



Global IP Sound AB (publ.)
Corporate identity number 556573-9017

Annual report and consolidated financial statements for the financial period from January 1 2002 to December 31 2002.

The board of directors and managing director present the following annual report and consolidated financial statements.

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Administration report

The Annual Report refers to the Company's fiscal year from the date January 1 2002 to December 31 2002.

Information about the business activities

Global IP Sound AB (the Company) has developed software for communications over packet networks and provides products and software, which will lead to a high and robust sound quality for real-time sound processing over packet networks. The Company has established business in the US through its subsidiary Global IP Sound Inc. During the fiscal year, the Company has signed six new contracts with Nortel, Gatelinx, PocketPresence, Marratech, Brecis and Granite Streams. This bring the total to 10 of revenue generating contracts realizing 1.4 MSEK in revenue for 2002. Expenses were 54.3 MSEK and declined 30% from the previous year. The Company's cost control initiatives brought expense in align with the cash flow expectations. The Company is always looking at ways to reduce cost to preserve capital.

During the year, the Company hired Gary Hermansen as the new CEO. Gary was the previous CEO of Brightmail and comes to the Company with significant experience in telecommunication and chip markets.

In 2002, the Company has submitted to both the IETF and CableLabs the iLBC codec technology for possible acceptance as an industry standard VoIP codec. Although there are no assurances that iLBC will be accepted, the Company is strongly supporting this initiative. The Company spent 17.6 MSEK in Research & Development to support current and new product development. The Company has recently announced further development of

VoiceEngine 1.1 for softphone applications. VoiceEngine won "best of show" at the 2002 Internet Telephony Conference.

In the first two months of 2003, the Company has signed e-horizon Streaming Technologies and another contract with Brecis and Gatelinx. The Company has approximately 55 potential deals in its sales pipeline 11 of these in the business development and negotiation stage. The Company is also working with its existing customer based to generate royalty revenue.

During the fiscal year the Company has through a private placement raised capital in the amount of 39.7 MSEK (Note 19). The Company is expecting cash inflows to increase from its operation in 2003. The Board and management team are working on a comprehensive financial plan and structure that will be presented at the up coming General Assembly meeting currently scheduled for May 6, 2003.

According to a resolution made by the Annual General Meeting, an amount of a total of MSEK 22.5 has been reduced from the share capital and been used for set-off against retained losses

The Company has its registered office in Stockholm.

Proposed treatment of loss

Following means are at the General Assembly's disposal:

Parent Company

Balance brought forward:	-42 390 927
Net loss of the year:	<u>-24 814 975</u>
	-67 205 902

The board of directors and the managing director propose that the Parent Company's accumulated loss, - 67 205 902 SEK, be carried forward.

Group

The Group's non-restricted equity amount run up to SEK -142 733 154 and no provision to restricted reserves are requisite.

All amounts are given in thousands Swedish kronor if nothing else is stated.

Summary covering several years

	2002	2001	2000
Net turnover	1 364	0	110
Result after financial items	-52 769	-76 114	-56 525
Balance sheet total	34 883	50 362	98 594
Solvency (%)	83	84	94
Average employees	30	35	28

Consolidated income statement	Note	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Other income	2	1 364	0
Gross profit		<u>1 364</u>	<u>0</u>
Information about the business activities	3, 2, 4		
Selling expenses		-14 189	-23 869
Administrative expenses	5	-22 601	-21 527
Research and development costs		-17 602	-32 257
Operating loss		<u>-53 027</u>	<u>-77 653</u>
Result from financial investments			
Other interest income and similar profit/loss items	6	1 395	1 970
Interest expenses and similar profit/loss items		-1 137	-431
Total result from financial investments		<u>259</u>	<u>1 539</u>
Result after financial items		<u>-52 769</u>	<u>-76 114</u>
State tax		-18	-8
Net loss for the year		<u>-52 786</u>	<u>-76 122</u>

Consolidated balance sheet	Note	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Assets	1		
Fixed assets			
Intangible fixed assets			
Patents	7	1 359	800
Tangible fixed assets			
Plant and machinery	8	976	2 083
Equipment, tools, fixtures and fittings	9	1 222	1 816
Software	10	56	157
Costs of improvements to property	11	1 695	2 761
Vehicles	12	0	0
		<u>3 949</u>	<u>6 817</u>
Financial fixed assets			
Deposits		2 344	2 785
Other long-term receivables	18	1 760	0
		<u>4 105</u>	<u>2 785</u>
Total fixed assets		<u>9 413</u>	<u>10 402</u>
Current assets			
Current receivables		484	0
Other current investments	16	0	5 413
Other current receivables		379	675
Prepaid expenses and accrued income	13	974	941
		<u>1 837</u>	<u>7 028</u>
Cash and bank balance		<u>23 633</u>	<u>32 932</u>
		<u>23 633</u>	<u>32 932</u>
Total current assets		<u>25 470</u>	<u>39 960</u>
Total assets		<u>34 883</u>	<u>50 362</u>

Equity and liabilities	Note	2002-12-31	2001-12-31
Equity	14,19		
Restricted equity			
Share capital (26 879 758 shares at nom SEK 0,1each)		2 688	23 044
Restricted reserves		169 252	131 878
Total restricted equity		171 940	154 923
Non-restricted equity			
Net loss previous year		-89 947	-36 367
Net loss of the year		-52 786	-76 122
Total non-restricted equity		-142 733	-112 489
Total equity		29 207	42 434
Long-term liabilities			
Long-term note		46	0
Total long-term liabilities		46	0
Current liabilities			
Accounts payable - trade		1 777	4 168
Other current liabilities		233	405
Unearned revenue		419	0
Accrued expenses and deferred income	15	3 201	3 356
Total current liabilities		5 629	7 928
Total equity and liabilities		34 883	50 362
Pledged assets		None	None
Contingent liabilities		None	None

Consolidated cash flow statement	Note	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Operating activities			
Result after financial items		-52 769	-76 114
Adjustments for items not included in cash flow etc.		1 284	2 847
Depreciation		2 130	2 451
Tax		-18	-8
Cash flow from operating activities before changes in working capital		-49 372	-70 824
Changes in working capital			
Increase in receivables		-221	742
Increase in accounts payables		-2 299	2 277
Cash flow from operating activities		-51 892	-67 805
Investing activities			
Acquisitions of intangible assets		-559	-403
Acquisitions of machinery and equipment		738	-4 901
Investment in financial assets		5 853	-4 377
Loans provided		-1 760	0
Cash flow from investing activities		4 272	-9 681
Financing activities			
Share premium upon issue of new shares		39 710	22 440
Cash flow from financing activities		39 710	22 440
Cash flow for the year		-7 910	-55 046
Liquid funds at the beginning of the year		32 932	87 652
Exchange difference, liquid funds		-1 389	327
Liquid funds at the end of the year		23 633	32 932

Parent company income statement	Not	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Other income	2	489	0
Gross profit		<u>489</u>	<u>0</u>
Information about the business activities	4, 3, 2		
Selling expenses		-4 390	-8 330
Administrative expenses	5	-10 063	-9 791
Research and development costs		<u>-15 283</u>	<u>-24 600</u>
Operating loss		<u>-29 248</u>	<u>-42 720</u>
Result from financial investments			
Other interest income and similar profit/loss items	6	5 565	5 020
Interest expenses and similar profit/loss items		<u>-1 132</u>	<u>-466</u>
Total result from financial investments		<u>4 433</u>	<u>4 554</u>
Result after financial items		-24 815	-38 166
Net loss for the year		<u><u>-24 815</u></u>	<u><u>-38 166</u></u>

Parent company balance sheet	Not	2002-12-31	2001-12-31
	1		
Assets			
Fixed assets			
Intangible fixed assets			
Patents	7	1 359	800
Tangible fixed assets			
Plant and machinery	8	691	1 377
Leasehold improvements	11	204	215
Equipment, tools, fixtures and fittings	9	575	792
		<u>1 469</u>	<u>2 384</u>
Financial fixed assets			
Shares in group activities		8 769	8 769
Deposits		1 010	1 000
		<u>9 779</u>	<u>9 769</u>
Total fixed assets		<u>12 608</u>	<u>12 953</u>
Current assets			
Current receivables		0	0
Other current investments	16	0	5 413
Receivables from group companies		73 478	46 107
Other current receivables		379	471
Prepaid expenses and accrued income	13	664	591
		<u>74 520</u>	<u>52 581</u>
Cash and bank balance		16 855	26 280
Total current assets		<u>91 376</u>	<u>78 861</u>
Total assets		<u>103 984</u>	<u>91 814</u>

Equity and liabilities	Not	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Equity	14		
Restricted equity			
Share capital (26 879 758 shares at nom SEK 0,1 each)		2 688	23 044
Share premium reserve		165 935	128 457
		<u>168 623</u>	<u>151 502</u>
Non-restricted equity			
Profit/loss brought forward		-42 391	-26 766
Net loss for the year		-24 815	-38 166
Accumulated loss		<u>-67 206</u>	<u>-64 933</u>
Total equity		<u>101 418</u>	<u>86 569</u>
Current liabilities			
Accounts payable - trade		1 041	3 368
Other current liabilities		233	405
Accrued expenses and deferred income	15	1 291	1 473
Total current liabilities		<u>2 566</u>	<u>5 245</u>
Total equity and liabilities		<u>103 984</u>	<u>91 814</u>

Pledged assets	None	None
Contingent liabilities	None	None

Cash flow statement	Not	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Operating activities			
Result after financial items		-24 815	-38 166
Depreciation		1 187	1 159
Cashflow from operating activities before changes in working capital		<u>-23 628</u>	<u>-37 007</u>
Changes in working capital			
Increase in receivables		-27 239	-35 432
Increase in accounts payable - trade		-2 792	1 235
Cash flow from operating activities		<u>-53 660</u>	<u>-71 205</u>
Investing activities			
Acquisitions of intangible assets		-559	-403
Acquisitions of machinery and equipment		-273	-776
Investment in financial assets		5 402	-5 413
Cash flow from investing activities		<u>4 571</u>	<u>-6 591</u>
Financing activities			
Share premium upon new issue of shares		39 664	22 214
Cash flow from financing activities		<u>39 664</u>	<u>22 214</u>
Cash flow for the year		<u>-9 425</u>	<u>-55 582</u>
Liquid funds at the beginning of the year		26 280	81 862
Liquid funds at the end of the year		16 855	26 280

Notes to the financial statements, applicable to the parent company and Group

Note 1:

Accounting principles

Information about the business activities

The annual report has been prepared according to the Annual Accounts Act and to the Swedish Accounting Standards Board.

Consolidated financial statements

The consolidated financial statements include subsidiaries, where the parent company directly or indirectly holds more than 50% of the votes.

The consolidated financial statements have been prepared in accordance with the acquisition accounting method, which means that the subsidiaries' equity at the date of acquisition, defined as the difference between the fair values of the assets and liabilities, is eliminated in full. Thus, the group equity includes only that portion of the subsidiaries' equity, which has been added after the date of acquisition.

If the acquisition value of the shares on consolidation exceeds the value of the subsidiary's net assets stated in the acquisition analysis, the difference is stated as goodwill on consolidation. If instead, the acquisition value of the shares on consolidation is less than the value of the company's net assets stated in the acquisition analysis, the difference is accounted for as a provision for negative goodwill. The provision is dissolved on the basis of expectations regarding the earnings trend.

The company applies the current method for the translation of the financial statements of foreign subsidiaries. This means that the assets and liabilities of the foreign subsidiaries are translated at the closing rate. All items included in the income statement are translated at the average rate for the year. Translation differences are taken directly to group equity.

If the parent company or another group company has taken measures to balance or hedge against exchange differences regarding a net investment in an independent subsidiary, the exchange difference in the hedge instrument is taken directly to equity, in so far as it is matched by a translation difference reported during the year for the subsidiary.

In case there is a difference in the valuation of assets and liabilities at group level and company level, the tax effect is taken into account and is reported either as a deferred tax asset or a deferred tax liability.

Inter-company profits are eliminated in full, i.e. without taking account of minority interests.

Minority interests in the result for the year are shown in the consolidated financial statements. Minority interests in the subsidiaries' equity are presented as a separate item in the consolidated balance sheet.

Receivables

Receivables are stated in the amounts estimated to be received on the basis of individual assessment.

Foreign currencies

Receivables and payables in foreign currencies are valued at the closing rate. Where hedging measures have been taken, such as forward contracts, the forward rates are used. Gains and losses on receivables and payables relating to operations are accounted for net under other operating income or, alternatively, other operating expenses.

On hedging of future budgeted flows, the hedging instruments are not re-valued in case of exchange rate fluctuations. The entire effect of exchange rate fluctuations is accounted for in the income statement as the hedging instruments mature.

Fixed assets

Tangible and intangible fixed assets are depreciated/amortised systematically over their estimated useful lives. The following periods of depreciation/amortisation are applied:

	Antal år
Intangible fixed assets	5
Equipment, tools, fixtures and fittings	5
Software	3
Improvements to property	Written down over the term of the lease

Interest on capital borrowed to finance the production of an asset is included in the acquisition value in so far as the interest is attributable to the production period.

Research and development

Costs for research and development work are normally expensed as they arise.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. The reported cash flow comprises only transactions leading to inward and outward payments. The cash flow is allocated to

- operating activities,
- investing activities and
- financing activities.

Inter-company purchases and sales

Note 2

Parent company

Of the company's net sales, sales to subsidiaries account for SEK 0.

Of the company's purchases, purchases from subsidiaries account for KSEK 9 924 (KSEK 13 365).

Interest income from subsidiaries account for KSEK 4 375 (KSEK 3 438).

For inter-company purchases and sales, the pricing principles applied are the same as for transactions between external parties.

Note 3

Depreciation, amortisation, write-downs and reversals

Depreciation of tangible fixed assets amount to KSEK 2 617 (KSEK 2 451) group and KSEK 1 187 (KSEK 1 124) for the parent company.

Note 4

Average number of employees, wages, salaries, other emoluments and social security contributions

2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
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The average number of employees, men and women, was

Group

Women	5	6
Men	25	29
Total for group	30	35

Parent company

Women	3	3
Men	13	19
Total for parent company	16	22

Group

Wages, salaries and emoluments paid to		
President and board of directors	4 078	3 525
Other employees	22 859	29 295
Total wages, salaries and emoluments	26 937	32 820
Statutory and contractual social security contributions	4 110	4 451
Pension costs (of which for board and managing director SEK 106 189)	1 290	1 883
Total wages, salaries, emoluments, social security contributions and pension costs for group	32 336	39 154

Parent company

Wages, salaries and emoluments paid to		
President and the board of directors	702	868
Other employees	7 234	8 316
Total wages, salaries and emoluments	7 936	9 183
Statutory and contractual social security contributions	2 568	3 000
Pension costs (of which for board and managing director SEK 106 189)	1 290	1 883
Total wages, salaries, emoluments, social security contributions and pension costs for parent company	11 793	14 066

Regarding severance pay for board of directors and CEO, the CEO has one year of salary upon notice.

Note 5

Fees and remuneration

Öhrlings Pricewaterhousecoopers

2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
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Group

Accounting fees	206	261
Other fees	68	319
Total	274	581

Parent company

Accounting fees	75	68
Other fees	23	148
Total	98	216

Note 6

Other interest income and similar profit/loss items

2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
----------------------------	----------------------------

Group

Interest income	1 242	1 827
Total	1 242	1 827

Parent company

Interest income	5 565	5 020
Total	5 565	5 020

Of which relating to group companies	4 375	3 438
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Note 7

Patents

Group

	2002-12-31	2001-12-31
Patents		
Balance brought forward	800	397
Capitalised costs	559	403
Closing residual value according to plan	1 359	800

Parent company

Patents		
Balance brought forward	800	397
Capitalised costs	559	403
Closing residual value according to plan	1 359	800

Note 8

Plant and machinery

Group

	2002-12-31	2001-12-31
Balance brought forward	3 900	3 514
-Purchases	359	488
-Disposal	-197	-102
-Currency translations	-93	
Closing accumulated acquisition values	3 969	3 900

Balance brought forward	-1 817	-686
-Purchases	80	67
-Disposal	-1 320	-1 198
-Currency translations	62	
Closing accumulated depreciation	-2 994	-1 817

Closing residual value according to plan	976	2 083
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Parent company

	2002-12-31	2001-12-31
Balance brought forward	2 752	2 459
-Purchases	273	394
-Disposal	0	-102
Closing accumulated acquisition values	3 024	2 752

Balance brought forward	-1 375	-532
-Purchases	0	67
-Disposal	-958	-910
Closing accumulated depreciation	-2 333	-1 375

Closing residual value according to plan	691	1 377
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Note 9

**Equipment, tools, fixtures
and fittings**

Group

	2002-12-31	2001-12-31
Balance brought forward	2 315	927
-Purchases	0	1 388
-Currency translations	-206	0
Closing accumulated acquisition values	2 109	2 315

Balance brought forward	-499	-87
-Depreciation	-446	-412
-Currency translations	58	0
Closing accumulated depreciation	-887	-499

Closing residual value according to plan	1 222	1 816
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Parent company

Balance brought forward	1 088	927
-Purchases	0	161
Closing accumulated acquisition values	1 088	1 088
Balance brought forward	-296	-87
-Depreciation	-218	-209
Closing accumulated depreciation	-513	-296
Closing residual value according to plan	575	792

Note 10

Software

2002-12-31	2001-12-31
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Group

Software

Balance brought forward	267	158
-Purchases	0	108
-Currency translations	-45	0
Closing accumulated acquisition values	222	267
Balance brought forward	-110	-22
-Depreciation	-94	-88
-Currency translations	38	0
Closing accumulated depreciation	-166	-110
Closing residual value according to plan	56	157

Note 11

Costs of improvements to property

2002-12-31	2001-12-31
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Group

Balance brought forward	3 428	229
-Purchases	54	3 198
-Currency translations	-543	0
Utgående ackumulerade anskaffningsvärden	2 938	3 428
Balance brought forward	-667	0
-Depreciation	-757	-667
-Currency translations	181	0
Closing accumulated depreciations	-1 243	-667
Closing residual value according to plan	1 695	2 761

Parent company

Balance brought forward	220	0
-Purchases	0	220
Closing accumulated acquisition values	220	220
Balance brought forward	-6	0
-Depreciation	-11	-6
Closing accumulated depreciations	-17	-6
Closing residual value according to plan	204	215

Note 12

Vehicles

Group

	2002-12-31	2001-12-31
Balance brought forward	0	349
-Purchases / Sold	0	-349
Closing accumulated acquisition values	0	0
Balance brought forward	0	-15
-Depreciation	0	15
Closing accumulated depreciation	0	0
Closing residual value according to plan	0	0

Note 13

Prepaid expenses and accrued income

Group

	2002-12-31	2001-12-31
Prepaid rents	468	570
Prepaid leasing	55	32
Accrued interest income	16	57
Accrued income	63	0
Prepaid insurance	194	234
Other prepaid expenses	178	49
Total	974	941

Parent company

Prepaid rents	329	322
Prepaid leasing	55	32
Accrued interest income	16	57
Accrued income	63	0
Prepaid insurance	127	148
Other prepaid expenses	74	32
Total	664	591

Note 14

Change in equity

Group

Restricted equity

Share capital

Amount at the beginning of the year	23 044	18 794
New capital issue	2 185	4 250
Transfer to non-restricted reserves	-22 542	0
Amount at the end of the year	2 688	23 044

Restricted reserves

Amount at the beginning of the year	131 878	130 673
New capital issue	37 479	17 964
Change in exchange difference	-1 389	271
Deferred compensation	1 284	3 129
Adjustment from restricted equity to non-restricted equity	0	-20 158
Amount at the end of the year	169 252	131 878
Total restricted equity at the end of the year	171 940	154 923

Non-restricted equity

Amount at the beginning of the year	-112 489	-56 525
Transfer from restricted reserves	22 542	20 158
Net loss of the year	-52 786	-76 122
Total non-restricted equity at the end of the year	-142 733	-112 489

	2002-12-31	2001-12-31
Parent company		
<i>Restricted equity</i>		
<u>Share capital</u>		
Amount at the beginning of the year	23 044	18 794
New capital issue	2 185	4 250
Transfer to non-restricted equity	-22 542	0
Amount at the end of the year	2 688	23 044
<u>Share premium reserve</u>		
Amount at the beginning of the year	128 457	110 493
New capital issue	37 478	17 964
Amount at the end of the year	165 935	128 457
Total restricted equity at the end of the year	168 623	151 502
<i>Non-restricted equity</i>		
Amount at the beginning of the year	-64 933	-26 766
Transfer from restricted equity	22 542	0
Net loss of the year	-24 815	-38 166
Amount of the year	-67 206	-64 933

Note 15

Accrued expenses and deferred income

	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Group		
Accrued holiday pay	704	756
Accrued social security contributions	213	303
Accrued special employer's contribution	264	370
Unearned revenue	419	0
Other items	1 601	1 927
Total	3 201	3 356
Parent company		
Accrued holiday pay	287	212
Accrued social security contributions	213	303
Accrued special employer's contribution	264	370
Unearned revenue	37	0
Other items	490	588
Total	1 291	1 473

Note 16

Other current investments

	2002-01-01-- 2002-12-31	2001-01-01-- 2001-12-31
Group		
Book value	0	5 413
Market value or equivalent	0	5 413
Parent company		
Book value	0	5 413
Market value or equivalent	0	5 413

Note 17

Shares in group companies

<u>Company name</u>	<u>Organisations nr</u>	<u>Säte</u>	<u>Kapitalandel (%)</u>
Global IP Sound Optioner AB	556585-5383	Stockholm, Sverige	100
Global IP Sound Inc.	94-3352605	San Francisco, USA	100

<u>Parent company</u>	<u>Kapital- andel %</u>	<u>Rösträts- andel %</u>	<u>Antal aktier</u>	<u>Bokfört värde</u>
Global IP Sound Optioner AB	100	100	1 000	100 000
Global IP Sound Inc.	100	100	100 000	<u>8 669 216</u>
Sum				8 769 216

Global IP Sound Optioner AB has share capital of SEK 100 000. Equity amounts to SEK 90 498.
Net loss of the year amounts to SEK 441.

Global IP Sound Inc. has a share capital of SEK 869. Equity amounts to SEK -56 209 760.
Net loss of the year amounts to SEK 26 704 858.

Note 18

Other long-term receivables

The company's CEO, Gary Hermansen who is employed by Global IP Sound Inc, has per 2002-07-31 taken a loan at the amount of USD 200 000 from Global IP Sound Inc. Exchanged to Swedish krona (SEK) and including the interest consideration, the total loan per 2002-12-31 is MSEK 1,76. The loan carries interest at 3% per year. No repayment has been done during 2002. The loan runs till 2004-07-31 och shall be regulated in entirety per this date. As security 400 000 shares and/or warrants to buy in Brightmail Inc. are set.

Note 19

New Capital Issue

In 2002, the Company generated 39 663 821 in new capital. The source of those funds are describe below:

Exercise of Warrants	6 400 375
2001 Funding Activities	5 761 080
2002 Funding Activities	29 658 245
Issuance costs	<u>(2 155 879)</u>
	39 663 821

Stockholm 2003-03-12

Gary Hermansen
President and CEO

Ditlef de Vibe
Chairman of the Board

Roar Hagen
Vice President

Jörgen Axelsson

Jörgen Kjærnes

Lars Berg

Trym Skeie

Our audit report has been issued on 2003-03-12
PRICEWATERHOUSECOOPERS AB

Magnus Brändström
Auktoriserad revisor