

### **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](http://www.netinsight.net)

## **INTERIM REPORT**

*For 1 January – 30 June 2004*

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

- **Sales for the period amounted to SEK 22.1 million (20.8)**
- **Result after taxes for the period amounted to SEK –40.2 million (–36.7) including increased focus on R&D**
- **Earnings per share for the period amounted to SEK –0.15 (–0.2)**
- **The Company continues to maintain a gross margin greater than 60%**
- **Further orders from large key customers in Europe and in the US**
- **Ascent Media Network Services, a Liberty Media Company, will utilize Net Insight's Nimbra™ platform to provide its customers real-time video and data transfers over Broadwing's Media Services Network.**

## **SIGNIFICANT EVENTS DURING THE QUARTER**

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### **Sales**

In May, Net Insight received an additional order from a European media operator regarding network equipment for video and data transport. The network will connect an additional number of European cities.

In June, Net Insight received further orders regarding network equipment from Allied Telesyn. The orders include equipment to Matanuska Telephone Association (MTA), Alaska's largest telephone cooperative and Midwest Tel Net. These orders will expand both operators' Triple Play networks. Allied Telesyn resells Net Insight's equipment and has previously successfully deployed a Triple Play solution at Midwest Tel Net and at Matanuska Telephone Association.

Net Insight received an additional order in June from Broadwing regarding equipment to expand an existing media network to several cities. A Broadwing customer, Ascent Media Network Services (AMNS), will utilize Net Insight's Nimbra™ platform to provide its customers real-time video and data transfers over Broadwing Communications' Media Services Network. AMNS will rely on Net Insight equipment located at AMNS facilities in New York, Minneapolis, Los Angeles and London, as well as the Net Insight equipment installed on the Broadwing network.

Also in June, Net Insight received a further order regarding additional Nimbra nodes from a European customer. The order is an addition to a previous order and regards an expansion of the network to several cities.

Furthermore, Net Insight received an add-on order in June from the German systems integrator Controlware.

### **Installations and Technical Verifications**

The American telecommunications operator Broadwing launched its digital media network in April 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.

The rollout of the media network at Westdeutscher Rundfunk (WDR) has commenced and the installations proceed according to the project plan with five cities already connected. All 14 locations in Nordrhein-Westfalen, which are included in their Regionet, will be connected by October 2004. WDR organized an official launch of their state-of-the-art Regionet in July.

Net Insight has announced the availability of an OC-48/STM-16 module for its Nimbra transport platform. The Nimbra platform powers terrestrial multi-service networks used by broadcasters and by telephone and cable-TV operators to deliver real time video, file transfer, LAN connectivity and voice service all in the same-switched network. The new 2-port module, with a speed of 2.4 gigabit/s per port, will enable broadcasters and operators with a faster network that can be expanded to more locations. Broadcasters and operators can take advantage of non-blocking on-board switching capacity. The new module enables operators and service providers to provide TV, Video on Demand (VOD), Internet, and Telephony over xDSL or fiber to the customers all with guaranteed QoS, and 95% bandwidth efficiency.

### **Research and Development**

In light of the weak demand during the years of 2001-2003, the Board instructed the management to cut the Company's costs. Due to gradually improving market conditions, the Board has now determined that Net Insight is well positioned to invest in the development of new and emerging products. Therefore, the costs within research and development will increase slightly to build the foundation of an improved customer offer, which should result in increased sales and improved results. The acquisition of Q2 Labs, operational within optical networks, was a step towards that direction.

### **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. Tomas Torlöf has left the board.

### **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.

### **Exhibitions and Events**

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 the attention from customers from both Europe and USA was great. Net Insight's customer EBU, European Broadcasting Union, disposed one part of the booth.

Furthermore, on May 18-19 at the EBU Headquarters in Geneva, the WBU-ISOG Broadcasters' meeting was held and hosted by EBU.

Moreover, Net Insight was represented in Alphatron's booth at Broadcast Asia2004, taking place on 15-18 June at Singapore Expo.

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

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Net Insight received an add-on order in July regarding additional Nimbra nodes from a European media operator. The add-on order regards increased capacity in the network.

In August, Net Insight received an add-on order from a European operator regarding additional three nodes. The order was an add-on to a previous order regarding expansion of a media net in several countries in more than 10 cities.

Also in August, Net Insight received an additional order from a European media operator regarding equipment for live distribution of sport events to a cable-TV operator.

Furthermore in August, Net Insight received an order from an American media company.

Net Insight was the senior sponsor of the Broadband & Triple Play Services 2004 in Vienna where among others Rod Olsen, General Manager of Vernon Telephone Cooperative Inc, a Net Insight customer, talked about their successful commercial triple play operations based on Net Insight's solutions.

## **MARKET PROSPECTS AND FUTURE OUTLOOK**

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Sales during the first half of the year amounted to SEK 22.1 million, which is slightly above the corresponding period last year including the breakthrough order from WDR.

In spite of the first half-year's sales being weaker than expected, the Company continues to believe in increased annual sales compared to 2003 as a result of a gradually improving market. The Company is involved in substantial contract negotiations and believes a break-even level can be reached towards the end of the year.

Net Insight will exhibit at the International Broadcasting Convention (IBC) 2004, the world's premier broadcast technology event on September 10-14 in Amsterdam. The show covers all the key areas of the electronic media business including audio, cable, film, Internet, multimedia, production, post production, radio, satellite and transmission. Net Insight will show solutions for Broadcast, DVB-T and Triple Play as well as new products, Nimbra Vision Network Management and Touch screen application for on-demand services.

## EARNING TRENDS

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Net sales amounted to a slightly higher figure than the same period last year. Sales totaled to SEK 22.1 million (20.8) for the period. The total costs amounted in total to SEK 54.9 million (50.2). The increase in costs refers mainly to higher development spending on core products and the acquisition of Q2 Labs. The operating loss amounted to SEK –41.1 million (–37.1) and the loss after financial items amounted to SEK –40.2 million (–36.7). The financial net amounted to SEK 0.9 million (0.4).

### Staff

The total number of employees at the end of the period was 69 (65). The American subsidiary had 5 (5) employees.

### Liquidity

The liquid funds at the end of the period amounted to SEK 106.7 million (47.7). The Company has had good collection supporting the healthy liquidity. To eliminate the risk under one delayed receivable a provision has been made of SEK 2 million in the second quarter.

### Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). SEK 6.3 million (3.9) of the Company's research and development expenses have been capitalized during the period. These have been accounted for as intangible fixed assets.

### Financing activity

During the year the Company has raised 65.1 MSEK in a directed share issue to Constellation Ventures according to the extraordinary general meeting on April 13, 2004.

Furthermore the Company has made a non-cash issue relating to the acquisition of Q2 Labs. The part of this issue that influences the cash flow is insignificant (SEK 84 thousand) and is accounted for under financing activities in the cash flow analysis and consists of Q2 Labs' bank balance on the acquisition date.

### Parent company

The parent company's net turnover was SEK 22.1 million (20.8). The deficit after financial items amounted to SEK –43.4 million (–40.2). Liquid funds amounted to SEK 105.1 million (47.0). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 934 million. There is no accumulated tax deficit in any subsidiary.

## CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months Apr-June 2004	3 Months Apr-June 2003	6 Months Jan-June 2004	6 Months Jan-June 2003	12 Months July 2003-June 2004	1 Jan 2003- 31 Dec 2003
Net Sales	8,995	17,149	22,116	20,797	35,935	34,616
Cost of goods sold	-2,164	-6,341	-8,324	-7,653	-15,954	-15,283
<b>Gross earnings</b>	<b>6,831</b>	<b>10,808</b>	<b>13,792</b>	<b>13,144</b>	<b>19,981</b>	<b>19,333</b>
Marketing expenses	-13,038	-11,489	-25,182	-23,812	-50,305	-48,935
Administration expenses	-4,336	-4,990	-8,824	-10,643	-15,341	-17,160
Development expenses	-10,678	-8,579	-20,894	-15,751	-39,661	-34,518
<b>Operating earnings</b>	<b>-21,221</b>	<b>-14,250</b>	<b>-41,108</b>	<b>-37,062</b>	<b>-85,326</b>	<b>-81,280</b>
Net financial items	538	95	916	397	1,351	832
<b>Earnings before tax</b>	<b>-20,683</b>	<b>-14,155</b>	<b>-40,192</b>	<b>-36,665</b>	<b>-83,975</b>	<b>-80,448</b>
Tax	0	0	0	0	0	0
<b>Net Income for the period</b>	<b>-20,683</b>	<b>-14,155</b>	<b>-40,192</b>	<b>-36,665</b>	<b>-83,975</b>	<b>-80,448</b>

<b>Earnings per share</b>	-0.07	-0.08	-0.15	-0.20	-0.37	-0.49
<b>Number of shares</b>	290,183,400	183,346,720	290,183,400	183,346,720	290,183,400	256,683,400

## CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	June 30, 2004	June 30, 2003	Dec 31, 2003
<b>ASSETS</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Capitalized expenditure for development		17,155	13,007	15,386
Goodwill		4,355	0	0
<b>Tangible fixed assets</b>				
Equipment		1,004	763	634
<b>Total fixed assets</b>		<b>22,514</b>	<b>13,770</b>	<b>16,020</b>
<b>Current assets</b>				
Inventory		23,854	24,600	22,345
Customer receivables		13,803	23,386	25,412
Other receivables		8,025	12,033	7,063
Cash and bank balances	1	106,657	47,840	78,244
<b>Total current assets</b>		<b>152,339</b>	<b>107,859</b>	<b>133,064</b>
<b>Total assets</b>		<b>174,853</b>	<b>121,629</b>	<b>149,084</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
<b>Restricted shareholders' equity</b>				
Share capital		11,607	5,500	9,167
Non-registered shares		0	1,834	1,100
Restricted reserves		184,172	129,829	197,477
Accumulated deficit		-40,192	-36,665	-81,053
<b>Total shareholders' equity</b>		<b>155,587</b>	<b>100,498</b>	<b>126,691</b>
<b>Current liabilities</b>				
Accounts payable		6,672	8,514	12,278
Other liabilities		12,594	12,617	10,115
<b>Total liabilities</b>		<b>19,266</b>	<b>21,131</b>	<b>22,393</b>
<b>Total liabilities and equity</b>		<b>174,853</b>	<b>121,629</b>	<b>149,084</b>
<b>Pledged assets:</b>		None	None	None
<b>Contingent liabilities:</b>	1	5,960	5,802	5,000
<b>Note 1</b>				
<b>Other commitments</b>				
Blocked account		5,960	5,802	5,000

## CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Note	June 30, 2004 6 months	June 30, 2003 6 months	June 30, 2004 12 months	Dec 31, 2003 12 months
<b>ONGOING OPERATIONS</b>					
Operating earnings		-41,108	-37,062	-85,326	-81,280
Depreciation		4,692	3,074	8,335	6,716
Other items not affecting liquidity		-7	-106	-89	-188
Net financial items		916	397	1,351	832
<b>Cash flow ongoing operations before change in working capital</b>		<b>-35,507</b>	<b>-33,697</b>	<b>-75,729</b>	<b>-73,920</b>
<b>Change in working capital</b>					
Increase in inventories		-1,509	-328	746	1,927
Increase/decrease in receivables		10,711	-7,272	13,655	-4,328
Decrease in current liabilities		-3,211	-4,269	-1,949	-3,007
<b>Cash flow from ongoing operations</b>		<b>-29,516</b>	<b>-45,566</b>	<b>-63,277</b>	<b>-79,328</b>
<b>INVESTMENT ACTIVITY</b>					
Acquisitions of intangible fixed assets		-6,250	-3,934	-12,143	-9,830
Sale of tangible fixed assets		0	0	0	3
<b>Cash flow from investment activity</b>		<b>-6,250</b>	<b>-3,934</b>	<b>-12,143</b>	<b>-9,827</b>
<b>FINANCING ACTIVITY</b>					
New share issue		64,095	37,160	134,153	107,219
Purchase of subsidiary through non-cash issue		84	0	84	0
<b>Cash flow from financing activity</b>		<b>64,179</b>	<b>37,160</b>	<b>134,237</b>	<b>107,219</b>
Increase/decrease in liquid funds		28,413	-12,340	58,817	18,064
Liquid funds, opening balance		78,244	60,180	47,840	60,180
<b>Liquid funds, closing balance</b>	<b>1</b>	<b>106,657</b>	<b>47,840</b>	<b>106,657</b>	<b>78,244</b>

## 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
New issue	1,240	62,855	0		64,095
	100	4,900	0		5,000
Translation difference for the period	0	-7	0		-7
<b>Net earnings</b>				<b>-40,192</b>	<b>-40,192</b>
<b>Closing balance</b>	<b>11,607</b>	<b>184,777</b>	<b>-605</b>	<b>-40,192</b>	<b>155,587</b>

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 – September: 27 October 2004

Stockholm, 20 August 2004

Tomas Duffy, CEO Net Insight AB

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