



About Net Insight

Net Insight develops video, voice and data networking equipment that delivers guaranteed 100% QoS with maximum network utilization and multicast to provide a network that can efficiently and economically deliver advanced video services such as HDTV, Video on Demand and Digital Television combined with Internet and voice traffic. Our Nimbra™ platform enables our customers to launch new revenue generating TV and video related services for Broadcast TV, CATV, Telco Triple Play and DVB-T with significantly reduced CAPEX and OPEX. Net Insight is quoted on the Stockholm Stock Exchange's O list and has offices in Sweden and the USA. For more information, visit www.netinsight.net

NET INSIGHT INTERIM REPORT JANUARY-JUNE 2006

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

- Sales increased to SEK 50.1 million (43.5), an increase of 15 percent compared to the same period last year
- Net loss reduced compared to corresponding period last year, result after taxes for the period of SEK –24.0 million (–35.0)
- Earnings per share for the period SEK –0.07 (–0.12)
- Strong gross margin reaching 70.0 percent (61.8 percent) for the period with increasing contribution from software, services and improved cost structure for new products

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- Second quarter was a record quarter with sales of SEK 30.0 million (22.5), an increase of 33 percent compared to the second quarter of last year
 - Important new orders during the second quarter from leading customers such as Nozema Services, Broadcast Services Denmark and Broadwing
 - Frame agreement signed with Norkring, owned by Telenor AS, for the Norwegian Digital Terrestrial TV network

After the reporting period

- Significant orders have been placed by; Norkring, Westdeutscher Rundfunk (WDR) and others

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SIGNIFICANT EVENTS DURING THE SECOND QUARTER (April – June)

Sales and rollouts

Sales in the second quarter amounted to SEK 30.0 million (22.5), the best quarter so far for Net Insight, representing an increase of 33 percent compared to the corresponding period last year. The gross margin reached 70 percent.

Net Insight continues to focus on the prioritized market segment Professional Media Industry including Digital Terrestrial TV (DVB-T and DVB-H) in Europe, North America and Asia. During the quarter, Net Insight has received new orders from customers in Denmark, Finland, Germany, The Netherlands and the United States among others.

- **Norkring** selected Net Insight and signed a frame agreement on deployment of equipment for the Digital Terrestrial TV network in Norway. The agreement implies deliveries of approximately 400-700 Nimbra nodes during a period of two to three years, representing the single largest business opportunity for Net Insight so far. Norkring AS, owned by Telenor AS, delivers infrastructure and network services to premier broadcasters on its nation-wide transmission network for Television and Radio.
- **Nozema Services** placed an additional order, exceeding SEK 10 million for the national Digital Terrestrial TV network in the Netherlands. The network is based on Net Insight's Nimbra platform and distributes analog and digital radio as well as digital TV
- **Broadcast Service Denmark** placed an order to further expand the national Digital Terrestrial TV network in Denmark. The first phase of the network, based on Net Insight's Nimbra platform, has been in successful operation since March 31, 2006
- **Broadwing Communications** placed a new order for expansion of their existing network based upon the Nimbra platform. The current 44-city media service network transports real-time mission critical video, voice and data. The network carries live traffic for professional media customers, such as major sports and news broadcasters
- New orders have been placed by a **European broadcaster** for a Digital Terrestrial TV network and by two **European media operators** to transport real-time critical video and data

High Density 8-Port ASI Transport Access Module released

The High Density 8-port ASI Transport Module (announced September 9, 2005) was released and the first customer deliveries were made. There is a large interest from customers for this product.

Partnerships

Net Insight continues to focus on establishing new partnerships mainly in Asia and Europe. Net Insight has signed agreements with two new partners in Asia during this quarter in order to strengthen the Company's position in the Asian region:

- NDT group, a renowned distributor and system solutions provider in the broadcast, telecommunication and other professional industries in China, and
- ITOCHU, a leading system integrator of broadband systems for growing data and video applications in Japan

Net Insight has chosen the partners in order to rapidly increase the revenue-generating potential in Asia. New business is already identified with the new partners as well as with the four earlier established partners in Asia.

New board members elected at the Annual General Meeting

On April 3, the annual general meeting decided to re-elect Lars Berg, Clifford H. Friedman, Birgitta Stymne Göransson and Bernt Magnusson as board members. Ragnar Bäck and Marco Limena were

elected as new board members. They both bring great experience from large systems sales and partnerships within the media and/or telecom industries.

- Ragnar Bäck is currently Chairman Ericsson Operations CEMEA (Central Europe, Middle East and Africa). Ragnar Bäck has held several executive positions at Ericsson such as CEO in Italy and in the Netherlands, Executive Manager for the Asian/Pacific region, based in Hong Kong, and Executive Manager for Western Europe, based in London.
- Marco Limena was most recently Vice President of Hewlett-Packard, responsible for their Solutions Organization for the Network and Service Provider business, addressing communication infrastructure solutions, mobility, and digital rich media services. Marco Limena was responsible for managing all aspects of HP's strategy, partnerships, and overall solution offering for the service provider industry.

New CFO and new VP Sales North America appointed

Lars Kevsjö has been appointed new CFO of Net Insight and started in his new position on June 12. He brings more than 20 years' experience from a number of financial positions within, primarily, the IT and Telecom sectors. Most recently, Lars Kevsjö was the CFO of the Bewator Group.

Douglas Stewart has been appointed new VP Sales North America and joined Net Insight on June 5. He brings more than 25 years of worldwide sales and account management experience in the cable, satellite, broadcast and telecommunications industries. Most recently, Doug Stewart was the senior vice president of worldwide sales at Mintera Corporation.

Marketing Activities

Net Insight participated at the media trade show NAB 2006. Net Insight demonstrated Nimbra 340, Nimbra 680 as well as the Nimbra 340 HD with which uncompressed 1.5Gbit HD streams were successfully transmitted. Furthermore, Verizon used a demonstration network based on Net Insight's equipment to transport live video feeds into the Net Insight and Verizon booths respectively.

Net Insight is strengthening its presence in Asia and has participated at several trade shows in the region during the period, in May together with the partner SANAM at KOBA and in June with ITOCHU at the Japan Cable Television Exhibition. In June Net Insight participated at BroadcastAsia in Singapore demonstrating the Nimbra 340 HD for HDTV distribution as well as the Nimbra 340 for a contribution and distribution network.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

European broadcaster selected Net Insight for a contribution network for video and data transport between several cities. The customer has leased a number of services from different service providers but will now be able to manage and operate their own fiber based network as well as have access to a much more efficient transport between their production locations.

Westdeutscher Rundfunk (WDR), Germany's largest broadcaster covering an area with a population of 18 million people, has placed a new order for deliveries this year to upgrade six major cities in their existing network of Nimbra products. The upgrade enables new and expanded media services on the converged transport network.

Norkring, owned by Telenor AS, has placed two orders under the frame agreement. The first order under the agreement has a value of approximately SEK 20 million. Deliveries related to both orders will start during 2006 and be deployed for the Norwegian Digital Terrestrial TV network. Norkring will build and operate the Norwegian DTT network on behalf of Norway's Television AS (NTV).

European Media Operator placed a new order, for deliveries during this quarter. The order includes an expansion of the number of cities in the network as well as an expansion of the capacity of the same. This international network is used for distribution of Digital Television.

Net Insight has been shortlisted in two categories by Cable and Satellite International 2006 - **Product of the Year Awards**. The Nimbra 340 has been shortlisted in two categories; the Best terrestrial wireless contribution/distribution/transmission solution as well as the Best fiber contribution/distribution/transport solution. Also the Nimbra 680 has been shortlisted in the Best fiber contribution/distribution/transport solution category. The Award ceremony will be held during IBC in September.

Deliveries of Nimbra 680

The Nimbra 680 is in final testing stage with customers and volume deliveries will start during the third quarter. As always, Net Insight focuses its development on market-leading products for customers with the highest standards and expectations. The Nimbra 680 is designed for high capacity carrier-class networks to be used for the next generation's communication services, requiring maximum availability and scalability.

Director of Corporate Communications appointed

Birgitta Viklund has been appointed Director of Corporate Communications of Net Insight and joined the company on July 1. She brings more than 20 years of worldwide management, sales, account management, partnership management, strategic product management and product development experience in the IT and Telecom industry. Birgitta Viklund has held several executive positions at Ericsson both in Sweden and internationally. She has also worked as an independent consultant.

OUTLOOK

The Board does not make any specific earnings forecast, but is focusing instead on providing carefully considered indicators. The Board believes that the Company will increase both sales and financial results substantially in 2006, however sales can fluctuate between the quarters due to the sales processes of larger systems.

FINANCIALS (January – June)

Sales increased to SEK 50.1 million (43.5) in the period, up 15 percent compared to the same period previous year. Out of total sales, 78 percent derive from Europe, 20 percent from North America, and 2 percent from the Asian region. The Company experienced a further increase of revenues from services and software during the period. The Company has now recurring revenue from services, related to the installed base, exceeding 10 percent of the total revenue.

The net loss decreased significantly attributable to the higher revenue, increased gross margin, and lower operating costs. The operating loss was SEK –24.6 million (–35.4) and the loss after financial items was SEK –24.0 million (–35.0). The financial net amounted to SEK 0.6 million (0.4).

Gross margin

The Company's gross margin increased significantly and reached 70.0 percent (61,8 percent) in the period. The improved gross margin is mainly due to increased contribution from software, services and improved cost structure for new products.

Operating costs

The total operating costs amounted to SEK 59.6 million (62.4). Marketing expenses have increased by SEK 4.1 million due to a strengthened sales force. Development expenses have declined due to finalization of two larger product development projects for Nimbra 340 and Nimbra 680, which were intense during the corresponding period last year.

Employees

At the end of the period Net Insight had 78 (70) employees of which the parent company Net Insight AB had 71 (65) employees and the US subsidiary Net Insight Inc. had 7 (5) employees.

Liquidity

The liquidity at the end of the period was SEK 71.6 million (SEK 16.9). The company has established

a factoring agreement with a limit of SEK 24.0 million, of which SEK 14.9 million was utilized as of June 30.

Investments

Investments in tangible assets during the period amounted to SEK 0.2 million (0.3). Capitalized expenditures for development work, reported as intangible assets, amounted to SEK 21.8 million (14.4).

Parent company

Parent company's net turnover was SEK 65.4 million (62.4). The deficit after financial items amounted to SEK -22.4 million (-30.9) Liquid funds amounted to SEK 70.6 million (15.9). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 1 082.5 million. There is no accumulated tax deficit in any subsidiary.

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months Apr-June 2006	3 Months Apr-June 2005	6 Months Jan-June 2006	6 Months Jan-June 2005	12 Months Jul '05-June '06	12 Months Jan-Dec 2005
Net Sales	29 972	22 529	50 128	43 540	97 476	90 888
Cost of goods sold	-8 986	-8 712	-15 088	-16 616	-32 213	-33 741
Gross earnings	20 986	13 817	35 040	26 924	65 263	57 147
Marketing expenses	-13 545	-10 569	-25 507	-21 424	-49 298	-45 215
Administration expenses	-4 875	-4 477	-9 804	-9 525	-19 198	-18 919
Development expenses	-12 354	-15 290	-24 307	-31 407	-46 680	-53 780
Operating earnings	-9 788	-16 519	-24 578	-35 432	-49 913	-60 767
Net financial items	244	145	608	427	1 320	1 139
Earnings before tax	-9 544	-16 374	-23 970	-35 005	-48 593	-59 628
Tax	0	0	0	0	0	0
Net Income for the period	-9 544	-16 374	-23 970	-35 005	-48 593	-59 628
Earnings per share	-0,03	-0,06	-0,07	-0,12	-0,13	-0,17
Earnings per share after dilution	-0,03	-0,06	-0,07	-0,12	-0,13	-0,17
Number of shares	367 757 010	367 757 010	367 757 010	367 757 010	367 757 010	367 757 010

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Jun 30, 2006	Jun 30, 2005	Dec 31, 2005
ASSETS			
Fixed assets			
Intangible assets			
Capitalized expenditure for development	53 278	31 429	43 645
Goodwill	4 354	4 354	4 354
Tangible fixed assets			
Equipment	904	878	953
Total fixed assets	58 536	36 661	48 952
Current assets			
Inventory	13 653	16 247	13 861
Customer receivables	27 880	47 451	27 324
Other receivables	8 271	103 430	7 504
Cash and bank balances	71 605	16 898	92 919
Total current assets	121 409	184 026	141 608
Total assets	179 945	220 687	190 560
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	14 710	14 710	14 710
Other contributed capital	1 142 043	1 143 579	1 141 839
Translation difference	-1 236	-562	-634
Accumulated deficit	-1 032 191	-983 597	-1 008 221
Total shareholders' equity	123 326	174 130	147 694
Long term liabilities			
Guarantee provisions	2 000	0	2 000
Total provisions	2 000	0	2 000
Current liabilities			
Liabilities to credit institutions	14 923	0	0
Accounts payable	12 073	15 380	15 118
Other liabilities	27 623	31 177	25 748
Total short-term liabilities	54 619	46 557	40 866
Total liabilities	56 619	46 557	42 866
Total liabilities and equity	179 945	220 687	190 560
Pledged assets:			
	18 653	None	None
	1 316	None	1316

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Jun 30, 2006 6 months	June 30, 2005 6 months	June 30, 2006 12 months	Dec 31, 2005 12 months
<i>Ongoing operations</i>				
Loss before tax	-23 970	-35 005	-48 594	-59 629
Adjustment for interest expense	12	6	20	14
Adjustment for interest income	-630	-433	-1 350	-1 153
Depreciation	12 423	5 822	23 616	17 015
Other items not affecting liquidity	-398	33	6 811	7 242
Adjustment for interest income	630	433	1 350	1 153
Adjustment for interest expense	-12	-6	-20	-14
<i>Cash flow ongoing operations before change in working capital</i>	-11 945	-29 150	-18 167	-35 372
<i>Change in working capital</i>				
Increase-/decrease+ in inventories	208	6 130	2 594	8 516
Increase-/decrease+ in receivables	-1 323	-131 941	114 730	-15 888
Increase+/decrease- in current liabilities	-1 170	17 232	-9 761	8 641
Cash flow from ongoing operations	-14 230	-137 729	89 396	-34 103
<i>Investment activity</i>				
Acquisitions of intangible fixed assets	-21 847	-14 397	-47 013	-39 563
Acquisitions of tangible fixed assets	-160	-279	-451	-570
Cash flow from investment activity	-22 007	-14 676	-47 464	-40 133
<i>Financing activity</i>				
New share issue	0	94 403	-2 148	92 255
Factoring	14 923	0	14 923	0
Cash flow from financing activity	14 923	94 403	12 775	92 255
Increase/decrease in liquid funds	-21 314	-58 002	54 707	18 019
Liquid funds, opening balance	92 919	74 900	16 898	74 900
Liquid funds, closing balance	71 605	16 898	71 605	92 919

CHANGES IN GROUP SHAREHOLDERS' EQUITY

Amount in SEK thousand	Share capital	Other contributed capital	Translation difference	Net earnings	Total shareholders' equity
2005-01-01	11 640	1 052 246	-595	-948 592	114 699
Translation difference for the period			33		33
Total transactions reported directly in shareholders' equity			33		33
Net earnings				-59 629	-59 629
			33	-59 629	-59 596
New issue	3 070	91 333			94 403
2005-06-30	14 710	1 143 579	-562	-983 597	174 130
Translation difference for the period			-73		-73
Total transactions reported directly in shareholders' equity			-73		-73
Net earnings				-24 624	-24 624
			-73	-24 624	-24 697
Staff warrant program:					
Value of employees' services		408			408
Costs for new share issue		-2 148			-2 148
2005-12-31	14 710	1 141 839	-635	-1 008 221	147 693
2006-01-01	14 710	1 141 839	-634	-1 008 221	147 694
Translation difference for the period			-602		-602
Total transactions reported directly in shareholders' equity			-602		-602
Net earnings				-23 970	-23 970
			-602	-23 970	-24 572
Staff warrant program:					
Value of employees' services		204			204
2006-06-30	14 710	1 142 043	-1 236	-1 032 191	123 326

This report has been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 and RR31.

The company's auditors have not examined this interim report.

Next report from Net Insight

Interim report for January – September: October 27, 2006

Stockholm, August 22, 2006

Fredrik Trägårdh, CEO Net Insight AB

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