

## Interim report

The following pages constitute a press release of the figures for For the period 1 January – 30 June 2000 for Net Insight AB.

**For more details, please contact:**

Bengt Olsson, Chief Executive Officer  
Tel: +46 8 685 04 00, Mobil +46 70 544 30 80  
E-mail: [bengt.olsson@netinsight.net](mailto:bengt.olsson@netinsight.net)

Carl-Johan Blomberg, Chief Financial Officer  
Tel: +46 8 685 04 00, Mobil: +46 70 633 67 11  
E- mail: [carl.johan.blomberg@netinsight.net](mailto:carl.johan.blomberg@netinsight.net)

Gunnar Andersson, VP Corporate Communications  
Tel: 08-685 04 35, Mobil: 070-590 14 18  
E-mail: [gunnar.andersson@netinsight.net](mailto:gunnar.andersson@netinsight.net)

**About Net Insight**

Net Insight develops and markets network switches for fiber-optic broadband networks. Net Insights solutions allow operators to offer advanced real-time services such as studio quality video and interactive Internet along with traditional telephony and data services. These services are provided over one single infrastructure in a simple and cost efficient manner. Net Insight employs around 110 people in Sweden and the US. The company is listed on the Stockholm Stock Exchange. For additional information, please visit [www.netinsight.net](http://www.netinsight.net).

## Interim report

*For the period 1 January – 30 June 2000*  
*Net Insight AB (publ), Org. no. 556533-4397*

### Summary

- During the period Net Insight signed three sales agreements
- Twintin real-time chipset launched
- First OEM agreement signed
- The company's operating loss for the period amounted to SEK 96.7 million
- Liquid funds at the end of the period amounted to SEK 260 million
- The company strengthens its board and management team

### MARKET PROSPECTS

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Net Insight's position has been reinforced due to the significantly increased interest from broadband operators in being able to offer advanced services over the Internet. Whereas it was initially just a matter of connection speeds, the focus is now on services and network content. These services require 100% accessibility and absolute real-time characteristics. This is not feasible in the current packet processing networks where accessibility and quality cannot be guaranteed.

Our successes have contributed to exciting developments in our main segments: broadband for households, city networks and media networks. There has been a marked increase of interest in our video solution since its launch in March, and in the autumn this solution will be demonstrated at trade fairs in Sweden, Europe and the USA. The customer base in the broadband-for-households segment has been given a significant boost through our collaboration with Net to Net Technologies in which we can jointly offer a competitive IP solution for ADSL (copper access). Our latest agreement in the city networks segment confirms our strong position as a leading supplier of multi-service and real-time solutions for broadband.

## SIGNIFICANT EVENTS DURING THE PERIOD

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### Products and launches

Using the Net Insight Nimbra One switch and the newly-developed video card, a broadband video conference of perfect studio quality in real-time (270 Mbps) was staged for the first time in January 2000. The unique aspect of this demonstration was the parallel transfer of video, data and telephony. The video conference was transmitted via opto-fibre between the AGM of Svenska Stadsnättsföreningen [*the Swedish city network association*] in Gothenburg and a studio in Stockholm. The launch of the video card took place later in March.

The Twintin chipset was launched concurrently in Sweden and the USA, on 26 April this year. Twintin has been developed in collaboration with Toshiba Electronics and signifies a technology breakthrough with major consequences for users in terms of broadband and the Internet. Twintin's capacity facilitates the transmission of real-time video over the network, i.e. TV on the Internet without intermittent stops and interference. Twintin contains a complete DTM switch, and is thus an extreme example of a product embodying DTM technology. The chipset will now be the motor in the Nimbra 200 series which is on its way onto the market. Twintin will also be sold separately, which will make it easier for other players to get to grips with DTM-related production. Twintin will thus be helping to boost acceptance of DTM technology by the market.

### More sales and customer agreements

Three new customer agreements were signed in April. The first was the strategically important agreement between **RegNet/Norrskan** and a dealer for Net Insight network products, **Fiberdata**. RegNet links together 1.6 million inhabitants in seven counties of mid-Sweden. The agreement led to a decision by Gävle Net in June to use Net Insight's Nimbra One as the backbone of its new city network, a fibre-based broadband network covering the greater part of Gävle urban area.

Also in April, an outline agreement was signed with **Millennium Communication Networks AG (MCN)**, one of Austria's fastest growing network operators, regarding the supply of Nimbra switches for commercial implementations. The first delivery in accordance with the agreement took place at the start of May.

In May, an agreement was signed with **Metrocom**, one of the leading fibre-network operators in St Petersburg, concerning the purchase of Nimbra switches for the Metrocom city network. Initially, the switches will be used in providing telephony and data services for a major bank, but in the long term their use will be extended to include the domestic market among St Petersburg's population of six million people.

### New cooperation agreements

In June an agreement was signed whereby the American company **Allied Telesyn International (ATI)** will be selling Net Insight's DTM-based products for city networks under ATI's own brand name. This agreement with ATI signals the start of Net Insight's strategy of creating global growth via strategic partnerships. The sale of Net Insight products under alternative brand names (OEM sales) opens up an international market involving powerful players with established sales channels and well-developed customer contacts. OEM sales will enable Net Insight to grow internationally in a quick and cost-effective manner.

Yet another step towards a global dealer network was taken in April when Net Insight and **ABB AG** signed a cooperation agreement regarding the sales and implementation of Net Insight network solutions to ABB AG's customers in Austria and eastern Europe.

### **Directed share issue and share split**

A directed share issue for a total of SEK 230 million was carried out in January/February 2000. The share issue was subscribed by Brummer & Partners Zenith hedge fund, the Fourth AP fund, and SPP Kapitalförvaltning.

In accordance with a decision from the AGM, a 5:1 split of the Net Insight B-shares was carried out on 15 May. After the split, there was a total of 38 729 300 shares with a nominal value of SEK 0.04.

### **Organization and Staff**

At the AGM on 26 April, Lars Berg, Bo Dimert and Lage Jonasson were elected as new members of the board. Lars Berg was previously head of telecom activities for Mannesman in Germany and has many years of experience of the telecom industry both as CEO and president for Telia, and as executive vice president for Ericsson. Bo Dimert's most recent post was executive vice president for Ericsson and president and CEO for Ericsson in the USA, having previously held posts in IBM and Digital Equipment. Lage Jonasson is the CEO of Nordiska Fondkommission and has participated in Net Insight's activities from its inception.

In May, Carl-Johan Blomberg was engaged as CFO. He joins Net Insight from Hotellus International AB where he had the position of Senior Vice President and CFO; previously, he was corporate treasurer at Pharmacia & Upjohn. In June, Lars Borgwing was engaged as head of Net Insight US operations based in Boston while Anders Persson was appointed development manager to be based at the offices in Stockholm. Lars Borgwing was previously with Standish Corporation, and his experience prior to that includes 13 years at Skanska. Anders Persson spent many successful years with the Ericsson group, his most recent post being General Manager at Ericsson Radio Access.

The number of employees has increased during the period from 90 to 96.

## **SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD**

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### **Strategic technological cooperation**

In July, Net Insight and **Tality**, an electronics design company in the **Cadence** group, entered into an agreement whereby Tality, a world-leading supplier of design software and services, will be supplying network companies with products based on DTM technology. This cooperation with Tality is in line with the company's strategy of growth via strategic partnerships and is also a boost to Net Insight's own product development.

### **New markets**

Through an OEM agreement with the Japanese **Allied Telesis KK**, Net Insight is now also making a move into the rapidly growing Japanese market. Allied Telesis KK is a global supplier of network equipment and will be distributing Net Insight city network products within Japan. The agreement is in the form of an exclusive contract concerning the Net Insight Nimbra products for the Japanese market. In Japan, Allied Telesis expects that the sales on the Japanese market will exceed SEK 250 million over the next three years. This distributor agreement supplements an earlier OEM agreement between Net Insight and Allied Telesyn International, in which Allied Telesyn uses its global distribution network to sell Net Insight Nimbra products throughout the world.

During the summer, an agreement was also signed with **Net to Net Technologies** regarding cooperation on development and marketing of a joint IP solution for ADSL (copper access to end user). The Net Insight/Net to Net IP solution is complete, simple and cost-effective, while also serving as a future-proof platform for advanced real-time services. For Net Insight, the agreement means a consolidation and broadening of the company's customer base.

## **Sales**

Norrtälje Energy and Ålcom has decided to use Net Insights family of MSPP (Multi Service Provisioning Platform) in a regional network reaching from Åland in the middle of the Baltic Sea, thru the city of Norrtälje and further to Stockholm, the capital of Sweden. The initial order is for eight nodes, and the deal is done via the network integrator Fiberdata of Sweden.

## **FINANCIAL STATUS**

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### **Income and costs**

The company's sales income for the period amounted to SEK 0.5. During the first six months, there has been a continued focus on product development and commercialization of the company's products. In addition, development of an international marketing organization has been prioritized. The parent company's administration expenses include the costs of the new share issue and consultancy costs of a non-recurring nature amounting to SEK 6.2 million. The total costs for the period amounted to SEK 96.9 million, SEK 50.0 million of which were for the second quarter.

### **Investments in fixed assets**

Investments in fixed assets in the period amounted to SEK 0.6 million.

### **Cash positions and funding**

During the period a new share issue was carried out, which, together with options redeemed during the period, provided company with funds to the tune of SEK 260.4 million. Liquid assets in the form of cash and bank balances in the group at the end of the period amounted to SEK 260.1 million.

### **Forthcoming report from Net Insight**

- Interim report January – September 31-10-2000

**CONSOLIDATED INCOME STATEMENT**

| Amount in SEK thousands          | 1 Jan 2000-<br>30 June 2000 | 1 Jan 1999 -<br>30 June 1999 | 1 Jan 1999-<br>31 Dec 1999 |
|----------------------------------|-----------------------------|------------------------------|----------------------------|
| Net Sales                        | 479                         | -                            | 2 715                      |
| Cost of goods sold               | -354                        | -                            | -2 531                     |
| <b>Gross earnings</b>            | 125                         | 0                            | 184                        |
| Marketing expenses               | -25 746                     | -6 660                       | -23 738                    |
| Administration expenses          | -22 274                     | -4 090                       | -16 367                    |
| Development expenses             | -48 844                     | -40 982                      | -74 700                    |
| Other operating revenue          | 0                           | 0                            | 152                        |
| <b>Operating earnings</b>        | <b>-96 739</b>              | <b>-51 732</b>               | <b>-114 469</b>            |
| Other interest income, etc       | 4 737                       | 803                          | 2 064                      |
| Interest expenses                | -485                        | -4                           | -33                        |
| <b>Earnings before tax</b>       | <b>-92 488</b>              | <b>-50 933</b>               | <b>-112 438</b>            |
| Tax                              | -                           | 0                            | -                          |
| <b>Net income for the period</b> | <b>-92 488</b>              | <b>-50 933</b>               | <b>-112 438</b>            |

**CONSOLIDATED BALANCE SHEET**

| Amount in SEK thousand                            | 30 June 2000   | 30 June 1999  | 31 Dec 1999    |
|---|----------------|---------------|----------------|
| <b>Assets</b>                                     |                |               |                |
| Tangible fixed assets                             | 2 122          | 1 681         | 1 846          |
| <b>Total tangible fixed assets</b>                | <b>2 122</b>   | <b>1 681</b>  | <b>1 846</b>   |
| Work in progress                                  | 23 236         | 0             | 15 893         |
| Finished goods                                    | 2 573          | 0             | 3 262          |
| Customer receivables                              | 0              | 0             | 732            |
| Current receivables                               | 21 477         | 2 813         | 5 570          |
| Prepaid expenses                                  | 4 059          | 2 289         | 3 371          |
| Cash and bank balances                            | 260 099        | 57 003        | 125 026        |
| <b>Total current assets</b>                       | <b>311 444</b> | <b>62 105</b> | <b>153 854</b> |
| <b>Total assets</b>                               | <b>313 566</b> | <b>63 786</b> | <b>155 700</b> |
| <b>Shareholders' equity</b>                       |                |               |                |
| Share capital                                     | 1 551          | 1 202         | 1 402          |
| Unregistered share capital                        | 10 728         | 0             | 0              |
| Restricted reserves                               | 372 036        | 182 242       | 326 203        |
| Accumulated loss                                  | 2 871          | -82 589       | -82 589        |
| Net income for the period                         | -92 488        | -50 933       | -112 438       |
| <b>Total shareholders' equity</b>                 | <b>294 698</b> | <b>49 922</b> | <b>132 578</b> |
| <b>Current liabilities</b>                        |                |               |                |
| Accounts payable                                  | 8 224          | 6 380         | 15 971         |
| Other liabilities                                 | 1 293          | 1 289         | 1 816          |
| Accrued expenses                                  | 9 351          | 6 195         | 5 335          |
| <b>Total liabilities</b>                          | <b>18 868</b>  | <b>13 864</b> | <b>23 122</b>  |
| <b>Total liabilities and shareholders' equity</b> | <b>313 566</b> | <b>63 786</b> | <b>155 700</b> |

**CONSOLIDATED CASH FLOW STATEMENT**

| <b>Amount in SEK thousand</b>   | <b>30 June 2000</b> | <b>30 June 1999</b> | <b>31 Dec 1999</b> |
|---|---------------------|---------------------|--------------------|
| <i>Ongoing operations</i>   |                     |                     |                    |
| Operating earnings  | -96 739             | -51 732             | -114 469           |
| Depreciation  | 354                 | 257                 | 620                |
| Other items not affecting liquidity                                       | 138                 | 0                   | -10                |
| Interest received   | 4 139               | 803                 | 1 897              |
| Interest paid   | -26                 | -4                  | -33                |
| <i>Cash flow from ongoing operations before change in working capital</i> | -92 134             | -50 676             | -111 995           |
| <i>Change in working capital</i>  |                     |                     |                    |
| Increase in inventories   | -6 654              | 0                   | -19 155            |
| Increase in receivables   | -15 863             | -1 324              | -5 895             |
| Increase in current liabilities   | -4 254              | 6 764               | 16 022             |
| <b>Cash flow from ongoing operations</b>                                  | <b>-118 905</b>     | <b>-45 236</b>      | <b>-121 023</b>    |
| <i>Investment activity</i>  |                     |                     |                    |
| Acquisitions of tangible fixed assets                                     | -630                | -441                | -969               |
| <b>Cash flow from investment activity</b>                                 | <b>-630</b>         | <b>-441</b>         | <b>-969</b>        |
| <i>Financing activity</i>   |                     |                     |                    |
| Warrants programs/new issues  | 254 608             | 74 268              | 218 606            |
| <b>Cash flow from financing activity</b>                                  | <b>254 608</b>      | <b>74 268</b>       | <b>218 606</b>     |
| Increase/decrease in liquid funds   | 135 073             | 28 591              | 96 614             |
| Liquid funds, opening balance   | 125 026             | 28 412              | 28 412             |
| <b>Liquid funds, closing balance</b>                                      | <b>260 099</b>      | <b>57 003</b>       | <b>125 026</b>     |

**PARENT COMPANY INCOME STATEMENT**

| <b>Amount in SEK thousand</b> | <b>1 Jan 2000-<br/>30 June 2000</b> | <b>1 Jan 1999 -<br/>30 June 1999</b> | <b>1 jan 1999-<br/>31 Dec 1999</b> |
|-------------------------------|-------------------------------------|--------------------------------------|------------------------------------|
| Net sales                     | 479                                 | 0                                    | 2 715                              |
| Cost of goods sold            | -354                                | 0                                    | -2 531                             |
| <b>Gross earnings</b>         | <b>125</b>                          | <b>0</b>                             | <b>184</b>                         |
| Marketing expenses            | -18 092                             | -5 576                               | -18 610                            |
| Administration expenses       | -28 030                             | -3 997                               | -24 502                            |
| Development expenses          | -48 844                             | -40 763                              | -74 700                            |
| Other operating revenue       | 0                                   | 0                                    | 152                                |
| <b>Operating earnings</b>     | <b>-94 841</b>                      | <b>-50 336</b>                       | <b>-117 476</b>                    |
| Other interest income, etc.   | 4 729                               | 799                                  | 2 045                              |
| Interest expenses             | -486                                | -4                                   | -33                                |
| <b>Earnings before tax</b>    | <b>-90 598</b>                      | <b>-49 541</b>                       | <b>-115 464</b>                    |
| Tax                           |                                     |                                      | 0                                  |
| <b>Net earnings</b>           | <b>-90 598</b>                      | <b>-49 541</b>                       | <b>-115 464</b>                    |

**PARENT COMPANY BALANCE SHEET**

| <b>Amount in SEK thousand</b>                     | <b>30 June 2000</b> | <b>30 June 1999</b> | <b>31 Dec 1999</b> |
|---|---------------------|---------------------|--------------------|
| <b>Assets</b>                                     |                     |                     |                    |
| Tangible fixed assets                             | 2 122               | 1 681               | 1 846              |
| Total tangible fixed assets                       | 2 122               | 1 681               | 1 846              |
| Financial fixed assets                            | 500                 | 0                   | 0                  |
| Total financial assets                            | <b>500</b>          | <b>0</b>            | <b>0</b>           |
| Work in progress                                  | 23 236              | 0                   | 15 893             |
| Finished goods                                    | 2 573               | 0                   | 3 262              |
| Customer receivables                              | 0                   | 0                   | 732                |
| Receivables, subsidiaries                         | 12 866              | 2 051               | 5 659              |
| Other receivables                                 | 21 477              | 2 813               | 5 570              |
| Prepaid expenses                                  | 4 059               | 2 289               | 3 277              |
| Cash and bank balances                            | 258 737             | 56 194              | 124 619            |
| Total current assets                              | 322 948             | 63 347              | 159 012            |
| <b>Total assets</b>                               | <b>325 070</b>      | <b>65 028</b>       | <b>160 858</b>     |
| <b>Shareholders' equity</b>                       |                     |                     |                    |
| Share capital                                     | 1 551               | 1 202               | 1 402              |
| Unregistered share capital                        | 10 728              | 0                   | 0                  |
| Share premium reserve                             | 385 936             | 182 242             | 334 515            |
| Accumulated loss                                  | 0                   | -82 589             | -82 589            |
| Net income for the period                         | -90 598             | -49 541             | -115 464           |
| <b>Total shareholders' equity</b>                 | <b>307 617</b>      | <b>51 314</b>       | <b>137 864</b>     |
| <b>Current liabilities</b>                        |                     |                     |                    |
| Accounts payable                                  | 8 224               | 6 380               | 15 971             |
| Other liabilities                                 | 1 293               | 1 289               | 1 816              |
| Accrued expenses                                  | 8 436               | 6 045               | 5 207              |
| <b>Total liabilities</b>                          | <b>17 953</b>       | <b>13 714</b>       | <b>22 994</b>      |
| <b>Total liabilities and shareholders' equity</b> | <b>325 570</b>      | <b>65 028</b>       | <b>160 858</b>     |

**PARENT COMPANY CASH FLOW STATEMENT**

| <b>Amount in SEK thousand</b>   | <b>30 June 2000</b> | <b>30 June 1999</b> | <b>31 Dec 1999</b> |
|---|---------------------|---------------------|--------------------|
| <i>Ongoing operations</i>   |                     |                     |                    |
| Operating earnings  | -94 841             | -50 336             | -117 476           |
| Depreciation  | 354                 | 257                 | 620                |
| Other items not affecting liquidity                                       | 138                 | 0                   | 166                |
| Interest received   | 4 132               | 799                 | 1 879              |
| Interest paid   | -26                 | -4                  | -33                |
| <i>Cash flow from ongoing operations before change in working capital</i> | <b>-90 243</b>      | <b>-49 284</b>      | <b>-114 844</b>    |
| <i>Change in working capital</i>  |                     |                     |                    |
| Increase in inventories   | -6 654              | 0                   | -19 155            |
| Increase in receivables   | -23 164             | -3 375              | -11 460            |
| Increase in current liabilities   | -5 042              | 6 614               | 15 894             |
| <b>Cash flow from ongoing operations</b>                                  | <b>-125 103</b>     | <b>-46 045</b>      | <b>-129 565</b>    |
| <i>Investment activity</i>  |                     |                     |                    |
| Acquisitions of financial fixed assets                                    | -500                |                     |                    |
| Acquisitions of tangible fixed assets                                     | -630                | -441                | -969               |
| <b>Cash flow from investment activity</b>                                 | <b>-1 130</b>       | <b>-441</b>         | <b>-969</b>        |
| <i>Financing activity</i>   |                     |                     |                    |
| Warrants programs/new issues  | 260 351             | 74 268              | 226 741            |
| <b>Cash flow from financing activity</b>                                  | <b>260 351</b>      | <b>74 268</b>       | <b>226 741</b>     |
| Increase in liquid funds  | 134 118             | 27 782              | 96 207             |
| Liquid funds, opening balance   | 124 619             | 28 412              | 28 412             |
| <b>Liquid funds, closing balance</b>                                      | <b>258 737</b>      | <b>56 194</b>       | <b>124 619</b>     |

**Stockholm August 21, 2000**

**Bengt Olsson**  
**Chief Executive Officer**

*This Interim Report has not been inspected by the company's auditors.*