

# INTERIM REPORT

3<sup>rd</sup> Quarter 2006



October 27<sup>th</sup>, 2006

## Quarterly Highlights

*All figures NOK*

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- ❑ New options for NumaChip as Intel publishes stronger strategic commitment to CSI
  - ❑ AMD follows Intel with more open strategy on Hyper Transport
  - ❑ The OEM delivery forecast to Siemens is extended until July 2008
  - ❑ Technology from Lattice and NEC selected for DolphinExpress
  - ❑ Siemens I&S is chosen as development partner for NumaChip
  - ❑ Stronger salesforce for SuperSockets in place
  - ❑ Dolphin's management processes are approved according to the Quality Standard ISO 9001:2000
  - ❑ Sales of current products as expected
  - ❑ Operating revenues reached 10.6 million in the 3<sup>rd</sup> quarter 2006, down from 21.4 million in the 3<sup>rd</sup> quarter 2005. Excluding bulk orders in the 3<sup>rd</sup> quarter 2005, and nonrecurring income in the 3<sup>rd</sup> quarter 2006, the quarter came in 4 million below the corresponding quarter last year.
  - ❑ EBITDA ended at -0,9 million as compared to 8,5 million in the 3<sup>rd</sup> quarter 2005.
  - ❑ Net profit ended at -0,2 million compared to 8.9 million in the 3<sup>rd</sup> quarter 2005

## Markets and customers

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Dolphin has been delivering products to Siemens A&D in Germany for use in the Siemens Medicals CT scanner, “Somatom Sensation 64”, since the second half of 2004. The project has been very successful and the Siemens product has enjoyed impressive progress. The scanner is reportedly one of Siemens most important products today. Recently the delivery forecasts from Siemens has been extended to run into July 2008, securing a reliable revenue stream for Dolphin.

Dolphin has had progress in the embedded markets and is now getting design wins in real time simulation and in equipment for the semiconductor processing industry.

## Products and technology

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### **NumaChip**

NumaChip is the major development project in Dolphin. NumaChip is set up to change the way high end servers are being built and represents an extraordinary business opportunity for Dolphin.

The NumaChip project is enabled by Dolphin's technology from the work with the SCI standard and deliveries to Convex and Data General. Other important enablers are the development of the semiconductor technology opening for an affordable one-chip implementation, as well as AMD's introduction of HyperTransport (HT). Intel has recently announced its Common Systems Interface (CSI), and both Intel and AMD has published stronger partner programs related to CSI and HT interfaces. This is a significant development for the NumaChip project as it will increase the stability of the interfaces, secure that systems compliant to the interfaces will be available for a longer time, and increase the general customer interest for systems based on the interfaces. Systems based on HT are in widespread use already, while systems based on CSI are scheduled for 2008.

Dolphin has chosen Siemens Industrial Solutions and Services (Siemens I&S) as a development partner for the NumaChip project. The group has 77 highly qualified engineers and is located in Munich. The background and track record of this group are excellent and a perfect match for completing the NumaChip R&D group. Dolphin has worked with this organization before as the parties collaborated in the implementation of the PSB chip, one of the two main chips in Dolphins current product line. This chip was used in the I/O system of the RM600 servers that the group designed for SiemensNixdorf. As one of very few organizations in the world, the team has extensive experience in computer systems design including cache coherency. They have developed excellent methodology for chip design and has experience in chip production with all major semiconductor vendors.

The collaboration with this group will significantly improve the quality and reduce time to market for NumaChip.

### **Dolphin Express**

Dolphin has developed technology for direct connection of systems via PCI Express. Dolphin's technology makes it possible to utilize all of Dolphin's multiprocessing technology directly on PCI Express and it is an important road-map element for SuperSockets. Dolphin

Express offers the SuperSockets customers a future seamless move to new hardware technology from Dolphin. Dolphin Express hardware will significantly improve interconnect performance, particularly through much higher bandwidth.

Dolphin has chosen FPGA technology from Lattice for early product introduction of DolphinExpress. It is also determined that NEC has chip technology that is affordable, available and very well suited for the implementation of a high volume product.

**Quality**

Dolphin’s management processes are approved according to ISO 9001:2000. The certificate will be an important tool in establishing the delivery relations to our customers. Dolphin has the image of delivering high quality among its major customers and already in 1999 Dolphin got a prize for supplier performance from SUN Microsystems. It is believed that the strengthened focus on quality and the improvements in the routines implemented in the process will bring Dolphin to a even higher quality level.

**ISO 9001 Certified**



**P2S**

The P2S project is an activity to port the two main Dolphin chips, LC3 and PSB66 into one chip of modern and more cost effective technology. Dolphin has chosen LSI Logic’s RapidChip technology for this project. The technology has proven to be very well suited for the product and the project has had very good progress. The development and simulation of the design is completed and the chip has now entered the prototype production cycle with LSI Logic. The shipping of P2S based products will bring revenue from the first quarter 2007.

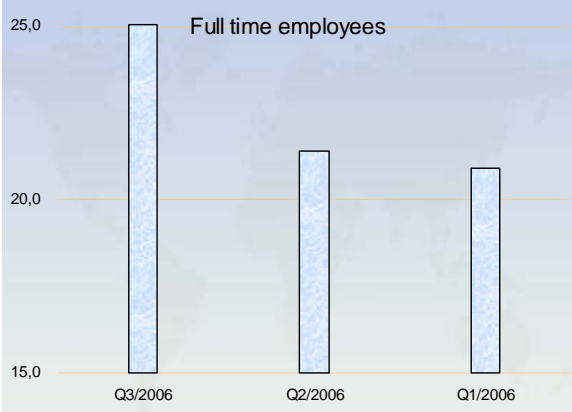
**Summary of third quarter results**

(Comparable figures for 3rd quarter 2005 in parenthesis)

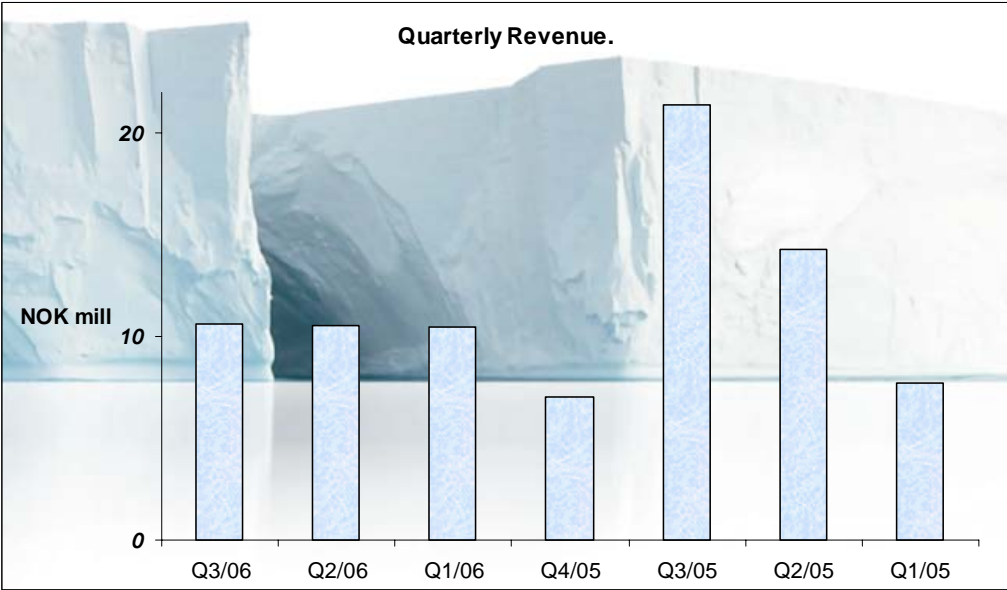
Total operating revenues reached 10.6 million in the quarter, a decrease of 50% from the corresponding figure of 21.4 million in the third quarter last year. The comparison with 3<sup>rd</sup> quarter last year is highly effected by bulk deliveries to Thales Aerospace of 10.3 million last year. Also, a nonrecurring income from a sale of an inactive patent of 3.5 million is booked as other operating income in the third quarter this year. When excluding these revenue items, the third quarter 2006 is 36% below last year. Apart from the bulk order to Thales, the decrease in sales are also explained by unusually high sales to Siemens in the third quarter last year. Adjusted for nonrecurring income in the third quarter 2006, the gross margin was again stable at 54%. EBITDA ended at -0,9 million in the quarter. In total, 1,9 million of nonrecurring operating cost items has been booked in the quarter, the main item being commission associated with sale of the above mentioned patent.

The Dolphin team in the US, Germany and Norway was joined by new employees both within sales and development during the quarter.

The payrolls and the general cost profile in the quarter reflects the increase in staff as well as considerably higher activity in several other areas.



For quarterly comparison, the following diagram shows operating revenue for the last seven quarters.



Operating profit (EBIT) ended at -1 million (8.5 million), and net profit -0,2 million or NOK -0.02 per share (NOK 1.46). Financial profit ended at 0,7 million and consists of interest income and profit on currencies, mainly attributable to the appreciation of the €

## Equity, balance sheet and cash flow items

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Total equity in the company was 83.6 million, or 91% at the end of the first nine months of 2006, up from 30.3 million, or 75% last year. The equity increase totals 53,3 million, and is mainly explained by proceeds from the stock issue in April.

Cash and cash equivalents amounted to 55.5 million at the end of the third quarter 2006 (9.6 million). In the quarter there was an increase in inventories of 2.4 million, attributable to the final order of chips prior to the transition to the new and cost effective P2S chip. Other cash flow elements include positive operational cash flow of 0,4 million and capitalization of expenses related to new product development of 1.6 million. In all there was a net decrease in cash and equivalents of 1.2 million in the quarter. Deferred income tax assets increased to 6.4 million at the end of September.

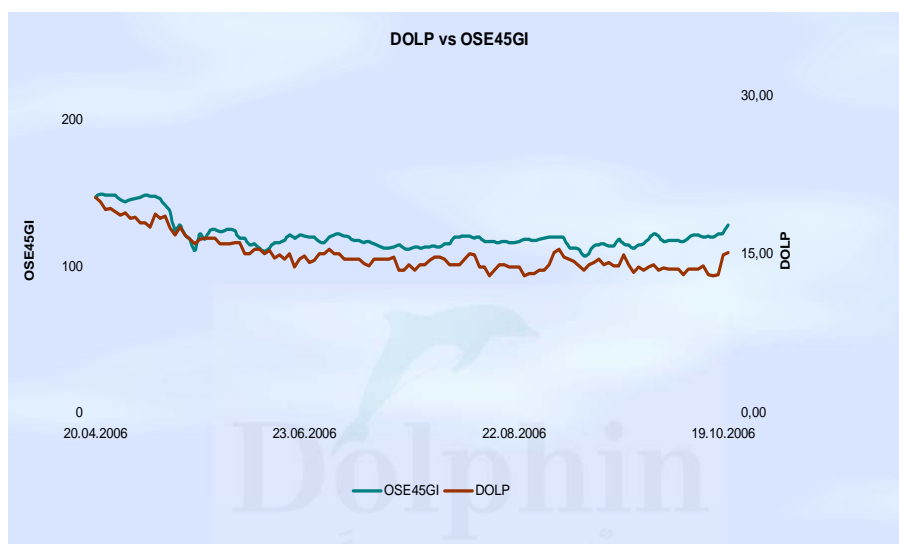
## Financing and shareholders

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As of October 16<sup>th</sup>, the total number of shareholders in the company is 428 of which the 20 largest are included below.

Shareholder	Number of shares	%
1. Selvaag Invest	1.023.783	11.44
2. Rowan Investments Ltd	877.189	9.80
3. Den Norske Krigsforsikring for Skib	749.881	8.38
4. Danske Fund Norge Vekst	432.048	4.83
5. Granada Forvaltning AS	325.082	3.63
6. MP Pensjon	228.702	2.55
7. KLP Liv	203.367	2.27
8. Granada Management AS	182.544	2.04
9. Credit Suisse Securities	162.324	1.81
10. Rasmussen, Alf	132.102	1.48
11. Legio AS	127.598	1.43
12. Fixdal, Jan Bjarne	125.930	1.41
13. Tor Lingjærde	108.000	1.21
14. Hvistendahl, Yngvar	102.180	1.14
15. Lectio AS	100.000	1.12
16. Solvang, Kristoffer	95.500	1.06
17. Eide, Odd	92.461	1.03
18. Pollex AS	91.876	1.03
19. Jasto AS	84.055	0.94
20. Nordea Avkastning	83.868	0.94
Total 20 largest shareholders	5.327.490	59.51
Other shareholders	3.624.851	40.49
<b>Total outstanding shares</b>	<b>8.952.341</b>	<b>100.00</b>

Dolphin was listed on the Oslo Stock Exchange on April 20<sup>th</sup>. Prior to the listing, the company raised NOK 50 mill in an IPO at NOK 17.50 per share. In the six months leading up to October 20<sup>th</sup>, the share price has decreased 14% from this level, whilst the IT index is down 13% in the same period.



*The Dolphin share vs the IT index on the Oslo Stock Exchange in the period April 20 – October 20. Closing prices. (High 20.40, Low 13.05)*

## Financial calendar 2006

Dolphin will announce quarterly results for 2006 on the following dates:  
 4<sup>th</sup> quarter/Full year 2006: February 14<sup>th</sup> 2007

## Accounting principles

Dolphin Interconnect Solutions AS follows the principles of IFRS in this report. The figures are reported in accordance with the regulations for interim reporting in IAS 34. For further reference on accounting principles, see the annual report for 2005.

## Corporate priority and outlook

Corporate activity is sharply on the rise in Dolphin. Management focus is strictly on building an effective organization for the attack on the volume server market with SuperSockets and the development of the strategically unique NumaChip. For both of these objectives the company is actively exploiting strategic agreements, partnerships and acquisitions in order to

1. Gain momentum in SuperSockets roll-out
2. Minimize time to market for NumaChip
3. Maximize existing business

The Board of Directors , Dolphin Interconnect Solutions ASA  
 Oslo, October 27<sup>th</sup> 2006

# Dolphin Interconnect Solutions Group

## Income Statement

	Q3 / 06	Q3 / 05	YTD 06	YTD 05	Full year 2005
<b>OPERATING REVENUES</b>					
Sales	7 025 338	20 820 788	27 787 386	42 639 609	49 426 396
Other operating revenue	3 601 254	622 037	3 949 841	791 189	996 600
<b>TOTAL OPERATING REVENUE</b>	<b><u>10 626 592</u></b>	<b><u>21 442 825</u></b>	<b><u>31 737 227</u></b>	<b><u>43 430 798</u></b>	<b><u>50 422 996</u></b>
<b>OPERATING EXPENSES</b>					
Cost of goods sold	3 290 834	7 239 463	12 769 427	15 547 637	18 246 211
Payroll expenses	4 004 055	2 754 800	7 175 400	6 365 310	9 321 430
Other operating expenses	4 222 992	2 949 678	9 192 718	7 768 954	10 982 780
<b>TOTAL OPERATING EXPENSES</b>	<b><u>11 517 881</u></b>	<b><u>12 943 941</u></b>	<b><u>29 137 545</u></b>	<b><u>29 681 901</u></b>	<b><u>38 550 421</u></b>
<b>EBITDA</b>	<b><u>-891 289</u></b>	<b><u>8 498 884</u></b>	<b><u>2 599 682</u></b>	<b><u>13 748 897</u></b>	<b><u>11 872 575</u></b>
Depreciation	83 511	2 727	245 561	8 163	10 902
<b>OPERATING PROFIT (EBIT)</b>	<b><u>-974 799</u></b>	<b><u>8 496 157</u></b>	<b><u>2 354 121</u></b>	<b><u>13 740 734</u></b>	<b><u>11 861 673</u></b>
<b>NET FINANCIAL PROFIT</b>	<b><u>736 145</u></b>	<b><u>416 406</u></b>	<b><u>995 026</u></b>	<b><u>594 329</u></b>	<b><u>1 731 062</u></b>
<b>PROFIT BEFORE TAXES</b>	<b><u>-238 654</u></b>	<b><u>8 912 563</u></b>	<b><u>3 349 148</u></b>	<b><u>14 335 063</u></b>	<b><u>13 592 735</u></b>
Income taxes	-51 774	2 302	-628 684	6 811	-5 703 405
<b>NET PROFIT</b>	<b><u>-186 880</u></b>	<b><u>8 910 261</u></b>	<b><u>3 977 832</u></b>	<b><u>14 328 251</u></b>	<b><u>19 296 140</u></b>
Avg.no. of shares outstanding	8 952 341	6 102 341	7 803 989	6 102 341	6 102 341
Net profit per share	-0,02	1,46	0,51	2,35	3,16

# Dolphin Interconnect Solutions Group

## Balance Sheet

ASSETS	30.09.06	30.09.05	31.12.2005
<b>NON-CURRENT ASSETS</b>			
Capitalized development cost	12 769 389	6 244 315	7 391 478
Deferred income tax assets	6 346 322	0	5 712 575
Operating equipment	85 957	32 030	29 869
Other long term receivables	<u>2 277</u>	<u>20 857</u>	<u>2 369</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>19 203 945</u></b>	<b><u>6 297 202</u></b>	<b><u>13 136 291</u></b>
<b>CURRENT ASSETS</b>			
Inventories	9 263 028	5 374 533	7 516 453
Trade receivables	2 098 070	14 728 712	2 435 399
Other short term receivables	5 615 295	4 410 585	3 757 437
Cash and cash equivalents	<u>55 534 061</u>	<u>9 612 010</u>	<u>19 015 579</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>72 510 453</u></b>	<b><u>34 125 840</u></b>	<b><u>32 724 868</u></b>
<b>TOTAL ASSETS</b>	<b><u>91 714 398</u></b>	<b><u>40 423 042</u></b>	<b><u>45 861 159</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Subscribed equity</b>			
Share capital	1 790 468	610 234	610 234
Share premium fund	<u>44 041 951</u>	<u>928 551</u>	<u>928 551</u>
<b>Total subscribed equity</b>	<b><u>45 832 419</u></b>	<b><u>1 538 785</u></b>	<b><u>1 538 785</u></b>
<b>Retained equity</b>			
Retained earnings	<u>37 745 936</u>	<u>28 788 580</u>	<u>33 763 147</u>
<b>Total retained equity</b>	<b><u>37 745 936</u></b>	<b><u>28 788 580</u></b>	<b><u>33 763 147</u></b>
<b>TOTAL EQUITY</b>	<b><u>83 578 355</u></b>	<b><u>30 327 365</u></b>	<b><u>35 301 932</u></b>
<b>NON CURRENT LIABILITIES</b>			
Other long-term liabilities	1 073 971	1 180 288	1 227 380
Pension obligations	<u>0</u>	<u>1 763 383</u>	<u>1 846 194</u>
<b>TOTAL NON CURRENT LIABILITIES</b>	<b><u>1 073 971</u></b>	<b><u>2 943 671</u></b>	<b><u>3 073 574</u></b>
<b>CURRENT LIABILITIES</b>			
Trade payables	4 400 563	4 516 337	4 106 073
Public duties payable	638 802	544 116	726 453
Other current liabilities	<u>2 022 708</u>	<u>2 091 553</u>	<u>2 653 127</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>7 062 072</u></b>	<b><u>7 152 006</u></b>	<b><u>7 485 653</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>91 714 398</u></b>	<b><u>40 423 042</u></b>	<b><u>45 861 159</u></b>

## Dolphin Interconnect Solutions Group

### Cash Flow Statement / Change in Equity

CASH FLOW STATEMENT	Q3 / 06	Q3 / 05	YTD 06	YTD 05	Full year 2005
<b>Cash Flow from Operations</b>					
Operating result before tax	-238 654	8 912 563	3 349 148	14 335 063	13 592 735
Depreciation	83 511	2 727	245 561	8 163	10 902
Changes in inventories	-2 420 011	1 513 582	-1 746 575	2 012 479	-129 441
Changes in receivables	1 823 740	-3 845 905	337 329	-8 690 351	3 505 245
Changes in trade payables	1 921 179	77 052	294 490	1 645 206	1 267 358
Changes in other current assets/debt items	-800 228	733 171	-4 410 342	-1 437 229	195 674
<b>Net Cash Flow from Operations</b>	<b><u>369 536</u></b>	<b><u>7 393 190</u></b>	<b><u>-1 930 389</u></b>	<b><u>7 873 330</u></b>	<b><u>18 442 473</u></b>
<b>Cash Flow from Investments</b>					
Purchase of intangible assets	-1 607 759	-1 453 329	-5 610 311	-3 532 852	-4 680 015
Purchase of operating equipment	-25 252		-69 249		
<b>Net Cash Flow from Investments</b>	<b><u>-1 633 011</u></b>	<b><u>-1 453 329</u></b>	<b><u>-5 679 560</u></b>	<b><u>-3 532 852</u></b>	<b><u>-4 680 015</u></b>
<b>Cash Flow from Financial Activities</b>					
Changes in long term liabilities	77 478	293 109	-153 409	-41 551	-83 102
Paid in capital	0	0	44 293 634	0	0
<b>Net Cash Flow from Financial Activities</b>	<b><u>77 478</u></b>	<b><u>293 109</u></b>	<b><u>44 140 225</u></b>	<b><u>-41 551</u></b>	<b><u>-83 102</u></b>
Net change in cash and equivalents	-1 185 996	6 232 971	36 530 276	4 298 927	13 679 356
Foreign currency effect on cash	12 646	-18 148	-11 794	34 267	57 407
Opening balance, cash and equivalents	56 707 412	3 397 187	19 015 579	5 278 816	5 278 816
<b>Closing balance, cash and equivalents</b>	<b><u>55 534 061</u></b>	<b><u>9 612 010</u></b>	<b><u>55 534 061</u></b>	<b><u>9 612 010</u></b>	<b><u>19 015 579</u></b>
CHANGE IN EQUITY	Q3 / 06	Q3 / 05	YTD 06	YTD 05	Full year 2005
Equity opening balance	83 751 956	21 418 110	35 301 932	15 964 833	15 964 833
Paid in capital	0	0	49 875 000	0	0
Cost	0	0	-5 581 366	0	0
Currency converting effect	13 279	-1 006	4 957	34 281	40 959
Net profit	-186 880	8 910 261	3 977 832	14 328 251	19 296 140
<b>Equity closing balance</b>	<b><u>83 578 355</u></b>	<b><u>30 327 365</u></b>	<b><u>83 578 355</u></b>	<b><u>30 327 365</u></b>	<b><u>35 301 932</u></b>