



About Net Insight

Net Insight develops data and video 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 protect and enhance 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 United States. For more information, please see www.netinsight.net

INTERIM REPORT

For 1 January – 31 March 2004

Net Insight AB (publ), corporate ID no. 556533-4397

- **Sales for the period amounted to SEK 13.1 million (3.6)**
- **Result after taxes for the period amounted to SEK –19.5 million (–22.5)**
- **Earnings per share for the period amounted to SEK –0.08 (–0.16)**
- **The acquisition of Q2 Labs AB strengthens Net Insight's competitiveness within Triple Play and the professional media industry**
- **Constellation Ventures signs subscription agreement regarding investment of SEK 65 million and becomes the largest shareholder of Net Insight**

SIGNIFICANT EVENTS DURING THE QUARTER

Sales

A great part of the significant order from WDR that was received in December 2003 was delivered during the first quarter. Net Insight also received a smaller additional order from Allied Telesyn. The order refers to network equipment to Matanuska Telephone Association (MTA), the largest telephone cooperative of Alaska and to Vernon Telephone Cooperative that will use the equipment for Triple Play to an increased number of households.

The orders received in December last year from EBU, WDR and Broadwing have resulted in an increased interest in Net Insight's solutions from the professional media industry.

Installations and Technical Verifications

EBU, European Broadcasting Union, ordered network equipment from Net Insight in December 2003. The network will connect the EBU members, which are some of the largest TV companies in Europe. Successful installations were completed in April at the EBU headquarters in Geneva as well as in Rome and Washington DC including the first Trans-Atlantic connection. The remaining TV companies in this first phase that includes nine cities will be connected during April and May.

Installations are going on within the project with Westdeutscher Rundfunk, WDR. WDR ordered a regional media network based on Net Insight's equipment in December 2003. The network will be one of the largest private media networks in Europe and carry all WDR's broadcast TV, data and telephony traffic between 14 cities.

During the first quarter, installations have been made at the American telecommunications operator Broadwing, ordering equipment in December 2003. The network was launched in connection to the media show in Las Vegas in April.

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Acquisitions and new share issues

An agreement was announced to acquire privately held Q2 Labs AB, founded in 2003 by a team comprised of former Qeyton Systems engineers (acquired by Cisco in 2000) and Cisco Photonics Sweden. Under the terms of the agreement, 2,500,000 Net Insight shares of series B are exchanged for all outstanding shares of Q2 Labs (approx. 1 percent dilution in Net Insight). Q2 Labs brings not only developed components but also unique know-how in cost-effective product architecture and design. By adding new features and introducing new products Net Insight's competitive leading edge in Triple Play and PMI transport will be strengthened further.

US-based Constellation Ventures has signed a subscription agreement regarding an investment of SEK 65 million and including a board position in Net Insight. Constellation Ventures represents an investor with a powerful network towards the media industry and will be instrumental in driving the development of Net Insight's business in the global media industry. For Net Insight there are several obvious synergy potentials with several of the portfolio companies and also with the investors of Constellation Ventures. Constellation Ventures will identify and introduce key accounts to Net Insight, work closely with Net Insight sales and management and assist in the business development process as Net Insight secures and deepens strategic partnerships.

Annual general meeting

At the Annual general meeting on March 22, 2004 the following were re-elected: Chairman Lars Berg and board members Bernt Magnusson, Bo Dimert, Lage Jonason, Raimo Lindgren and Tomas Torlöf. Birgitta Stymne Göransson was elected new board member.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Organization

On April 5, Steven East was hired as Global Sales Manager. Steven has over 17 years of worldwide sales management experience from Great Britain, Europe and the US. Most recently, Steven was Vice President International Carrier Division for Broadwing Communications Inc. Additionally Steven has 10 years experience at Nortel Networks, where he focused on the cable and telephony markets. Steven is based at Net Insight's office in the US.

Extraordinary general meeting

At the extraordinary general meeting on April 13 2004, the board's decision from March 14 2004 regarding an issue of maximum 2,500,000 new shares of series B, was approved. The right to subscribe to the new shares was only for the shareholders of Q2 Labs AB, with the right and the duty to pay for the new shares through a transfer of shares in Q2 Labs AB. Due to the approval of the extraordinary general meeting, all terms for closing the deal have been fulfilled and the final acquisition of the company took place on April 15.

Furthermore, it was decided to approve the board's decision from March 19 2004 regarding a directed share issue to four units within Constellation Ventures II Group of (i) maximum 31,000,000 new shares of series B and (ii) debentures with a nominal value of SEK 1,000 in aggregate 9,790,000 detachable warrants to subscribe for new shares of series B. Subscription and payments for the new shares of SEK 2.10, i.e. a total sum of SEK 65,100,000, and subscription and payments for the debentures of SEK 1,000 took place on April 15, 2004.

Clifford H. Friedman (from Constellation Venture II Group) was elected new board member and will replace Tomas Torlöf who simultaneously announced his resignation from the board.

NAB 2004

Net Insight participated very successfully at the media show NAB 2004, National Association of Broadcasters, in Las Vegas during April 19-22 where approximately 1,200 companies within the professional media industry were exhibiting. Net Insight's booth was very well visited and several meetings were held with leading international media and TV companies. Also, the attention from customers from both Europe and USA has been great. Net Insight's customer EBU, European Broadcasting Union, disposed one part of the booth.

Broadwing

The American telecommunications operator Broadwing has launched its digital media network in connection to NAB2004 based on equipment from Net Insight ordered in December 2003. It is a five-city coast to coast network in the US that will be used for qualified TV and video transport.

MARKET PROSPECTS AND FUTURE OUTLOOK

Sales of the first quarter amounted to SEK 13.1 million, which is a significant increase compared to the same period last year. The Company believes in increased sales compared to 2003 since the market is expected to improve gradually so that a break-even level can be reached towards the end of the year. Within the professional media industry the Company has noticed increased interest in making investments. On the Triple Play market the number of installations are expected to increase during the year to reach a significant breakthrough and greater volumes during 2005.

EARNING TRENDS

Net sales amounted to a total of SEK 13.1 million (3.6) for the period. The total costs amounted in total to SEK 26.8 million (25.2). The operating loss amounted to SEK -19.9 million (-22.8) and the loss after financial items amounted to SEK -19.5 million (-22.5). The financial net amounted to SEK 0.4 million (0.3).

Staff

The total number of employees at the end of the period was 64 (68). The American subsidiary had 5 (5) employees.

Liquidity

The liquid funds at the end of the period amounted to SEK 65.1 million (38.4) which does not include the investment made by Constellation Ventures which was paid on April 15.

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). SEK 2.5 (1.5) million have of the Company's research and development expenses have been capitalized during the period. These have been accounted for as intangible fixed assets.

Parent company

The parent company's net turnover was SEK 13.1 million (3.6). The deficit after financial items amounted to SEK -6.4 million (-23.0). Liquid funds amounted to SEK 63.7 million (37.1). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 913.3 million.

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	January 1, 2004 - March 31, 2004	January 1, 2003- March 31, 2003	1 april 2003- 31 mars 2004	January 1, 2003- December 31, 2003
Net Sales	13,121	3,648	44,089	34,616
Cost of goods sold	-6,160	-1,312	-20,131	-15,283
Gross earnings	6,961	2,336	23,958	19,333
Marketing expenses	-12,144	-12,323	-48,756	-48,935
Administration expenses	-4,488	-5,653	-15,995	-17,160
Development expenses	-10,216	-7,172	-37,562	-34,518
Operating earnings	-19,887	-22,812	-78,355	-81,280
Net financial items	378	302	908	832
Earnings before tax	-19,509	-22,510	-77,447	-80,448
Tax	0	0	0	0
Net Income for the period	-19,509	-22,510	-77,447	-80,448
Earnings per share	-0.08	-0.16	-0.40	-0.49
Earnings per share after dilution	-0.07	-0.16	-0.39	-0.48
Number of shares	256,683,400	137,510,040	256,683,400	256,683,400

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	March 31, 2004	March 31, 2003	Dec 31, 2003
ASSETS				
Fixed assets				
Intangible assets				
Capitalized expenditure for development		15,832	11,980	15,386
Tangible fixed assets				
Equipment		549	966	634
Total fixed assets		16,381	12,946	16,020
Current assets				
Inventory		20,274	26,966	22,345
Customer receivables		18,205	13,766	25,412
Other receivables		8,645	5,905	7,063
Cash and bank balances	1	65,094	38,399	78,244
Total current assets		112,218	85,036	133,064
Total assets		128,599	97,982	149,084
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		10,267	5,500	10,267
Restricted reserves		116,224	94,575	197,477
Accumulated deficit		-19,509	-22,510	-81,053
Total shareholders' equity		106,982	77,565	126,691
Current liabilities				
Accounts payable		9,585	4,760	12,278
Other liabilities		12,032	15,657	10,115
Total liabilities		21,617	20,417	22,393
Total liabilities and equity		128,599	97,982	149,084
Pledged assets:		None	None	None
Contingent liabilities:	1	5,000	None	None

Note 1**Other commitments**

Blocked account	5,000
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CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Note	March 31, 2004 3 months	March 31, 2003 3 months	March 31, 2004 12 months	Dec 31, 2003 12 months
ONGOING OPERATIONS					
Operating earnings		-19,887	-22,812	-78,355	-81,280
Depreciation		2,184	1,455	7,445	6,716
Other items not affecting liquidity		-200	-34	-354	-188
Net financial items		378	302	908	832
Cash flow ongoing operations before change in working capital		-17,525	-21,089	-70,356	-73,920
Change in working capital					
Increase/decrease in inventories		2,069	-2,694	6,691	1,927
Increase in receivables		5,627	8,477	-7,179	-4,328
Increase/decrease in current liabilities		-776	-4,983	1,200	-3,007
Cash flow from ongoing operations		-10,605	-20,289	-69,644	-79,328
INVESTMENT ACTIVITY					
Acquisitions of intangible fixed assets		-2,545	-1,492	-10,883	-9,830
Sale of tangible fixed assets		0	0	3	3
Cash flow from investment activity		-2,545	-1,492	-10,880	-9,827
FINANCING ACTIVITY					
New share issue		0	0	107,219	107,219
Cash flow from financing activity		0	0	107,219	107,219
Increase/decrease in liquid funds		-13,150	-21,781	26,695	18,064
Liquid funds, opening balance		78,244	60,180	38,399	60,180
Liquid funds, closing balance	1	65,094	38,399	65,094	78,244

CHANGES IN GROUP SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Accumulated deficit	Net earnings	Total shareholders' equity
Opening balance	10,267	197,477	-605	-80,448	126,691
Relocation of net earnings		-80,448	0	80,448	0
Translation difference for the period		-200			-200
Net earnings			0	-19,509	-19,509
Closing balance	10,267	116,829	-605	-19,509	106,982

This interim report was compiled on the same accounting principles and calculation bases as for the year 2003. The company's auditors have not examined this interim report.

Next report from Net Insight

Interim report for January – June: 20 August 2004

Stockholm, 23 April 2004

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