband guide) in 2001 reduced the demand for technical support from our customers.

Thalamus Websurfer

Websurfer is up to 10 times faster than an ordinary Internet subscription. A client can send or download as much as 3 GB a week.

A common firewall protects against any attempts at unauthorized entry.

The Websurfer service allows one computer per subscription, but multiple computers can be

connected using an additional service called “Multi.”

- 550/128 kbps download and up-link speeds
- 25 MB web page storage
- 3 GB free downloads and up-links each week.

Thalamus HomePro

The HomePro service is aimed at customers who are advanced Internet users.

A public IP address places the client outside the protection of Thalamus’s firewall, so clients must arrange for security on their own.

HomePro allows one computer per subscription

but can be expanded using add-on services.

- 700/192 kbps download and up-link speeds
- 25 MB web page storage
- 5 e-mail addresses
- 5 GB free downloads and up-links each week.

Thalamus BusinessPro

BusinessPro is a good-value service for companies. As many as 16 computers can be connected simultaneously, and up to 8 GB can be downloaded and uploaded each week (corresponding to about 8,500 annual reports in pdf format and 19,000 Word documents).

Registration of the customer's company name as a domain name is included. The client does not need to manage an e-mail server, as Thalamus takes care of that.

The client's network is protected by its own firewall, which Thalamus monitors.

- 700/192 kbps download and up-link speeds
- Office (100 MB storage space for web pages, e-mail, and FTP files)
- 8 GB free downloads and up-links each week.

Add-on services

- **Office**
100 MB storage space and other features
- **Extra Speed**
faster transfer rates on three levels
- **Extra Webspace**
25 MB additional storage for a web site
- **Extra Load**
additional 2 GB/week
- **Domain**
own domain name
- **Extra E-mail**
four e-mail accounts

- **Static IP**

public IP address

- **Multi**

connection of an additional computer

- **HomeServer**

Info & Media



Info & Media is an Internet-based platform for information and can be modified to suit any business or organization that wishes to enhance its service to its audience and to offer simple, open paths of communication, inside and outside the organization.

The portal can be fitted with numerous subsections. For example, a property management company that intends to offer tenants fast, two-way communication can have a portal with headings such as housing news/neighborhood info, local and international news, appointments, bulletin board, local display ads and offers, web mail, search engines, personal links, entertainment section, support, and fault complaints.

The portal can also be made available via the cable-TV network. Then it serves as a one-way information channel through text TV or closed circuit, like hotel or airport television.

Telephony



Through Thalamus Telephony, tenants can make calls at rates lower than for conventional telephone service. This service routes the telephone traffic of connected tenants through the broadband network in the property with sound quality as good as the conventional telecom net-

work. This technique can reduce the costs of making calls in the local network, while tenants can make calls on the national and international telephone networks as they usually do.

The service complies with established telephony standards but is also based on encrypted asynchronous transfer mode (ATM) technology, giving tenants a telephone network with high security against wiretapping. The service will be introduced when market conditions allow.

Building automation Energy



Thalamus Building Automation is the collective term for a uniform, integrated building automation system for heating, cooling, ventilation, and water. It comprises a number of services and products that can be adapted to residential properties as well as commercial properties. The client decides what the system will include and the grade of service to be provided. Thalamus performs everything, from consultation to feasibility studies, project planning and installation, to commissioning and monitoring.

The systems include trouble-shooting and monitoring for all components, reducing time and money spent at several stages, from alarms to trouble-shooting, repairs, start-up, and realignment of levels for parameters such as the temperature in various parts of a building. For commercial properties, security is vital. Our passage system allows modification and control so that all parts of a property can be made accessible depending entirely on the requirements of the property owner and tenants for security and comfort.

Add-on services Thalamus Energy Service

To enable you to do your work when you are not

at your desk, we developed Thalamus Energy Service. This is a web interface for our automatic systems that clients can use to monitor their systems from any computer connected to the Internet wherever they are: at home, outside Sweden, at the office, or at a vacation spot. The client can receive alarms from systems via cell phone, e-mail, or fax and make sure that the different kinds of alarm are sent to the appropriate person, as desired.

Individual metering of heat consumption

Individual metering of heat consumption provides every tenant with an overview of his or her household's electricity consumption. So instead of dividing the total heating cost for a building among all of the residents, each tenant receives a specification of electricity consumption and is charged for that amount only.

In addition to the direct benefits to the individual, the system complies with the European Union's "SAVE" directive, which recommends that property owners install equipment that helps reduce carbon-dioxide emissions as much as possible.

Networks



To make the most of today's technologies, access to various networks must link users to one another in a reliable and efficient manner: from trunk networks, to urban, area, and customer premises networks. Thalamus has 15 years' experience doing this and satisfies the needs of network owners, companies, and municipalities for Internet access, power supply control, passage systems, and telephony via fiber-optic, cable-TV, Ethernet-LAN, and wireless networks.

Consulting

They say that knowledge is what's left once you forget what you have learned.

We have been developing sophisticated technologies for data communications and property management so long that we don't really recall where we got it all from.



Management Report

Annual report

The Board of Directors and CEO present the annual report for Thalamus Networks AB (publ), company registration number 556394-1987, for the period January 1–December 31, 2001.

Management report

Thalamus Networks was founded in 1987, and operations were transferred to the current company in 1990. The Company's new official name was registered on April 13, 2000.

The Company's B shares have been quoted on the O list of Stockholmsbörsen, the stock exchange in Stockholm, since September 4, 2000.

Business activities

Thalamus Networks AB offers tenants and owners of properties and networks broadband information technology services that serve as a foundation for efficient property management, secure and fast communications, and value added for networks and properties. The Company's overriding objectives are to be a significant provider of broadband services and to offer communication solutions that generate value added for property and network owners as well as for end-users.

The Company has two main segments: consulting for control and monitoring networks and Internet operations. The Internet segment manages and operates networks for the Company and others, a helpdesk, and administration.

Building Automation develops, integrates into systems, and markets systems for automatic control and monitoring as well as for security. The aim is to make property management as easy and efficient as possible.

"Internet" is the collective name for the portfolio of broadband services offered by Thalamus Networks. It is dominated by the Websurfer service, which provides end-users with continuous Internet access for noncommercial use.

Net sales advanced 44% in 2001, from SEK 27,744 thousand, to SEK 39,992 thousand. The Internet segment enjoyed robust growth during the year, primarily as a result of the acquisition of Engelholms Kabel-TV AB on February 1, 2001. The operations acquired accounted for SEK 13.7 million of total consolidated revenues in 2001.

The operating loss ended at SEK 26,049 thousand, compared to a loss of SEK 24,127 thousand in 2000. The chief cause of the loss was the build-up of the organization that occurred in 2000. Growth in revenues fell short of expectations. As a consequence, a decision was made in September to pare the organization's cost base and to concentrate its resources in southern and western Sweden. Operating income was charged a total of SEK 3.5 million for expenses related to the cost-cutting program.

The loss after financial items totaled SEK 17,772 million, compared to a loss of SEK 15,847 million in 2000. Net financial items were positive because most of the proceeds from the stock issue in March 2000 were invested in financial instruments pending the identification of businesses that would be attractive as investments.

Prospects for the future

For fiscal 2002, we expect the Internet to grow apace and for Thalamus to grow at least as fast as the market in southern and western Sweden. Agreements with several partners place Thalamus in a favorable position for future business negotiations.

Acquisitions

At February 1, 2001, the acquisition of Engelholms Kabel-TV AB was completed. Operations progressed favorably according to goals set and contributed to Group earnings after deductions for acquisition costs. Work integrating the

companies progressed in 2001, and operations were fully integrated by January 2002.

Foreign exchange policy

The Company's purchases modems, headends, and similar equipment for its Internet business priced in U.S. dollars; these account for about one-third of total merchandise purchases. The purchase value is modest, so the amounts are not hedged. For major individual transactions, equipment is quoted to the client in U.S. dollars, which limits the foreign exchange risk. Foreign currency exposure will be hedged as soon as the volume of purchases and changes in exchange rates justify such actions.

Environmental impact

The activities carried out in the Group do not require any special permits. The company adopted its environmental policy in 2000.

Significant events after year-end

In January, the business activities in the consulting and Internet segments were transferred to two independent subsidiaries. The consulting business for automatic control and monitoring systems and for networks was transferred to Thalamus Consulting AB (formerly Thalamus Rent AB), and the Internet activities in Thalamus Networks AB were transferred to Thalamus Operations AB (formerly Engelholms Kabel-TV AB). Thalamus Consulting AB will conduct its business in two departments. One is for the traditional systems for automatic control and monitoring, and the other is for consulting on networks for communication.

From now on, Thalamus Operations AB will handle all Internet and cable-TV activities in the locations where the Group has clients. The reorganization was intended to make plain the different areas of responsibility and to facilitate a push for growth and profitability in 2002.

New Articles of Incorporation

On October 18, an extraordinary shareholders' meeting voted to adopt a new description of the business in section 2 of the articles of incorporation. The description now reads:

"The purpose of the Company's business is to conduct development and commerce with products and services in computing, the Internet and information processing, power supply control, software, and telecommunications, and to buy, sell, and develop businesses and securities, and to conduct other similar operations".

The new articles of incorporation allow the Company more opportunities for expanding operations.

Work of the Board of Directors

In 2001, Thalamus Networks' Board of Directors held 10 official recorded meetings. The Board has adopted a set of procedures that regulates its work and has issued instructions for the CEO.

Proposed appropriation of retained losses

The Group's retained losses equal SEK -17,770 thousand. No provisions to restricted reserves are required in the consolidated accounts.

The following funds are at the disposal of the annual meeting of shareholders in the parent company.

Retained losses brought forward	–
Loss for the year	-17,264,192
<hr/>	
Total	-17,264,192

The Board of Directors and CEO propose that the retained losses be deducted from the share premium reserve.

Financial Statements

INCOME STATEMENT		Group			Parent Company		
SEK thousand	Notes	2001	2000	1999	2001	2000	1999
Operating revenue							
Net sales	1	47,203	25,735	15,065	33,482	25,914	15,285
Change in work on contract		-7,211	2,009	6,698	-7,211	2,009	6,698
Total revenue		39,992	27,744	21,763	26,271	27,923	21,983
Operating expenses							
Merchandise		-16,558	-18,282	-13,633	-14,008	-18,282	-13,633
Other external expenses	2	-20,101*	-14,586	-5,190	-16,884*	-14,309	-5,190
Personnel costs	3	-21,377**	-17,113	-10,983	-18,978**	-17,113	-10,983
Depreciation, amortization, and write-downs on tangible and intangible assets	4,6,7	-8,005	-1,890	-1,145	-2,364	-1,845	-1,100
		-66,041	-51,871	-30,951	-52,234	-51,549	-30,906
Operating income/loss		-26,049	-24,127	-9,188	-25,963	-23,626	-8,923
Income/Loss on financial investments							
Interest income and similar revenue from financial investments		9,300	8,656	429	9,298	8,472	429
Interest expense and similar costs for financial investments	5	-1,023	-136	-123	–	-132	-123
Write-down on shares in Scandinavian Micropayment AB		–	–	–	-600	–	–
Income/Loss on shares in Group companies		–	-240	–	–	-630	–
		8,277	8,280	306	8,698	7,710	306
Income/Loss after financial items		-17,772	-15,847	-8,882	-17,265	-15,916	-8,617
Minority shares		–	85	–	–	–	–
Appropriations							
Change in profit equalization reserves		–	–	–	–	52	–
Tax on net profit/loss for the year		52	19	–	–	–	–
Net profit/loss for the year		-17,720	-15,743	-8,882	-17,265	-15,864	-8,617

*) including costs of -1,723 for adjusting the organization

**) including costs of -1,777 for adjusting the organization

BALANCE SHEETS		Group			Parent Company		
SEK thousand	Notes	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
Assets							
Fixed assets							
Intangible assets	6	–	–	210	–	–	210
Goodwill	6	2,640	137	182	–	–	–
Tangible assets							
Equipment, tools, and installations	7	10,228	3,934	2,545	10,206	3,934	2,545
Cable-TV installations	7	36,683	–	–	–	–	–
Long-term financial assets							
Receivable from Group companies		–	–	–	2,574	–	–
Shares in Group companies	8	–	–	–	18,884	879	1,200
Other long-term holdings of securities	9	15	15	255	15	15	255
Total fixed assets		49,566	4,086	3,192	31,679	4,828	4,210
Current assets							
Inventory							
Finished goods and merchandise		740	808	1,236	740	808	1,236
Work on contract	10	–	1,479	1,026	–	1,479	1,026
Accounts receivable		7,483	7,345	6,068	4,075	7,345	6,068
Receivable from Group companies							
Other receivables		368	283	151	326	113	151
Prepaid expenses and accrued revenues		2,387	4,578	499	2,046	4,578	719
Short-term investments		205,000	218,719	–	205,000	218,719	–
Cash and bank deposits		2,593	22,867	26,670	2,297	22,569	26,670
Total current assets		218,571	256,079	35,650	214,484	255,611	35,870
Total assets		268,137	260,165	38,842	246,163	260,439	40,080

BALANCE SHEETS				Group			Parent Company		
SEK thousand	Notes	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999		
Shareholders' equity	11								
<i>Restricted equity</i>									
Share capital: 9,271,456 shares, par value SEK 0.10 each		927	927	719	927	927	719		
New share issue in progress		–	–	–	–	–	60		
Share premium reserve		–	–	–	252,833	268,697	40,213		
Restricted reserves		252,833	268,782	40,310	–	–	–		
<i>Total restricted equity</i>		253,760	269,709	41,029	253,760	269,624	40,992		
<i>Non-restricted equity</i>									
Retained earnings/losses		- 50	-256	58	–	–	–		
Net profit/loss for the year		-17,720	-15,743	-8,882	-17,265	-15,864	-8,617		
<i>Total non-restricted equity</i>		-17,770	-15,999	-8,824	-17,265	-15,864	-8,617		
Total shareholders' equity		235,990	253,710	32,205	236,495	253,760	32,375		
Untaxed reserves		–	–	–	–	–	52		
<i>Provisions</i>									
Provisions for taxes	12	3,131	–	15	1,367	–	–		
<i>Total provisions</i>		3,131	–	15	1,367	–	52		
<i>Long-term liabilities</i>									
Overdraft facilities	13	3,866	–	–	–	–	–		
Liabilities to Group companies						500	1,031		
Other long-term liabilities	14	10,000	–	787	–	–	787		
<i>Total long-term liabilities</i>		13,866	–	787	–	500	1,818		
<i>Current liabilities</i>									
Work on contract	10	112	–	–	112	–	–		
Liabilities to suppliers		3,444	3,071	3,240	2,093	2,741	3,240		
Liabilities to Group companies		–	–	–	681	–	–		
Other liabilities		1,047	457	1,148	310	511	1,148		
Accrued expenses and prepaid revenues		10,547	2,927	1,447	5,105	2,927	1,447		
<i>Total current liabilities</i>		15,150	6,455	5,835	8,301	6,179	5,835		
Total shareholders' equity and liabilities		268,137	260,165	38,842	246,163	260,439	40,080		
Collateral pledged	15	19,500	–	2,300	1,500	–	1,500		
Contingent liabilities	16	1,101	126	96	1,101	126	96		

CASH FLOW STATEMENTS				Parent Company		
SEK thousand	Group			2001	2000	1999
	2001	2000	1999			
Indirect method						
Operating activities						
Operating profit/loss	-26,049	-24,127	-9,188	-25,963	-23,626	-8,923
Adjustments for non-cash items	8,005	2,074	1,160	2,347	1,926	1,101
Interest received	8,277	4,412	306	8,698	4,232	306
Taxes paid	52	–	–	–	–	–
Cash flow from operating activities before changes in working capital	-9,715	-17,641	-7,722	-14,918	-17,468	-7,516
Cash flow from changes in working capital						
Reduction (+)/Increase (-) in inventories	1,547	-25	-2,262	1,547	-25	-2,051
Reduction (+)/Increase (-) in receivables	8,198	-1,380	-6,718	3,015	-990	-3,866
Reduction (-)/Increase (+) in liabilities	-1,938	964	5,836	2,699	634	3,626
Increase (-)/Reduction (+) in working capital	7,807	-441	-3,144	7,261	-381	-2,291
Cash flow from operating activities	-1,908	-18,082	-10,866	-7,657	-17,849	-9,807
Investments						
Acquisitions of businesses	-4,391	–	–	–	–	–
Acquisition of long-term financial assets	–	–	-255	-18,005	-69	-1,440
Acquisition of tangible assets	-11,693	-4,825	-3,855	-7,829	-4,825	-1,320
Acquisition of intangible assets	–	–	-228	–	–	–
Cash flow from investing activities	-16,084	-4,825	-4,338	-25,834	-4,894	-2,760
Financing activities						
New stock issue	–	237,249	41,088	–	237,249	24,133
Increase (+)/Reduction (-) in current lending	3,866	–	–	–	–	97
Increase (+)/Reduction (-) in long-term liabilities	-19,867	574	786	-500	112	742
Cash flow from financing activities	-16,001	237,823	41,874	-500	237,361	24,972
CASH FLOW FOR THE YEAR	-33,993	214,916	26,670	-33,991	214,618	12,405
Cash and cash equivalents, January 1	241,586	26,670	0	241,288	26,670	14,265
Exchange rate differences in cash						
Cash and cash equivalents, December 31*	207,593	241,586	26,670	207,297	241,288	26,670

*) including short-term investments

Passage

A complete system for controlling access, keys, and entry to and exit from all the nooks and crannies of a building.

Of course, technology makes it possible. But the main reason for it all is to help everyone sleep at night: tenants, property owners, insurers, police, firemen. As well as Aunt Martha's stuffed owl in its box in the attic.



Notes to the Financial Statements

Accounting principles

The Company applies accounting principles that comply with the Swedish Annual Accounts Act and with recommendations and statements from the Swedish Accounting Standards Board (BFN), the Swedish Financial Accounting Standards Council (RR), and the Swedish Institute of Authorized Public Accountants (FAR). The principles have not changed since the preceding year. The Company's assets are reported at purchase cost and its liabilities at nominal value, unless otherwise specified.

Consolidated accounts

The consolidated accounts include the parent company and all companies in which the parent company controls, directly or indirectly, more than 50% of the votes. The consolidated accounts have been prepared based on the purchase method, which means that the cost to the parent company of purchasing the shares in each subsidiary has been charged against that subsidiary's acquisition value.

The acquisition value consists of the subsidiary's shareholders' equity (including the equity component of untaxed reserves) at the time of acquisition based on a market assessment of the subsidiary's net assets. Hence, consolidated shareholders' equity includes only that portion of each subsidiary's shareholders' equity that was earned after the subsidiary was acquired.

The difference between the purchase cost of the shares in the subsidiary and the fair value of the subsidiary's assets is distributed among the subsidiary's assets if the book value is less than the fair value. The remainder is reported as goodwill.

We have followed recommendation RR 1 and thus have not reported appropriations or untaxed reserves in the consolidated accounts.

These have been allocated to shareholders' equity and tax liabilities. The deferred tax liability has been reported as a provision, and the remainder has been booked to consolidated shareholders' equity.

Receivables and liabilities in foreign currencies

Receivables and liabilities denominated in foreign currencies were translated at the exchange rate prevailing on the balance date.

Research and development

Development costs are expensed immediately in the period when they arise.

Receivables

Receivables are reported in the amount expected to be received based on individual assessments.

Inventory

Inventories have been valued at purchase cost less a reasonable deduction for obsolescence. The purchase cost is calculated based on the "first in, first out" method.

Work in progress

Work in progress on fixed-price contracts is valued at direct costs incurred with a surcharge for a reasonable proportion of overhead costs. Profit on work in progress on fixed-price contracts is recognized after completion. The throughput time for the majority of the Group's projects is so short that earnings would differ only slightly if the principle of progressive revenue recognition were applied instead.

Leasing agreements

Existing leasing agreements refer to a few passenger cars only and are thus charged as direct costs in the income statement.

NOTE 1 – BREAKDOWN OF TOTAL REVENUE				Parent company		
SEK thousand	2001	Group 2000	1999	2001	2000	1999
Invoicing for current year	42,100	27,292	20,661	27,262	27,292	20,660
Change in work in progress	- 7,211	2,009	6,698	- 7,211	2,009	6,698
Revenues invoiced but not recognized at January 1	7,946	6,389	793	7,946	6,389	794
Revenues invoiced but not recognized at December 31	- 2,843	- 7,946	- 6,389	- 2,843	- 7,946	- 6,389
Total revenues	39,992	27,744	21,763	25,154	27,744	21,763
Intra-Group sales	–	–	–	1,117	179	220
	39,992	27,744	21,763	26,271	27,923	21,983
NOTE 2 – OTHER EXTERNAL EXPENSES						
SEK thousand						
<i>Fees paid to accounting firms</i>						
Audit fees – LR Revision	11	–	–	–	–	–
Audit fees – Bdo Revision	–	–	48	–	–	48
Audit fees – Öhrlings Price Waterh.	140	85	–	140	85	–
Miscellaneous consulting assignments – Bdo Revision	–	36	35	–	36	35
Miscellaneous consulting assignments – Öhrlings Price Waterh.	110	38	–	110	38	–
	261	159	83	250	159	83
NOTE 3 – PERSONNEL						
SEK thousand						
<i>Average number of employees</i>						
Men	31	27	19	26	27	19
Women	8	5	2	7	5	2
	39	32	21	33	32	21
<i>Wages, salaries, and other compensation</i>						
Board of Directors and CEO	1,305	1,589	547	1,305	1,589	547
Bonus to the Board and CEO	–	125	–	–	125	–
Other employees	11,841	8,882	6,768	10,265	8,882	6,768
	13,146	10,596	7,315	11,570	10,596	7,315
<i>Social welfare costs</i>						
Pension costs for the Board and CEO	387	390	161	387	390	161
Pension costs for other employees	1,597	769	605	1,413	769	605
Compulsory and contractual social welfare costs	4,967	3,821	2,446	4,391	3,821	2,446
	6,951	4,980	3,212	6,191	4,980	3,212

REMUNERATION TO MEMBERS OF THE BOARD AND SENIOR MANAGEMENT

Board of Directors Members of the Board not employed by the Company received a board fee corresponding to one “basic amount.” No other fees have been paid to members of the Board.

President and CEO For the year, a salary of SEK 692 thousand was paid. Pension benefits are based on general and individual pension plans. The mutual period of notice of termination is four months. If the Company gains a new majority shareholder, that is, a different shareholder acquires control of more than 50% of the votes in Thalamus Networks AB, the mutual period of notice becomes 12 months. In either case, the CEO is obliged to work during the notice period, and any income from other sources will be deducted from compensation paid for the period.

Other senior managers Pension benefits are based on general and individual pension plans. Upon notice of termination by the employer, salary is payable for 3–6 months at the prevailing rate. Managers must work during the notice period, and any income from other sources will be deducted from compensation paid for the period.

NOTE 4 – DEPRECIATION AND AMORTIZATION

Reported operating income has been charged with depreciation and amortization according to plan, which is based on the original purchase cost and the estimated useful economic life of each asset. The following rates apply:

Intangible assets excluding goodwill	33 %
Goodwill	20 %
Equipment and tools	20 %–33 %
Cable-TV installations	5 %

Leasing charges for fixed assets are normally expensed during the period of the lease. The Company had only a few contracts for vehicles under lease at December 31, 2001, so they were not reported in the balance sheet.

NOTE 5 – INTEREST EXPENSE

SEK thousand	Group			Moderbolaget		
	2001	2000	1999	2001	2000	1999
Interest expense	-1,023	-136	-123	–	-132	-123
Interest expense for Group liabilities	–	–	–	–	–	–
	-1,023	-136	-123	–	-132	-123

NOTE 6 – INTANGIBLE ASSETS

SEK thousand						
Intangible assets	630	630	630	630	630	630
Accumulated amortization	-630	-630	-420	-630	-630	-420
Book value	0	0	210	0	0	210
Goodwill	3,348	228	228	–	–	–
Accumulated amortization	-708	-91	-46	–	–	–
Book value	2,640	137	182	–	–	–

NOTE 7 – TANGIBLE ASSETS

Equipment, tools, and installations

SEK thousand						
<i>Purchase cost, opening balance</i>	9,321	4,383	–	9,321	4,383	3,154
Reclassifications for the year	–	-1,310	–	–	-1,310	–
Investments during the year	8,688	4,899	4,474	8,655	4,899	1,320
Sale/Retirement of assets during the year	-2,027	-371	-91	-2,027	-371	-91
Purchase cost, closing balance	15,982	7,601	4,383	15,949	7,601	4,383
<i>Depreciation, opening balance</i>	-3,667	-1,838	–	-3,667	-1,838	-1,039
Reclassifications for the year	–	-410	–	–	-410	–
Sale/Retirement of assets during the year	288	107	90	288	107	90
Acquired depreciation	–	–	-1,039	–	–	–
Depreciation for the year	-2,375	-1,526	-889	-2,364	-1,526	-889
Accumulated depreciation, closing balance	-5,754	-3,667	-1,838	-5,743	-3,667	-1,838
Book value	10,228	3,934	2,545	10,206	3,934	2,545

NOTE 7 (continued)

Cable-TV installations	Group			Parent Company		
SEK thousand	2001	2000	1999	2001	2000	1999
<i>Purchase cost, opening balance</i>						
Investments during the year	64,496	–	–	–	–	–
Purchase cost, closing balance	64,496	–	–	–	–	–
<i>Depreciation, opening balance</i>						
Acquired depreciation	-22,845	–	–	–	–	–
Depreciation for the year	-4,968	–	–	–	–	–
Accumulated depreciation, closing balance	-27,813	–	–	–	–	–
Book value	36,683	–	–	–	–	–

NOTE 8 – SHARES IN GROUP COMPANIES

					2001	2000	1999
Company	Co. reg. number	Reg'd. office of the Board	No. of shares	Capital and votes	Book value, SEK thousand	Book value, SEK thousand	Book value, SEK thousand
Thalamus Consulting AB (formerly Thalamus Rent AB) Scandinavian	556448-0464	Ängelholm	3,900	100	810	810	1,200
Micropayment AB	556594-2942	Luleå	690	69	69	69	–
Thalamus Operations AB (formerly Engelholms Kabel-TV AB)	556361-9294	Ängelholm	5,201,000	100	18,005	–	–
Total					18,884	879	1,200

During the year, Scandinavian Micropayment AB received a shareholder contribution of SEK 600 thousand.

The parent company wrote down its holdings in Scandinavian Micropayment AB in the same amount, SEK 600 thousand.

NOTE 9 – OTHER LONG-TERM HOLDINGS OF SECURITIES

	Group			Parent Company		
SEK thousand	2001	2000	1999	2001	2000	1999
Purchase cost, opening balance	255	255	–	255	255	15
Investments during the year	–	–	255	–	–	240
Write-downs*	-240	-240	–	-240	-240	–
Purchase cost, closing balance	15	15	255	15	15	255

* A write-down of SEK 240 thousand on TV9 NordWest AB was charged to consolidated earnings for fiscal 2000.

NOTE 10 – WORK ON CONTRACT

	Group			Parent Company		
SEK thousand	2001	2000	1999	2001	2000	1999
Costs incurred	2,214	9,425	7,415	2,214	9,425	7,415
Partial amounts invoiced	-2,326	-7,946	-6,389	-2,326	-7,946	-6,389
	-112	1,479	1,026	-112	1,479	1,026

NOTE 11 – CHANGES IN SHAREHOLDERS' EQUITY

SEK thousand

Group 2001	Share capital	Restricted reserves	Non-restricted reserves	Profit/Loss for the year	Total
Amount at January 1	927	268,782	-256	-15,743	253,710
Transfers between restricted and non-restricted equity					
Appropriation of earnings		-15,743	–	15,743	–
Profit/Loss for the year		–	–	-17,720	-17,720
Amount at December 31	927	252,833	-50	-17,720	235,990

Parent Company 2001	Share capital	Legal reserve/ Share premium reserve	Profit carried reserve	Profit/Loss for the year	Total
Amount at January 1	927	268,697	0	-15,864	253,760
Appropriation of earnings		-15,864	–	15,864	–
Profit/Loss for the year		–	–	-17,265	-17,265
Amount at December 31	927	252,833	0	-17,265	236,495

Group 2000	Share capital	Restricted reserves	Non-restricted reserves	Profit/Loss for the year	Total
Amount at January 1	719	40,310	58	-8,882	32,205
New stock issue completed/in progress	208	237,040	–	–	237,248
Transfers between restricted and non-restricted equity		314	-314	–	–
Appropriation of earnings		-8,882	–	8,882	–
Profit/Loss for the year		–	–	-15,743	-15,743
Amount at December 31	927	268,782	-256	-15,743	253,710

Parent Company 2000	Share capital	Legal reserve/ Share premium reserve	Profit carried reserve	Profit/Loss for the year	Total
Amount at January 1	719	40,273	0	-8,617	32,375
New stock issue	208	237,041	–	–	237,249
Appropriation of earnings		-8,617	–	8,617	–
Profit/Loss for the year		–	–	-15,864	-15,864
Amount at December 31	927	268,697	0	-15,864	253,760

Group 1999	Share capital	Restricted reserves	Non-restricted reserves	Profit/Loss for the year	Total
Amount at January 1	704	19,296	136	-3,277	16,859
Parent company when the Group was formed	15	24,118	–	–	24,133
New stock issue completed/in progress					
Transfers between restricted and non-restricted equity		37	58	–	95
Appropriation of earnings		-3,141	-136	3,277	–
Profit/Loss for the year		–	–	-8,882	-8,882
Amount at December 31	719	40,310	58	-8,882	32,205

Parent Company 1999	Share capital	Legal reserve/ Share premium reserve	Profit carried reserve	Profit/Loss for the year	Total
Amount at January 1	704	19,296	136	-3,277	16,859
New stock issue	15	24,118	–	–	24,133
Appropriation of earnings		-3,141	-136	3,277	–
Profit/Loss for the year		–	–	-8,617	-8,617
Amount at December 31	719	40,273	0	-8,617	32,375

NOTE 11 (continued)

In March 2001, Thalamus Networks AB issued to its subsidiary Thalamus Consulting AB subordinated debentures with detachable warrants corresponding to 500,000 series B shares. Of that total, 113,000 were acquired by employees. Each warrant entitles the holder to subscribe for one series B share at an exercise price of SEK 45.60 from April 1, 2001, through March 31, 2004.

A total of 61,391 warrants from the subordinated debentures issued in 1999 have not been exercised, and 100,000 from the debentures issued in 2000. Each warrant from the 1999 program entitles the holder to subscribe for one share at a price of SEK 25 through December 31, 2002. Each warrant from the 2000 program entitles the holder to subscribe for one share at a price of SEK 136 through July 1, 2003.

NOTE 12 – PROVISIONS FOR TAXES

SEK thousand	2001	Group 2000	1999	2001	Parent Company 2000	1999
Deferred tax liability	3,131	–	15	1,367	–	–
The value of tax-effective loss carry-forwards has not been estimated.						
Tax-effective loss carry-forwards totaled SEK 48,201 thousand.						

NOTE 13 – BANK OVERDRAFT FACILITIES

SEK thousand	2001	Group 2000	1999	2001	Parent Company 2000	1999
Approved credit limits on current accounts	8,000	–	1,500	–	–	1,500

NOTE 14 – LONG-TERM LIABILITIES

SEK thousand	2001	Group 2000	1999	2001	Parent Company 2000	1999
The portion of long-term liabilities that falls due for payment more than five years after the balance date is specified below.						
Liabilities to credit institutions	10,000	–	–	–	–	–
Other long-term liabilities						

NOTE 15 – COLLATERAL PLEDGED

SEK thousand	2001	Group 2000	1999	2001	Parent Company 2000	1999
For liabilities to credit institutions						
Chattel mortgages	19,500	–	2,300	–	–	1,500

Chattel mortgages consist of commitments in Thalamus Operations AB amounting to SEK 18,000 thousand.

Thalamus Networks AB has SEK 1,500 thousand in chattel mortgages not used at present.

NOTE 16 – CONTINGENT LIABILITIES

SEK thousand	2001	Group 2000	1999	2001	Parent Company 2000	1999
Guarantees	1,101	126	96	1,101	126	96

Stockholm, February 21, 2002

Bengt Stillström

CHAIRMAN

Claes Thulin

Per Granath

Jörgen Bladh

Pär-Ola Andersson

Jan Tideliuss

PRESIDENT

Audit Report

To the annual meeting of shareholders in Thalamus Networks AB (publ), company registration number 556394-1987.

I have reviewed the annual report, consolidated financial statements, bookkeeping, and the management of Thalamus Networks AB (publ) by the Board of Directors and CEO for the year 2001. The Board of Directors and CEO are responsible for the accounting records and management of the Company. My responsibility is to express an opinion on the annual report, consolidated financial statements, and management of the Company based on my audit.

I have conducted my audit in accordance with generally accepted auditing standards in Sweden. This has involved planning and conducting the audit to obtain reasonable assurance that the annual report and consolidated financial statements do not contain any material misstatements. An audit entails examining a selection of the underlying documentation to verify amounts and other information reported in the accounting records. An audit also includes an evaluation of the accounting principles and the Board of Directors' and CEO's application of these principles as well as an overall assessment of the information in the annual report and consolidated financial statements. To decide whether

to recommend that the annual meeting discharge the Board of Directors and CEO from liability for the year, I have examined material decisions, actions, and circumstances in the Company to determine if the CEO or any member of the Board could be liable to pay compensation to the Company. I have also examined whether or not any member of the Board or the CEO has in some other way acted contrary to the Companies Act, the Annual Accounts Act, or the Company's articles of incorporation. I believe that my audit provides a reasonable basis for the opinions I state below.

The annual report and consolidated financial statements were prepared in accordance with the Annual Accounts Act and thus provide a true and fair view of the Company's and the Group's earnings and financial position in accordance with generally accepted accounting principles in Sweden.

I recommend that the annual shareholders' meeting adopt the income statement and balance sheet for the parent company and the Group, allocate the losses in the parent company in accordance with the proposal in the Management Report, and discharge the Board of Directors and CEO from liability for the fiscal year.

Stockholm, February 21, 2002

Lars Wennberg

AUTHORIZED PUBLIC ACCOUNTANT

Board of Directors and Auditors

Board

Bengt Stillström, born 1943
Chairman of the Board.
Majority shareholder, Traction AB
Other board assignments: Chairman of the Board of AcadeMedia AB, member of the Boards of EasyT AB, Haldex AB and Traction AB.
Elected to the Board: 1998
A shares (own holdings) in Thalamus Networks: 86 667
B shares (own holdings) in Thalamus Networks: 143,716

Pär-Ola Andersson, born 1963
Member of the Board.
Technology Manager.
Other board assignments: –
Elected to the Board: 1991
A shares in Thalamus Networks: 252,000
B shares in Thalamus Networks: 268,666
Warrants in Thalamus Networks: 0

Jörgen Bladh, born 1964
Member of the Board.
Partner, Venture Partners.
Elected to the Board: 1997.
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 40,067

Per Granath, born 1954
Member of the Board.
Senior Adviser, Handelsbanken Investment Banking.
Other board assignments: Chairman of the Board of Svefa AB, member of the Boards of RKS AB and Intellecta AB.
Elected to the Board: 1998.
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 0

Claes Thulin, born 1955
Member of the Board.
Investment Manager, Traction AB.
Elected to the Board: 2001.
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 10,000

Jan Tidelius, born 1958
Member of the Board.
Chief Executive Officer of Thalamus Networks.
Elected to the Board: 1999
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 73,000
Warrants in Thalamus Networks: 0

Auditors

Lars Wennberg, born 1957
Authorized Public Accountant.
Öhrlings PriceWaterhouseCoopers AB, Stockholm.
Auditor for Thalamus Networks since 2000.

Fredrik Isaksson, born 1967
Deputy auditor.
Authorized Public Accountant.
Auditor for Thalamus Networks since 2001.

Senior Management

Jan Tidelius, born 1958
Chief Executive Officer
Employed since 1999
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 73,000
Warrants in Thalamus Networks: 0

Pär-Ola Andersson, born 1963
Technology Manager
Employed since 1994
A shares in Thalamus Networks: 252,000
B shares in Thalamus Networks: 268,666
Warrants in Thalamus Networks: 0

Urban Axelsson, born 1965
Head of Consulting, Networks
Employed since 1998
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 6,914
Warrants in Thalamus Networks: 3,500

Hans Johansson, born 1950
Operations Manager, employed in EKTV at the time of acquisition
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 400
Warrants in Thalamus Networks: 2,000

Jan Norman, born 1957
Chief Financial Officer
Employed since 2000
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 0
Warrants in Thalamus Networks: 40,000

Peter Winberg, born 1967
Building Automation Manager
Employed since 2000
A shares in Thalamus Networks: 0
B shares in Thalamus Networks: 10,000 through family
Warrants in Thalamus Networks: 1,000

Definitions

Gross margin

Gross income divided by operating revenue. Gross income is defined as operating income/loss before depreciation and amortization.

Operating margin

Operating income/loss divided by operating revenue.

Profit margin

Income/Loss after financial items divided by operating revenue.

Capital employed

Total assets less non-interest-bearing liabilities including deferred tax liability.

Return on capital employed

Income/Loss after financial items plus interest expense,
divided by average capital employed.

Equity/assets ratio

Shareholders' equity and minority shares, divided by total assets.

Interest coverage rate

Income/Loss after financial items plus interest expense and translation differences, divided by interest expense excluding translation differences.

Net financial assets

Cash and cash equivalents plus short-term investments and other long-term holdings of securities, less long-term interest-bearing liabilities.

Earnings per share

Profit/Loss for the year divided by the average number of shares.

Net cash flow per share

Operating cash flow before investments and tax paid,
divided by the average number of shares.

Shareholders' equity per share

Shareholders' equity divided by the number of shares at the end of the year.

Addresses

Thalamus Networks AB
Heliosvägen 1A, SE-120 30 Stockholm, Sweden
Phone +46 8 691-0900 Fax +46 8 691-0991

www.thalamus.se

Stockholm
Heliosvägen 1A, SE-120 30 Stockholm
Phone +46 8 691-0900 Fax +46 8 691-0991

Göteborg
Skårs Led 3 , SE-412 63 Göteborg
Phone +46 31 703-7153. Fax +46 31 703-7101

Ängelholm
Åkerslundsgatan 10, SE-262 73 Ängelholm
Phone +46 431 44-5400 Fax +46 431 44-5410

