



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 – 31 March 2005

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

- **Record sales for the first quarter, SEK 21.0 million (13.1), an increase of 60% compared to the same quarter last year**
- **Result after taxes for the period amounted to SEK –18.6 million (–19.6)**
- **Earnings per share for the period amounted to SEK –0.06 (–0.08)**
- **Gross margin for the quarter increased and reached 62% (53%)**
- **Telenor Satellite Services AS, division Telenor Satellite Broadcasting, chose Net Insight to build European media network**
- **Order of SEK 13 million from Broadwing as a first stage in a larger network build out in the US**

After the reporting period:

- **Largest order ever received from Broadcast Service Danmark for a Danish national digital TV network**
- **Strategic alliance agreement signed with Charles Industries for joint triple play solutions in the US**
- **To secure growth, a fully secured rights issue is announced (SEK 98.5 million)**

SIGNIFICANT EVENTS DURING THE QUARTER

Sales

During the first quarter Net Insight continued to report growth. Sales in the first quarter reached SEK 21.0 million (13.1) which is an increase of 60% compared to the same period last year and the best quarter in Net Insight's history. Net Insight continues to expand its list of world-class customers within the professional media industry.

At the beginning of the year, Net Insight received an order of approximately SEK 13 million from the US media operator Broadwing. The order is the first big step in an expansion of a media network to initially include 20 cities in the US. Broadwing will use the network to transport contribution and distribution broadcast TV programming for its broadcast and media services customers. Furthermore Broadwing is teaming up with Intelsat, one of the largest satellite companies in the world and Hughes Television Networks (HTN), a service provider of digital services to the sports cable and broadcasting industry, to deliver a new set of services to broadcasters. The operators have interconnected their respective North American fiber distribution networks to create comprehensive, end-to-end connectivity to major U.S. sports venues. HTN Communications is already leveraging the enhanced network offering to distribute Major League

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Baseball from U.S. sports venues to broadcast studios throughout North America using the newly established network powered by Nimbras.

Net Insight also received an order from a new customer, Labs2, for a Scandinavian network for distribution of TV, HDTV, Video-on-Demand, telephony, and data services. The network fulfills the high quality requirements demanded by broadcasters when transporting TV and video. The equipment was delivered and installed during the first quarter.

Furthermore, Net Insight won a deal regarding a Digital Terrestrial TV network (DTT) from a Nordic TV and radio transmission operator. The equipment from Net Insight will be used to expand the customer's current DTT network. Lately, Net Insight has received several orders in the segment of Digital Terrestrial Distribution networks, which is seen as a rapidly growing segment due to the phasing out of the analogue networks in several countries. This development is highly favorable to Net Insight that already has a strong position with a leading solution for video transport.

Telenor Satellite Services AS, division Telenor Satellite Broadcasting, has chosen Net Insight's equipment to build a European media network. The network will be used to transport data and video between a number of European locations. The network will be delivered and installed during the second quarter of 2005.

Moreover, Net Insight has received several add-on orders regarding network equipment for expansion of an international media network from one of its existing customers. The equipment is used to transport high qualitative media traffic in the network.

Annual general meeting

At the Annual general meeting on March 17, the following board members were re-elected: Chairman Lars Berg and board members Bernt Magnusson, Birgitta Stymne Göransson, Bo Dimert, Clifford H. Friedman and Raimo Lindgren.

Product development

During the quarter Net Insight has finalized the development of the new platform the Nimbra 340, which is now ready for delivery to customers. Net Insight already has received orders for shipment of the Nimbra 340. The Nimbra 340 is an excellent entry-level product and a cost-efficient platform that can be placed further out in the network. It is extremely well suited for professional media networks and Digital Terrestrial TV networks (DTT).

Furthermore, Net Insight has continued the development of the new platform Nimbra 680. With the Nimbra 680 Net Insight will have a greater potential to reach a significantly wider market, both geographically as regards to segments and customers. Nimbra 680 is also well suited for high capacity networks in current segments and can also increase the sales potential in the segment for core networks. The Nimbra 680 will be ready for delivery at the end of 2005.

Both new products will increase the competitiveness of Net Insight and also make it possible to address new, wider market segments and reach a broader range of customers.

Exhibits and shows

Net Insight has participated successfully at several shows during the first quarter. In January as one of the sponsors at the triple play show TVoDSL in Paris, which is a seminar based show with a smaller exhibition. Furthermore, as a sponsor at the NTCA Annual Meeting & Expo in San Antonio, US in February, a gathering that included seminars and meetings. The NTCA is a national association representing more than 500 small and rural exchange carriers providing telecommunication services throughout rural America.

Net Insight also participated at NextGen Telecoms in Budapest in February where the new, high capacity multi-service switch Nimbra 680 was launched. Moreover Net Insight was invited by CableLabs to demonstrate its solution to cable operators at the CableLabs Winter Conference in Colorado, US in March.

Installations and Technical Verifications

Net Insight introduced the Nimbra 680 Next Generation multi-service switch at the show NextGen Telecoms in Budapest in February. Nimbra 680 is a high capacity switch that utilizes Next Generation SDH/SONET. With carrier class performance combined with drastically reduced costs, Nimbra 680 is targeted at meeting the rigorous 100% QoS demands of media and triple-play networks and opening up new revenue-generating service opportunities over metropolitan and core networks. Nimbra 680 is fully compatible with the Nimbra One/340 series of multi-service edge and access switches, and provides an operator with a set of network switching options to meet its unique needs. Existing Nimbra platform users can take advantage of Nimbra 680 to economically scale their networks.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Sales

Net Insight received a record order worth more than 10 MSEK in April from Broadcast Service Danmark. In competition with several other international players Net Insight won the contract for the Danish digital terrestrial TV network. The network will be built with Net Insight's Nimbra platform that will be 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. The network will reach all households in Denmark.

Net Insight has delivered equipment for a media network to the German post-production company VCC Perfect Pictures (VCC) in April. The network will connect VCC's subsidiaries in Germany, and enable a fast, cost-efficient transport solution for professional video. VCC is one of the largest post-production companies in Europe, which produces TV spots, commercials, and other video material. It is also the first post-production company in Europe that uses this new technique and connects its subsidiaries. This is a new company segment for Net Insight, which can open up new, great market opportunities.

Rights issue

Based on sales growth, the financial result to date, as well as selective investments in R&D and sales, the Board has decided in favor of a fully secured rights issue with preference for all of Net Insight's current shareholders that will bring SEK 98.5 million to the Company under conditions expected to be approved by the extra general meeting on June 7, 2005. The rights issue will increase the number of B-series shares with a maximum of 72,927,315. The number of shares after the rights issue will be in total 364,636,578 shares (with a distribution of 3,600,000 A-series shares and 361,036,578 B-series shares). Further details announced in a separate press release.

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.

Exhibits and shows

Net Insight was one of the sponsors of the World Triple Play Broadband Forum in Stockholm in the beginning of April, which was a seminar based show directed to operators and service providers.

Additionally in April Net Insight participated at the media show NAB 2005, National Association of Broadcasters, in Las Vegas where approximately 1,200 companies within the professional media industry were exhibiting. During the show the new products the Nimbra 340 and Nimbra 680 drew a lot of attention to the booth.

Furthermore at NAB 2005, Net Insight introduced an enhanced version of its Nimbra Vision network management system designed for broadcasters and professional media companies. 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. Nimbra Vision provides a superior overview of the operation of a Nimbra network.

MARKET PROSPECTS AND FUTURE OUTLOOK

During the first part of 2005, the Company has received a number of strategic and important orders and customers, among others Broadwing, Broadcast Services Denmark, and Telenor Satellite Services AS, division Telenor Satellite Broadcasting. 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 first quarter 2005 was a record quarter and the Company expects the second quarter to show at least the same level of sales. The outlook regarding substantial increase of sales and a significantly improved result for the year remains firm. With the rights issue the Company will be able to accelerate growth and strengthen its position further.

EARNING TRENDS

Net sales amounted to a total of SEK 21.0 million (13.1) for the period. The total costs amounted to SEK 32.0 million (26.8). The operating loss amounted to SEK –18.9 million (–19.9) and the loss after financial items amounted to SEK –18.6 million (–19.5). The financial net amounted to SEK 0.3 million (0.4).

Gross margin

The Company increased the gross margin on increasing sales. The gross margin for the period was 62% (53%).

Costs

The total costs amounted to SEK 32.0 million (26.8). As earlier announced, the increase in costs refers to higher development spending for Nimbra 340 and Nimbra 680.

Staff

At the end of the period Net Insight employed 64 (64) people. The American subsidiary Net Insight Inc employed 5 (5) people at the end of the period.

Liquidity

The liquidity at the end of the period was SEK 49.9 million (65.1).

Investments

Investments in instruments, equipment and improvements to premises amounted to SEK 0 (0). SEK 7.0 (2.5) million 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 30.2 million (13.1). The deficit after financial items amounted to SEK –12.2 million (–6.4). Liquid funds amounted to SEK 49.0 million (63.7). The calculated accumulated tax deficit for business in the parent company is estimated to be SEK 1,002 million.

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 TSEK 65 for the employee stock option program. The Staff Stock Option Plan issued in 2004 has not yet been allocated as of 31 March 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	Note	Jan 1, 2005 - March 31, 2005	Jan 1, 2004 - March 31, 2004	April 1 2004 - March 31, 2005	Jan 1, 2004 - Dec 31, 2004
Net Sales		21,011	13,121	48,393	40,503
Cost of goods sold		-7,904	-6,160	-17,891	-16,147
Gross earnings		13,107	6,961	30,502	24,356
Marketing expenses	1	-10,855	-12,164	-44,538	-45,847
Administration expenses	1	-5,048	-4,496	-18,816	-18,264
Development expenses	1	-16,117	-10,253	-50,327	-44,463
Operating earnings		-18,913	-19,952	-83,179	-84,218
Net financial items		282	378	1,750	1,846
Earnings before tax		-18,631	-19,574	-81,429	-82,372
Tax		0	0	0	0
Net Income for the period	1	-18,631	-19,574	-81,429	-82,372
Earnings per share		-0.06	-0.08	-0.31	-0.29
Earnings per share after dilution		-0.06	-0.08	-0.31	-0.29
Number of shares		291,709,263	256,683,400	291,709,263	291,005,345

CONSOLIDATED BALANCE SHEET

Amount in SEK thousands	Note	March 31, 2005	March 31, 2004	Dec 31, 2004
ASSETS				
Fixed assets				
Intangible assets				
Capitalized expenditure for development		26,129	15,832	22,637
Goodwill	1	4,354	0	4,354
Tangible fixed assets				
Equipment		706	549	816
Total fixed assets		31,189	16,381	27,807
Current assets				
Inventory		18,934	20,274	22,377
Customer receivables		20,919	18,205	13,353
Other receivables		7,530	8,645	5,587
Cash and bank balances		49,909	65,094	74,900
Total current assets		97,292	112,218	116,217
Total assets		128,481	128,599	144,024
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		11,668	10,267	11,607
Shares not registered		0	0	33
Restricted reserves		105,125	116,894	185,512
Accumulated deficit		-1,013	-605	-81
Net Income for the period	1	-18,631	-19,574	-82,372
Total shareholders' equity		97,149	106,982	114,699
Current liabilities				
Accounts payable		8,783	9,585	12,736
Other liabilities	1	22,549	12,032	16,589
Total liabilities		31,332	21,617	29,325
Total liabilities and equity		128,481	128,599	144,024
Pledged assets		None	None	None
Contingent liabilities		None	None	None

CONSOLIDATED CASH FLOW STATEMENT

Amount in SEK thousand	March 31, 2005 3 months	March 31, 2004 3 months	March 31, 2005 12 months	Dec 31, 2004 12 months
ONGOING OPERATIONS				
Operating earnings	-18,913	-19,952	-83,179	-84,218
Depreciation	3,578	2,184	11,870	10,476
Other items not affecting liquidity	60	-200	180	-80
Net financial items	282	378	1,750	1,846
Cash flow ongoing operations before change in working capital	-14,993	-17,590	-69,379	-71,976
Change in working capital				
Increase/decrease in inventories	3,443	2,069	1,342	-32
Increase in receivables	-9,509	5,627	-1,510	13,600
Increase/decrease in current liabilities	2,008	-711	9,799	7,106
Cash flow from ongoing operations	-19,051	-10,605	-59,748	-51,302
INVESTMENT ACTIVITY				
Acquisitions of intangible fixed assets	-6,996	-2,545	-21,717	-17,266
Acquisitions of tangible fixed assets	0	0	-61	-61
Sale of tangible fixed assets	0	0	0	0
Cash flow from investment activity	-6,996	-2,545	-21,778	-17,327
FINANCING ACTIVITY				
Warrants	1,056	0	1,056	0
New share issue	0	0	65,201	65,201
Purchase of subsidiary through non-cash issue	0	0	84	84
Cash flow from financing activity	1,056	0	66,341	65,285
Increase/decrease in liquid funds	-24,991	-13,150	-15,185	-3,344
Liquid funds, opening balance	74,900	78,244	65,094	78,244
Liquid funds, closing balance	49,909	65,094	49,909	74,900

CHANGES IN GROUP SHAREHOLDERS' EQUITY

Amount in SEK thousand	Share capital	Restricted reserves	Accumulated deficit	Net earnings	Total shareholders' equity
2005-01-01	11,640	185,512	-81	-82,372	114,699
Reallocation of net earnings		-81,437	-935	82,372	0
Options redeemed	3	108			111
Non registered share-capital	25	920			945
Translation difference for the period		22	3		25
Net earnings				-18,631	-18,631
2005-03-31	11,668	105,125	-1,013	-18,631	97,149

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	Accumulated 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
Translation difference for the period		-200			-200
Net earnings				-19,509	-19,509
Recalculation according to IFRS Q1 2004:					
Recalculation of staff warrants		65		-65	0
2004-03-31	10,267	116,894	-605	-19,574	106,982
Recalculation according to IFRS Q2-Q4 2004					
Recalculation of staff warrants		193		-193	0
Recalculation of goodwill				653	653
New share issue	1,240	62,729			63,969
Non-cash issue	100	4,900			5,000
Not registered share capital	33	1,200			1,233
Translation difference for the period		85	35		120
Relocation between restricted reserve and accumulated deficit		-489	489		0
Net earnings				-63,258	-63,258
2004-12-31	11,640	185,512	-81	-82,372	114,699
Income statement			Q1 2004	Adjustment	Q1 2004
Adjustment of opening balances according to IFRS					
Marketing expenses - staff stock options			-12,144	-20	-12,164
Administration expenses - staff stock options			-4,488	-8	-4,496
Development expenses - staff stock options and			-10,216	-37	-10,253
Adjustment Q1 2004				-65	
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	-34	-18,264
Development expenses - staff stock options and goodwill			-44,972	509	-44,463
Total net income adjustments 2004				395	
Balance sheet			31 March 2004	Adjustment	31 March 2004
Net Income for the period			-19,509	-65	-19,574
Restricted reserves			116,829	65	116,894
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

Next report from Net Insight

Interim report for January – June: 18 August 2005

Stockholm, 3rd May 2005

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