



2004 Annual Report to Stockholders

Dear Fellow Stockholders, Employees, Customers and Friends:

Over the past several years, NetScout has focused on investing in the future of our technology, our products, our market position and our customer relationships in the face of a challenging business climate. This steady investment strategy has enabled us to take a major step forward, effectively reinventing the company. Our new technology unifies disparate network management disciplines into a single, easy-to-use solution. Our customers can now streamline their network management with our unified *nGenius*® Solution reducing the number of point products they must use and lowering total information technology (IT) infrastructure costs. This forms the basis for our new, stronger market position as the core network management solution for our customers. As we provide significant value for customers, we are further cementing our customer relationships and providing a strong catalyst for revenue and market share growth for our company.

Our market-leading Common Data Model (CDM™) technology is the foundation of the *nGenius* Performance Management Solution that encompasses *nGenius* Performance Manager and *nGenius* Probes. *nGenius* Performance Manager is a single application combining multiple performance management functions such as troubleshooting, protocol analysis, response time analysis, capacity planning and forecasting, reporting and service level management. *nGenius* Probes are a powerful, universal data source for collecting rich data for multiple uses covering broader performance management functions in addition to other network management applications, including Voice-over-IP monitoring, security and IT cost analysis. The *nGenius* Performance Management Solution supports the widest range of network management functions, topologies, traffic types and applications available — from both real-time and historical perspectives.

Fiscal 2002 and 2003 were the foundation years for CDM, and early in fiscal 2004 we introduced the new *nGenius* products incorporating the first phase of our CDM technology. We expanded the rich data our Probes collect to include data from a wider range of infrastructure vendors' network devices and software agents. In addition, we substantially expanded and improved the analysis and reporting features of the *nGenius* Solution, offering valuable operational and strategic information. Throughout the year we continued to work with our network infrastructure partners, including Cisco Systems, to maximize value delivery to our shared customers.

Later in fiscal year 2004 we entered the second phase of our CDM strategy, announcing product enhancements that demonstrated to our customers the value that the *nGenius* Solution provides in other important areas of network management. The rich performance and traffic flow data gathered by our CDM technology is currently being used as an information source for other vendors' applications, including those that provide security, and IT cost analysis as well as modeling and simulation solutions. In the area of security, we released an *nGenius* Flow Director option that can be used as an interface between our *nGenius* Probes and intrusion detection, network surveillance and anomaly detection

(continued inside cover)

(continued from cover)

applications. With our partner Evident Software we are seeing global deployments of our solution, which helps deliver IT cost analysis for customers' application delivery networks. Additionally, we have been working successfully with our partner OPNET on their network modeling and simulation projects for several federal government agencies.

We also continued to extend our products to address significant new traffic types, including Citrix, MPLS, Quality of Service and important new functions for Voice-over-IP. We delivered enhanced capabilities for Cisco Virtual Storage Area Network technology. To help our customers speed their time-to-value, we introduced our *nGenius* Express Linux Appliance, pre-installed with *nGenius* Performance Manager 2.0. Looking ahead, we are developing products and technologies in the areas of increased network speeds, including OC-48 and 10-Gigabit, as well as new traffic types including IP Multicast and Peer-to-Peer.

Our products were well received this year by our customers and by the market, resulting in steady improvements for us quarter-over-quarter. Both total revenues and product revenues grew sequentially during fiscal 2004, and we experienced strong order flows and increased sales activity. We believe that the significant investments we have been making in CDM technology and in *nGenius* products have enabled us to expand our product functionality so that we are positioned to increase market share as we enter fiscal 2005. Our sales force is poised to fully capitalize on the underlying value proposition of CDM, and our customers are excited about our new products. Today, NetScout is in a strong position to build on the success we have demonstrated during the last few quarters.

We would like to thank our employees, customers, partners and stakeholders for their support in fiscal 2004. We look forward to sharing our successes and new initiatives with all of you in the coming fiscal year.

Sincerely,



Anil K. Singhal
President and Chief Executive Officer



Narendra V. Popat
Chairman of the Board