



### **About Net Insight**

*Net Insight develops video and data networking equipment that combines 100% QoS with maximum network utilization and multicast to provide a network with superior efficiency. Our customers benefit from significantly reduced CAPEX and OPEX, which protects and enhances their existing infrastructure investment while providing the ability to launch new TV and video related services. Net Insight is quoted on Stockholm stock exchange's O list and has offices in Sweden and the USA. For more information, visit [www.netinsight.net](http://www.netinsight.net)*

## **INTERIM REPORT**

*for the period January 1 – September 30, 2003  
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Sales for the period reached SEK 22.7 million (21.6)**
- **Operating earnings for the period amounted to SEK –60.2 million (–105.1)**
- **Earnings per share for the period totaled SEK –0.39 million (– 0.75)**

## **SIGNIFICANT EVENTS DURING THIRD QUARTER**

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### **Sales**

In August Net Insight's Dutch reseller Alphatron placed an additional order for equipment to be installed at a customer. The order consists of video transport equipment to further increase network capacity for a major European media operator. Alphatron has been a reseller of Net Insight's professional media solutions since September of last year with an emphasis on European TV broadcasters and cable TV operators.

In September Net Insight received an additional order from Allied Telesyn to supply equipment for the deployment of a European metro network. The order follows that placed by Allied in March this year and includes equipment for ongoing network expansion. During the period, Net Insight also received a minor order from Allied Telesyn for equipment for the build-out of an additional European network.

### **Installations and Technical Verifications**

At the IBC2003 International Broadcasting Convention in September, Net Insight demonstrated its powerful positioning under the recently launched concept of *Video-Empowered Ethernet™* for transport of Video-on-Demand over the same network as hundreds of TV channels and Internet access. The network solution provides maximum capacity utilization with 100% QoS and multicast functionality, making it possible to deliver quality video services without over-provisioning bandwidth capacity. Net Insight also demonstrated its studio quality multicast platform which guarantees full quality of service and provides broadcasters with capabilities for real-time editing and production of news features.

In connection with IBC2003 in Amsterdam, Net Insight launched its new STM1/OC-3 access module for the Nimbra™ platform. The new interface offers professional media customers a complete transport solution for both legacy and demanding new video services. The module also enables broadcasters to interface with the cable networks that currently transport voice and Internet traffic.

## **SIGNIFICANT EVENTS DURING THE PRECEDING PERIOD**

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### **Sales**

In March, Germany's single largest broadcasting company West Deutscher Rundfunk (WDR) ordered a media network solution from Net Insight enabling the transport of video, data and telephony at over 970 Mbps across a 1 Gigabit optical fiber between two central points on its network.

Net Insight has signed a first agreement with the global services supplier SAVVIS Communications Corporation covering both equipment and services. As a result of the agreement, the services previously supplied by Qmedia will now be delivered by SAVVIS.

In June Net Insight received an order worth over SEK 13 million from a new American service provider. With the new network, the service provider will be able to launch new video services for demanding media companies. The network also includes a virtual head-end, making it possible to offer over 100 TV channels and thus dramatically reduce the cost of Triple Play installations.

Also in June, Net Insight received an additional order for video transport network equipment from Dutch reseller Alpatron. The new equipment will be used to increase network capacity and to ensure redundancy in the network for a large European media operator.

### **Collaboration**

At the end of February, Net Insight signed a collaboration agreement with Eriline Engenharia de Telineformática Ltda of Brazil. Eriline will market and sell Net Insight's products in Brazil, Argentina, Peru and Chile.

A reseller agreement has been signed with the Italian system integrator Video Progetti, which will sell Net Insights Net Insight's solutions for Italy's professional media market as well as handling major customer installations and support services.

Net Insight has signed a collaboration agreement with Canada's Broadcast Systems and Equipment Inc. (BSE) to sell professional media network solutions to Canadian TV broadcasters and telecom operators. Initially, the collaboration will focus on focus on testing of the solution with one of Canada's largest TV companies and telecom operators.

### **Installations and Technical Verifications**

At the beginning of the year, the European Telecommunications Standards Institute (ETSI) approved the physical interfaces in DTM (Dynamic synchronous Transfer Mode) that specify the fiber adjustment for capacities from 150 Mbps up to 40 Gbps in order to increase capacity utilization of networks based on DWDM, SDH and regular fiber. The standards have been named ES 201 803-3 and ES 201 803-4, respectively.

Net Insight has launched a new version of its network operating system NimOS 3.0, which improves operator control over the platform. With NimOS 3.0, operators can reduce their operating costs significantly while improving the overall cost-effectiveness of their networks.

Alaska's largest telephone cooperative, Matanuska Telephone Association (MTA), has installed Net Insight's Nimbra™ platform, enabling them to deliver video, data and telephony over the regular telecommunications network via DSL. By the end of 2003, MTA plans to expand the network to 33,000 access lines that will have access to video services via the Nimbra™ platform in the transport network.

Canada's state-owned CBC/Radio Canada has successfully tested the DTM broadband technology for transporting high quality video, radio, IP/Ethernet traffic and IP telephony. The tests were carried out in a network between CBC in Toronto and CBC in Montreal and ran over a combination of black fiber and OC-3 capacity with a Nimbra One in each respective location.

### **New Issue**

In June Net Insight carried out a guaranteed new issue of SEK 39 million with preferential rights for the company's shareholders. The new issue was fully subscribed without the utilization of guarantees. After the new issue, the company's share capital amounted to SEK 7,333,869. The number of class A shares was raised to 3,600,000 and the number of class B shares to 179,746,720.

In addition, for each newly subscribed share the holder was granted an option to subscribe for one class B share during the period from August 15 to November 30, 2003, at a price of SEK 0.85 each. Upon full exercise of the issued options, the company will receive an additional SEK 39 million. To date, options have been exercised for a total of approximately SEK 8 million. The remainder of the issue has been secured through a confirmation by the senior management, the board and a few of the principal owners that they will redeem their options. Furthermore, an external consortium has

furnished guarantees amounting to SEK 24 million in the event that the options are not exercised. The board has decided to utilize the guarantee conditional on the approval of an extraordinary shareholder meeting which is scheduled for the beginning of December 2003.

### **Organization**

In March the Annual General Meeting approved the staff option program Net Insight AB 2003 Stock Option Plan. The plan gives non-tenured employees of Net Insight and its subsidiaries the opportunity to acquire up to 3,875,500 Net Insight AB class B shares. Each staff option gives the holder the right to acquire one B share at a price of SEK 3. Option rights can be used to subscribe for shares during the period from April 15, 2004 to April 15, 2008.

A decision was also made at the Annual General Meeting concerning changes to the corporate bylaws. The changes concern both the company's business objectives (§3), adapting them to the company's actual business activities, and an adjustment of the limits in the corporate bylaws for the company's share capital (§§4 and 5, first paragraph), which by decree will amount to a minimum of SEK 4 million and a maximum of SEK 16 million.

## **MARKET PROSPECTS AND FUTURE OUTLOOK**

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Third quarter sales fell short of expectations. Net Insight's sales during the period totaled SEK 1.9 million, bringing sales for the first nine months of the year to SEK 22.7 million (21.6). The period's sales were mainly attributable to additional orders for the expansion of existing customer installations. The numerous significant bids submitted by Net Insight where customer acceptance was awaited before the end of the third quarter are still under consideration due to delays in the customers' decision-making processes. After the end of the period, Allied Telesyn placed a minor supplementary order for network equipment to be used in the build-out of an American operator's Triple Play network.

Net Insight further intensified its customer and partnering activities during the period. The demo recently installed at the company's offices has been visited by a large number of prospective customers and partners from the USA, South America and Europe. As a result of these reference visits, a major European media customer is now testing the company's media network solution and tests are planned by additional customers during the coming period. The demo, which primarily illustrates the opportunities and advantages offered by the company's *Video-Empowered Ethernet™* solution, also includes equipment from several partners in the Triple Play segment, such as SeaChange, Bitband, Kreatel, Tandberg Television and Minerva Networks. With Net Insight as the backbone of their transport networks, operators and service providers seeking to expand their offering with qualified TV and video services are provided with a complete Triple Play solution.

A similar set-up was demonstrated both at Europe's largest media exhibition IBC2003 in Amsterdam and USTA Telecom03 in Las Vegas where it attracted powerful interest from both new and existing customers. During the period, Net Insight was also invited to speak at various conferences in the USA and Europe to talk about the Triple Play installations which have been deployed by the company and are undergoing continued expansion.

### **Forecast**

Although the third quarter results were weak, the board stands firm on its forecast of establishing an annual sales rate of SEK 100 million during the second half of 2003. The board expects the company to achieve sales of at least SEK 25 million during the third quarter. Close collaboration with a large global systems supplier is important in order for Net Insight to reach the breakeven point during 2004. Discussions with potential partners are in progress.

## EARNINGS TREND

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Net sales for the period reached SEK 22.7 million (21.6). Total expenses amounted to SEK 73.6 million (115.0). The operating loss was SEK –60.2 million (–105.1) and the loss after financial items was SEK –59.5 million (–103.7). Net financial items totaled SEK 0.7 million (1.4).

### Staff

The total number of employees at the end of the period was 64 (98). The American subsidiary had 5 (5) employees.

### Expenses

Net Insight has continued to reduce its costs in accordance with the efficiency and savings program implemented in the past year. As an additional step, the company's employees have accepted a voluntary salary reduction during the period June 2003 – February 2004 with the possibility of compensation when the company achieves its sales goals. This measure corresponds to total cost savings of around SEK 2 million for the nine-month period.

### Liquidity

Liquid funds at the end of the period totaled SEK 36.5 million (89.2). The company's accounts receivable are relatively high and amount to SEK 19 million, due to a few overdue customer payments. However, the company's assessment is that these debts will be redeemed.

### Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). Development costs have been capitalized in the amount of SEK 6.9 million (6.9) during the period. These are reported as intangible fixed assets.

### Parent company

Net sales amounted to SEK 22.7 million (21.6). The loss after financial items was SEK –65.9 million (–122.8). Liquid funds amounted to SEK 35.7 million (87.5). The accumulated tax deficit for business activities in the parent company is estimated at SEK 932.6 million.

## CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months July-Sept 2003	3 Months July-Sept 2002	9 Months Jan-Sept 2003	9 Months Jan-Sept 2002	12 Months Oct 2002-Sept 2003	1 Jan 2002- 31 dec 2002
Net Sales	1 891	2 695	22 688	21 621	34 728	33 661
Cost of goods sold	-1 076	-1 153	-9 230	-11 657	-14 879	-17 306
<b>Gross earnings</b>	<b>815</b>	<b>1 542</b>	<b>13 458</b>	<b>9 964</b>	<b>19 849</b>	<b>16 355</b>
Marketing expenses	-11 709	-12 190	-35 521	-39 731	-49 869	-54 079
Administration expenses	-4 286	-6 583	-14 929	-20 963	-19 619	-25 653
Development expenses	-7 916	-14 878	-23 166	-41 377	-29 236	-47 447
Restructuring expenses	0	-12 969	0	-12 969	0	-12 969
<b>Operating earnings</b>	<b>-23 096</b>	<b>-45 078</b>	<b>-60 158</b>	<b>-105 076</b>	<b>-78 875</b>	<b>-123 793</b>
Net financial items	266	1 074	663	1 362	1 323	2 022
<b>Earnings before tax</b>	<b>-22 830</b>	<b>-44 004</b>	<b>-59 495</b>	<b>-103 714</b>	<b>-77 552</b>	<b>-121 771</b>
Tax	0	0	0	0	0	0
<b>Net Income for the period</b>	<b>-22 830</b>	<b>-44 004</b>	<b>-59 495</b>	<b>-103 714</b>	<b>-77 552</b>	<b>-121 771</b>

<b>Earnings per share</b>	-0,15	-0,32	-0,39	-0,75	-0,51	-0,89
<b>Number of shares</b>	152 788 933	137 510 040	152 788 933	137 510 040	152 788 933	137 510 040

## CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	30 September 2003	30 September 2002	31 December 2002
<b>Assets</b>			
<b>Intangible fixed assets</b>			
Capitalized expenditure for development	14 307	6 887	11 740
<b>Tangible fixed assets</b>			
Equipment	767	1 373	1 170
<b>Total tangible fixed assets</b>	<b>15 074</b>	<b>8 260</b>	<b>12 910</b>
<b>Current assets</b>			
Inventory	25 127	28 107	24 272
Customer receivables	18 965	11 188	16 527
Other receivables	6 305	14 132	11 620
Cash and bank balances	36 545	89 168	60 180
<b>Total current assets</b>	<b>86 942</b>	<b>142 595</b>	<b>112 599</b>
<b>Total assets</b>	<b>102 016</b>	<b>150 855</b>	<b>125 509</b>
<b>SHAREHOLDERS' EQUITY AND LIABLES</b>			
<b>Shareholders' equity</b>			
<b>Restricted shareholders' equity</b>			
Share capital	7 334	5 500	5 500
Non-registered shares	296	0	0
Restricted reserves	134 377	216 385	216 380
			0
Accumulated deficit	-59 495	-103 714	-121 771
<b>Total shareholders' equity</b>	<b>82 512</b>	<b>118 171</b>	<b>100 109</b>
<b>Current liabilities</b>			
Accounts payable	7 988	6 559	7 644
Other liabilities	11 516	26 125	17 756
<b>Total liabilities</b>	<b>19 504</b>	<b>32 684</b>	<b>25 400</b>
<b>Total liabilities and equity</b>	<b>102 016</b>	<b>150 855</b>	<b>125 509</b>
<b>Pledged assets:</b>		None	None
<b>Contingent liabilities:</b>	1	5 000	None

## CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	30 Sept 2003 9 months	30 Sept 2002 9 months	30 Sept 2003 12 months	31 Dec 2002 12 months
<i>Ongoing operations</i>				
Operating earnings	-60 158	-105 076	-78 875	-123 793
Depreciation	4 689	1 873	5 791	2 975
Other items not affecting liquidity	-109	-208	-114	-214
Net financial items	663	1 362	1 323	2 022
<i>Cash flow ongoing operations before change in working capital</i>	-54 915	-102 049	-71 875	-119 010
<i>Change in working capital</i>				
Decrease in inventories	-855	6 311	2 980	10 146
Increase in receivables	2 877	-3 441	50	-6 268
Decrease in current liabilities	-5 896	748	-13 180	-6 535
Cash flow from ongoing operations	-58 789	-98 431	-82 025	-121 667
<i>Investment activity</i>				
Aquisition of intangible fixed assets	-6 855	-8 151	-12 607	-13 903
Acquisitions of tangible fixed assets	0	-4	0	-4
	2	0	2	0
Cash flow from investment activity	-6 855	-8 155	-12 607	-13 907
<i>Financing activity</i>				
New share issue	42 007	148 713	42 007	148 713
Cash flow from financing activity	42 007	148 713	42 007	148 713
Increase/decrease in liquid funds	-23 635	42 127	-52 623	13 139
Liquid funds, opening balance	60 180	47 041	89 168	47 041
Liquid funds, closing balance	36 545	89 168	36 545	60 180

## CHANGES IN GROUP SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Net earnings	Total shareholders' equity
Opening balance	5 500	216 380	-121 771	100 109
Relocation of net earnings		-121 771	121 771	0
New share issue previous period	1 834	35 326		37 160
Shares being registered	296	4 551		4 847
Translation difference for the period		-109		-109
Net earnings			-59 495	-59 495
Closing balance	7 630	134 377	-59 495	82 512

This interim report was compiled on the same accounting principles and calculation bases as for the year 2002. This interim report has not been examined by the company's auditors.

### Next report from Net Insight

Year-end report for 2003, February 10, 2004

### Additional information – nomination work

In consultation with the company's principal owners, board chairman Lars Berg has started the nomination process in preparation for the Annual General Meeting for 2004. Any proposals regarding the composition of the board can be sent to Lars Berg, Net Insight AB, Box 42093, SE-126 14 Stockholm.

Stockholm, October 27, 2003

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