

INTERIM REPORT

4th Quarter 2006



February 14th, 2007

Quarterly Highlights

All figures NOK

- ❑ Dolphin expands by merger with StarGen Inc
- ❑ New product line will be introduced based on enhanced PCI Express technology and proven Dolphin software for embedded and server clustering
- ❑ PCI Express technology opens new business areas in embedded system design, IO expansion, remote IO, storage, blade system IO and IO virtualization
- ❑ New opportunities for Dolphin as MySQL wins foothold in Telecom and Web Server areas
- ❑ The NumaChip project roadmap is finalized, total development cost estimates lowered
Project team strengthened by key personnel from P2S and Dolphin Express project
- ❑ Major progress with significant server and database vendors for SuperSockets, but some delays in shipping
- ❑ Design wins for the embedded area
- ❑ Operating revenues reached 4.3 million in the 4th quarter 2006, down from 7 million in the 4th quarter 2005.
- ❑ EBITDA ended at -5.3 million as compared to -1.9 million in the 4th quarter 2005.

Business Purchase Agreement with StarGen Inc

On the 26. of January Dolphin and StarGen Inc. of Marlborough, Ma, announced that they have signed an agreement to merge their business activities. The transaction is based on 2.525.000 Dolphin shares giving StarGen shareholders 22% of the company after the transaction. The agreement is subject to approval by Dolphin's shareholders at the scheduled Extraordinary General Meeting on February 16th.

The merger is a major strategic step forward and greatly expands product capabilities for high performance interconnect infrastructure for servers, clusters, storage and embedded markets.

The combined Dolphin and StarGen will provide a product range that addresses the needs of several markets and leverages the expertise of both companies. Dolphin is an industry-recognized leader in high performance interconnect solutions for processors and StarGen has pioneered innovative value-add interconnect solutions for IO. The combination will be unmatched in the industry in the ability to meet all of customer's interconnect needs. The combination's products will cover applications spanning embedded solutions for printers to large-scale multiprocessing systems for mission and business critical applications. StarGen's new enhanced PCI Express products will utilize Dolphin's SuperSockets™ software to provide seamless integration of applications running standard communication protocols including TCP/IP, Sockets, MPI, and RDS. PCI Express is the default high-speed interconnect technology for computers and peripherals. By providing enhanced capabilities directly to the PCI Express domain, the combined companies can deliver more efficient solutions with wider applicability than competing interconnect technologies. New product announcements and releases can be expected within first half of 2007.

StarGen's currently shipping StarFabric products (2006 sales: USD 3.1 million) have been adopted by a wide variety of Tier 1 and Tier 2 customers and are used for applications such as Test & Measurement, Medical, Storage, Video Display, and Printer solutions. StarFabric will continue as an integral part of the combined company. StarGen has 13 employees and a worldwide sales network consisting of direct representatives as well as manufacturer representatives and distributors.

The merger represents a perfect strategic match creating a company capable of delivering a wide range of server infrastructure products. StarGen's enhanced PCI Express products combined with Dolphin's SuperSockets software will enable Dolphin to bring a new generation of IO based interconnect products to the market. Dolphin and StarGen's products are complementary with very similar architectures, and together with SuperSockets, customers can deploy applications on the new products without reprogramming. The merger will bring about an unmatched product line for the server and embedded markets with an accelerated time schedule. The new product line fits ideally with Dolphin's NumaChip to provide a comprehensive offering of infrastructure products for the server market. Geographically, the merger will strengthen foothold in the US and Asia markets.

The former StarGen operation will operate as the Dolphin subsidiary Dolphin Interconnect Solutions Inc. in Marlborough MA together with Dolphin's current US staff.

Markets and customers

Dolphin has had significant progress in sales work for SuperSockets. Three of the major server vendors; one in the US, one in Europe and one in Asia has conducted testing of Oracle with Dolphin's hardware and SuperSockets. The tests have been successful and systems will be moved to Oracle for further testing. This is a major technical breakthrough for SuperSockets in the database server market, and it's fuelling further progress.

Progress is also made with MySQL; both MySQL end-users and vendors are now conducting large-scale tests of the Dolphin-MySQL solution. MySQL Cluster and SuperSockets provide

a new dimension of scaling at low cost, and this is now recognized in the industry. MySQL Clusters' recent successes within the telecom industry are particularly interesting in this context.

Dolphin is in a transitional period as we are focusing strongly on the large and promising markets for SuperSockets, especially for systems running Oracle and MySQL Cluster. Delays in development in 2006 has consequently slowed the sales work, but the progress is now consistent. The recent breakthrough in the database area shows that the direction is right.

Dolphin has gotten a series of interesting design wins in the embedded market lately. The projects span a large variety of applications in medical, simulation, semiconductor processing and security applications.

Products and technology

NumaChip

The NumaChip project has gained significant momentum as resource effort has been increased both internally and with partners. The project is mainly an integration and verification effort, but some technological and design challenges exist in the integration with new link and memory technologies. The project has addressed and designed solutions for the major challenges: Integration of AMD's HyperTransport™ to SCI cache coherence transactions, integration of state of the art serializing technology to support competitive bandwidth with cost effective and integration friendly connectors and a solution for storage of large quantities of cache and administrative data using standard mass market memory models.

A close technical cooperation with AMD and the University of Mannheim has been initiated to secure cost effective access to existing HyperTransport IP modules and Dolphin is granted insight into all necessary IP.

Project momentum has now been increased by the transfer of internal human resources. This is made possible because of the completion of the P2S project and transfer of resources from internal PCI Express related design following announcement of the merger with StarGen Inc. The latter represents a significant cost saving to Dolphins development budget.

The project has, in close cooperation with Siemens I&S as a development partner, entered into a request and quote process with several of the worlds leading chip vendors to leverage technological and commercial details.

The project has finalized the product requirement specification and made the basis for early activities to establish partnerships with pilot customers. The project progress has been analyzed and is on track for delivery of prototype chips in early 2008 as planned.

Dolphin Express

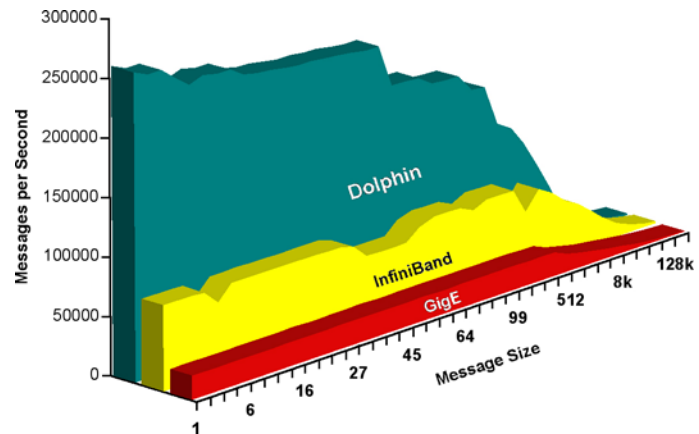
The products planned to contain the Dolphin express technology are shelved and will be replaced by new products based on the enhanced PCI Express technology from the StarGen group. The technological results of the Dolphin Express project is a valuable asset in Dolphin IP base and will be used in later products.

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. The P2S chip prototype is now produced and the chip is in the final testing stage at the silicon vendor, LSI Logic. Card prototype testing is expected to start this week internally in Dolphin.

SuperSockets™ Marketing

Dolphin's marketing focus is currently on SuperSockets. The picture to the right that can also be named "the world seen from a low latency interconnect vendor" illustrates the fantastic performance lead Dolphin has for Sockets based communication. Dolphin is in partner programs with Oracle and MySQL and in collaboration with other database companies. Database applications are identified to be an area that can take



great advantage from the breakthrough low latency communication Dolphin can provide. Database software systems are extremely complicated and hard to develop and maintain so the customer gets maximal benefit from the plug in compatibility of SuperSockets.

Summary of 4th quarter and 2006 results (Comparable figures for 4th quarter 2005 in parenthesis)

Total operating revenues reached 4.3 million in the quarter, a decrease of 38% from the corresponding figure of 7 million in the fourth quarter last year. The decrease from last year and the third quarter this year is mainly explained by the wind up of the OEM contract with Philips in September 2006. For the full year 2006, operating revenues totalled 36 million compared to 50.4 million in 2005. Gross margin was at 56% in the quarter, slightly above the 55% gross margin for the full year (when adjusting for other income in the third quarter). Payroll expenses for the quarter were 4.7 million (3 million) of which about 0.4 million is cost related to recruiting. EBITDA ended at -5.3 million in the fourth quarter as compared to -1.9 million in the fourth quarter last year, and was -2.7 million for the full year compared to 11.9 million for the full year 2005. Stargen Inc, (Business Purchase Agreement announced January 26th 2006) has developed highly advanced PCI Express technology, and the first generations of products are expected to be launched within a few months. Dolphin has therefore halted its development project for a chip based on the PCI Express standard (Dolphin Express), and taken a (non-cash) write-off of 6 million in the 4th quarter 2006. Capitalized development in the balance sheet is thus reduced correspondingly.

Operating profit (EBIT) after the write-off of Dolphin Express ended at -11.4 million in the quarter (-1.9 million). EBIT for the full year was -9.1 million compared to 11.9 million in 2005. Financial profit was 0.2 million in the 4th quarter and 1.2 in 2006 compared to 1.1 million and 1.7 million in respective periods of 2005. Net profit ended at -7.9 million compared to 5 million in the last quarter of 2005, which included the first time capitalization of deferred tax assets of 5.7 million, resulting in negative tax of 5.7 million booked in the P&L. Deferred income tax assets increased to 9.7 million at the end of 2006 and the net profit for 2006 ended at -3.9 million (19.3 million).

Equity, balance sheet and cash flow items

Total equity in the company was 75.7 million, or 90% at year-end. This is up from 35.3 million or 77% at the end of 2005. Cash and cash equivalents amounted to 48.6 million at the end of the year 2006 (19 million). In 2006 there was an increase in inventories of 3.8 million. The main explanation for the build-up in inventories is attributable to the transition to the new and cost effective P2S chip. During the last quarter there was a net decrease in cash and equivalents of 7 million, whilst cash and equivalents increased by 29.5 during the full year. Capitalized development cost was 2.3 million in the 4th quarter, and totalled 8.9 in the balance sheet at the end of the year. The total increase in capitalized development cost in 2006 in the balance sheet is only 1.5 million due to the write-off on Dolphin Express.

Financing and shareholders

On the 20th of December 2006, the company entered into a Market-Maker agreement with Orion securities in order to improve liquidity in the trading of the dolphin share on the Oslo Stock Exchange. According to the agreement, Orion will make prices for a minimum volume of 4 lots at a maximum difference between the bid and ask price of 3%. As the agreement is in compliance with the Oslo Stock exchange requirements, the Dolphin share has been classified on the OB Match segment on the exchange.

As of February 8th, the total number of shareholders in the company was 470, of which the 20 largest are included below.

Shareholder	Number of shares	%
1. Selvaag Invest	1.023.783	11.44
2. Den Norske Krigsforsikring for Skib	749.881	8.38
3. Verdipapirfondet Danske Fund Norge	432.048	4.83
4. Granada Forvaltning AS	325.082	3.63
5. Verdipapirfondet KLP Aksjenorge	254.196	2.84
6. MP Pensjon	228.702	2.55
7. Mustang AS	183.800	2.05
8. Credit Suisse Securities	163.000	1.82
9. Granada Management AS	146.044	1.63
10. Sandvold, Kenneth	140.000	1.56
11. Arosa Invest AS	139.006	1.55
12. Rasmussen, Alf	132.102	1.48
11. Legio AS	127.598	1.43
12. Fixdal, Jan Bjarne	125.930	1.41
13. Consort Invest AS	120.483	1.35
14. Falkum Invest	114.000	1.27
15. Lingjærde, Tor	106.000	1.18
16. Jasto AS	105.555	1.18
17. Hvistendahl, Yngvar	102.180	1.14
18. Eide, Odd	92.461	1.03
19. Pollex AS	91.876	1.03
20. Nordea Avkastning	83.868	0.94
Total 20 largest shareholders	5.327.490	59.51
Other shareholders	3.624.851	40.49
Total outstanding shares	8.952.341	100.00

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

Mainly due to phase out of a larger OEM contract coinciding with the early launch phase of SuperSockets, current sales of existing products are relatively weak. The Dolphin team continues to maintain a strict strategic focus and is working in several areas to pave the way for a successful entry into the market for enterprise servers. The agreement with StarGen is just one important building block in this respect. Along with harvesting sales synergies and preparing for new product launches, work will continue to secure strategic partnerships for both SuperSockets and NumaChip.

The Board of Directors , Dolphin Interconnect Solutions ASA
Oslo, February 14th, 2007

Dolphin Interconnect Solutions Group

Income Statement

	Q4 / 06	Q4 / 05	Full year 2006	Full year 2005
OPERATING REVENUES				
Sales	4 304 305	6 786 787	32 091 691	49 426 396
Other operating revenue	0	205 411	3 949 841	996 600
TOTAL OPERATING REVENUE	4 304 305	6 992 198	36 041 532	50 422 996
OPERATING EXPENSES				
Cost of goods sold	1 892 601	2 698 574	14 662 028	18 246 211
Payroll expenses	4 709 096	2 956 120	11 884 495	9 321 430
Other operating expenses	2 976 210	3 213 827	12 168 929	10 982 780
TOTAL OPERATING EXPENSES	9 577 907	8 868 521	38 715 452	38 550 421
EBITDA	-5 273 602	-1 876 323	-2 673 920	11 872 575
Depreciation	102 859	2 739	348 419	10 902
Write down	6 038 104	0	6 038 104	0
OPERATING PROFIT (EBIT)	-11 414 565	-1 879 062	-9 060 443	11 861 673
NET FINANCIAL PROFIT	200 372	1 136 733	1 195 398	1 731 062
PROFIT BEFORE TAXES	-11 214 193	-742 329	-7 865 045	13 592 735
Income taxes	-3 361 109	-5 710 216	-3 989 793	-5 703 405
NET PROFIT	-7 853 084	4 967 887	-3 875 253	19 296 140
Avg.no. of shares outstanding	8 952 341	6 102 341	8 093 437	6 102 341
Net profit per share	-0,88	0,81	-0,48	3,16

Dolphin Interconnect Solutions Group

Balance Sheet

ASSETS	31.12.2006	31.12.2005
NON-CURRENT ASSETS		
Capitalized development cost	8 911 664	7 391 478
Deferred income tax assets	9 710 424	5 712 575
Operating equipment	179 344	29 869
Other long term receivables	2 189	2 369
TOTAL NON-CURRENT ASSETS	<u>18 803 621</u>	<u>13 136 291</u>
CURRENT ASSETS		
Inventories	11 296 088	7 516 453
Trade receivables	1 764 659	2 435 399
Other short term receivables	3 908 499	3 757 437
Cash and cash equivalents	48 553 242	19 015 579
TOTAL CURRENT ASSETS	<u>65 522 488</u>	<u>32 724 868</u>
TOTAL ASSETS	<u>84 326 109</u>	<u>45 861 159</u>
EQUITY AND LIABILITIES	31.12.2006	31.12.2005
EQUITY		
Subscribed equity		
Share capital	1 790 468	610 234
Share premium fund	44 041 951	928 551
Total subscribed equity	<u>45 832 419</u>	<u>1 538 785</u>
Retained equity		
Retained earnings	29 881 606	33 763 147
Total retained equity	<u>29 881 606</u>	<u>33 763 147</u>
TOTAL EQUITY	<u>75 714 025</u>	<u>35 301 932</u>
NON CURRENT LIABILITIES		
Other long-term liabilities	883 751	1 227 380
Pension obligations	0	1 846 194
TOTAL NON CURRENT LIABILITIES	<u>883 751</u>	<u>3 073 574</u>
CURRENT LIABILITIES		
Trade payables	4 814 349	4 106 073
Public duties payable	1 248 197	726 453
Other current liabilities	1 665 787	2 653 127
TOTAL CURRENT LIABILITIES	<u>7 728 333</u>	<u>7 485 653</u>
TOTAL EQUITY AND LIABILITIES	<u>84 326 109</u>	<u>45 861 159</u>

Dolphin Interconnect Solutions Group

Cash Flow Statement / Change in Equity

CASH FLOW STATEMENT	Q4 / 06	Q4 / 05	Full year 2006	Full year 2005
Cash Flow from Operations				
Operating result before tax	-11 214 193	-742 329	-7 865 045	13 592 735
Depreciation & write off	6 140 963	2 739	6 386 523	10 902
Changes in inventories	-2 033 060	-2 141 920	-3 779 635	-129 441
Changes in receivables	333 411	12 195 596	670 740	3 505 245
Changes in trade payables	413 787	-377 848	708 276	1 267 358
Changes in other current assets/debt items	1 967 047	1 632 903	-2 443 296	195 674
Net Cash Flow from Operations	<u>-4 392 046</u>	<u>10 569 141</u>	<u>-6 322 436</u>	<u>18 442 473</u>
Cash Flow from Investments				
Purchase of intangible assets	-2 257 884	-1 147 163	-7 868 195	-4 680 015
Purchase of operating equipment	-135 162	0	-204 411	0
Net Cash Flow from Investments	<u>-2 393 046</u>	<u>-1 147 163</u>	<u>-8 072 606</u>	<u>-4 680 015</u>
Cash Flow from Financial Activities				
Changes in long term liabilities	-190 220	-41 551	-343 629	-83 102
Paid in capital	0	0	44 293 634	0
Net Cash Flow from Financial Activities	<u>-190 220</u>	<u>-41 551</u>	<u>43 950 005</u>	<u>-83 102</u>
Net change in cash and equivalents	-6 975 313	9 380 427	29 554 963	13 679 356
Foreign currency effect on cash	-5 506	23 142	-17 300	57 407
Opening balance, cash and equivalents	55 534 061	9 612 010	19 015 579	5 278 816
Closing balance, cash and equivalents	<u>48 553 242</u>	<u>19 015 579</u>	<u>48 553 242</u>	<u>19 015 579</u>
CHANGE IN EQUITY	Q4 / 06	Q4 / 05	Full year 2006	Full year 2005
Equity opening balance	83 578 355	30 328 558	35 301 932	15 964 833
Paid in capital	0	0	49 875 000	0
Cost	0	0	-5 581 366	0
Currency converting effect	-11 246	5 487	-6 289	40 959
Net profit	-7 853 084	4 967 887	-3 875 253	19 296 140
Equity closing balance	<u>75 714 025</u>	<u>35 301 932</u>	<u>75 714 025</u>	<u>35 301 932</u>