



About Net Insight

Net Insight develops video and data networking equipment that combines 100% QoS with maximum network utilization and multicast to provide a network with superior efficiency. Our customers benefit from significantly reduced CAPEX and OPEX, which protects and enhances their existing infrastructure investment while providing the ability to launch new TV and video related services. Net Insight is quoted on Stockholm stock exchange's O list and has offices in Sweden and the USA. For more information, visit www.netinsight.net

INTERIM REPORT

*for the period January 1 – September 30, 2004
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Sales for the period reached SEK 30.3 million (22.7), an increase of approx. 33% compared to the same period last year**
- **Result after taxes for the period amounted to SEK –59.0 million (–59.5)**
- **Earnings per share for the period amounted to SEK –0.21 (– 0.39)**
- **The Company maintains a gross margin of approximately 60%**
- **Successful launch of EBU and WDR networks**
- **Increased resources spent on customer driven product development**

SIGNIFICANT EVENTS DURING THIRD QUARTER

Sales

The implementation of the EBU phase-1 network has been completed successfully with nodes in Rome, Geneva, Paris, London, Brussels, Hamburg, Mainz, Washington DC and New York. The network is fully operational and has been used for live transmissions, e.g. from the democratic and republican conventions in the US. TV companies using the services are very impressed by the high quality. The EBU has also expressed its complete satisfaction regarding the performance of the network. Net Insight has continued to deliver new nodes for further expansions into Madrid as well as upgrades of the nodes in Brussels and Washington. This was press released on August 12 but without mentioning the customer's name.

Net Insight has received an add-on order regarding additional Nimbra™ nodes from UPC. The add-on order provides increased capacity in the network that will connect a number of European cities. UPC is one of the leading broadband communication and entertainment companies in Europe. UPC is a privately owned subsidiary of UGC Europe Inc.

Net Insight has also received an order from an American media company. Net Insight's equipment will be used for transporting HDTV from initially ten different sports arenas in the US for live events. With this order, the company's current ATM network for transport of HDTV will be replaced.

Furthermore, Net Insight received an add-on order regarding additional Nimbra nodes from the Digital Media Centre (DMC) in Amsterdam. The DMC provides a full range of highly integrated broadcast services for channel production, origination and multi-territory distribution. The order regards an expansion of their current network and the equipment will be used for real-time distribution of sports events to other broadcast operators. The DMC is a business unit of chellomedia, a division of UGC Europe, Inc.

Moreover, Net Insight has received a number of other add-on orders from existing customers in the US and in Europe regarding expansion of current media networks.

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Installations and Technical Verifications

At the IBC2004 International Broadcasting Convention in Amsterdam in September, Net Insight introduced the Nimbra 340 multi-service access and switching device designed for the most demanding video and data applications. Applications for the Nimbra 340 include studio production and contribution, and broadcast distribution in CATV, Terrestrial Digital Video Broadcasting (DVB-T) or Triple Play networks. The Nimbra 340 is fully compatible with the larger Nimbra One series of products for central office applications. The new device takes advantage of Net Insight's Next Generation SDH/SONET Nimbra platform that provides the highest bandwidth utilization with the guaranteed 100% QoS required by broadcasters and operators distributing video.

Furthermore, at IBC2004, Net Insight demonstrated solutions for broadcast, DVB-T (Terrestrial Digital Video Broadcasting), HDTV and Triple Play. The Triple Play solution was demonstrated in cooperation with Net Insight's partner Allied Telesyn International, ATI. Furthermore, Net Insight demonstrated a touch screen application built on software from Dimetis which among others is used in the Regionet of Westdeutscher Rundfunk including 14 cities. Net Insight's booth at IBC was very well visited and with a great deal of pre-booked meetings with a lot of European and US customers and potential customers.

Ascent Media Network Services (AMNS), the largest post production company in the US with offices throughout the country, is utilizing Net Insight's Nimbra platform over Broadwing Communications' Media Services Network to provide AMNS' customers with real-time video and data transfers. AMNS uses Net Insight equipment located at AMNS facilities in New York, Minneapolis Los Angeles, and London, as well as the Net Insight equipment installed on the Broadwing network. The purpose of AMNS is to further expand the network to several cities.

Collaboration

During the quarter, Net Insight signed a reseller agreement with Canadian based Geartech. Geartech will sell Net Insight's products to the professional media market mainly in Canada. Furthermore, Swedish based Agama Technologies is a new Net Insight Triple Play partner. Agama develops monitoring systems for surveying IP-TV services to be able to present the current status of the service. This is important for operators to, in a scalable way, be able to survey and trouble shoot the service they deliver to their customers.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Installations and Technical Verifications

Net Insight is launching a solution for DVB-T (Digital Video Broadcast – Terrestrial) networks that incorporates unique two-way time and frequency transfer functions in its Next Generation SDH/SONET Nimbra platform. These functions provide two-way time and frequency transfer to all nodes in the network with accuracy better than one microsecond, which is within the requirements for DVB-T single frequency networks (SFN). The multicast ASI signals have less than 50 nanoseconds of PCR jitter end-to-end, which synchronizes entire DVB-T multi frequency networks (MFN) and single frequency networks (SFN) directly from the Nimbra platform's network clock.

The new functions can be used to eliminate the need for distributed GPS clocks or as a parallel system for enhanced redundancy and resiliency. This significantly reduces the investment and operational costs for DVB-T networks. The multi-service Nimbra platform incorporates unicast and multicast of ASI, SDI, Ethernet, SDH/PDH streams with SDH/SONET, CWDM, DWDM and dark fiber trunk interfaces. Where other solutions are built on several platforms stacked on top of each other, Net Insight offers a single integrated system that materially reduces CAPEX and OPEX. The cost efficiency is further enhanced by the Nimbra platform's high bandwidth utilization, which can transport up to 147 Mbps of payload over an STM-1 connection, corresponding to less than two percent overhead.

Extra general meeting

The board of Net Insight has decided to call an extra general meeting on October 28 for decision of a new Employee Stock Option Plan ("ESOP"). The board recommends that the extra general meeting makes a decision to accept Net Insight AB 2004 Employee Stock Option Plan and makes a decision to, within ESOP, issue staff options with the possibility to acquire up to 6,700,000 shares series B in Net Insight.

Employee stock options would be offered employees of Net Insight and its subsidiaries. New in this ESOP is that the number of shares that will be possible to acquire with the support of a stock option, is dependent upon fulfillment of certain predefined result and development goals at a specific time, both the result as well as the development goals are decided by the board. For competitor reasons, these goals will not be further communicated.

MARKET PROSPECTS AND FUTURE OUTLOOK

Net Insight's sales during the period totaled SEK 8.2 million, bringing sales for the first nine months of the year to SEK 30.3 million (22.7) which is approximately 33 % higher than the same period last year. The period's sales were mainly attributable to additional orders for the expansion of existing customer installations. These repeat orders from some of the most demanding customers in the world, their long-term buying potential and their satisfaction with the solutions being offered to them, are a good foundation for future acceleration of sales.

As reported earlier, the sales organization has been strengthened. In addition, the efforts to establish major partner collaborations develop positively. The Company firmly believes in increased annual sales compared to 2003. The Company is involved in substantial final contract negotiations and believes that if these result in orders a break-even level can be reached towards the end of the year.

The general market outlook is very positive. The Telco market is again showing positive growth after several years of decrease. Operators who have held back on investments need to upgrade their networks and are looking for new services and new markets to be able to increase their revenues. Triple Play is becoming a well-known business opportunity in many countries and together with other media services becoming market segments that most large operators are evaluating and considering deploying.

Net Insight will participate at the TelcoTV show in Orlando, Florida on November 16-18. TelcoTV focuses on giving telephone operators the tools, resources, contacts and instruction they need for a successful, profitable video deployment. Net Insight will among others show a demo of its Triple Play solution.

EARNINGS TREND

Net sales for the period reached SEK 30.3 million (22.7). Total expenses amounted to SEK 78.5 million (73.6). The operating loss was SEK –60.4 million (–60.2) and the loss after financial items was SEK –59.0 million (–59.5). The operating loss includes depreciation on goodwill amounting to SEK 0.5 million. Net financial items totaled SEK 1.4 million (0.7).

Staff

The total number of employees at the end of the period was 69 (64). The American subsidiary had 5 (5) employees.

Expenses

Total expenses amounted to SEK 78.5 million (73.6). The increase in costs mainly refers to an increase of development spending on core products and the acquisition of Q2 Labs.

Liquidity

Liquid funds at the end of the period totaled SEK 92.7 million (36.5).

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). Development costs have been capitalized in the amount of SEK 10.6 million (6.9) during the period. These are reported as intangible fixed assets.

Parent company

Net sales amounted to SEK 30.3 million (22.7). The loss after financial items amounted to SEK –61.1 million (–65.9). Liquid funds amounted to SEK 91.5 million (36.5). The accumulated tax deficit for business activities in the parent company is estimated at SEK 971.1 million.

CONSOLIDATED INCOME STATEMENT

SEK thousands	3 Months July-Sept 2004	3 Months July-Sept 2003	9 Months Jan-Sept 2004	9 Months Jan-Sept 2003	12 Months Oct '03-Sept '04	1 Jan 2003- 31 Dec 2003
Net Sales	8,230	1,891	30,346	22,688	42,274	34,616
Cost of goods sold	-3,898	-1,076	-12,222	-9,230	-18,275	-15,283
Gross earnings	4,332	815	18,124	13,458	23,999	19,333
Marketing expenses	-9,799	-11,709	-34,981	-35,521	-48,395	-48,935
Administration expenses	-4,510	-4,286	-13,334	-14,929	-15,565	-17,160
Development expenses	-11,628	-7,916	-30,181	-23,166	-41,533	-34,518
Operating earnings	-21,605	-23,096	-60,372	-60,158	-81,494	-81,280
Net financial items	506	266	1,422	663	1,591	832
Earnings before tax	-21,099	-22,830	-58,950	-59,495	-79,903	-80,448
Tax	0	0	0	0	0	0
Net Income for the period	-21,099	-22,830	-58,950	-59,495	-79,903	-80,448

Earnings per share	-0.07	-0.15	-0.21	-0.39	-0.31	-0.49
Number of shares	290,183,400	152,788,953	290,183,400	152,788,953	290,183,400	256,683,400

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	Sept 30, 2004	Sept 30, 2003	Dec 31, 2003
ASSETS				
Fixed assets				
Intangible assets				
Capitalized expenditure for development		18,797	14,307	15,386
Goodwill		3,919	0	0
Tangible fixed assets				
Equipment		882	767	634
Total fixed assets		23,598	15,074	16,020
Current assets				
Inventory		21,712	25,127	22,345
Customer receivables		10,916	18,965	25,412
Other receivables		8,871	6,305	7,063
Cash and bank balances	1	92,690	36,545	78,244
Total current assets		134,189	86,942	133,064
Total assets		157,787	102,016	149,084
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		11,607	7,334	9,167
Non-registered shares		0	296	1,100
Restricted reserves		184,116	134,377	197,477
Accumulated deficit		-58,950	-59,495	-81,053
Total shareholders' equity		136,773	82,512	126,691
Current liabilities				
Accounts payable		7,620	7,988	12,278
Other liabilities		13,394	11,516	10,115
Total liabilities		21,014	19,504	22,393
Total liabilities and equity		157,787	102,016	149,084
Pledged assets:		None	None	None
Contingent liabilities:	1	3,600	5,000	5,000
Note 1				
Other commitments				
Blocked account		3,600	5,000	5,000

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Note	Sept 30, 2004 9 months	Sept 30, 2003 9 months	Sept 30, 2004 12 months	Dec 31, 2003 12 months
ONGOING OPERATIONS					
Operating earnings		-60,372	-60,158	-81,494	-81,280
Depreciation		7,864	4,689	9,891	6,716
Other items not affecting liquidity		-61	-109	-140	-188
Net financial items		1,422	663	1,591	832
Cash flow ongoing operations before change in working capital		-51,147	-54,915	-70,152	-73,920
Change in working capital					
Increase-/decrease+ in inventories		633	-855	3,415	1,927
Increase-/decrease+ in receivables		12,753	2,877	5,548	-4,328
Increase-/decrease+ in current liabilities		-1,462	-5,896	1,427	-3,007
Cash flow from ongoing operations		-39,223	-58,789	-59,762	-79,328
INVESTMENT ACTIVITY					
Acquisitions of intangible fixed assets		-10,583	-6,855	-13,558	-9,830
Sale of tangible fixed assets		104	2	105	3
Cash flow from investment activity		-10,479	-6,853	-13,453	-9,827
FINANCING ACTIVITY					
New share issue		64,064	42,007	129,276	107,219
Purchase of subsidiary through non-cash issue		84	0	84	0
Cash flow from financing activity		64,148	42,007	129,360	107,219
Increase/decrease in liquid funds		14,446	-23,635	56,145	18,064
Liquid funds, opening balance		78,244	60,180	36,545	60,180
Liquid funds, closing balance	1	92,690	36,545	92,690	78,244

CHANGES IN GROUP SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Accumulated deficit	Net earnings	Total shareholders' equity
Opening balance	10,267	197,477	-605	-80,448	126,691
Relocation of net earnings		-80,448		80,448	0
New issue	1,240	62,824			64,064
	100	4,900			5,000
Translation difference for the period		-32			-32
Net earnings				-58,950	-58,950
Closing balance	11,607	184,721	-605	-58,950	136,773

This interim report was compiled on the same accounting principles and calculation bases as for the year 2003. This interim report has not been examined by the company's auditors.

Next report from Net Insight

Year-end report for 2004, February 10, 2005

Additional information – nomination work

In consultation with the company's principal owners, board chairman Lars Berg has started the nomination process in preparation for the Annual General Meeting for 2005. Any proposals regarding the composition of the board can be sent to Lars Berg, Net Insight AB, Box 42093, SE-126 14 Stockholm.

Stockholm, October 27, 2004

Tomas Duffy, CEO, Net Insight AB

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