



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 FIRST QUARTER 2006

1 January – 31 March 2006

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

- **Sales for the first quarter reached SEK 20.2 million (21.0)**
- **Reduced loss compared to the same quarter last year, result after taxes for the quarter amounted to SEK –14.4 million (–18.6)**
- **Earnings per share for the quarter amounted to SEK –0.04 (–0.06)**
- **Improved gross margin reaching 70% (62%) for the quarter due to increased contribution from software and services**
- **Continued success within the DVB-T segment with a phase-one order from Nozema Services for the national digital terrestrial TV network in the Netherlands**
- **Several new customer orders from leading media and broadcast operators**

After the reporting period:

- **Additional order of above SEK 10 million from Nozema Services for the national digital terrestrial TV network (DVB-T) in the Netherlands**
- **The first high capacity network switch Nimbra 680 delivered to customer**

SIGNIFICANT EVENTS DURING THE QUARTER

Sales and rollouts

Sales in the first quarter reached SEK 20.2 million (21.0). Approximately 80% of sales referred to Europe followed by the US and Asia.

Net Insight continues to focus on the prioritized market segment the Professional Media Industry including digital terrestrial TV (DVB-T and DVB-H) in both Europe, the US and Asia. Previously Net Insight has won deals for building DVB-T networks in Denmark, Finland and Germany, confirming Net Insight's strong solution for DVB-T networks. During the quarter, Net Insight had continued success within this segment with a number of wins and rollouts including:

- **Nozema Services** for the national digital terrestrial TV network (DVB-T) in the Netherlands. This is the first phase of the DVB-T network that will be used to transport digital terrestrial TV streams in parallel with contribution streams. Nozema Services is a company that broadcasts and transmits radio and TV-signals.
- **Danish digital TV network** built on Net Insight's Nimbra platform was successfully opened on March 31st. Broadcast Service Denmark (BSD) is responsible for the analog and digital distribution of TV and radio in Denmark and placed this order with Net Insight in April 2005. The network serves more than 30 cities nationwide in Denmark and provides 5.5 million people with digital TV.

Furthermore, sales included a number of orders from new customers within the Professional Media Industry from several business industry operators, including for e.g.:

- **Corus Entertainment**, one of Canada's leading media companies, ordered equipment to build a media network to transport video, voice and data among its television offices.
- **Nexion**, a Japanese media operator, for a network to transport real-time critical video between New York and London.
- **European media operator** for the Nimbra 340 with HD interface for a media network in Europe that transports uncompressed HDTV streams, SDI and data services.

Additionally, Net Insight received important recurring business from existing customers who are expanding or upgrading their networks such as:

- **European Broadcasting Union (EBU)** for a capacity upgrade of its fiber media network for transporting high-quality TV and media traffic.
- **Telenor Satellite Broadcasting** for a media network in Bulgaria with around 10 locations in Sofia that transports video and Ethernet services to broadcast and media operators.
- **Broadwing**, a US media operator, for further business regarding their 44-city coast-to-coast media network in the US.
- **Midwest Telnet** for a software upgrade to be used in its triple play network, successfully operational since 2003.

The Company experienced a further increase in demand of software, support, service and training during the quarter.

Net Insight also has business opportunities within the highly interesting market segments for triple play and core networks. With the high capacity switch Nimbra 680, Net Insight is very well positioned on these markets.

Partnerships

Net Insight continues to work on potential partners to be able to offer complete end-to-end solutions to the customer. Within the segment for the Professional Media Industry, Net Insight has the possibility to win significant business either together with its established partners or on its own. In the triple play segment Net Insight has established solution partners that enable the Company to effectively bid for triple play projects, however in the larger triple play rollouts, a strong regional or global partner is needed to be part of the deal. Net Insight remains committed that it will establish a successful partnership in order to win triple play business in the future.

New CEO appointed

In January Net Insight announced that the Board had appointed Fredrik Trägårdh as new CEO as of February 17 since the former CEO Tomas Duffy had assumed the position as CEO of Teligent AB. Fredrik Trägårdh has been the CFO of Net Insight for 3.5 years. Anders Persson was simultaneously appointed Executive Vice President including continued responsibility for technical development.

Strengthened sales force in Europe

Net Insight has strengthened its sales team in Europe with two new senior regional sales managers who will target media, broadcast and telecom operators and increase Net Insight's potential for further sales success in Europe. The new regional sales managers will cover Italy and Iberia as well as U.K and Ireland.

Shows and events

Net Insight has participated at several shows during the first quarter within various areas; the triple play show TVoDSL in Paris, the NTCA Annual Meeting & Expo in San Antonio, the CSTB International Exhibition and Conference in Moscow, DVB World 2006 in Dublin and TechNet Baltic 2006.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Additional order for the DVB-T network in the Netherlands

Net Insight received an additional order from Nozema Services of above SEK 10 million for building the second phase of the national digital terrestrial TV network (DVB-T) in the Netherlands. The network will be based on Net Insight's Nimbra platform and will be used to transport digital terrestrial TV streams. The equipment will be delivered during 2006.

New board members elected at the AGM

The annual general meeting decided to re-elect Lars Berg as Chairman of the board as well as board members Clifford H. Friedman, Birgitta Stymne Göransson and Bernt Magnusson. Furthermore, Ragnar Bäck and Marco Limena were elected for the first time, both with a great experience from working with large systems sales and partners within the media and/or telecom business:

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

The first Nimbra 680 delivered to customer

Net Insight's product development focuses on developing market-leading products for customer groups with great demand. Net Insight has continued the development of its next generation product, the Nimbra 680. With the Nimbra 680, Net Insight has a new potential to reach a significantly wider market, both geographically and in terms of segments and customers. The Nimbra 680 is also well suited for high capacity networks in the development of network equipment for the next generation's communication services.

Interconnection with Verizon Business at US media trade show

Net Insight participated at the media trade show NAB 2006, National Association of Broadcasters, in Las Vegas where approximately 1,400 companies within the professional media industry were exhibiting. Net Insight had its own booth with a live demo where all its products were shown.

Furthermore, Verizon, one of the largest telecom operators in the world, is using a demonstration network based on Net Insight's equipment. The demonstration network has shown the capability of the Nimbra 340-HD to transmit uncompressed HD video across very large distances and that the network is interoperable with Verizon's nationwide network. The demonstration network was used during NAB to transport live video feeds into the Net Insight and Verizon booths respectively.

OUTLOOK

The Board does not intend to 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.

RESULTS

Net sales amounted to a total of SEK 20.2 million (21.0) for the quarter. The total costs amounted to SEK 28.8 million (32.0). The company shows a reduction in loss compared to the corresponding quarter last year with an operating loss of SEK –14.8 million (–18.9) and a loss after financial items of SEK –14.4 million (–18.6). The financial net amounted to SEK 0.4 million (0.3).

Gross margin

The Company's gross margin increased further and reached 70% (62%) for the quarter. The increased gross margin is mainly driven by an increase in sales of software and services.

Costs

The total costs amounted to SEK 28.8 million (32.0), which is somewhat lower than the same quarter last year even though marketing expenses have increased.

Employees

At the end of the period Net Insight had 78 (69) employees of which the parent company Net Insight AB had 71 (64) employees and the US subsidiary Net Insight Inc. had 7 (5) employees.

Liquidity

The liquidity at the end of the period was SEK 75.2 million (49.9).

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0.2 million (0). During the period, SEK 10.1 (7.0) million of the Company's research and development expenses has been capitalized. These have been accounted for as intangible fixed assets.

Parent company

The parent company's net turnover was SEK 27.8 million (30.2). The deficit after financial items amounted to SEK –10.1 million (–12.2). Liquid funds amounted to SEK 74.2 million (49.0). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 1,060.9 million.

CONSOLIDATED INCOME STATEMENT

Amount in SEK thousands	Jan 1, 2006- March 31, 2006	Jan 1, 2005 - March 31, 2005	April 1 2005 - March 31, 2006	Full year 2005
Net Sales	20,156	21,011	90,033	90,888
Cost of goods sold	-6,102	-7,904	-31,939	-33,741
Gross earnings	14,054	13,107	58,094	57,147
Marketing expenses	-11,962	-10,855	-46,322	-45,215
Administration expenses	-4,929	-5,048	-18,800	-18,919
Development expenses	-11,953	-16,117	-49,616	-53,780
Operating earnings	-14,790	-18,913	-56,644	-60,767
Net financial items	364	282	1,221	1,139
Earnings before tax	-14,426	-18,631	-55,423	-59,628
Tax	0	0	0	0
Net Income for the period	-14,426	-18,631	-55,423	-59,628
Earnings per share	-0.04	-0.06	-0.16	-0.17
Earnings per share after dilution	-0.04	-0.06	-0.16	-0.17
Number of shares	367,757,010	291,709,263	367,757,010	367,757,010

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	March 31, 2006	March 31, 2005	Dec 31, 2005
ASSETS				
Fixed assets				
Intangible assets				
Capitalized expenditure for development		47,969	26,129	43,645
Goodwill		4,354	4,354	4,354
Tangible fixed assets		0	0	0
Equipment		1,005	706	953
Total fixed assets		53,328	31,189	48,952
Current assets				
Inventory		14,398	18,934	13,861
Customer receivables		23,069	20,919	27,324
Other receivables		7,532	7,530	7,504
Cash and bank balances	1	75,245	49,909	92,919
Total current assets		120,244	97,292	141,608
Total assets		173,572	128,481	190,560
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		14,710	11,668	14,710
Other contributed capital		1,141,941	1,053,274	1,141,839
Translation difference		-741	-570	-634
Accumulated deficit		-1,022,647	-967,223	-1,008,221
Total shareholders' equity		133,263	97,149	147,694
Long term liabilities				
Guarantee provisions		2,000	0	2,000
Total provisions		2,000	0	2,000
Current liabilities				
Accounts payable		11,079	8,783	15,118
Other liabilities		27,230	22,549	25,748
Total liabilities		38,309	31,332	40,866
Total liabilities and equity		173,572	128,481	190,560
Pledged assets:				
		None	None	None
Contingent liabilities:				
		1,314	None	1314
Note 1				
Other commitments				
Blocked account		1,314	0	1,314

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	March 31, 2006 3 months	March 31, 2005 3 months	March 31, 2006 12 months	Dec 31, 2005 12 months
<i>Ongoing operations</i>				
Net income before tax	-14,426	-18,631	-55,424	-59,629
Adjustment for interest expense	4	3	15	16
Adjustment for interest income	-368	-285	-1,236	-1,153
Depreciation	5,820	3,578	19,257	17,015
Other items not affecting liquidity	-18	60	7,164	7,242
Adjustment for interest income	368	285	1,236	1,153
Adjustment for interest expense	-4	-3	-15	-14
<i>Cash flow ongoing operations before change in working capital</i>	-8,624	-14,993	-29,003	-35,370
<i>Change in working capital</i>				
Increase-/decrease+ in inventories	-537	3,443	4,536	8,516
Increase-/decrease+ in receivables	4,277	-9,509	-2,102	-15,888
Increase+/decrease- in current liabilities	-2,557	2,008	4,076	8,641
Cash flow from ongoing operations	-7,441	-19,051	-22,493	-34,103
<i>Investment activity</i>				
Acquisitions of intangible fixed assets	-10,073	-6,996	-42,640	-39,563
Acquisitions of tangible fixed assets	-160	0	-730	-570
Cash flow from investment activity	-10,233	-6,996	-43,370	-40,133
<i>Financing activity</i>				
Warrants	0	1,056	-1,056	0
New share issue	0	0	92,255	92,255
Cash flow from financing activity	0	1,056	91,199	92,255
Increase/decrease in liquid funds	-17,674	-24,991	25,336	18,019
Liquid funds, opening balance	92,919	74,900	49,909	74,900
Liquid funds, closing balance	75,245	49,909	75,245	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			25		25
Total transactions reported directly in shareholders' equity			25		25
Net earnings				-59,629	-59,629
			25	-59,629	-59,604
2005-03-31	11,668	1,053,274	-570	-967,223	97,149
Translation difference for the period			-64		-64
Total transactions reported directly in shareholders' equity			-64		-64
Net earnings				-40,998	-40,998
			-64	-40,998	-41,062
Staff warrant program:					
Value of employees' services		408			408
New issue	3,042	99,778			102,820
Cost of new issue		-11,621			-11,621
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			-107		-107
Total transactions reported directly in shareholders' equity			-107		-107
Net earnings				-14,426	-14,426
			-107	-14,426	-14,533
Staff warrant program:					
Value of employees' services		102			102
2006-03-31	14,710	1,141,941	-741	-1,022,647	133,263

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

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

Next report from Net Insight

Interim report for January – June: 22 August 2006

Stockholm, 3rd May 2006

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