



### **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 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 USA. For more information, see [www.netinsight.net](http://www.netinsight.net)*

## **INTERIM REPORT**

*For 1 January – 30 June 2003*

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

- **Sales for the period amounted to SEK 20.8 million (18.9)**
- **Operating earnings for the period amounted to SEK -37.1 million (-60.1)**
- **Earnings per share for the period amounted to SEK -0.20**
- **New issue of SEK 39 million subscribed in full without utilizing guarantees**
- **Net Insight receives SEK 13 million in orders on American media network**

## **SIGNIFICANT EVENTS DURING SECOND QUARTER**

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### **Sales**

In June Net Insight received an order worth SEK 13 million from an American service provider. The equipment will be used to transport high quality media traffic such as studio-quality video, data and telephony over a global IP-based network. 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.

In June Net Insight received an additional order for video transport network equipment from Benelux 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. Alpatron has been a reseller of Net Insight's professional media solutions since September of last year with an emphasis on European TV companies and cable TV operators.

### **Collaboration**

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 companies and telecommunications operators. BSE will integrate Net Insight's Nimbra™ platform with IP-based intercom equipment from Mercury for transporting uncompressed video, digital radio, IP/Ethernet traffic and telephony over a single platform. The collaboration will initially focus on testing the solution with one of Canada's largest TV companies and telecommunications operators.

There continues to be positive development in the collaboration between Net Insight and Allied Telesyn International (ATI) for joint marketing and sales of the North American Triple Play market. Although the anticipated business volume of SEK 4 million that was promised in April still has not come in, it is estimated that orders of the same magnitude will be placed during the second half of 2003.

### **Installations and Technical Verifications**

Net Insight has launched a new version of its network operating system NimOS 3.0, which improves operator control over the platform. The new system includes several new functions for automated network installation that reduce the work entailed in introducing new nodes. With

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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. MTA can thus offer digital TV and other digital services such as pay per view via the same line as telephony and Internet access. 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 took place in a network between CBC in Toronto and CBC in Montreal and ran over a combination of dark fiber and OC-3 capacity with a Nimbra One in each respective location. Net Insight's Canadian partner, BSE, supplied the solution and the additional equipment that was used in the tests.

### **New Issue**

June saw a guaranteed new issue of SEK 39 million with preference for all of Net Insight's shareholders. The new issue was subscribed in full without utilizing guarantees. The new issue increased the number of B-series shares by 45,836,680. Following the new issue, the share capital amounts to SEK 7,333, 869 and there are 3,600,000 A-series shares and 179,746,720 B-series shares.

In addition, for each newly subscribed share, the holder receives an option right that entitles to a new subscription of a new B-series share during the period between 15 August and 30 November at a price of SEK 0.85. If the newly issued option rights are fully exercised, the company will receive an addition SEK 39 million.

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

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### **Sales**

In March the German TV company West Deutscher Rundfunk (WDR) ordered a media network solution from Net Insight to transport video, data and telephony at over 970 Mbps over a 1 Gigabit optical fiber between two central points on their network. WDR is Germany's single largest broadcaster and is part of the ARD Group – the German equivalent of Sweden's SVT.

Net Insight has signed an agreement with the global services supplier SAVVIS Communications Corporation covering both equipment and services. The agreement also means that the services that were previously supplied by Qmedia based on Net Insight's products will now be provided by SAVVIS.

### **Collaboration**

At the end of February, Net Insight signed a collaboration agreement with Brazil's Eriline Engenharia de Telinformática Ltda. Eriline, a leading supplier of equipment and services on the South American telecommunications market, will market and sell Net Insight's products in Brazil, Argentina, Peru and Chile.

A reseller agreement has been signed with system integrator Video Progetti which will market and sell Net Insight's solutions for the professional media market in Italy as well as being responsible for larger customer installations and support services.

### **Installations and Technical Verifications**

Net Insight's technology has continued to gain respect from the European Telecommunications Standardization Institute (ETSI). At the beginning of the year, approval was granted for the physical interfaces in DTM (Dynamic synchronous Transfer Mode) that specify the adjustment for fibers for capacities from 150 Mbps up to 40 Gbps to increase the degree of utilization for networks based

on DWDM, SDH and regular fiber. The standards are designated ES 201 803-3 and ES 201 803-4 respectively.

### **Organization**

In March the 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 B shares. Each staff option gives the holder the opportunity to acquire one B share at a price of SEK 3. Option rights can be used to subscribe to shares between 15 April 2004 and 15 April 2008.

A decision was also made at the General Meeting concerning changes to the corporate bylaws. The changes concern both the company's business objectives (§3), adjusting 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.

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

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### **Net Insight receives third customer order for network equipment from Alpatron**

In August Net Insight's Benelux reseller Alpatron ordered addition equipment for customer installation. The additional order includes video equipment to further improve a major European media operator's network capacity.

## **MARKET PROSPECTS AND FUTURE OUTLOOK**

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Sales for the second quarter amounted to SEK 17.1 million which was a significant improvement over first quarter sales. Net Insight's sales totaled SEK 20.8 million (18.9) during the first half of 2003. The growth stems primarily from increased activity in the professional media sector which is once again investing in new equipment. Net Insight recently presented its single largest order to date for SEK 13 million to expand a new American media network for high quality video traffic. There is also increased activity on the European media market, which is expanding its fiber networks as a qualitative and cost effective alternative to satellite transmission.

During the period Net Insight submitted a number of bids as part of ongoing purchases of a significant nature. Customers include both the professional media sector and operators who need for efficient Triple Play solutions. Negotiations will be settled during the fall and a supplier chosen to commence installations before the end of year. The tests and evaluations of Net Insight's platform that have been done, cf. the recently published successful results of CBC/Radio-Canada's tests, are an important step in the decision making process. A more widespread demo has also been installed in the company's own offices for detailed tests with a number of American, South American and European clients. The order value of the outstanding bids and purchases is increasing which will affect Net Insight's quarterly sales.

Based on a large number of bids and a number of potential concrete deals, the board stands firm with the forecast it made of establishing an annual sales rate of SEK 100 million during the second half of 2003 and reaching the break even point during 2004. This depends on the company establishing a close collaboration with a large global system supplier that can offer the market presence and distribution capacity required in order to be able to supply system solutions on a worldwide basis. The company has continued its intensive work to find such a partner and previously initiated discussions have progressed positively during the period.

## **EARNING TRENDS**

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Net sales amounted to a total of SEK 20.8 million (18.9) for the period. The total costs amounted in total to SEK 50.2 million (68.4). The operating loss amounted to SEK -37.1 million (-60.1) and

the loss after financial items amounted to SEK -36.7 million (-59.8). The financial net amounted to SEK 0.4 million (0.3).

### **Staff**

The total number of employees at the end of the period was 65 (97). The American subsidiary had 5 (5) employees.

### **Expenses**

Net Insight has continued to reduce its costs in accordance with the measures to increase efficiency and savings that were implemented during the last year. As additional measures, the company's employees have accepted a voluntary reduction in their salaries during the period from June 2003 to February 2004 with the possibility of compensation when the company achieves its sales goals. The measure corresponds to a total cost savings of about SEK 2 million for these nine months.

### **Liquidity**

The liquid funds at the end of the year amounted to SEK 47.7 million (18.0). In addition to this there is SEK 6.0 million (110.0), which constitutes final payment in connection with the completed new issue and which is reported under other short-term claims. The final payment is settled in July.

### **Investments**

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0.4). Development costs have been activated in the amount of SEK 3.9 million (5.3) during the period. These are recorded as immaterial fixed assets.

### **Parent company**

Net sales amounted to SEK 20.8 million (18.9). The deficit after financial items amounted to SEK -40.2 million (-68.4). Liquid funds amounted to SEK 47.0 million (16.1). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 876.1 million.

## CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months Apr-June 2003	3 Months Apr-June 2002	6 Months Jan-June 2003	6 Months Jan-June 2002	12 Months July 2002-June 2003	1 Jan 2002- 31 Dec 2002
Net Sales	17 149	11 869	20 797	18 926	35 532	33 661
Cost of goods sold	-6 341	-7 139	-7 653	-10 504	-14 455	-17 306
<b>Gross earnings</b>	<b>10 808</b>	<b>4 730</b>	<b>13 144</b>	<b>8 422</b>	<b>21 077</b>	<b>16 355</b>
Marketing expenses	-11 489	-14 868	-23 812	-27 604	-50 287	-54 079
Administration expenses	-4 990	-6 440	-10 643	-14 367	-21 929	-25 653
Development expenses	-8 579	-14 021	-15 751	-26 522	-36 676	-47 447
Restructuring expenses	0	0	0	0	-12 969	-12 969
<b>Operating earnings</b>	<b>-14 250</b>	<b>-30 599</b>	<b>-37 062</b>	<b>-60 071</b>	<b>-100 784</b>	<b>-123 793</b>
Net financial items	95	171	397	288	2 131	2 022
<b>Earnings before tax</b>	<b>-14 155</b>	<b>-30 428</b>	<b>-36 665</b>	<b>-59 783</b>	<b>-98 653</b>	<b>-121 771</b>
Tax	0	0	0	0	0	0
<b>Net Income for the period</b>	<b>-14 155</b>	<b>-30 428</b>	<b>-36 665</b>	<b>-59 783</b>	<b>-98 653</b>	<b>-121 771</b>
<b>Earnings per share</b>	<b>-0,08</b>	<b>-0,22</b>	<b>-0,20</b>	<b>-0,43</b>	<b>-0,54</b>	<b>-0,89</b>
<b>Number of shares</b>	<b>183 346 720</b>	<b>137 510 039</b>	<b>183 346 720</b>	<b>137 510 040</b>	<b>183 346 720</b>	<b>137 510 040</b>

## CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	June 30, 2003	June 30, 2002	December 31, 2002
<b>ASSETS</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Capitalized expenditure for development		13 007	5 259	11 740
<b>Tangible fixed assets</b>				
Equipment		763	1 576	1 170
<b>Total fixed assets</b>		<b>13 770</b>	<b>6 835</b>	<b>12 910</b>
<b>Current assets</b>				
Inventory		24 600	26 204	24 272
Customer receivables		23 386	18 549	16 527
Other receivables		12 033	123 456	11 620
Cash and bank balances	1	47 840	18 025	60 180
<b>Total current assets</b>		<b>107 859</b>	<b>186 234</b>	<b>112 599</b>
<b>Total assets</b>		<b>121 629</b>	<b>193 069</b>	<b>125 509</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
<b>Restricted shareholders' equity</b>				
Share capital		5 500	2 750	5 500
Non-registered shares		1 834	2 750	0
Restricted reserves		129 829	224 870	216 380
Accumulated deficit		-36 665	-59 783	-121 771
<b>Total shareholders' equity</b>		<b>100 498</b>	<b>170 587</b>	<b>100 109</b>
<b>Current liabilities</b>				
Accounts payable		8 514	7 469	7 644
Other liabilities		12 617	15 013	17 756
<b>Total liabilities</b>		<b>21 131</b>	<b>22 482</b>	<b>25 400</b>
<b>Total liabilities and equity</b>		<b>121 629</b>	<b>193 069</b>	<b>125 509</b>
<b>Pledged assets:</b>		None	None	None
<b>Contingent liabilities:</b>	1	5 802	None	None
<b>Note 1</b>				
<b>Other commitments</b>				
Blocked account		5 802		

**CONSOLIDATED CASH FLOW STATEMENT**

Amount in SEK thousand	Note	June 30, 2003	June 30, 2002	June 30, 2003	December 31, 2002
		6 months	6 months	12 months	12 months
<b>ONGOING OPERATIONS</b>					
Operating earnings		-37 062	-60 071	-100 784	-123 793
Depreciation		3 074	406	5 642	2 975
Other items not affecting liquidity		-106	-193	-127	-214
Net financial items		397	288	2 131	2 022
<b>Cash flow ongoing operations before change in working capital</b>		<b>-33 697</b>	<b>-59 570</b>	<b>-93 138</b>	<b>-119 010</b>
<b>Change in working capital</b>					
Increase/decrease in inventories		-328	8 214	1 604	10 146
Increase in receivables		-7 272	-120 126	106 586	-6 268
Increase/decrease in current liabilities		-4 269	-9 453	-1 351	-6 535
<b>Cash flow from ongoing operations</b>		<b>-45 566</b>	<b>-180 935</b>	<b>13 701</b>	<b>-121 667</b>
<b>INVESTMENT ACTIVITY</b>					
Acquisitions of tangible fixed assets		0	-4	0	-4
Acquisitions of intangible fixed assets		-3 934	-5 259	-12 578	-13 903
<b>Cash flow from investment activity</b>		<b>-3 934</b>	<b>-5 263</b>	<b>-12 578</b>	<b>-13 907</b>
<b>FINANCING ACTIVITY</b>					
New share issue		37 160	157 182	28 692	148 713
<b>Cash flow from financing activity</b>		<b>37 160</b>	<b>157 182</b>	<b>28 692</b>	<b>148 713</b>
Increase/decrease in liquid funds		-12 340	-29 016	29 815	13 139
Liquid funds, opening balance		60 180	47 041	18 025	47 041
<b>Liquid funds, closing balance</b>	<b>1</b>	<b>47 840</b>	<b>18 025</b>	<b>47 840</b>	<b>60 180</b>

**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
Shares being registered	1 834	35 326		37 160
Translation difference for the period		-106		-106
Net earnings			-36 665	-36 665
Closing balance	7 334	129 829	-36 665	100 498

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

**Next report from Net Insight**

Interim report for January – September, 27 October 2003

Stockholm, 15 August 2003

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