



Nextlink AB (Publ)

Quarterly report

January 1st – September 30th 2006

Third quarter:

- Revenue during period amounted to 11.7 (14.7) MSEK
- Earnings after tax (EAT) was -11.8 (-0.6) MSEK
- Earnings per share was -0.81 (-0.06) SEK
- Order backlog amounts to 30.1 MSEK
- New orders for 148.045 units (consumer and professional) in the quarter
- Directed share issue of 28.6 MSEK was completed

January – September:

- Revenue increased with 57% to 47.8 (30.4) MSEK
- Earnings after tax (EAT) was -26.5 (-0.9) MSEK
- Earnings per share was -1.81 (-0.09) SEK

Major events after the third quarter:

- The first 13,000 consumer headsets of the new model VS600 were shipped to RadioShack in the first week of October

President's comments to the third quarter report

This quarter has been one of transition, which has resulted in lower than expected revenue. This was due to the shipment of the entire old inventory, as we get ready to begin shipments of new products in the first quarter. Costs continue to be high, but in line, as we continue to invest in ramping up sales, engineering, product development, and operations. These expenses are necessary as we continue to invest in start-up costs.

The third quarter continued to be a period of positive momentum for Nextlink. This was demonstrated by the addition of new distribution partners in both the consumer and professional business units. Further validation of increased commitment to our new and existing product portfolio was the receipt of new orders in the Consumer business totaling approximately 143,000 units, while bookings in the Professional business totaled over 5,200 units.

We also continued to drive towards the completion of the joint product development with one of the leading handset manufacturers. The release of our first OEM product to the market is scheduled to the present quarter. In addition, we are exploring other business opportunities in the OEM sector.

Just after the third quarter we also successfully delivered the first 13,000 consumer headsets to RadioShack. This product is one of the three newly developed products specifically for RadioShack.

The events in the recent quarter clearly demonstrate that we are crossing the bridge as evidenced by the activity in new orders and the fulfillment of orders and commitments to key distribution partners.

The company has during this quarter also successfully managed to secure all the necessary production capacity and specific components for the products that is required to start manufacturing at a much larger scale. We have also recruited some additional personnel in the sourcing and production management team. We continue to take every precaution to ensure flawless deliveries.

We successfully raised 28.6 MSEK (before fees), the issue price was at market price, which will allow the company to fuel its growth by continuing investment in people, product development, working capital and further development of our current distribution network.

I feel very confident that our strategy is on target in all of our segments and believe that this will ensure that the final quarter of the year and 2007 will be positive for the company and its shareholders.

Andrew Berman
President and CEO

Nextlink in short

Business Concept

Nextlink's Business Concept is to develop, market and sell products and technology for audio communication under its own brand as well as for OEM contracting.

Vision

It is our vision to enable people to communicate comfortably in all sound environments.

Mission

Nextlink's vision is to provide world leading products and technology for sending and receiving high quality speech for communication in all sound environments.

Business Areas

Nextlink operates in three Business Areas with different product lines:

- Consumer Bluetooth headsets under the brand INVISIO.
- Professional wired headsets based on Nextlink's patented jawbone microphone technology under the brand INVISIO PRO.
- Technology development and licensing to primarily mobile handsets OEMs.

Market Overview

Professional markets

The market for Nextlink's professional products is expanding. The market growth is dependent upon the use of walkie-talkies and other types of two-way radio equipment.

Nextlink estimates the professional headset market to 2.8 million users with a two year replacement cycle, which equals 1.4 million headsets annually. This corresponds to an estimated market value of SEK 2.1 billion. The market is estimated to have an annual growth rate of around 2-3%. The US accounts for roughly half of the global market and most competitors are US based. One segment within the professional market, that is showing good rates of growth is the market for accessories, such as push-to-talk units.

During the last couple of years Nextlink has steadily gained market shares with the INVISIO-products.

The professional customers are foremost military Special Forces, security services, police force and other professional categories which requires high quality sound in their communication.

Consumer Markets

During the last few years Nextlink has focused on Bluetooth-based wireless headsets for mobile consumer devices. This consumer market can be divided into several sub segments, of which mobile and gaming and computer are the most important ones for Nextlink. These two areas are expected to outgrow the broader market in the medium term. Market analysts expects the average annual growth rate for the whole market to reach 20% over the coming five years, with growth rates in mobile of 20-30% and gaming and computer of 15-25%.

As a principle, the mobile headset sales are well correlated to mobile handset sales. However, since mobile headsets can either be corded or un-corded technical requirements also play an important part for growth. In 2005, some 20% of total handsets sold were Bluetooth enabled a share which is expected to triple to 60% by the year 2010.

The global sales of mobile phones were approximately 820 million in 2005, of which 18 percent were Bluetooth enabled. In 2006 Nextlink expects a sizeable growth in the overall market for Bluetooth enabled phones, but in the US in particular, since it lags the European market by a couple of years in adoption.

Based on the aforesaid, Nextlink expects the Bluetooth headset and headphone market to grow substantially during the coming three years, a view that is shared by most participants in the market. The global Bluetooth headset market is estimated to grow from 60 million units in 2006 to more than 100 million units in 2008.

Consumer Bluetooth headset sales is still primarily driven by mobile phone applications, but Bluetooth enabled mp3-players, Ipods, gaming and VoIP are also driving the need for wireless stereo headphones.

Nextlink see an overall trend towards convergence between communication and entertainment (gaming, music and video) as opening new opportunities in the wireless headset market. Future revenue growth will increasingly be driven by the need for stereo headsets in mobile music and rich media, like TV. Stereo headsets are expected to grow its share of the wireless headset market in the coming years. From this also follows growing client demands for higher speech and sound quality.

All the work carried out by Nextlink in recent years, has positioned the company in a favorable position in order to take a decent market share in the very demanding segments. The costs and efforts of taking the company this position, will prove to have been worthwhile.

Highlights from the third quarter

Received the largest headset order to date

Nextlink received an order for 75,000 units, from RadioShack, during the quarter. The products

ordered were a mix of Nextlink's newly developed consumer products. The delivery of the products will commence in the fourth quarter and continue into the first quarter 2007. The total order value was estimated to approximately SEK 30 million.

New distributors and additional orders in consumer products

The RadioShack agreement that was renegotiated in June opened up the opportunities for Nextlink to widen the sales and distribution network for consumer products.

Nextlink received a number of new orders during the third quarter from several new distributors. Shipments will start in the fourth quarter, and continue into the coming year. The orders cover both current and future products.

New branding strategy

Nextlink has implemented a new branding strategy during the second half of 2006. All new products will be branded INVISIO for the consumer market or INVISIO PRO for the professional market. The purpose is to concentrate market spending into building one strong brand INVISIO.

The brand "Bluespoon" is being discontinued whereas the Nextlink brand names may still be used for consumer products that are developed or sold as private label products to selected customers.

Preparations for delivery and future ramping up of sales

The third quarter was focused on securing manufacturing and delivery of the new consumer products and the components thereto. During the period Nextlink entered into two manufacturing agreements, with one Taiwanese and one Chinese OEM manufacturer. The manufacturing agreements cover Nextlink's newly developed consumer products.

Delayed shipments of the stereo headset

While all the projects are moving forward as expected, one of the projects (The INVISIO S20-project with stereo Bluetooth headset) has been delayed until the first quarter of 2007 in order to focus Nextlinks scarce R&D resources.

Additional financing

The board of directors initiated a more aggressive growth strategy during the spring of 2006. The growth plan included an opening of a sales office in Dallas, USA, and the recruiting of additional personnel. This is in order for Nextlink to handle the coming large production and sales volumes. During the first half of 2006 and the third quarter Nextlink has been developing the new products to be launched during the fourth quarter 2006 and the first quarter 2007.

The strategy also requires that the company shift from a local innovation company to a more global counter party to mobile phone manufactures, mobile operators etc. The organization has been aligned in every respect to new standards, and so has the cost of this organization. The current operating expenses are approximately 12 MSEK per quarter.

In order to finance the expansion and related increased working capital need Nextlink issued new shares for 28.6 MSEK and was also granted a loan of 10 MSEK during the quarter.

New CFO

Nextlink has hired a new Chief Financial Officer, Johan Wennerholm. He joined Nextlink from UpGrade Communication Group, owned by DORO AB, listed on the Stockholm Stock Exchange, where he held the position as CFO.

Prior to UpGrade Communication Mr. Wennerholm has held several senior positions within international companies including PNB Communication AB and Tetra Pak.

Comments on sales and earnings

Sales

Sales for the period amounted to 11.7 (14.7) MSEK. The sales figure for the third quarter was slightly below with management expectations, due to late shipments of products.

Sales for the nine months increased with 57% to 47.8 (30.4) MSEK.

New orders of approximately 148,045 units were received during the third quarter.

The total order backlog increased, during the period, by 14 percent to 30.1 MSEK. It is very positive for Nextlink that several of the new orders which are received are coming from new distributors.

Gross profit for the period amounted to 0.7 (4.4) MSEK, which corresponds to a gross margin of 6 % (30 %). The gross profit, for the nine months ended, was 17.3 (11.5) MSEK which equals a gross margin of 36 % (38 %).

The low gross profit for the period was due to clearing of outdated and old inventory. This stock had to be sold out since the launch of new products will make the previous ones obsolete.

Consumer products

Third quarter sales reached 53,104 (45,788) units of the consumer headsets. All products sold during the period were from the old product lines.

The accumulated consumer headset sales for 2006 are 147,161 (88,443) units. During the third quarter orders for 142,768 units were booked.

Total order backlog, for the consumer products, at the end of the period was 27.2 MSEK. The products in the order backlog will be shipped during the rest of the year and the first quarter of 2007. The number of units in the order backlog was 98,310. The order backlog consists of a mix of Nextlink's current and future products lines.

Professional products

The sales for the period amounted to 2,363 (1,628) units. The accumulated yearly sales were up 55.4 % to 7,957 (5,119) units for the nine months ended.

Order backlog at the end of the period amounted to 2.9 MSEK, which is expected to be delivered during the remainder of 2006. The number of units in the order backlog is 1,917.

OEM/Licensing

Nextlink did not invoice anything for the period ended. Nextlink have now reached the third milestone. Once the fourth, and last product completion milestone is completed another milestone payment will be made to Nextlink. The OEM customer is expected to commence production of the product in November. At the time of production start Nextlink will communicate the name of the global mobile handset maker.

During the nine months ended revenue was 5.4 (0.0) MSEK.

The major part of the revenue derives from having successfully delivered the first two project milestones in the OEM joint product development venture with a global mobile handset maker.

Operating expenses

The operating expenses for the period amounted to approximately 12.0 (4.5) MSEK.

Accumulated operating expenses for the year, including extraordinary expenses were 42.4 (11.4) MSEK.

No extraordinary costs were incurred in the third quarter of 2006 compared to 1.0 MSEK in 2005.

The first six months were burdened with extraordinary expenses of approximately 8.2 (0.0) MSEK.

Earnings

Earnings after tax for the period was -11.8 (-0.6) MSEK. The earnings after tax per share amounted to -0.81 (-0.06) SEK for the period.

The earnings after tax for the nine months ended amounted to -26.5 (-0.9) MSEK, which is equivalent to -1.81 (-0.09) SEK per share.

Financials

Investments

Nextlink made investments amounting to 0.3 (1.0) MSEK during the third quarter.

The accumulated investments of the Nextlink group for the period amounted to 0.9 (1.4) MSEK.

Nextlink capitalized research and development expenditure during the quarter of 1.8 MSEK. The expenditure relates to the development of the whole new product range of both consumer and professional products.

Liquidity

Cash at hand at the end of September was 27.9 (8.8) MSEK compared to 19.4 MSEK in the beginning of the year.

Nextlink was granted a bank loan of 10 MSEK in July. In addition to the bank loan Nextlink issued new shares which brought in 28.6 MSEK. On top of the share issue warrants were exercised during the quarter which added an additional 1.8 MSEK to the company's cash position.

Shareholders equity

Nextlink made a share issue of 1,270,000 shares at SEK 22.50 per share during the period. The gross amount received by the company, before fees, was 28.6 MSEK.

The Company also received a notice of an exercise of warrants in Nextlink during the period. The number of exercised warrants resulted in 464,000 new shares. This will result in a capital injection of 1.8 MSEK.

The consolidated shareholders equity amounted to 33.0 MSEK at the end of the third quarter. The number of shares on the closing date were 14,610,453. The fully diluted numbers of shares amounts to 17,250,320. The consolidated equity ratio was 52.6 % at the end of the third quarter.

Cash flow and financial position

Cash flow from operations during the third quarter was -9.8 (-7.1) MSEK.

Accumulated for 2006 the total cash flow from operations is -28.5 (-9.9) MSEK.

The parent company

Revenue in the parent company was during the period 0.0 (0.0) MSEK and the result after taxes was -10.5 (-0,6) MSEK.

Equity ratio is 76 (65) %. Liquid assets were at the end of the period 0.1 (2.4) MSEK. Investments were 0.0 (0.0) MSEK. Number of employees in the parent company are 2 (0).

Major events after the reporting period

First shipment of new consumer products to RadioShack

Nextlink shipped the first 13,000 new consumer headsets, the VS600, to RadioShack. Marking the starting point of volume shipments of Nextlinks new generation of products. The total value of the shipment was approximately 2 MSEK.

Management team changes

Nextlinks Chief Operating Officer Cecilia Arneving will leave the company during the fourth quarter.

Lars Højgård Hansen, VP of Marketing, has been appointed deputy CEO (vice verkställande direktör) of Nextlink AB (publ).

Outlook for the fourth quarter

Nextlinks' overall objective is to retain and further strengthen the company's position as a leading supplier of innovative headset products for both the consumer and professional market.

Going forward into the latter part of 2006, Nextlink foresees that the market will continue to expand and grow at a rapid pace. To increase our market share and retain our niche position, while meeting increased competition in the market, Nextlink will continue to pursue its newly implemented strategy during the year.

With an order backlog of 30 MSEK at present, the outlook for the fourth quarter remains prosperous. Nextlink expects the fourth quarter revenue to more than double compared with the fourth quarter in 2005. Due to the delay of shipments of G5 and Q7, the current quarter revenue expectation is lower than the company previously has anticipated.

Business Area Professional

Nextlink will continue to expand its distribution channels in order to get broader penetration of the product line and to enter into new geographic markets. The development of a new digital product line is in its end phase and the new products will be available on the market during the fourth quarter.

Business Area Consumer

Nextlink will continue to focus on the mass production of the new INVISIO products. There have been some delays in the projects and the current expectations is that the products will start to be shipped in Q1 2007.

Business Area OEM/Licensing

Nextlink will continue to explore the opportunity of licensing Nextlink's patented technologies; Bone Conductive Microphones and the SoftSpring ear fastener.

Other information

Accounting Principles

This quarterly report for Nextlink group is produced in accordance with IAS 34 Delårsrapportering.

The quarterly report has not been subject to review by the company auditor.

Next report for 2006

Year end report for 2006 will be published on February 14th, 2007.

Stockholm, October 25th, 2006

**Board of Directors
Nextlink AB (publ)**

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Income statement

Nextlink Group

KSEK	Jul-Sep 2006	Jul-Sep 2005	Jan-Sep 2006	Jan-Sep 2005	2005
Income Statement					
Revenue	11.690	14.680	47.788	30.403	38.028
Cost of goods sold	-11.033	-10.278	-30.479	-18.875	-29.280
Gross Profit	658	4.402	17.309	11.528	8.748
Overhead cost	-12.064	-4.478	-42.446	-11.398	-17.669
Depreciations	-347	-439	-1.046	-877	-1.255
Operating profit	-11.754	-515	-26.183	-747	-10.176
Financial income and expenses	-75	-126	-280	-175	-787
Profit before income tax	-11.829	-641	-26.463	-922	-10.963
Tax	0	0	0	0	0
Net profit	-11.829	-641	-26.463	-922	-10.963
Net profit for minorities	0	-9	0	0	121
Net profit for shareholders in the parent company	-11.829	-632	-14.634	-922	-11.084

Share data	Jul-Sep 2006	Jul-Sep 2005	Jan-Sep 2006	Jan-Sep 2005	2005
Earnings per share, SEK	-0,81	-0,06	-1,81	-0,09	-1,03
Earnings per share, fully diluted basis SEK	-0,81	-0,06	-1,81	-0,09	-1,03
Equity per share SEK	2,26	1,29	2,26	1,38	2,60
Equity per share, fully diluted basis SEK	2,72	2,06	2,72	2,06	5,93
Equity ratio, %	53%	39%	53%	39%	77%
Number of shares outstanding	14.610.453	10.663.915	14.610.453	10.663.915	12.796.698
Average number of shares outstanding	12.876.765	10.663.915	12.877.199	10.663.915	10.757.407
Numbers of shares outstanding, fully diluted basis	17.250.320	11.763.915	17.250.320	11.763.915	15.436.565
Stock exchange rate SEK	23,00	18,00	23,00	18,00	26,00

Balance sheet

Nextlink Group

Balance sheet

KSEK	Sep 2006	Sep 2005	Jun 2006	2005
Assets				
Intangible assets	5 613	2 352	1 716	2 168
Tangible assets	2 464	1 604	2 093	2 245
Financial assets	1 093	150	325	216
Total fixed assets	9 171	4 106	4 134	4 629
Inventory	12 759	8 356	14 736	8 273
Trade receivables	8 498	12 992	9 310	7 964
Other receivables	4 301	1 226	2 232	3 175
Cash and bank	27 911	8 837	2 376	19 420
Total assets	62 639	35 517	32 788	43 461
Equity and liabilities				
Equity	32 964	13 796	17 924	33 280
Long term debt	-	-	-	-
Short term debt	17 257	14 364	6 474	4 447
Trade payables	11 629	5 016	6 579	4 849
Other liabilities	788	2 341	1 811	884
Total equity and liabilities	62 639	35 517	32 788	43 460

Consolidated statement of changes in equity	Sep 2006	Sep 2005	Jan-Jun 2006	2005
Balance at the beginning of the year	33 280	14 688	33 280	14 688
Exchange adjustment of investments in subsidiary	-1 514	31	-723	609
New issues	27 660			
Net profit for the year	-26 463	-923	-14 634	-10 963
Balance at the end of the year	32 963	13 796	17 923	4 334

Cash flow statement

Nextlink Group

KSEK

Cash flow	Jul-Sep 2006	Jul-Sep 2005	Jan-Sep 2006	Jan-Sep 2005	2005
Result before taxes	-11 829	-641	-26 463	-922	-10 963
Adjustment for items not included in cash flow	-2 121	-144	-2 820	870	1 498
Taxes					0
Cash flow from operations before changes in working capital	-13 950	-785	-29 283	-52	-9 465
Changes in working capital	4 146	-6 324	750	-9 875	-8 339
Cash flow from operations	-9 804	-7 109	-28 533	-9 927	-17 804
Aquisitions in financial non-current assets	0	0	0	0	-69
Aquisitions in tangible non-current assets	-372	-75	-861	-1 434	-1 934
Cash flow from investment activities	-372	-75	-861	-1 434	-2 003
New issues	27 660	0	27 660	0	28 945
New loans and instalments of dept	9 850	11 099	12 025	11 992	2 075
Cash flow from financing activities	37 510	11 099	39 685	11 992	31 020
Total cash flow	27 334	3 915	10 291	631	11 213
Liquid funds at beginning of period	2 376	3 985	19 419	8 206	8 206
Liquid funds at end of period	29 710	4 922	29 710	4 922	19 419