

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 the period January 1 – September 30, 2005
Net Insight AB (publ), corporate ID no. 556533-4397*

- **Sales for the nine month period up 120% at SEK 66.6 million (30.3)**
- **Earnings after tax SEK –45.7 million (–58.7)**
- **Earnings per share SEK –0.05 (– 0.15)**
- **Gross margin continues to be strong at over 60%**

- **Sales for the third quarter up 180% at SEK 23.1 million (8.2)**
- **Important orders received:**
 - **Several add-on orders to the professional media industry**
 - **Order from one of Germany's largest broadcasters for media network**

SIGNIFICANT EVENTS DURING THIRD QUARTER

Sales

Sales for the third quarter increased to SEK 23.1 million compared to SEK 8.2 million the same quarter last year. This is the third consecutive quarter that Net Insight reports the highest sales in the Company's history. Sales for the nine first months reached a level of SEK 66.6 million, an increase of 120% compared to the corresponding period last year. Furthermore, the Company experiences an increase in demand of software, support, service and training which amounts to approximately 10% of total revenue during the first nine months of the year.

In principal all sales are to the professional media industry including the rapidly growing DTT segment (Digital Terrestrial TV) in Europe and the US, with orders both from existing and from new customers. In a number of cases Net Insight is for competitive reasons prohibited by its customers to release their names or order details.

However, significant add-on orders include:

- **US based media operator Broadwing** that is expanding its current Media Services Network to 41 US cities. This is the second expansion this year to meet growing demand, driven in large part by the 2005-2006 seasons of major sports leagues in the US. Broadwing's media services platform utilizes Net Insight's technology to enable high-speed transport of real-time, contribution-quality video and other file formats for Broadwing's broadcast and other media services customers.
- **Broadcast Service Denmark (BSD)** for equipment to the Danish digital terrestrial TV (DTT) network providing all of Denmark with TV, following the first order announced in April. A substantial part of the order consisted of Nimbra 340, Net Insight's new access switch especially well suited for digital terrestrial TV networks. With DTT, digital TV signals are transmitted from terrestrial masts to digital TV receivers in the households. Among the benefits are lower operational costs, a higher picture quality and the possibility to transmit up to four times more TV channels on the same frequency range. Broadcast Service Denmark (BSD) is responsible for the analog and digital distribution of TV and radio for all of Denmark.
- **Telenor Satellite Services AS, division Telenor Satellite Broadcasting** for the expansion of a media network between a number of European locations.

- **Swedish Space Corporation** for additional equipment to be used for distribution of IPTV as well as for contribution and distribution of professional video.
- **A European network operator** for a build-out of an international media network for transporting real time critical traffic. The network capacity will be upgraded and more cities and customers will be connected.

Furthermore, Net Insight received an order from one of Germany's largest broadcasters regarding equipment to build a media network between several large German cities. The network has been operational since September.

In addition, Net Insight has during the period received other add-on orders from its world-class customers in Europe and the US mainly within the professional media industry. The add-on orders regard equipment as well as software, support and service.

Partnerships

Net Insight continues to focus on establishing new partnerships. During the quarter, Net Insight entered into a partnership with Simac Broadcast, an international systems integrator specializing in video rich network applications such as broadcast, triple play and digital terrestrial networks. Simac Broadcast is partly founded out of Philips broadcast division and has a large customer base in the EMEA and SE-Asia regions. The partnership enables Simac to provide broadcasters and network operators with complete end-to-end solutions for digital terrestrial television (DTT), triple play and broadcast networks.

Furthermore, Net Insight has entered a reseller agreement with SAV, a French company specialized in designing, engineering and supplying video equipment to the broadcast market. In addition to selling Net Insight's products, SAV will also provide training in using the equipment. Moreover, Net Insight has signed a reseller agreement with Alphasat Asia, a company that markets equipment for broadcast and satellite applications. Alphasat Asia will market Net Insight in Singapore, Malaysia and Indonesia.

Installations and Technical Verifications

Net Insight launched the Nimbra 340-HD (High Definition) switched multi-service access solution for live broadcasts plus studio production and contribution in September. Nimbra 340-HD allows broadcasters to distribute uncompressed HD in a wide range of content services, from Live-HD broadcasting of sports and stadium events to pre-taped studio production and contribution. It handles bandwidths for these applications with unsurpassed flexibility by allocating with strict quality of service, independent of the network load. This results in much higher utilization of the infrastructure without loss of quality of service.

Furthermore in September, Net Insight announced the introduction of a high density 8-port DVB-ASI Transport Access Module that enables digital multimedia transport in broadcast, distribution, and contribution networks. Installed in a Nimbra One or Nimbra 340 switch, the 8x ASI Transport Access Module delivers extremely cost-efficient video transport with guaranteed quality of services properties, in a networked environment. The module is ideal for use in production, post-production and broadcast environments. The 8x ASI Transport Access Module will be ready for delivery during the first quarter of 2006.

Product development

Net Insight continues the development of next generation products, the Nimbra 680 and Nimbra 688. With these products, Net Insight will reach a significantly wider market, geographically as well as with regard 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 product Nimbra 680 will be ready for delivery at the end of 2005 and the Nimbra 688 will be ready during the first quarter 2006.

Rights issue

The rights issue approved by the extraordinary general meeting in June was finalized in July and was heavily oversubscribed without utilizing guarantees. The rights issue brought 98.5 MSEK to the company prior to issue costs. Backed by strengthened financials, the Company will be able to increase growth and strengthen its position further.

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.

Exhibitions and events

In August, Net Insight was represented at the Broadcasting Conference & Celebration of 25th Anniversary of the Tallinn TV-Tower sponsored by Levira, which is Estonia's largest radio broadcaster and it's only TV broadcaster.

Moreover, Net Insight participated with its own stand at the International Broadcasting Convention (IBC) 2005, one of the largest broadcast technology events, in Amsterdam in September. The show covers all the key areas of the electronic media business including audio, cable, film, Internet, production, postproduction, radio, satellite and transmission. Net Insight had a very high activity in the stand with many meetings, both with existing and potential customers.

Net Insight participated at the trade show Telecom Networks in Stockholm together with Kista Science City and as a representative of Kista Broadband Alliance (KBA).

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Sales

Net Insight received an order of equipment for uncompressed HDTV (High Definition TV) from an independent test institute that evaluates new technology for broadcasters in Europe. HDTV is expected to be widely used at live broadcasting of sports and cultural events as well as when producing TV where TV studios in different cities cooperate. This is the first order for the Nimbra 340 with HD-SDI interface, a supplementary product to the current product family, and a product that can receive and transport uncompressed HDTV with maintained quality regardless the size of the network.

Net Insight received an add-on order from a European media operator for the expansion of an international media network to a number of cities in Europe.

Exhibitions and events

Net Insight was represented at the ABU 2005 Digital Television Symposium in Malaysia in the beginning of October. The symposium addresses the challenges of introducing digital TV into the Asia-Pacific region. Net Insight will increase its focus on Asia and plans to participate at several trade shows in Asia the coming year.

Net Insight was also represented at the Mid-America Telecom Showcase & Seminar in Kansas City, US in October. The telecom trade show gathers local and regional telecom operators in the US to showcase and discuss triple play solutions and opportunities.

Net Insight participated together with its new French reseller SAV at the broadcast trade show Satis-expo in Paris in October, where among others Net Insight's new product Nimbra 340 was demonstrated.

Partnerships

Net Insight has signed a reseller agreement with the UK based company MDI that will market Net Insight's products on the cable market in Europe.

MARKET PROSPECTS AND FUTURE OUTLOOK

Sales for the third quarter amounted to SEK 23.1 million, which was slightly above the second quarter sales, and which brings sales for the first nine months to SEK 66.6 million (30.3). Net Insight has received a number of strategic and important orders from customers such as Broadwing, Broadcast Services Denmark and SAVVIS positioning the Company well to continue the momentum into 2006.

Net Insight continues to focus on the prioritized market segments, i.e. the professional media industry, triple play and the metro/core markets. The Company now has a strong foothold in the professional media industry with exceptional customer references in key markets. Furthermore, the analogue switch-off and deregulation drives demand for new digital terrestrial TV networks (DTT) in Europe and Asia.

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 new share issue, the Company will strengthen its market and product position further.

Customer driven spending on research and development as well as the development of the Nimbra 340 and the Nimbra 680 will lead to increased development costs during 2005. As a consequence, the overall cost level will thereby be slightly above last year's.

EARNINGS TREND

Net sales for the period reached SEK 66.6 million (30.3). Total expenses amounted to SEK 87.7 million (78.3). The Company continues to maintain a gross margin of approximately 60%. The operating loss was SEK –46.5 million (–60.1) and the loss after financial items was SEK –45.7 million (–58.7). Net financial items totaled SEK 0.8 million (1.4).

Staff

The total number of employees at the end of the period was 74 (69) of which the American subsidiary had 6 (5) employees.

Costs

Total costs amounted to SEK 87.7 million (78.3). The increase in costs mainly refers to an increase of customer driven development spending on core products.

Liquidity

Liquid funds at the end of the period totaled SEK 109.0 million (92.7).

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0.3 million (0). Development costs have been capitalized in the amount of SEK 21.7 million (10.6) during the period. These are reported as intangible fixed assets.

Parent company

Net sales amounted to SEK 91.8 million (30.3). The loss after financial items amounted to SEK –39.8 million (–61.1). Liquid funds amounted to SEK 107.5 million (91.5). The accumulated tax deficit for business activities in the parent company is estimated at SEK 1,058 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. Net income for the quarter includes resolved depreciation of goodwill amounting to SEK 435 thousand.

Two of the Company's outstanding Staff Stock Option Plans are 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 194 thousand for the employee stock option program. 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 July-Sept 2005	3 Months July-Sept 2004	9 Months Jan-Sept 2005	9 Months Jan-Sept 2004	12 Months Oct '04-Sept '05	1 Jan 2004- 31 Dec 2005
Net Sales	23,100	8,230	66,640	30,346	76,797	40,503
Cost of goods sold	-8,815	-3,898	-25,431	-12,222	-29,356	-16,147
Gross earnings	14,285	4,332	41,209	18,124	47,441	24,356
Marketing expenses	-9,874	-9,799	-31,298	-35,041	-42,104	-45,847
Administration expenses	-4,190	-4,510	-13,715	-13,357	-18,619	-18,260
Development expenses	-11,260	-11,628	-42,667	-29,857	-57,277	-44,467
Operating earnings	-11,039	-21,605	-46,471	-60,131	-70,559	-84,218
Net financial items	350	506	777	1,422	1,201	1,846
Earnings before tax	-10,689	-21,099	-45,694	-58,709	-69,358	-82,372
Tax	0	0	0	0	0	0
Net Income f. the period	-10,689	-21,099	-45,694	-58,709	-69,358	-82,372

Earnings per share	-0.03	-0.07	-0.05	-0.15	-0.23	-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	Sept 30, 2005	Sept 30, 2004	Dec 31, 2004
ASSETS				
Fixed assets				
Intangible assets				
Capitalized expenditure for development		34,415	18,797	22,637
Goodwill		4,354	4,354	4,354
Tangible fixed assets				
Equipment		772	882	816
Total fixed assets		39,541	24,033	27,807
Current assets				
Inventory		16,905	21,712	22,377
Customer receivables		26,684	10,916	13,353
Other receivables		6,352	8,871	5,587
Cash and bank balances	1	108,984	92,690	74,900
Total current assets		158,925	134,189	116,217
Total assets		198,466	158,222	144,024
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		14,710	11,607	11,607
Non-registered shares		0	0	33
Restricted reserves		192,965	184,915	185,512
Accumulated deficit		-81	-605	-81
Net Income for the period		-45,694	-58,709	-82,372
Total shareholders' equity		161,900	137,208	114,699
Current liabilities				
Accounts payable		13,132	7,620	12,736
Other liabilities		23,434	13,394	16,589
Total liabilities		36,566	21,014	29,325
Total liabilities and equity		198,466	158,222	144,024
Pledged assets:		None	None	None
Contingent liabilities:	1	3,720	3,600	5,000
Note 1				
Other commitments				
Blocked account		3,720	5,960	5,000

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	Note	Sept 30, 2005 9 months	Sept 30, 2004 9 months	Sept 30, 2005 12 months	Dec 31, 2004 12 months
ONGOING OPERATIONS					
Operating earnings		-46,471	-60,131	-70,558	-84,218
Depreciation		10,260	7,864	12,872	10,476
Other items not affecting liquidity		5	-302	227	-80
Net financial items		777	1,422	1,201	1,846
Cash flow ongoing operations before change in working capital		-35,429	-51,147	-56,258	-71,976
Change in working capital					
Increase/decrease in inventories		5,472	633	4,807	-32
Increase in receivables		-14,096	12,753	-13,249	13,600
Increase/decrease in current liabilities		7,241	-1,462	15,809	7,106
Cash flow from ongoing operations		-36,812	-39,223	-48,891	-51,302
INVESTMENT ACTIVITY					
Acquisitions of intangible fixed assets		-21,680	-10,583	-28,363	-17,266
Acquisitions of tangible fixed assets		-279	0	-340	-61
Disposal of tangible fixed assets		0	104	0	0
Cash flow from investment activity		-21,959	-10,479	-28,703	-17,327
FINANCING ACTIVITY					
New share issue		92,855	64,064	93,992	65,201
Purchase of subsidiary through non-cash issue		0	84	0	84
Cash flow from financing activity		92,855	64,148	93,992	65,285
Increase/decrease in liquid funds		34,084	14,446	16,398	-3,344
Liquid funds, opening balance		74,900	78,244	92,690	78,244
Liquid funds, closing balance	1	108,984	92,690	109,088	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
Rellocation of net earnings		-81,437	-935	82,372	0
New issue	3,070	89,785	0		92,855
Translation difference for the period	0	4	36		40
Net earnings				-45,694	-45,694
Closing balance	14,710	193,864	-980	-45,694	161,900

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					63,969
Non-cash issue					5,000
Translation difference for the period		-32			-32
Net earnings				-58,950	-58,950
Recalculation according to IFRS Q1-Q3 2004:				0	0
				435	0
Recalculation of staff warrants				-194	0
2004-09-30	11,607	184,480	-605	-58,709	136,678
Recalculation according to IFRS Q4 2004					
Recalculation of staff warrants		65		-65	0
Recalculation of goodwill				218	0
Not registered share capital	33	1,200			1,233
Translation difference for the period		-83	35		-48
Reallocation between restricted reserve and accumulated deficit		-489	489		0
Net earnings				-23,816	-23,816
2004-12-31	11,640	184,955	-81	-82,372	114,047
Income statement			Q3 2004	Adjustment	Q3 2004
Adjustment of opening balances according to IFRS					
Marketing expenses - staff stock options			-34,981	-60	-35,041
Administration expenses - staff stock options			-13,334	-23	-13,357
Development expenses - staff stock options and			-30,181	324	-29,857
Adjustment Q1 - Q3 2004				242	
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 Sept 2004	Adjustment	30 Sept 2004
Net Income for the period			-58,950	241	-58,709
Restricted reserves			184,116	194	184,310
Goodwill			184,116	194	184,310
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

Year-end report for 2005, February 17, 2006

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 2006. 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 25, 2005

Tomas Duffy, CEO, Net Insight AB

For more information, please contact:

Tomas Duffy, CEO, Net Insight AB

Phone +46 8 685 04 00, e-mail: tomas.duffy@netinsight.net

Fredrik Trägårdh, CFO, Net Insight AB

Phone +46 8 685 06 01, e-mail: fredrik.tragardh@netinsight.net

Net Insight AB

Västberga Allé 9

126 40 Stockholm, Sweden

Tel: +46 8 685 04 00

www.netinsight.net

Corp. identity no. 556533-4397