



### **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 March 2003*

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

- **Germany's largest TV company, WDR, is building a media network**
- **SAVVIS Communications Corporation buys equipment and services**
- **Collaboration agreements with South American Eriline and Italian Video Progetti**
- **Quarterly sales amounted to SEK 3.6 million (7.1)**
- **Operating earnings for the period amounted to SEK –22.8 million (–29.5)**
- **Forecast: the Board expects Net Insight to establish annual turnover of SEK 100 million during the second half of 2003**

## **SIGNIFICANT EVENTS DURING THE QUARTER**

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### **Sales**

In March, the German TV company West Deutscher Rundfunk (WDR) ordered a media network solution from Net Insight. WDR is Germany's single largest TV station and is part of the ARD Group. With its new media network, WDR will transport video, data and telephony at over 970 Mbps over a 1 Gigabit optical fiber between two central points on the network. A similar solution has already been delivered to ARD company Bayerischer Rundfunk and more deals are expected with German TV companies in the coming year.

Net Insight has signed an agreement with the global service provider SAVVIS Communications Corporation covering both equipment and services. SAVVIS is a well-established supplier with a very good reputation for its quality of service amongst discerning, global business customers.

### **Collaboration**

At the end of February, Net Insight signed a collaboration agreement with Eriline Engenharia de Telinformática Ltda. Eriline, a 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. With its comprehensive network of service partners, Eriline will also be responsible for larger network installations and offer integration and support services. With the new distribution agreement with Eriline, Sterling do Brasil is no longer working as a sales agent for Net Insight.

A reseller agreement has been signed with the Italian systems integrator Video Progetti. Video Progetti will market and sell Net Insight's solutions for the professional media market as well as being responsible for larger customer installations and support services. Video Progetti has a well-established network of contacts on the Italian media market and, in addition to Net Insight, represents renowned companies like Chyron, Miranda, SGI and Pro-Bel.

### **Installations and Technical Verifications**

At the beginning of January, the European standardizing body ETSI approved the physical interfaces in DTM (Dynamic synchronous Transfer Mode) that specify the adjustment for fibers for

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capacities from 150 Mbps up to 40 Gbps and that enable a substantially higher degree of utilization for networks based on DWDM, SDH and regular fiber. The standards are called ES 201 803-3 and ES 201 803-4 respectively.

### **Organization**

At the General Meeting on 20 March 2003, Lars Berg was reelected as chairman of the board and Bo Dimert, Lage Jonason and Bernt Magnusson were reelected as board members. Tomas Torlöf and Raimo Lindgren were elected as new board members. In connection with the AGM, Håkan Kihlberg stepped down from his position as a member of the board. Lars Gauffin and deputy member Christer Bohm stepped down from their positions on the board, due to the policy stating that no employees should sit on the board.

The Meeting also approved the staff stock option plan proposed by the board, the 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. Employees can use their option rights to subscribe for shares between 15 April 2004 and 15 April 2008. In order to ensure that Net Insight can fulfill its obligation to the employees, the AGM also approved issuing a promissory note associated with separable option rights for a new subscription for Net Insight Consulting AB.

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). Following the resolution, the share capital amounts to a minimum of SEK 4 million and a maximum of SEK 16 million, where up to 400 million A shares and 400 million B shares can be issued.

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

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### **Net Insight and Allied Telesyn extend general agreement**

Net Insight and Allied Telesyn International (ATI) have renewed and extended the OEM-agreement stating that Allied will market and sell Net Insight's networking equipment under their own brand. The global agreement is valid for a period of three years and Allied will initially focus on the North American Triple Play market. In connection, Allied Telesyn will place an order worth SEK 4 million in April 2003.

### **Third generation software launched**

In connection with the NAB2003 media convention in Las Vegas, Net Insight launched a new version of its network operating system NimOS 3.0. The new software features improved functionality for operator control of the Nimbra™ platform with a number of new functions for automated network installation that make it easier to introduce new nodes. NimOS 3.0 also has a built-in monitoring system for performance characteristics, based on the ITU-T G.826 operator standard, which increases network security and reliability. With NimOS 3.0, operators can reduce their operating costs significantly while improving the overall cost-effectiveness of their networks.

## **MARKET PROSPECTS AND FUTURE OUTLOOK**

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The quarterly sales amounting to SEK 3.6 million did not meet with company expectations. The efforts on the American Triple Play market have been intense but due to a technical shortcoming in equipment provided by another supplier than Net Insight, the sales did not reach its goal. The technical problem has now been solved and sales are expected to reach estimated levels during following quarters.

The growing market interest in combination with the measures Net Insight carried out during the previous year to increase efficiency and maximize savings have assured the board owners that the coming quarters will bring a strong growths in sales figures. The board expects Net Insight to

establish an annual turnover of SEK 100 million during the second half of 2003. This will enable the company to reach a break-even level during 2004.

The major commercial breakthrough is implied by Net Insight to partner with one of the large global systems suppliers. Such a collaboration will strengthen the market presence as well as the distribution network while at the same time providing customers with local support. Net Insight has progressed in its discussions, partly initiated by a number of large telecom providers, with such well-known systems suppliers.

## **EARNING TRENDS**

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Net sales amounted to a total of SEK 3.6 million (7.1) for the period. The total costs amounted in total to SEK 25.2 million (33.2). The operating loss amounted to SEK -22.8 million (-29.5) and the loss after financial items amounted to SEK -22.5 million (-29.4). The financial net amounted to SEK 0.3 million (0.1).

### **Staff**

The total number of employees at the end of the period was 68 (106). The American subsidiary had 5 (5) employees.

### **Liquidity**

The liquid funds at the end of the year amounted to SEK 38.4 million (52.2).

### **Investments**

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). SEK 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 3.6 million (7.1). The deficit after financial items amounted to SEK -23.0 million (-29.4). Liquid funds amounted to SEK 37.1 million (49.9). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 835.9 million.

**CONSOLIDATED INCOME STATEMENT**

Amount in SEK thousands	January 1, 2003 - March 31, 2003	January 1, 2002 - March 31, 2002	1 april 2002- 31 mars 2003	January 1, 2002- December 31, 2002
Net Sales	3 648	7 057	30 252	33 661
Cost of goods sold	-1 312	-3 365	-15 253	-17 306
<b>Gross earnings</b>	<b>2 336</b>	<b>3 692</b>	<b>14 999</b>	<b>16 355</b>
Marketing expenses	-12 323	-12 736	-53 666	-54 079
Administration expenses	-5 653	-7 927	-23 379	-25 653
Development expenses	-7 172	-12 501	-42 118	-47 447
Restructuring expenses	0	0	-12 969	-12 969
<b>Operating earnings</b>	<b>-22 812</b>	<b>-29 472</b>	<b>-117 133</b>	<b>-123 793</b>
Net financial items	302	118	2 206	2 022
<b>Earnings before tax</b>	<b>-22 510</b>	<b>-29 354</b>	<b>-114 927</b>	<b>-121 771</b>
Tax	0	0	0	0
<b>Net Income for the period</b>	<b>-22 510</b>	<b>-29 354</b>	<b>-114 927</b>	<b>-121 771</b>

  

Earnings per share	-0,16	-0,43	-0,84	-0,89
Number of shares	137 510 040	68 755 020	137 510 040	137 510 040

**CONSOLIDATED BALANCE SHEET**

Amount in SEK thousands	Note	March 31, 2003	March 31, 2002	December 31, 2002
<b>ASSETS</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Capitalized expenditure for development		11 980	2 859	11 740
<b>Tangible fixed assets</b>				
Equipment		966	1 775	1 170
<b>Total fixed assets</b>		<b>12 946</b>	<b>4 634</b>	<b>12 910</b>
<b>Current assets</b>				
Inventory		26 966	29 864	24 272
Customer receivables		13 766	13 152	16 527
Other receivables		5 905	13 108	11 620
Cash and bank balances	1	38 399	52 230	60 180
<b>Total current assets</b>		<b>85 036</b>	<b>108 354</b>	<b>112 599</b>
<b>Total assets</b>		<b>97 982</b>	<b>112 988</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
Restricted reserves		94 575	120 575	216 380
Accumulated deficit		-22 510	-29 354	-121 771
<b>Total shareholders' equity</b>		<b>77 565</b>	<b>93 971</b>	<b>100 109</b>
<b>Current liabilities</b>				
Accounts payable		4 760	6 322	7 644
Other liabilities		15 657	12 695	17 756
<b>Total liabilities</b>		<b>20 417</b>	<b>19 017</b>	<b>25 400</b>
<b>Total liabilities and equity</b>		<b>97 982</b>	<b>112 988</b>	<b>125 509</b>
<b>Pledged assets:</b>		None	None	None
<b>Contingent liabilities:</b>	1	8 394	None	None

## CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Note	March 31, 2003 3 months	March 31, 2002 3 months	March 31, 2003 12 months	December 31, 2002 12 months
<b>ONGOING OPERATIONS</b>					
Operating earnings		-22 812	-29 472	-117 133	-123 793
Depreciation		1 455	463	3 968	2 975
Other items not affecting liquidity		-34	-54	-194	-214
Net financial items		302	118	2 206	2 022
<b>Cash flow ongoing operations before change in working capital</b>		<b>-21 089</b>	<b>-28 945</b>	<b>-111 153</b>	<b>-119 010</b>
<b>Change in working capital</b>					
Increase/decrease in inventories		-2 694	4 552	2 899	10 146
Increase in receivables		8 477	-4 381	6 590	-6 268
Increase/decrease in current liabilities		-4 983	-12 918	1 400	-6 535
<b>Cash flow from ongoing operations</b>		<b>-20 289</b>	<b>-41 692</b>	<b>-100 264</b>	<b>-121 667</b>
<b>INVESTMENT ACTIVITY</b>					
Acquisitions of tangible fixed assets		0	0	-4	-4
Acquisitions of intangible fixed assets		-1 492	-3 119	-12 276	-13 903
<b>Cash flow from investment activity</b>		<b>-1 492</b>	<b>-3 119</b>	<b>-12 280</b>	<b>-13 907</b>
<b>FINANCING ACTIVITY</b>					
New share issue		0	50 000	98 713	148 713
<b>Cash flow from financing activity</b>		<b>0</b>	<b>50 000</b>	<b>98 713</b>	<b>148 713</b>
Increase/decrease in liquid funds		-21 781	5 189	-13 831	13 139
Liquid funds, opening balance		60 180	47 041	52 230	47 041
<b>Liquid funds, closing balance</b>	<b>1</b>	<b>38 399</b>	<b>52 230</b>	<b>38 399</b>	<b>60 180</b>

### Note 1

#### Other commitments

Blocked account 8 394

## 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
Translation difference for the period		-34		-34
<b>Net earnings</b>			<b>-22 510</b>	<b>-22 510</b>
Closing balance	5 500	94 575	-22 510	77 565

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

Interim report for January – June: 15 August 2003

Stockholm, 23 April 2003

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