

INTERIM REPORT

For the period January 1, 1999– September 30, 1999

Net Insight AB (publ), org nr. 556533-4397

IMPORTANT EVENTS DURING THIRD QUARTER

- Net Insight has sold switches for city networks to Vasa Läns Telefon. The agreement confirms that the pilot installation successfully tested by VLT since November last year will now be put into commercial operation. VLT has an option for further purchases under agreed forms.
- Net Insight has sold Nimbra One™ city network switches to Karlstads Elnät, which will be the first commercial implementation of DTM in a city network in Sweden.
- Net Insight and Bredbandsbolaget have concluded an agreement of intent to supply digital broadband services to households using Net Insight's DTM as one of the underlying technologies.
- TeleCyber has chosen Net Insight's DTM products in order to be able to offer building owners and companies access to broadband services with fixed connections to the Internet, IP telephony, music, games, real-time video and TV channels.
- ABB and Net Insight have signed an agreement regarding cooperation on the sales of Net Insight's products to, initially, city networks in the Nordic countries and Europe.
- During the period, Net Insight AB began a new rights issue with preference for the company's stockholders of up to approximately SEK 150 million.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

- The rights issue, that begun during the period, was successfully completed.
- Net Insight and Qeyton Systems increased cooperation with the aim of jointly offering products including DTM and DWDM.
- Three new products – Nimbra 210, 220 and 290 – were launched at Telecom '99 in Geneva. The new products complement Nimbra One and Nimbra 101 and represent the first ASIC based DTM switch on the market.

MARKET OVERVIEW

Net Insight operates in a rapidly changing market. The continuous enhancement of the communication infrastructure is driven by market forces, where the consumers' demand for better picture quality, more services and interactivity are vital. These conditions, combined with the growth of the Internet, is forcing operators and suppliers of equipment to continually look for new products that can meet the increased demand for broadband and quality service.

The fastest rate of growth is currently in the Nordic countries, but there is a similar trend in large areas of the rest of Europe, USA and Asia.

During 1999, the development of new network technology has enjoyed a great deal more interest from both the media and the public, which has contributed to many decisions concerning expansion of the broadband network being under discussion. To a great extent this means city networks that are mainly constructed using fiber optics, giving the new networks the opportunity to manage several parallel networks using the same fiber-optic cable, in addition to a general increase in capacity.

This gives Net Insight a very strong market position, as the company's products can easily increase in speed with fiber optics and can be connected directly to the fiber networks without requiring intermediate equipment.

The rapidly evolving wireless Internet represents the major challenge for all players, suppliers, operators, etc., and consumers. The number of wireless Internet users will equal that of the wireline Internet users already in year 2004. Net Insight is extremely well positioned to develop successfully in the wireless Internet market.

Net Insight's DTM technology thus creates the conditions for transmitting large amounts of without bottlenecks and at the highest quality. This gives the operators increased business opportunities for responding to rapidly increasing demand for services such as IP based digital TV, video-on-demand, IP telephony, games and high-speed Internet access.

STAFF

During the period, the number of employees in the group has increased from 67 to 69. By the end of the period 19 consultants were contracted.

An increasing proportion of ongoing recruitment relates to the build-up of the international marketing organization.

REVENUE AND COSTS

During the period the group has reported its first sales revenue, mainly to distributors, which amounted to SEK 0.4 million. Business costs for the first nine months amounted to SEK 79 million, of which SEK 27 million relates to the third quarter. SEK 2.2 million of the quarterly costs are directly related to the recent move to new premises.

INVESTMENTS IN FIXED ASSETS

Investments in instruments, equipment and improvements to premises for the first nine months amounted to SEK 0.7 million. No development costs were activated.

CASH POSITION AND FUNDING

By virtue of the authority given to the board by the Annual General Meeting in May 1999, during the period a new rights issue, of up to approximately SEK 150 million, with preference for the company's stockholders, has been made. Since the completion date for this is October 1, this is accounted for under the entry 'current rights issue' on the consolidated balance sheet. Liquid assets in the form of cash and bank balances amounted to SEK 27.6 million at 30 September 1999.

FORTHCOMING REPORTS FROM NET INSIGHT

- Press release of annual figures for 1999

- 31 January 2000

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	Jan 1 1999 - Sept 30 1999	Jan 1 1998 - Sept 30 1998	Jan 1 1998 - Dec 31 1998
Net sales	431	-	-
Cost of goods sold	-341	-	-
Gross income	90	-	-
Marketing costs	-12 578	-5 105	-8 381
Administrative expenses	-11 485	-2 870	-4 303
Development expenses	-54 805	-26 716	-40 295
Other operating income	-	2	25
Income from continuing operations	-78 778	-34 689	-52 954
Interest income	1 045	1 718	2 008
Interest expenses	-4	-1	-9
Income from continuing operations before income taxes	-77 737	-32 972	-50 955
Income taxes	-	-	-
Net income for the period	-77 737	-32 972	-50 955

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Sept 30 1999	Sept 30 1998	Dec 31 1998
Assets			
Tangible assets	1 771	1 510	1 497
Total tangible assets	1 771	1 510	1 497
Inventories	8 323	-	-
Accounts receivable - trade	537	-	-
Current receivables	3 778	1 622	3 062
Prepaid expenses	4 241	1 738	716
Cash and bank balances	27 596	44 695	28 412
Total current assets	44 475	48 055	32 190
Total assets	46 246	49 565	33 687
Shareholder's equity			
Capital stock	1 202	1 075	1 075
Current rights issue	3 320	-	-
Additional paid-in capital	182 472	107 083	108 101
Accumulated loss	-82 589	-31 634	-31 634
Net income for the period	-77 737	-32 972	-50 955
Total shareholder's equity	26 668	43 552	26 587
Liabilities			
Accounts payable - trade	12 456	3 137	3 713
Other payables	1 205	649	1 238
Accrued expenses	5 917	2 227	2 149
Total liabilities	19 578	6 013	7 100
Total shareholder's equity and liabilities	46 246	49 565	33 687

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousands	Sept 30 1999	Sept 30 1998	Dec 31 1998
<i>Operating activities</i>			
Net income	-78 778	-34 689	-52 954
Depreciations	424	303	426
Interest received	1 045	1 718	2 008
Interest paid	-4	-1	-9
<i>Cash flow from current operations before change in working capital</i>	-77 313	-32 669	-50 529
<i>Changes in working capital</i>			
Increase in inventories	-8 323	-	-
Increase in receivables	-4 778	-1 442	-1 860
Increase/decrease in current liabilities	12 478	-811	276
Cash flow from current operation	-77 936	-34 922	-52 113
<i>Investment activities</i>			
Acquisition of tangible assets	-698	-1 277	-1 387
Cash flow from investment activity	698	-1 277	-1 387
<i>Financing activities</i>			
Warrant program/capital issue	77 818	172	1 190
Cash flow from financing activities	77 818	172	1 190
Change in liquid assets	-816	-36 027	-52 310
Liquid assets at the beginning of the period	28 412	80 722	80 722
Liquid assets at the end of the period	27 596	44 695	28 412

Stockholm, October 14, 1999

Bengt Olsson
Chief Executive Officer

This interim report has not been inspected by the company's auditors.



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