



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

INTERIM REPORT

For 1 January – 30 June 2005

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

- **Sales for the period SEK 43.5 million (22.1), up 97% compared to the same period last year**
- **The Company continues to maintain a gross margin greater than 60%**
- **During the period customer driven product development spending was up SEK 11 million**
- **Result after taxes for the period amounted to SEK –35.0 million (–40.3)**
- **Earnings per share for the period amounted to SEK –0.12 (–0.15)**
- **Largest order ever received of SEK 35 million from SAVVIS for delivery of new core network during 2006**
- **Broadcast Service Danmark orders Danish national digital terrestrial TV network (DTT) for a value above SEK 10 million**
- **Order of SEK 13 million from Broadwing as a first stage in a larger network build out in the US**
- **Rights issue of SEK 98.5 million oversubscribed (without utilizing guarantees)**

SIGNIFICANT EVENTS DURING THE SECOND QUARTER

Sales

The second quarter was the best quarter ever in terms of sales that amounted to SEK 22.5 million (9.0) and an increase of 150% compared to the same quarter last year.

Net Insight received two of its largest orders ever during the second quarter. First, winning a contract within the DTT segment (digital terrestrial TV) from Broadcast Service Danmark for building the Danish Digital Terrestrial TV network, valued to above SEK 10 million. The network will be built with Net Insight's Nimbra platform and distribute TV to the Danish population. The Nimbra platform is used to bring the TV signals from national and regional broadcasters, via optical fiber and microwave links, to the transmitter masts located all over Denmark.

Secondly, Net Insight won a great reference order within the important metro/core segment with an order from SAVVIS, a global service provider of integrated IT infrastructure, for building a new core network in the US. The order amounted to approximately SEK 35 million. The network will transport all voice, data and video traffic and will be built on Net Insight's next generation platform (Nimbra 688), which is extremely well suited for high capacity networks. The equipment will be delivered during 2006.

Net Insight continues to expand its list of world-class customers.

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Furthermore, a leading European telecom operator chose Net Insight's Nimbra platform to deploy a new national media network. The network will connect major sports arenas for live sports video contribution, as well as transport of data and voice. The network was delivered and installed during the second quarter of 2005.

Net Insight delivered equipment to a state-of-the-art media network for the German post-production company VCC Perfect Pictures (VCC). The network connects VCC's subsidiaries in Germany, and enables a fast, cost-efficient transport solution for professional video over SDI and Ethernet. VCC produces TV spots, commercials, and other video material. With the network, using Net Insight's Nimbra platform, VCC and its customers can watch, discuss and edit the same material – all in real-time – working in different locations.

The Canadian telecommunications company VDN chose Net Insight for building a Canadian media network. The network will distribute cable TV as well as provide professional media services. This enables VDN to transport its current CATV programming as well as facilitates their desire to expand into the professional media services market.

Net Insight also received several add-on orders regarding additional Nimbra nodes from several media operators regarding increased capacity in their networks.

Installations and Technical Verifications

Net Insight introduced an enhanced version of its Nimbra Vision network management system designed for broadcasters and professional media companies at the show NAB 2005 in Las Vegas in April. Using a single touch screen, activation of a scheduled event ensures provisioning of a service at a specific time, route and capacity throughout the network. The new unique touch screen management system integrates scheduling software from Dimetis GmbH with the Nimbra Vision network management system.

At Supercomm2005 in Chicago, Net insight introduced the Nimbra 600 series of next generation multi-service switches that can deliver as much as 1 terabit per second switching capacity per rack. The Nimbra 600 series utilizes NG SDH/SONET and Net Insight's state-of-the-art switching architecture to provide the industry's lowest cost-per-bit switching with zero packet loss. With carrier class performance combined with drastically reduced costs, the Nimbra 600 series is targeted at meeting the rigorous 100% quality of service demands of triple-play and media networks, as well as opening up new revenue-generating service opportunities over metropolitan and core networks. The Nimbra 600 series presently consists of two multi-service switches, Nimbra 680 that is an 80 Gbps multi-service switch for metro core, triple play, and high-capacity professional media networks, and Nimbra 688 which has twice the access and switch capacity.

Partnerships

Net Insight has signed a strategic alliance agreement with Charles Industries, a US based leading supplier of telecommunications access and transmission technologies. The alliance will enhance Net Insight and Charles Industries' positions as leading end-to-end broadband access solutions providers for service and wireless providers, and system integrators. Under the terms of the agreement, Charles Industries and Net Insight will work together to fulfill sales and marketing opportunities of video and triple play solutions to Telco service providers in the US.

Product Development

Net Insight continues the development of next generation products. With these products, Net Insight will have a greater potential to reach a significantly wider market, both geographically as in regards to segments and customers. The platforms are also well suited for high capacity networks in current segments and can also increase the sales potential in the segment for core networks. The next generation products will be ready for delivery at the end of 2005.

Rights issue

On May 3rd it was announced that the Board of Net Insight had decided on a fully secured preferential rights issue of approximately SEK 98.5 million under the condition of approval from an extraordinary general meeting. The capital increase will be used for financing sales growth and marketing activities.

A resolution was passed at the Extraordinary General Meeting on 7th June 2005, approving the decision by the Board of Directors of May 3rd to issue shares with preferential rights for the company's shareholders. Every block of four (4) existing shares, irrespective of class, would grant entitlement to subscribe for one (1) new class B share at an issue price of SEK 1.35 per share. Net Insight has issued 72,927,315 new class B shares in conjunction with full subscription for the issue, which was guaranteed.

The General Meeting also resolved, in what constituted a precondition for the Board decision regarding a new share issue described above, that the Articles of Association should be amended such that (i) the share capital comprises a minimum of SEK 10,000,000 and a maximum of SEK 40,000,000, and (ii) a maximum of 400,000,000 class A and 1,000,000,000 class B shares may be issued. The rights issue was heavily oversubscribed without utilizing guarantees.

Exhibitions and Events

Net Insight participated very successfully at the media show NAB 2005, National Association of Broadcasters, in Las Vegas in April where approximately 1,200 companies within the professional media industry were exhibiting.

Furthermore, Net Insight participated at the North American Broadcasters Association (NABA) annual general meeting in May in Toronto, Canada. The NABA is a union of broadcasting organizations throughout North America committed to advancing the interests of broadcasters in North America and internationally. NABA represents several of the most successful and influential broadcasters in North America.

Net Insight had a joint booth with its new triple-play partner Charles Industries at Supercomm 2005 in Chicago in June where the combined Nimbra / STEP DSL video solution was demonstrated. Supercomm is the annual exhibition and conference for communications service providers and private network managers.

Moreover, Net Insight was represented at Broadcast Asia2005, in June at Singapore Expo.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Sales

Net Insight received an add-on order from a European network operator for a larger build-out of a media network. The network capacity will be upgraded and more cities and customers will be connected.

Furthermore, one of Net Insight's customers within the professional media industry has placed an add-on order regarding equipment for expanding an international media network.

Organization

On August 1st Net Insight hired Mahmud Noormohamed as Vice President Business Development for North America. Mahmud has more than 20 years of experience within the IT sector. Most recently he was Vice President Solutions at British Telecom North America where he developed new customer accounts and developed and managed strategic partnerships.

MARKET PROSPECTS AND FUTURE OUTLOOK

Sales for the second quarter amounted to SEK 22.5 million which was slightly above first quarter sales. Net Insight's sales totaled SEK 43.5 million (22.1) during the first half of 2005. The growth stems primarily from increased activity in the professional media industry and the subsegment DTT (digital terrestrial TV). During the first half of 2005 the Company received a number of strategic and important orders from customers such as Broadwing and Broadcast Services Denmark on the professional media market as well as from SAVVIS on the important metro/core market which positions Net Insight well to continue the momentum into 2006.

The outlook for the rest of the year is very good and the Company expects that demand will continue to develop favorably due to the proven competitiveness of the Company's products and increased investments among most target customers. The outlook regarding substantial increase of sales and a significantly improved result for the year remains firm. Additionally, due to the new share issue, the Company will strengthen its market and product position further.

EARNING TRENDS

Sales totaled to SEK 43.5 million (22.1) for the period, up 97% compared to the same period preceding year. The operating loss amounted to SEK –35.4 million (–41.2) and the loss after financial items amounted to SEK –35.0 million (–40.3). The financial net amounted to SEK 0.4 million (0.9).

Staff

The total number of employees at the end of the period was 70 (69) of which the American subsidiary had 5 (5) employees.

Costs

The total costs amounted to SEK 62.4 million (55.0). The increase in costs mainly refers to higher development spending due to customer driven product development.

Liquidity

As stated earlier in the report, the Company has successfully raised SEK 98.5 million (prior to issue costs) in a fully subscribed rights issue. As of 30 June 2005 a net receivable of SEK 90.1 million relating to the rights issue is recorded under other receivables.

In connection with the share issue in June 2003 the Company issued warrants (Warrant 6b) to a number of legal entities and individuals which guaranteed that share issue. All of the warrants have now been redeemed and will in total bring SEK 6.6 million to the Company. As of June 30 2005 SEK 4.4 million of warrants redeemed are recorded under other receivables.

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0.3 million (0). SEK 14.4 million (6.3) of the Company's research and development expenses has been capitalized during the period. These have been accounted for as intangible fixed assets.

Parent company

The parent company's net turnover was SEK 62.4 million (22.1). The deficit after financial items amounted to SEK –30.9 million (–43.4). Liquid funds amounted to SEK 15.9 million (105.1). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 1,021 million. There is no accumulated tax deficit in any subsidiary.

Adjustment to IFRS

Opening balances have been adjusted in accordance with IFRS. As of January 1 2005 the Company follows International Financial Reporting Standards (IFRS) and the following income statements and balance sheets are in accordance with these standards. This quarterly report is also in accordance with IAS 34. The transition to accounting in accordance with the IFRS rules currently applicable, has changed the Company's accounting principles as follows:

The Company's reported goodwill will no longer constitute a depreciating asset but will be subjected to valuation every time in accordance with IFRS 3 with the aim of assessing its actual value as an asset correctly. To recalculate the balances 2004, depreciation of goodwill amounting to SEK 653 thousand has been resolved and reduced the accumulated deficit.

Two of the Company's outstanding Staff Stock Option Plans is accounted for in accordance with IFRS 2. A third outstanding program was allocated before 7 November 2002 and is not affected by the new rules. The effect after recalculation in accordance with IFRS 2 is an increase in the accumulated deficit amounting to SEK 258 thousand. Net income for the period includes costs of SEK 129 thousand for the employee stock option program. The Staff Stock Option Plan issued in 2004 has not yet been allocated as of 30 June 2005. The program involves staff options that offer the opportunity to acquire a maximum of 6,700,000 B-series shares. These have a total term of four years, during which the cost of the program will be dealt with in accordance with IFRS 2, i.e. as the value of the option at the time of allocation.

The above-mentioned effects are the only ones known to the Company at this time and are the ones expected to affect the company at the end of 2005. However, IFRS is undergoing constant change, which is monitored by the Company, and will result in changes in accounting where applicable. For further details of the effect on the Company's income statements and balance sheets, please refer to Note 1.

CONSOLIDATED INCOME STATEMENT

| Amount in SEK thousands | 3 Months Apr-June 2005 | 3 Months Apr-June 2004 | 6 Months Jan-June 2005 | 6 Months Jan-June 2004 | 12 Months Jul '04-June '05 | 1 Jan 2004- 31 Dec 2004 |
|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|----------------------------|
| Net Sales | 22,529 | 8,995 | 43,540 | 22,116 | 61,927 | 40,503 |
| Cost of goods sold | -8,712 | -2,164 | -16,616 | -8,324 | -24,439 | -16,147 |
| Gross earnings | 13,817 | 6,831 | 26,924 | 13,792 | 37,488 | 24,356 |
| Marketing expenses | -10,569 | -13,058 | -21,424 | -25,222 | -42,049 | -45,847 |
| Administration expenses | -4,477 | -4,343 | -9,525 | -8,839 | -18,946 | -18,260 |
| Development expenses | -15,290 | -10,715 | -31,407 | -20,968 | -54,906 | -44,467 |
| Operating earnings | -16,519 | -21,285 | -35,432 | -41,237 | -78,413 | -84,218 |
| Net financial items | 145 | 538 | 427 | 916 | 1,357 | 1,846 |
| Earnings before tax | -16,374 | -20,747 | -35,005 | -40,321 | -77,056 | -82,372 |
| Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Income f. the period | -16,374 | -20,747 | -35,005 | -40,321 | -77,056 | -82,372 |

| | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Earnings per share | -0.06 | -0.07 | -0.12 | -0.15 | -0.28 | -0.29 |
| Number of shares | 367,757,010 | 290,183,400 | 367,757,010 | 290,183,400 | 367,757,010 | 291,005,345 |

CONSOLIDATED BALANCE SHEET

| Amount in SEK thousands | Note | June 30, 2005 | June 30, 2004 | Dec 31, 2004 |
|---------------------------------------------|------|----------------|----------------|----------------|
| ASSETS | | | | |
| Fixed assets | | | | |
| Intangible assets | | | | |
| Capitalized expenditure for development | | 31,429 | 17,155 | 22,637 |
| Goodwill | | 4,354 | 4,354 | 4,354 |
| Tangible fixed assets | | | | |
| Equipment | | 878 | 1,005 | 816 |
| Total fixed assets | | 36,661 | 22,514 | 27,807 |
| Current assets | | | | |
| Inventory | | 16,247 | 23,854 | 22,377 |
| Customer receivables | | 47,451 | 13,803 | 13,353 |
| Other receivables | | 103,430 | 8,025 | 5,587 |
| Cash and bank balances | 1 | 16,898 | 106,657 | 74,900 |
| Total current assets | | 184,026 | 152,339 | 116,217 |
| Total assets | | 220,687 | 174,853 | 144,024 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | | |
| Shareholders' equity | | | | |
| Restricted shareholders' equity | | | | |
| Share capital | | 11,643 | 11,607 | 11,607 |
| Non-registered shares | | 3,067 | 0 | 33 |
| Restricted reserves | | 195,401 | 184,906 | 185,512 |
| Accumulated deficit | | -976 | -605 | -81 |
| Net Income for the period | | -35,005 | -40,321 | -82,372 |
| Total shareholders' equity | | 174,130 | 155,587 | 114,699 |
| Current liabilities | | | | |
| Accounts payable | | 15,380 | 6,672 | 12,736 |
| Other liabilities | | 31,177 | 12,594 | 16,589 |
| Total liabilities | | 46,557 | 19,266 | 29,325 |
| Total liabilities and equity | | 220,687 | 174,853 | 144,024 |
| Pledged assets: | | None | None | None |
| Contingent liabilities: | 1 | 2,142 | 5,960 | 5,000 |
| Note 1 | | | | |
| Other commitments | | | | |
| Blocked account | | 2,142 | 5,960 | 5,000 |

CONSOLIDATED CASH FLOW STATEMENT

| Amount in SEK thousand | Note | June 30, 2005 6 months | June 30, 2004 6 months | June 30, 2005 12 months | Dec 31, 2004 12 months |
|----------------------------------------------------------------------|----------|---------------------------|---------------------------|----------------------------|---------------------------|
| ONGOING OPERATIONS | | | | | |
| Operating earnings | | -35,432 | -41,237 | -78,413 | -84,218 |
| Depreciation | | 5,822 | 4,692 | 11,606 | 10,476 |
| Other items not affecting liquidity | | 33 | -7 | -40 | -80 |
| Net financial items | | 427 | 916 | 1,357 | 1,846 |
| Cash flow ongoing operations before change in working capital | | -29,150 | -35,636 | -65,490 | -71,976 |
| Change in working capital | | | | | |
| Increase/decrease in inventories | | 6,130 | -1,509 | 7,607 | -32 |
| Increase in receivables | | -131,941 | 10,711 | -129,052 | 13,600 |
| Increase/decrease in current liabilities | | 17,232 | -3,082 | 27,420 | 7,106 |
| Cash flow from ongoing operations | | -137,729 | -29,516 | -159,515 | -51,302 |
| INVESTMENT ACTIVITY | | | | | |
| Acquisitions of intangible fixed assets | | -14,397 | -6,250 | -25,413 | -17,266 |
| Acquisitions of tangible fixed assets | | -279 | 0 | -340 | -61 |
| Cash flow from investment activity | | -14,676 | -6,250 | -25,753 | -17,327 |
| FINANCING ACTIVITY | | | | | |
| New share issue | | 94,403 | 64,095 | 95,509 | 65,201 |
| Purchase of subsidiary through non-cash issue | | 0 | 84 | 0 | 84 |
| Cash flow from financing activity | | 94,403 | 64,179 | 95,509 | 65,285 |
| Increase/decrease in liquid funds | | -58,002 | 28,413 | -89,759 | -3,344 |
| Liquid funds, opening balance | | 74,900 | 78,244 | 106,657 | 78,244 |
| Liquid funds, closing balance | 1 | 16,898 | 106,657 | 16,898 | 74,900 |

CHANGES IN GROUP SHAREHOLDERS' EQUITY

| | Share capital | Restricted reserves | Accumulated deficit | Net earnings | Total shareholders' equity |
|---------------------------------------|---------------|---------------------|---------------------|--------------|----------------------------|
| Opening balance | 11,640 | 185,512 | -81 | -82,372 | 114,699 |
| Relocation of net earnings | | -81,437 | -935 | 82,372 | 0 |
| New issue | 3 | 1,053 | 0 | | 1,056 |
| Non registered share-capital | 3,067 | 90,280 | 0 | | 93,347 |
| Translation difference for the period | 0 | -7 | 40 | | 33 |
| Net earnings | | | | -35,005 | -35,005 |
| Closing balance | 14,710 | 195,401 | -976 | -35,005 | 174,130 |

Note 1

IFRS accounting

As of January 1 2005 the Company follows IFRS accounting principles. Balances 2004 have been restated accordingly.

Shown below is the effect on the Company's equity as well as the detailed effect on the income statement.

The Company's stock option plans have increased the costs.

Goodwill has been impairment tested, and depreciations made in 2004 have been resolved.

The effect of these adjustments on the Company's income statement and balance sheet are as follows:

CHANGES IN GROUP SHAREHOLDERS' EQUITY

| Amount in SEK thousand | Share capital | Restricted reserves | Accum. deficit | Net earnings | Total shareholders' equity |
|-----------------------------------------------------------------|---------------|---------------------|----------------|--------------------------------|----------------------------|
| 2004-01-01 | 10,267 | 197,477 | -605 | -80,448 | 126,691 |
| Reallocation of net earnings | | -80,448 | | 80,448 | 0 |
| New share issue | | | | | 64,095 |
| Non-cash issue | | | | | 5,000 |
| Translation difference for the period | | -7 | | | -7 |
| Net earnings | | | | -40,192 | -40,192 |
| Recalculation according to IFRS Q1-Q2 2004: | | | | | |
| Recalculation of staff warrants | | 129 | | -129 | 0 |
| 2004-06-30 | 11,607 | 184,906 | -605 | -40,321 | 155,587 |
| Recalculation according to IFRS Q3-Q4 2004 | | | | | |
| Recalculation of staff warrants | | 129 | | -129 | 0 |
| Recalculation of goodwill | | | | 653 | 653 |
| Not registered share capital | 33 | 1,200 | | | 1,233 |
| Translation difference for the period | | -108 | 35 | | -73 |
| Reallocation between restricted reserve and accumulated deficit | | -615 | 489 | | -126 |
| Net earnings | | | | -42,575 | -42,575 |
| 2004-12-31 | 11,640 | 185,512 | -81 | -82,372 | 114,699 |
| Income statement | | | | Q2 2004 Adjustment | Q2 2004 |
| Adjustment of opening balances according to IFRS | | | | | |
| Marketing expenses - staff stock options | | | -25,182 | -40 | -25,222 |
| Administration expenses - staff stock options | | | -8,824 | -15 | -8,839 |
| Development expenses - staff stock options and | | | -20,894 | -74 | -20,968 |
| Adjustment Q1 and Q2 2004 | | | | -129 | |
| Income statement | | | | 2004 Adjustment | 2004 |
| Adjustment of opening balances according to IFRS | | | | | |
| Marketing expenses - staff stock options | | | -45,767 | -80 | -45,847 |
| Administration expenses - staff stock options | | | -18,230 | -30 | -18,260 |
| Development expenses - staff stock options and goodwill | | | -44,972 | 505 | -44,467 |
| Total net income adjustments 2004 | | | | 395 | |
| Balance sheet | | | | 30 June 2004 Adjustment | 30 June 2004 |
| Net Income for the period | | | -40,192 | -129 | -40,321 |
| Restricted reserves | | | 184,777 | 129 | 184,906 |
| Balance sheet | | | | 2004 Adjustment | 2004 |
| Goodwill | | | 3,701 | 653 | 4,354 |
| Net Income for the period | | | -82,767 | 395 | -82,372 |
| Restricted reserves | | | 185,254 | 258 | 185,512 |

This interim report has not been examined by the company's auditors.

Next report from Net Insight

Interim report for January – September: 28 October 2005

Stockholm, 18 August 2005

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