



Net Insight delivers the worlds most efficient and scaleable optical transport solution for IP Media, Broadcast, DVB-T/H and IPTV/Triple Play networks.

Net Insight products truly deliver 100 percent Quality of Service with 3X improvement in utilization of bandwidth for a converged transport infrastructure. Net Insight's Nimbra™ Platform is the industry solution for video, voice and data, reducing operational costs by 50 percent and enhancing competitiveness in delivery of existing and new media services.

World class customers run mission critical video services over Net Insight products for more than 100 million people in more than 20 countries. Net Insight is quoted on the Stockholm Stock Exchange.

NET INSIGHT INTERIM REPORT JANUARY-SEPTEMBER 2006

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

January-September 2006

- **Sales increased by 28% to SEK 85.1 million (66.6).**
- **Income before tax improved to SEK -27.2 million (-45.7).**
- **Earnings per share were SEK -0.07 (-0.15).**
- **Improved and strong gross margin at 70.3% (61.8%).**
- **Services and software revenue increased by 99 % to SEK 15.3 million (7.7).**

Third quarter 2006

- **Sales increased by 51% to SEK 35.0 million (23.1).**
- **Income before tax improved to SEK -3.3 million (-10.7).**
- **Gross margin at 70.8% (61.8%).**
- **Earnings per share were SEK -0.01 (-0.03).**
- **Norkring placed its first orders under the frame agreement amounting to above SEK 20 million.**
- **TeliaSonera International Carrier has selected Net Insight as the equipment vendor for a new media network.**
- **Important new orders from KPN Broadcast, Westdeutscher Rundfunk and TELUS.**

Business activities during the third quarter 2006

Third quarter sales increased by 51% to SEK 35.0 million (23.1), which is yet another record quarter. Order intake increased significantly and for the first time the Company possesses a firm order backlog for future deliveries.

The demand for Net Insight's transport solutions is growing stronger resulting in a number of important new deals as well as recurring business from world class existing customers in the quarter. The fundamental market acceptance in the segments of digital terrestrial television (DTT) as well as for private and public media networks has gradually increased over the last 12 months. This is now being transformed into contracts and Net Insight has a high proportion of contracts awarded in this market segment. A total of nine major operators have selected the Nimbra™ platform. Telenor Norkring, GlobeCast, TeliaSonera International Carrier, Broadwing, European Broadcasting Union, have all decided to build their national or international media networks on the platform. Adding to this a steady growing number of customer specific private media networks worldwide. New products have also been very well received and further strengthened the Company's competitiveness. Net Insight continues to focus on the prioritized market segment professional media industry including DTT and mobile TV (DVB-H) in Europe, North America and Asia.

During the quarter new orders have been received from customers in Norway, Germany, The Netherlands, Canada, and Asia and others.

- TeliaSonera International Carrier, has launched one of the most extensive media-carrier networks in Europe, and has selected Net Insight as the sole equipment vendor. The new media network is an overlay to the existing TeliaSonera International Carrier fiber network. The deal will incorporate the latest Nimbra™ platform to provide a high capacity, high performance international network to meet the growing expectations of the professional media community. The first deliveries of equipment is planned to take place in the fourth quarter.
- Broadcast Service Danmark ordered additional equipment for further expansion of the Danish digital terrestrial TV network.
- Levira, Estonia's largest transmission operator for broadcasting has placed an initial order. The equipment will be used in a contribution- and production network for video and data as well as the DTT network.
- KPN Broadcast, previously Nozema Services, has placed an additional order for deliveries of the Nimbra™ platform. The equipment will be used in the Dutch DTT network extending the core network to provide a nationwide media contribution service for a new end customer.
- A major Asian broadcaster has placed a new order to expand the existing network. The equipment will be used to increase the capacity of the network that distributes digital TV signals between two countries.
- Norkring, owned by Telenor AS, placed its first orders (under the frame agreement signed in May) amounting to more than SEK 20 million. Deliveries will start during this year and is part of the Digital Terrestrial TV network in Norway, which will be built and operated by Norkring on behalf of Norway's Television AS (NTV).
- Westdeutscher Rundfunk (WDR), Germany's largest public broadcaster, has placed a new order for deliveries this year. The equipment will be used to upgrade the capacity between six major cities in their existing network of Nimbra™ products. The upgrade enables new and expanded data and media services.

- TELUS, a leading telecommunications company in Canada with 10.4 million customer connections, has selected the Nimbra™ platform. The network will be used for the transport of rich media content including video, voice and data. Net Insight's optical transport solution will enable TELUS to offer enhanced media solutions on its network that spans major cities across Canada.
- A large North American media operator, which provides data, voice and video to enterprises and service providers, placed additional orders for further expanding its terrestrial media network.
- A European media operator placed an order for expansion of capacity and the number of cities in the network. This international network is used for distribution of Digital Television.
- A European broadcaster ordered equipment for a contribution network for video and data transport between several cities. The customer leases a number of services from several service providers but will now be able to manage and operate their own fiber based network and have access to a much more efficient transport between their production locations.

Deliveries of Nimbra™ 680

Volume deliveries of the Nimbra™ 680 started during the third quarter. The Nimbra™ 680 is a vital product in the overall Net Insight product offering and the Nimbra™ 680 will be an increasingly important part of future deliveries. The product is designed for high capacity carrier-class networks to be used for the next generation's communication services, requiring maximum availability and scalability.

Partnerships

The Company's strategy is to work with strong local partners to increase indirect sales short-term and lay the foundation for future revenue growth. The last year Net Insight has methodically built up a chain of partners and value-added resellers to expand its geographical reach. As of the end of the third quarter the Company has local partners in over 18 countries and the amount of indirect sales is increasing.

Marketing Activities

Net Insight exhibited at Europe's largest media/broadcast trade show IBC 2006 and demonstrated a 10 Gbps network using Nimbra™ 680s displaying live IPTV as well as compressed HDTV and uncompressed 1.5 Gbps HDTV streams. The new AES-EBU audio card was released complementing the strong video transport solution in the Nimbra™ platform. A unique live Mobile TV (DVB-H) demonstration transported over a Nimbra™ network and displayed using Nokia mobile phones for DVB-H was shown to potential customers and partners. Furthermore, Telia International Carrier transported a live uncompressed 1.5 Gbps HDTV feed from Sandhamn in Stockholm to the Net Insight booth in Amsterdam across their pan-European network as part of their international media network launch based on the Nimbra™ products.

Additionally, the new Chinese partner NDT exhibited the Company's products at the large media show BIRT in Beijing in August.

Net Insight was featured in numerous articles in international press during the quarter, and was part of InStat's September 2006 report titled Fixed-Mobile Convergence (FMC) Powers Cable TV Counterpunch To IPTV.

Significant events after the end of the period

GlobeCast (subsidiary of France Telecom), a global content management and delivery company has signed an order for an upgrade of its worldwide global fiber network at approximately 30 sites in Europe, Asia and United States. The order follows the installation and successful implementation in early 2006 of a network carrying more than 100 video, voice and data channels between GlobeCast's facilities in France.

SAVVIS Communications Corporation has ordered equipment under a restructured purchase agreement originally signed in June 2005. The delivery includes upgrades of the existing network as well as new equipment to support new and existing customers. SAVVIS and Net Insight will work jointly to assist media companies in addressing their increasing needs to support High Definition production, Digital Cinema workflows, and distribution to an expanding array of consumption outlets.

Network equipment for a private multi service media network commissioned by a German Broadcaster, who is also a new customer, will be delivered in the fourth quarter. The new network will be built on the Nimbra™ platform and the deliveries of the equipment will start during the 4th quarter 2006. The network will handle all TV and Radio contribution and distribution feeds, as well as all data and voice services, between the customer's production facilities. The order has been received in co-operation with a large German system operator.

Net Insight has decided to establish a regional sales office in Singapore effective from January 2007. Opening of an office in Singapore is driven by an increasing demand for the Company's transport solution for DTT and mobile TV networks on the Asian and Pacific markets. Moreover, this will also enable a more timely and focused support to channel partners and customers.

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 – September)

Sales increased to SEK 85.1 million (66.6) in the period, up 28% compared to the same period previous year. Out of total sales 75% derive from Europe, 24% from North America, and 1% from the Asian region. The Company has experienced an increased demand for professional services and support services during the period. Recurring revenue from services, related to the installed base, now exceeding 10% of the total revenue. Compared to previous year software and services and support revenue has increased to SEK 15.3 million (7.7).

The loss continued to decrease in the quarter attributable to the higher revenue and increased gross margin. The operating loss was SEK -28.1 million (-46.5) and the loss before tax was SEK -27.2 million (-45.7). The financial net amounted to SEK 0.8 million (0.8).

Gross margin

The Company's gross margin increased significantly and reached 70.3 % (61.8) 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 87.9 million (87.7). Marketing expenses have increased by SEK 7.6 million mainly due to a strengthening of the sales force. Development expenses have declined due to finalization of two larger product development projects for Nimbra™ 340 and Nimbra™ 680, which were at high intensity during the second and third quarter last year.

Employees

At the end of the period the Company had 79 (74) employees of which the parent company Net Insight AB had 72 (68) employees and the US subsidiary Net Insight Inc. had 7 (6) employees.

Liquidity

The liquidity at the end of the period was SEK 76.7 million (SEK 108.9). Third quarter accounted for SEK 5.1 million in positive cash flow. In third quarter 2005 a share issue brought in SEK 92.8 million. The Company has utilized SEK 15.1 million of its factoring facility as of September 30, which is equal to the amount drawn 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 30.5 million (21.7).

Parent company

Parent company's net turnover was SEK 107.8 million (91.8). The deficit after financial items amounted to SEK -25.2 million (-39.8) Liquid funds amounted to SEK 75.6 million (107.5). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 1070.2 million. There is no accumulated tax deficit in any subsidiary.

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	3 Months Jul-Sep 2006	3 Months Jul-Sep 2005	9 Months Jan-Sep 2006	9 Months Jan-Sep 2005	12 Months Oct 05 - Sep 06	12 Months Jan-Dec 2005
Net Sales	34 983	23 100	85 111	66 640	109 359	90 889
Cost of goods sold	-10 228	-8 815	-25 316	-25 431	-33 626	-33 741
Gross earnings	24 755	14 285	59 795	41 209	75 733	57 148
Marketing expenses	-13 348	-9 874	-38 855	-31 298	-52 772	-45 215
Administration expenses	-3 773	-4 190	-13 577	-13 715	-18 781	-18 919
Development expenses	-11 144	-11 260	-35 451	-42 657	-46 564	-53 780
Operating earnings	-3 510	-11 039	-28 088	-46 471	-42 384	-60 766
Net financial items	239	350	847	777	1 209	1 137
Earnings before tax	-3 271	-10 689	-27 241	-45 694	-41 175	-59 629
Tax	0	0	0	0	0	0
Net income for the period	-3 271	-10 689	-27 241	-45 694	-41 175	-59 629
Earnings per share	-0,01	-0,03	-0,07	-0,15	-0,11	-0,17
Earnings per share after dilution	-0,01	-0,03	-0,07	-0,15	-0,11	-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	Sep 30, 2006	Sep 30, 2005	Dec 31, 2005
ASSETS			
Fixed assets			
Intangible assets			
Capitalized expenditure for development	55 980	34 415	43 645
Goodwill	4 354	4 354	4 354
Tangible fixed assets	0	0	0
Equipment	812	772	953
Total fixed assets	61 146	39 541	48 952
Current assets			
Inventory	12 579	16 905	13 861
Customer receivables	24 592	26 684	27 324
Other receivables	8 069	6 352	7 504
Cash and bank balances	76 666	108 984	92 919
Total current assets	121 906	158 925	141 608
Total assets	183 052	198 466	190 560
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	14 710	14 710	14 710
Other contributed capital	1 142 145	1 142 031	1 141 839
Translation difference	-1 273	-555	-634
Accumulated deficit	-1 035 462	-994 286	-1 008 221
Total shareholders' equity	120 120	161 900	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 (limit 24.000 Tsek)	15 131	0	0
Accounts payable	15 146	13 132	15 118
Other liabilities	30 655	23 434	25 748
Total liabilities	60 932	36 566	40 866
Total liabilities and equity	183 052	198 466	190 560
Pledged assets:	18 914	None	None
Contingent liabilities:	1 314	3 720	1314

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Sep 30, 2006 9 months	Sep 30, 2005 9 months	Sep 30, 2006 12 months	Dec 31, 2005 12 months
<i>Ongoing operations</i>				
Net income before tax	-27 241	-45 694	-41 176	-59 629
Adjustment for interest expense	132	12	134	14
Adjustment for interest income	-976	-789	-1 340	-1 153
Depreciation	18 335	10 260	25 090	17 015
Other items not affecting liquidity	-257	5	6 980	7 242
Adjustment for interest income	976	789	1 340	1 153
Adjustment for interest expense	-127	-12	-129	-14
Cash flow ongoing operations before change in working capital	-9 158	-35 429	-9 101	-35 372
<i>Change in working capital</i>				
Increase-/decrease+ in inventories	1 282	5 472	4 326	8 516
Increase-/decrease+ in receivables	2 167	-14 096	375	-15 888
Increase+/decrease- in current liabilities	4 935	7 241	6 335	8 641
Cash flow from ongoing operations	-774	-36 812	1 935	-34 103
<i>Investment activity</i>				
Acquisitions of intangible fixed assets	-30 450	-21 680	-48 333	-39 563
Acquisitions of tangible fixed assets	-160	-279	-451	-570
Cash flow from investment activity	-30 610	-21 959	-48 784	-40 133
<i>Financing activity</i>				
New share issue	0	92 855	-600	92 255
Factoring	15 131	0	15 131	0
Cash flow from financing activity	15 131	92 855	14 531	92 255
Increase/decrease in liquid funds	-16 253	34 084	-32 318	18 019
Liquid funds, opening balance	92 919	74 900	108 984	74 900
Liquid funds, closing balance	76 666	108 984	76 666	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			40		40
Total transactions reported directly in shareholders' equity			40		40
Net earnings				-45 694	-45 694
			40	-45 694	-45 654
New issue	3 070	100 806			103 876
		-11 021			-11 021
2005-09-30	14 710	1 142 031	-555	-994 286	161 900
Translation difference for the period			-79		-79
Total transactions reported directly in shareholders' equity			-79		-79
Net earnings				-13 935	-13 935
			-79	-13 935	-14 014
Staff warrant program:					
Value of employees' services		408			408
New issue	0	0			0
Cost of new issue		-600			-600
2005-12-31	14 710	1 141 839	-634	-1 008 221	147 694
2006-01-01	14 710	1 141 839	-634	-1 008 221	147 694
Translation difference for the period			-639		-639
Total transactions reported directly in shareholders' equity			-639		-639
Net earnings				-27 241	-27 241
			-639	-27 241	-27 880
Staff warrant program:					
Value of employees' services		306			306
2006-09-30	14 710	1 142 145	-1 273	-1 035 462	120 120

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

Year-end report for 2006, February 20, 2007.

Additional information – nomination work

The Chairman of the Board of Directors of Net Insight AB, in consultation with the four largest shareholders (voting rights), has established a nomination committee.

Net Insight's nomination committee for the 2007 Annual General Meeting consists of Cliff Friedman - Constallation Ventures, Per Lindgren – representing the three founders, Stefan Roos – SEB fonder, Ramsay Brufer – Alecta, and Lars Berg, Chairman of the Net Insight Board. The nomination committee appointed Lars Berg to serve as Chairman of the Committee.

The nomination committee's task is to present proposals prior to the General Meeting in regards to the number of members of the Board of Directors to be elected by the General Meeting, the fees for the Board of Directors, possible fees for work in the Board's committees, the composition of the Board of Directors, the Chairman of the Board of Directors, chairman of the General Meeting and, when applicable, for the election of auditors and fees for the auditors.

Shareholders wishing to make proposals to the nomination committee can do so by e-mail to: info@netinsight.net

Stockholm, October 27, 2006
Fredrik Trägårdh, CEO Net Insight AB

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