



### **About Net Insight**

*Net Insight develops and markets network switches for fiber-optic broadband networks. Using Net Insight solutions, operators can offer everything from new advanced real-time services such as studio-quality video and Internet communications to traditional telephony and data. These services can be supplied simply and cost effectively across one and the same infrastructure. Net Insight has around 100 employees in Sweden and the USA. The company is listed on the O-list of the Stockholm Exchange. For more information, please see [www.netinsight.net](http://www.netinsight.net)*

## **INTERIM REPORT**

*For the period 1 January – 30 September, 2002  
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Sales for the period: SEK 21.6 million (10.6)**
- **Operating deficit for the period: SEK 105.1 million (213.7)**
- **Aggressive restructuring program reduces monthly costs to SEK 8 million (23)**
- **<sup>1</sup>Triple Play going well in the USA – two new orders for TV via ADSL**
- **Cable TV operator UPC purchases video transport solution**

## **SIGNIFICANT EVENTS DURING THIRD QUARTER**

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### **Sales**

In September, Net Insight received a further order for a Triple Play network to provide American households with TV via ADSL. The order came through Net Insight's partner Allied Telesyn and covers a pilot network for a North American operator with over 60,000 subscribers. The solution makes it easy and cost effective for the new operator to offer its subscribers Internet access and telephony together with hundreds of TV channels via the public telephone infrastructure. In conjunction with the new order, Net Insight and Allied Telesyn have renewed their OEM agreement for selling Net Insight's network products under Allied's own brand name in the USA, Europe and Asia.

UPC, one of Europe's leading cable TV operators, has purchased from Net Insight a video transport solution to be used for video/TV transport and data transmission between UPC's Media Play Out in Amsterdam and a satellite station in Vienna via an STM-1 (155 Mbps) link. The deal was arranged in collaboration with Net Insight's Dutch reseller Alpatron.

### **Collaboration agreements**

Net Insight has started collaboration with the fiber optics company Transmode Systems on smart metro network solutions via CWDM wavelength systems. Transmode's products are based on the state of the art in Coarse Wavelength Division Multiplexing (CWDM), which can multiply fiber network capacity by enabling each fiber to carry up to 16 different wavelengths. In combination with Net Insight's platform, which effectively distributes and utilizes bandwidth at each wavelength, the solution promises high capacity, flexibility and guaranteed service quality at a very attractive price level. Under the agreement, Net Insight becomes a reseller of Transmode's products and the two companies will market jointly a package solution for metropolitan and media networks in Europe and the USA.

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<sup>1</sup> Triple Play makes it possible to distribute TV, Internet and telephony over one and the same infrastructure.

Net Insight has signed a collaboration agreement with the Brazilian reseller Sterling Do Brasil. Sterling will concentrate primarily on marketing and selling Net Insight's video solutions to broadcasters and production companies but also has a well-established contact network in the cable TV and telecommunications market in Brazil.

#### **Installations and technical verifications**

The American TV company ABC, which carries such popular programs as "Good Morning America" and "World News Tonight", has decided to start producing TV with Net Insight's solution. Under an agreement with Qmedia, ABC will transport video and data between its news bureau in Washington DC and its central studio in Manhattan. Qmedia's media network solution based on Net Insight's Nimbra platform is helping ABC to move on from today's analog handling of news material to entirely digital production. The agreement follows a successful test period that began in June this year.

In September, South America's largest and the world's sixth largest TV company, Brazilian TV GLOBO, ordered Net Insight's media platform for evaluation of HDTV, video, data and telephony. A pilot network linking Rio de Janeiro to São Paulo will carry traffic via both fiber optic links and the public telecommunications infrastructure. Tests will be followed by decisions about commercial expansion to further studios and production units within TV GLOBO.

In September, at IBC2002, Europe's largest media trade fair, Net Insight introduced two new products. Its Gigabit Ethernet Access Module combines the cost effectiveness of Gigabit Ethernet with the guaranteed service quality and dynamic allocation of bandwidth that are characteristic of Net Insight's media network platform. In combination with the company's multicast solution, this module is ideal for IP-based TV distribution. Realtime-critical traffic such as live video and sound remain unaffected by network load, and signal quality can be guaranteed owing to low and constant delay.

Net Insight also introduced the DTM 600 Trunk Module, which makes it possible for operators to improve the utilization of their existing telecommunications networks and provide high-quality video and data services. The solution combines the stringent service quality requirements of SDH/SONET networks with the flexibility and multi-service characteristics of Net Insight's platform. Integrating the platform enables operators to convert static SDH/SONET links to switched networks with capacity for customized video, data and telecommunications services.

At IBC2002, Net Insight and its collaboration partner Chyron unveiled a comprehensive concept for digital production networks with video transport within and between TV studios. The joint solution is based on integrating Net Insight's media network platform with Chyron's control system for switching and handling video streams to make it possible to integrate external video sources with the local control system for video sources in a studio. Automatic connection of links for SDI, ASI and IP transport enables TV producers to access video streams from geographically separate studios and recording sites in the same way as if they were all in the same building, which makes the production process considerably simpler and more cost effective.

#### **Organization**

Net Insight has completed the bulk of its intensive product development and now has a powerful range of products for the media and broadband market. Against this background and in the light of the continuing difficult general economic situation, Net Insight has carried out a restructuring program to adapt the company to the current revenue level and that expected over the next few quarters. This adaptation is being mainly achieved by staff reduction by about 40 persons in Sweden and by a general review of costs. The whole of the SEK 12.9 million cost of the restructuring program fell within the third quarter. The resulting reduction in the company's overall costs will be SEK 3.5 million per month from October 2002. The overall costs the equivalent period last year was SEK 23 million/month to be reduced to SEK 11.5 million/month and from now onwards to SEK 8 million/month.

## SIGNIFICANT EVENTS DURING FIRST HALF OF YEAR

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### Sales

In January, the Dutch network operator KPN decided to base its optical media network on Net Insight's technical platform. KPN will concentrate on high-quality video services enabling TV and production companies to enjoy the advantages of real-time transmission of 270 Mbps video via SDI interface (Serial Digital Interface). Under an outline agreement KPN has purchased equipment for the first portion of the national media network, and a first customer has now been installed and is making full use of the service.

At the beginning of February, the American TV company MSNBC signed an agreement with Net Insight's partner Qmedia for transport of video traffic in a media network linking Washington DC and New York. The uses to which the link will be put include transporting video streams for various news programs and for production of press conferences live from the White House and Congress.

In May, Net Insight received its first order to supply a Triple Play network to an American operator. The order came through Net Insight's reseller Allied Telesyn, which had collaborated in a project whereby Midwest Tel Net, a coalition of independent operators, evaluated various suppliers and technical alternatives for TV, telephony and Internet via ADSL. The new network will offer connected households not only at least a hundred cable TV channels but also rapid Internet access and telephony. Vernon Telephone Cooperative will be the first operator to offer commercial services in the network, which is to link up a number of small towns in southern Wisconsin.

In June, Bayerischer Rundfunk ordered Net Insight's platform to link together local TV stations in south Germany. The state-owned company, which is part of ARD (Germany's equivalent of Sweden's STV) has evaluated the technology in a pilot network that links two local stations in Munich and has capacity for SDI video and compressed IP video and data traffic via Ethernet. Tests conducted in collaboration with IRT (Institut für Rundfunktechnik) were completed successfully and discussions about further expansion are now underway.

### Collaboration agreements

In January, Net Insight signed a reseller agreement with the Polish system integrator TTI Inventel, a company that has been severely affected by the adverse general economic situation and is currently under financial restructuring. All the equipment that Net Insight had supplied to TTI Inventel for constructing a reference network has been handed back.

In March, Net Insight signed a reseller agreement with the system integrator Soluziona, one of Spain's leading technology and consultancy companies, for it to market and sell Net Insight's solutions for the next generation of regional and urban optical networks in Spain, Portugal, Brazil, Mexico and Tunisia. Soluziona's first commitment has been to order and install a demo network for tests in conjunction with local network operators.

In April, the TV technology company Chyron Corporation announced its commencement of collaboration with Net Insight with a view to strengthening and expanding its product portfolio. Chyron is a leading supplier of solutions to the media industry, and has equipment installed in about 80% of the world's TV studios. The combination of Net Insight's platform and Chyron's own products for distribution and switching of video streams in local environments enables Chyron to offer powerful package solutions that also link together geographically separate studios.

In June, Telia International Carrier and Net Insight signed a letter of intent concerning the construction of media networks. The agreement defined Telia International Carrier's intention to use Net Insight's platform and sector expertise in a global concentration on media-intensive network services. Due to Telia International Carriers current reorganization the agreement has not yet won any commercial success.

### **Installations and technical verifications**

In April, Net Insight introduced network support for multicasting of SDI, ASI, DVB and Ethernet/IP video to its media platform. The software provides a cost effective way of transmitting video signals from a source to the desired number of recipients without jitter or loss of picture information. The multicasting function makes it economically attractive for operators and service suppliers to distribute video content via the fiber network, along with the possibility of guaranteed service quality.

At April's NAB2002 media fair, Net Insight unveiled its ASI Transport Access Module, which combines with multicasting to create an attractive and cost effective solution for the core of cable TV networks, opening up a new market for Net Insight in which cable TV operators can be addressed.

On 6 May, ETSI (the European Telecommunications Standards Institute) approved Ethernet transport via DTM. The new standard, designated ES 201 803-7, opens the way for broader introduction of streaming IP services.

### **Share issue and staff stock option program**

During the year, Net Insight has conducted two new share issues.

In February, there was a targeted issue of SEK 50 million comprising ten million new B shares aimed at both institutional and private investors.

June saw a fully subscribed issue of SEK 110 million with preference for all of the company's shareholders. The two new issues brought the number of B shares up to 133,910,040.

With the approval of the Annual General Meeting, Net Insight has decided on a new staff option program open to all grades of staff and comprising up to 3,025,500 series B shares.

Net Insight appointed Fredrik Trägårdh as Chief Financial Officer from 1 July. Fredrik was born in 1956 and his most recent position was as Senior Vice President and Head of Group Finance at Germany's DaimlerChrysler Rail Systems.

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

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### **ETSI standardizes optimum resource handling in optical networks**

The European standardizing body ETSI has also standardized part of DTM broadband technology by approving signaling at datalink level to enable optimum utilization of network capacity in combination with maximum flexibility in topology. This creates the possibility of large cost savings by minimizing the need for configuration and maintenance. The official document was published on Wednesday 23 October under the designation ES 201 803-2-1.

### **Net Insight wins third Triple Play order**

Net Insight recently received its third order for a Triple Play network for TV, Internet access and telephony via ADSL. The order covers a pilot network for an American operator with 18,000 subscribers. The deal was made through Net Insight's partner Allied Telesyn, which has ordered equipment worth about SEK 2 million for the two latest pilot networks.

## **MARKET PROSPECTS AND FUTURE OUTLOOK**

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Tough market conditions continued during the latest quarter despite previous forecasts of a recovery in the second half of 2002. The gloomy stock market situation has resulted in many companies that are largely financed by the capital market being faced with profitability problems that have affected the potential for investment in the IT and telecommunications sector. The economic downturn and customer restraint in decision making have brought Net Insight poor sales in the third quarter. Nevertheless, the powerful range of products for the media and broadband market which the company now has gives it a clear market advantage in solutions that promise quick payback. Operators can progressively upgrade existing infrastructures to

improve capacity utilization while at the same time being able to offer more services via the same networks. A number of factors are in favor of positive growth for Net Insight:

- There's an increasing demand for **Triple Play networks** with TV, Internet access and telephony via ADSL in the USA. Since May this year, Net Insight has sold equipment for the construction of three mutually independent operators' networks, and rapidly accelerating sales are expected in this segment. Traditional operators thus have the possibility of offering not only the ordinary telecommunications network but also hundreds of TV channels along with additional services such as "video on demand", and being able to seriously compete with satellite and cable TV operators. This was also confirmed in a report in October this year from investment bankers Needham & Company, Inc. establishing that traditional telecommunications operators are being forced to add TV to their range if they are to win further customers over from cable TV operators.
- In Europe the Triple Play network has gained a foothold but it is mainly solutions for the **media industry** and **cable TV operators** that have gained ground, as witness not least IBC2002, Europe's largest media trade fair, where Net Insight in conjunction with its partner Chyron exhibited a comprehensive concept for digital production networks within and between TV studios. Net Insight had a number of fruitful meetings with both old and new customers, many of the latter in response to recommendations by others who had spoken well of the company's solutions. One specific commercial result was that Net Insight was able to announce during the fair that the cable TV operator UPC had purchased its solution for transport of ASI video and Ethernet traffic between Amsterdam and Vienna.
- Strong **partners** are helping Net Insight to canvass and penetrate prioritized market segments and at the same time cover geographically separate markets. During the year, successful partnership collaboration has resulted in a number of deals, including those with America's Midwest Tel Net, UPC in the Netherlands and Brazil's TV GLOBO. Companies with which Net Insight is currently collaborating include Allied Telesyn, Alphatron, Chyron Corporation, Hewlett-Packard, Soluziona, Sterling do Brasil and Transmode Systems. Net Insight has thus established a reseller network that covers the USA, Europe and large parts of South America.

## EARNINGS TREND

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Sales revenue for the period totaled SEK 21.6 million (10.6).

The cost saving program introduced last year has been implemented and become fully effective. Total expenditure amounted to SEK 115.0 million (224.1). There was an operating deficit of SEK 105.1 million (219.5) which, after appropriations and tax, amounted to SEK 103.7 million (213.7). Net interest income amounted to SEK 1.4 million (5.8).

### Staff

The number of employees at the end of the third quarter was 98 (142). The American subsidiary had 5 employees (5).

### Liquidity

Liquid funds at the end of the period amounted to SEK 89.2 million.

### Investments

Investment in instruments, equipment and refurbishment of premises in the third quarter amounted to SEK 0 million (0.3). During the period the company came into line with the Accounting Council's new recommendations (RR15) for the recording of development costs. This meant that SEK 6.9 million was recorded as intangible fixed assets and not, as in previous periods, as costs.

## Parent company

The parent's company's net turnover was SEK 21.6 million (10.6). The deficit after appropriations and tax was SEK 122.8 million (217.3). Investments during the period amounted to SEK 0 million (0.3). Liquid funds amounted to SEK 87.5 million (84.2). The calculated cumulative deficit for tax purposes of the parent company's business activity totals SEK 806.7 million.

### CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months July-Sept 2002	3 Months July-Sept 2001	9 Months Jan-Sept 2002	9 Months Jan-Sept 2001	12 Months Oct 2001-Sept 2002	1 Jan 2001- 31 Dec 2001
Net Sales	2 695	4 574	21 621	10 631	32 518	21 528
Cost of goods sold	-1 153	-2 865	-11 657	-6 070	-15 661	-10 074
<b>Gross earnings</b>	<b>1 542</b>	<b>1 709</b>	<b>9 964</b>	<b>4 561</b>	<b>16 857</b>	<b>11 454</b>
Marketing expenses	-12 190	-15 637	-39 731	-51 510	-55 863	-67 642
Administration expenses	-6 583	-9 704	-20 963	-26 907	-26 952	-32 896
Development expenses	-14 878	-39 664	-41 377	-129 634	-73 034	-161 291
Restructuring expenses	-12 969	-16 034	-12 969	-16 034	-12 969	-16 034
<b>Operating earnings</b>	<b>-45 078</b>	<b>-79 330</b>	<b>-105 076</b>	<b>-219 524</b>	<b>-151 961</b>	<b>-266 409</b>
Net financial items	1 074	739	1 362	5 833	1 728	6 199
<b>Earnings before tax</b>	<b>-44 004</b>	<b>-78 591</b>	<b>-103 714</b>	<b>-213 691</b>	<b>-150 233</b>	<b>-260 210</b>
Tax	0	0	0	0	0	0
<b>Net Income for the period</b>	<b>-44 004</b>	<b>-78 591</b>	<b>-103 714</b>	<b>-213 691</b>	<b>-150 233</b>	<b>-260 210</b>

Earnings per share	-0,32	-1,43	-0,75	-3,88	-1,09	-4,43
Number of shares	137 510 040	55 005 020	137 510 040	55 005 020	137 510 040	58 755 020

### CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	30 September 2002	30 September 2001	31 December 2001
<b>Assets</b>			
<b>Intangible fixed assets</b>			
Capitalized expenditure for development	6887	0	0
<b>Tangible fixed assets</b>			
Equipment	1 373	1 732	1 978
<b>Total tangible fixed assets</b>	<b>8 260</b>	<b>1 732</b>	<b>1 978</b>
<b>Current assets</b>			
Inventory	28 107	29 617	34 418
Customer receivables	11 188	7 798	13 659
Other receivables	14 132	19 941	8 220
Cash and bank balances	89 168	87 874	47 041
<b>Total current assets</b>	<b>142 595</b>	<b>145 230</b>	<b>103 338</b>
<b>Total assets</b>	<b>150 855</b>	<b>146 962</b>	<b>105 316</b>
<b>SHAREHOLDERS' EQUITY AND LIABLES</b>			
<b>Shareholders' equity</b>			
<b>Restricted shareholders' equity</b>			
Share capital	5 500	2 200	2 350
Restricted reserves	216 385	313 320	334 213
Non-restricted shareholders' equity	-103 714	-214 209	-263 182
<b>Total shareholders' equity</b>	<b>118 171</b>	<b>101 311</b>	<b>73 381</b>
<b>Current liabilities</b>			
Accounts payable	6 559	12 716	14 583
Other liabilities	26 125	32 935	17 352
<b>Total liabilities</b>	<b>32 684</b>	<b>45 651</b>	<b>31 935</b>
<b>Total liabilities and equity</b>	<b>150 855</b>	<b>146 962</b>	<b>105 316</b>

**CONSOLIDATED CASH FLOW STATEMENT**

Amount in SEK thousand	30 Sept 2002 9 months	30 Sept 2001 9 months	30 Sept 2002 12 months	31 Dec 2001
<i>Ongoing operations</i>				
Operating earnings	-105 076	-219 524	-151 961	-266 409
Depreciation	1 873	613	2 088	828
Other items not affecting liquidity	-208	130	-254	84
Net financial items	1 362	2 389	1 728	2 755
<i>Cash flow ongoing operations before change in working capital</i>	-102 049	-216 392	-148 399	-262 742
<i>Change in working capital</i>				
Decrease in inventories	6 311	-18 914	1 510	-23 715
Increase in receivables	-3 441	-9 597	2 419	-3 737
Decrease in current liabilities	748	16 356	-12 968	2 640
Cash flow from ongoing operations	-98 431	-228 547	-157 438	-287 554
<i>Investment activity</i>				
Acquisition of intangible fixed assets	-8 151		-8 151	
Acquisitions of tangible fixed assets	-4	-331	-468	-795
Cash flow from investment activity	-4	-331	-468	-795
<i>Financing activity</i>				
New share issue	148 713	140 748	167 351	159 386
Cash flow from financing activity	148 713	140 748	167 351	159 386
Increase/decrease in liquid funds	42 127	-88 130	1 294	-128 963
Liquid funds, opening balance	47 041	176 004	87 874	176 004
Liquid funds, closing balance	89 168	87 874	89 168	47 041

**CHANGES IN GROUP SHAREHOLDERS' EQUITY**

	Share capital	Restricted reserves	Non-restricted reserves	Net earnings	Total shareholders' equity
Opening balance	2 350	334 213	-2 972	-260 210	73 381
Rellocation of net earnings		-283 170		283 170	
Rellocation to restricted reserves		-2 972	2 972		
Shares being registered	3 150	145 563			148 713
Translation difference for the period		-208			-208
Net earnings				-103 714	-103 714
Closing balance	5 500	193 426	0	-80 754	118 172

This interim report was compiled on the same accounting principles and calculation bases as for the year 2001, apart from certain development costs now being recorded as required by RR15. This report has not been examined by the company's auditors.

**Forthcoming report from Net Insight**

Press release of 2002 unaudited figures: 12 February 2003

**Other information**

In line with what was announced at the 2002 Annual General Meeting, the Chairman of the Board Lars Berg together with Company's major owners, have commenced the work with the nomination of board members for the 2003 Annual General Meeting. Any proposals regarding the composition of the Board of Directors may be submitted to Lars Berg, Net Insight AB, P.O. Box 42093, SE 126 14 Stockholm, Sweden.

Stockholm, 31 October 2002

Tomas Duffy, CEO Net Insight AB

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