

INTERIM REPORT

1st Quarter 2007



May 15th, 2007

Quarterly Highlights

All figures NOK

- ❑ Dolphin completes merger and integration with StarGen
- ❑ Launch of the Dolphin Express™ product line including new strong PCI Express based products
- ❑ Exceptionally good performance results from database performance test with Intel and MySQL
- ❑ Collaboration with MySQL strengthened and extended in marketing and customer related activities
- ❑ Agreement with Sun Microsystems to port SuperSockets to Solaris
- ❑ NumaChip design documents in place
- ❑ Oracle testing with SuperSockets moves on with more major server vendors
- ❑ Pilot customer adapts the Dolphin ExpressWay product in security application, presenting a faster way to do remote file access on Windows systems
- ❑ Dolphin Supports Windows Vista
- ❑ Operating revenues reached 8.6 million in the 1st Quarter 2007

Integrating a strong US subsidiary, Dolphin, Inc. Marlborough, MA.

The integration of the organization from former StarGen into the Dolphin organization is completed and in full operation. The US operation is a continuation of Dolphin's subsidiary, Dolphin Interconnect Solutions North America, Inc. that is doing business as Dolphin, Inc. located in StarGen's premises in Marlborough, Massachusetts. Dolphin's existing US staff and former StarGen employees – 16 in total – work together and are organized for a collaborative drive to create a joint platform with better business opportunities. The Dolphin,

Inc. operation has corporate responsibility for the enhanced PCI Express hardware products, corporate marketing and the StarFabric business.

The merger with U.S. StarGen Inc. is a major strategic step forward for Dolphin and greatly expands product capabilities for high performance interconnect infrastructure for servers, clusters, storage and embedded applications. The new Dolphin provides a product range that addresses the needs of several markets through leveraging the expertise of both companies. Dolphin is an industry recognized leader in high performance interconnect solutions for processors, while StarGen has pioneered innovative value-added interconnect solutions for computer IO-systems. The expanded offering means the new company is able to meet all the customer's interconnect needs, a capability highly valued by the industry. The combined product range covers applications spanning embedded solutions for printers to large-scale multiprocessing systems for mission and business-critical applications. Resources from both organizations are working on the project to target Dolphin's SuperSockets software for the enhanced PCI Express products.



Dolphin, Inc. staff in front of their building in Cedar Hill, Marlborough, MA. CEO Tim Miller to the left.

The Marlborough organization is in progress bringing out the hardware for the products based on the enhanced PCI Express technology. By providing enhanced capabilities directly to the PCI Express domain, the new Dolphin can deliver more efficient solutions with wider applicability than competing interconnect technologies. The products will be integrated into a single product line and marketed under the Dolphin Express label.

The Marlborough organization is in progress bringing out the hardware for the products based on the enhanced PCI Express technology. By providing enhanced capabilities directly to the PCI Express domain, the new Dolphin can deliver more efficient solutions with wider applicability than competing interconnect technologies. The products will be integrated into a single product line and marketed under the Dolphin Express label.

StarGen's StarFabric products are the original interconnect products from StarGen, providing sales of USD 3.1 million in 2006. The products are used for various applications, such as test & measurement, medical, storage, video display and printer solutions. Dolphin will continue the StarFabric business at full force. Many good projects using StarFabric are in production and production start-up. Dolphin is positioned to support the StarFabric customers aggressively and the growth in sale will continue. In the 1st Quarter of 2007, the StarFabric deliveries are on track and amounting to 4.0 million (USD 0.65 million).

Markets and customers

The good progress in Dolphin's sales work for SuperSockets continued through the 1st Quarter of 2007. Two major server vendors are now shipping systems to Oracle for testing and certification. Another large US server vendor is set up for testing Oracle with Dolphin Express and results are expected to be published from this test. Dolphin Express and

SuperSockets have shown very good performance and behaviour in all tests and Dolphin is positioned to become a solution of choice for Oracle scalability.

Continued 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 Cluster's recent successes within the telecom industry being particularly interesting in this context.

Under the recent MySQL Conference & Expo in California results from the DBT2 benchmarks with MySQL's Cluster Carrier Grade Edition database and Dolphin Express were presented. The tests were conducted in collaboration with Intel Corporation, MySQL and Dolphin. MySQL made a press release featuring Dolphin and this test.

The benchmark results show the very high scalability of MySQL Cluster, attaining a rate of 100,000 transactions per minute (TpM) using an 8-node cluster. In the benchmark, the latest generation of the Dual-Core Intel® Xeon™ processor family provided a significant step forward in scalability, showing a 75-percent speed improvement over tests run on previous generation Intel Xeon processor systems. MySQL stated in the press release that the results are possible due to Dolphin Express and performance enhancements in the MySQL Cluster Carrier Grade database and that now it will be possible to reach millions of transactions per minute with a sufficiently large configuration.

Intel stated that MySQL's high-availability cluster database on Dual-Core Intel® Xeon™ processor based systems brings tremendous value to telecom customers and provides a cost effective solution on Intel's energy-efficient servers and that Intel worked closely with MySQL Cluster and Dolphin to optimize the solution. Intel also stated that the test results are very impressive.

In the benchmark, Dolphin's new Dolphin Express adapter cards delivered a low latency and high-performance connection between cluster nodes. This solution had a very high impact on response times within the cluster, leading to a more than three-fold improvement in some tests and with an incredible boost in throughput, especially in larger clusters.

Through the partnership with MySQL Dolphin is committed to bring leading database performance solutions to the marketplace. The benchmark results, using the Dolphin Express interconnect-technology, demonstrate the value that MySQL Cluster can deliver to customers with demanding requirements.

The technical situation on SuperSockets for the database market is under control and brings good results and Dolphin is able to continue to provide successful tests as well as proving the concept by installations in real applications. The commercial progress is slow by very promising.

Products and technology

NumaChip

All important licenses and resources for the project are now in place and all partners are working on the project as planned. The collaboration now includes Dolphin, AMD, Siemens

I&S and the University of Mannheim. Dolphin has allocated resources in Oslo as well as from its new US organisation. Work is in progress to select the chip vendor and the process is in the final decision stage where technology from three major semiconductor vendors are evaluated for the NumaChip production contract.

All major design documents are defined, and based on these, a more detailed project plan for the design, implementation and verification phases are in progress.

P2S

The P2S chip was received 1 March and is under test. A conclusion of the test results and product release plans are expected in the 2nd Quarter 2007.

Kestrel and Merlin

Kestrel and Merlin are the end-point and switch chip respectively for the new PCI Express technology for Dolphin Express. The Merlin chip is working in prototypes while the Kestrel chip has been out for a re-spin. The revised chip, called Kestrel A-2, was received from the vendor 11 April and the lab validation of the new chip has been successful. The chip is now undergoing stress testing and a qualification program to be finalized by October for both chips.

Dolphin Express™

Dolphin's products and technology based on SCI and PCI Express in combination with the SuperSockets software are marketed and sold under the new brand Dolphin Express. The main target market for the products is Database acceleration.

The Dolphin Express subsystems based on the PCI Express technology have been defined and the development projects are in progress. There are three initial hardware products in this



program – a Kestrel based HBA (Host Bus Adaptor) module, a Merlin based Switch and a Merlin based switch box. The products are expected to be prototyped in June and July.

SuperSockets

The Linux version of SuperSockets is in very active use especially for the database testing covered above. A project has been started for the software stack to support the Dolphin Express subsystems for PCI Express.

Dolphin has agreed with Sun to interface Dolphin's SuperSockets communication library with Sun's Solaris operating system. This will give Solaris users access to the same performance advantages as available on Linux today.

ExpressWay

ExpressWay is a new software product from Dolphin. It exploits the Dolphin Express hardware in Windows platforms. With ExpressWay, users can too fast remote file access from Windows systems to file servers running the Windows or Linux operating systems. ExpressWay allows the user to take advantage of the full speed of remote high speed disk

subsystems. With standard Windows remote file handling only a fraction of the performance potential is available. The software is delivered to a pilot customer building a security system and is considered for a wider launch later this year.

Windows Vista

Dolphin's software is now tested under and available for Windows Vista.

Summary of 1st Quarter results (Figures for 1st Quarter 2006 in parenthesis)

Total operating revenues reached 8.6 million in the Quarter, a decrease of 18% from the corresponding figure of 10.5 million in the 1st Quarter last year. Compared to the last Quarter of 2006 however, the result shows an increase of 100%. The increase is largely due to the contribution from sales of StarFabric from the operations of the former StarGen organization, which has been consolidated for the full Quarter. The sales of SCI products show a decrease from the 1st Quarter of 2006, which is mainly explained by the wind up of a large OEM contract in the second half of 2006. Gross margin was at 67% in the 1st Quarter 2007, sharply above the 55% level seen in the 1st Quarter last year. Again, the increase is mainly explained by somewhat higher margins in the sales from the US operations. Payroll expenses for the Quarter were 7.1 million, significantly higher than 1st Quarter 2006 (1 million), which included a gain of 1.8 million due to transition to a defined contribution pension plan. 37% of the reported payroll expenses are booked in the US operation whilst 4% (0,3 million) is a non-payable cost due to the warrants-program implemented in connection with the merger. The reported payroll figures are also influenced by the level of capitalized development activities. (Payrolls decrease as activated development increase) These were lower in the Norwegian part of the Group in the 1st Quarter due to reorganization of development activities on PCI express products following the implementation of the merger with former StarGen.

EBITDA ended at -5.6 million in the 1st Quarter as compared to 2.3 million in the 1st Quarter last year. Due to higher depreciation level in the US operation as well as the commence of the depreciation period for SuperSockets, depreciation for the Quarter totalled 0,9 million as compared to 0,1 in the 1st Quarter last year.

Operating profit (EBIT) ended at -6.5 million in the Quarter (2.2 million). Net financial profit was 0.2 million in the 1st Quarter and profit before taxes ended at -6.2 million compared to 2.2 million a year ago. Net profit ended at -3.0 million compared to 1.6 million in the 1st Quarter last year.

Equity, balance sheet and cash flow items

Deferred income tax assets increased to 12.9 million in the 1st Quarter. The US subsidiary has a historic deficit to carry forward in former StarGen. Deferred tax assets related to the deficit amounts to approximately USD 2 million (12.2 million). This tax asset has not been booked in the accounts.

Total equity in the Group was 113.3 million, or 91% at the end of the 1st Quarter. This is up from 36.9 million (86%) in the same Quarter last year and up from 75.7 million (90%) at the end of 2006. The former StarGen organisation was acquired against the issue of 2,530,769

shares in Dolphin, booked at NOK 16 per share. Total cost of the transaction is estimated to approximately 5.2 million, and the sum has been capitalized as part of the cost of the acquisition in the 1st Quarter 2007. Adjusted for transaction cost and equity in former StarGen, 37.1 million has been allocated as immaterial assets (capitalized development cost) in the balance sheet as a result of the acquisition in the 1st Quarter.

In the 1st Quarter, total development cost of 6.1 million has been capitalized, whereof 3.6 million has been book in the US operation and 2.5 million in the mother company. This brings total immaterial assets in the form of capitalized development cost to 51.8 as compared to 9.8 in the 1st Quarter last year. Cash and cash equivalents amounted to 36.3 million at the end of the 1st Quarter (11.3 million). During the Quarter, there was a net decrease in cash and equivalents of 12.1 million whereof 7.5 million as a result of operating activities and 4.6 million as a result of financing-and investment activities.

Financing and shareholders

The employees of the former StarGen organization held 21.8% of StarGen in the form of long-term options on common stock prior to the merger with Dolphin. A competitive share based incentive plan was therefore key issue in the transaction. In the extraordinary general meeting held on February 16th, a 5-year warrants program was resolved. All former StarGen employees are included in the program, which is contingent on vesting and/or performance criteria. The program is based on up to 900 000 warrants on Dolphin shares. In accordance with IFRS 2, Dolphin will amortize a total non-payable cost estimated to 3.5 million to the income statement in the period 2007-2009. In the 1st Quarter 2007, 0.3 million was booked to payrolls as a result of this.

A prospectus in connection with the listing of the new shares issued as a result of the acquisition was approved by the Oslo Stock Exchange on March 30th. The prospectus is available on the company's webpage www.dolphinics.com. Outstanding number of shares now totals 11.483.110.

As of May 7th the total number of shareholders in the company was 449, of which the 20 largest is included in the table below. The shares held by StarGen Inc is expected to be divided between the entitled shareholders in StarGen in the near future.

	Shareholder	No of shares	%
1	STARGEN INC	2 530 769	22,0 %
2	SELVAAG INVEST	1 023 783	8,9 %
3	DEN NORSKE KRIGSFORSIKRING FOR	749 881	6,5 %
4	VERDIPAPIRFONDET DANSKE FUND NOR	432 048	3,8 %
5	GRANADA FORVALTNING AS	325 082	2,8 %
6	VERDIPAPIRFONDET KLP AKSJENORGE	254 196	2,2 %
7	MP PENSJON	228 702	2,0 %
8	GRANADA MANAGEMENT AS	152 544	1,3 %
9	SANDVOLD	140 000	1,2 %
10	AROSA INVEST AS	139 006	1,2 %
11	CONSORT INVEST A/S	135 483	1,2 %
12	MUSTANG AS	135 300	1,2 %
13	RASMUSSEN	132 102	1,2 %
14	LEGIO A/S	127 598	1,1 %
15	FIXDAL	125 930	1,1 %
16	FALKUM INVEST	124 000	1,1 %
17	SPAR INVESTOR NORGE	106 500	0,9 %
18	LINGGJÆRDE	106 000	0,9 %
19	JASTO A/S	105 555	0,9 %
20	MR. YNGVAR HVISTENDAL	102 180	0,9 %
	Total 20 largest shareholders	7 176 659	62,5 %
	Other shareholders	4 306 451	37,5 %
	Total outstanding shares	11 483 110	100,0 %

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 2006.

Corporate priority and outlook

Mainly due to the phase-out of a larger OEM contract coinciding with Dolphin Express and SuperSockets being in an early business development phase, current sales of existing SCI products are relatively weak. StarFabric sales are strong and growing as expected. 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. There is significant progress in the technical and commercial acceptance of the products for the server market with focus on database acceleration and the work in this segment continues with full force and priority. The integration of StarGen will bring significantly improved product offerings. Work will continue to secure strategic partnerships for both SuperSockets and NumaChip and actively exploit strategic agreements, partnerships and acquisitions.

The Board of Directors, Dolphin Interconnect Solutions ASA
Oslo, May 15th, 2006

Dolphin Interconnect Solutions Group

Income Statement

	Q1 / 07	Q1 / 06	Full year 2006
OPERATING REVENUES			
Sales	8 613 555	10 320 163	32 091 691
Other operating revenue	<u>0</u>	<u>217 287</u>	<u>3 949 841</u>
TOTAL OPERATING REVENUE	<u>8 613 555</u>	<u>10 537 450</u>	<u>36 041 532</u>
OPERATING EXPENSES			
Cost of goods sold	2 854 866	4 723 203	14 662 028
Payroll expenses	7 107 477	979 572	11 884 495
Other operating expenses	<u>4 238 917</u>	<u>2 570 414</u>	<u>12 168 929</u>
TOTAL OPERATING EXPENSES	<u>14 201 261</u>	<u>8 273 189</u>	<u>38 715 452</u>
EBITDA	<u>-5 587 706</u>	<u>2 264 261</u>	<u>-2 673 920</u>
Depreciation	870 325	80 390	348 419
Write off	0	0	6 038 104
OPERATING PROFIT (EBIT)	<u>-6 458 032</u>	<u>2 183 871</u>	<u>-9 060 443</u>
NET FINANCIAL PROFIT	<u>246 239</u>	<u>38 405</u>	<u>1 195 397</u>
PROFIT BEFORE TAXES	<u>-6 211 793</u>	<u>2 222 276</u>	<u>-7 865 046</u>
Income taxes	-3 229 182	644 014	-3 989 793
NET PROFIT	<u>-2 982 611</u>	<u>1 578 262</u>	<u>-3 875 253</u>
Avg.no. of shares outstanding	9 795 931	6 102 341	8 093 437
Net profit per share	-0,30	0,26	-0,48

Dolphin Interconnect Solutions Group

Balance Sheet

ASSETS	31.03.2007	31.03.2006	31.12.2006
NON-CURRENT ASSETS			
Capitalized development cost	51 812 374	9 844 893	8 911 664
Deferred income tax assets	12 939 606	5 068 561	9 710 424
Operating equipment	1 909 347	48 769	179 344
Other long term receivables	1 314 832	2 304	2 189
TOTAL NON-CURRENT ASSETS	<u>67 976 158</u>	<u>14 964 527</u>	<u>18 803 621</u>
CURRENT ASSETS			
Inventories	12 296 377	7 408 535	11 296 088
Trade receivables	4 266 325	4 099 544	1 764 659
Other short term receivables	3 880 389	5 317 394	3 908 499
Cash and cash equivalents	36 254 163	11 284 930	48 553 242
TOTAL CURRENT ASSETS	<u>56 697 255</u>	<u>28 110 402</u>	<u>65 522 488</u>
TOTAL ASSETS	<u>124 673 413</u>	<u>43 074 929</u>	<u>84 326 109</u>
EQUITY AND LIABILITIES			
31.03.2007			
31.03.2006			
31.12.2006			
EQUITY			
Subscribed equity			
Share capital	2 296 622	1 220 468	1 790 468
Share premium fund	44 041 951	318 317	44 041 951
Total subscribed equity	<u>46 338 573</u>	<u>1 538 785</u>	<u>45 832 419</u>
Retained equity			
Retained earnings	66 991 886	35 337 788	29 881 606
Total retained equity	<u>66 991 886</u>	<u>35 337 788</u>	<u>29 881 606</u>
TOTAL EQUITY	<u>113 330 459</u>	<u>36 876 573</u>	<u>75 714 025</u>
NON CURRENT LIABILITIES			
Other long-term liabilities	729 032	1 192 258	883 751
TOTAL NON CURRENT LIABILITIES	<u>729 032</u>	<u>1 192 258</u>	<u>883 751</u>
CURRENT LIABILITIES			
Trade payables	6 499 159	2 019 025	4 814 349
Public duties payable	973 120	510 983	1 248 197
Other current liabilities	3 141 643	2 476 090	1 665 787
TOTAL CURRENT LIABILITIES	<u>10 613 922</u>	<u>5 006 098</u>	<u>7 728 333</u>
TOTAL EQUITY AND LIABILITIES	<u>124 673 413</u>	<u>43 074 929</u>	<u>84 326 109</u>

Dolphin Interconnect Solutions Group

Cash Flow Statement / Change in Equity

CASH FLOW STATEMENT	Q1 / 07	Q1 / 06	Full year 2006
Cash Flow from Operations			
Operating result before tax	-6 211 793	2 222 276	-7 865 046
Depreciation & write off	870 325	80 390	6 386 523
Changes in inventories	-1 000 289	107 918	-3 779 635
Changes in receivables	-2 501 666	-1 664 145	670 740
Changes in trade payables	1 684 810	-2 087 048	708 276
Changes in other current assets/debt items	-315 952	-3 794 541	-2 460 116
Net Cash Flow from Operations	-7 474 566	-5 135 150	-6 339 258
Cash Flow from Investments			
Purchase of operating equipment	-1 713 305	-21 785	-187 474
Purchase of intangible assets	-43 207 265	-2 530 920	-7 868 310
Net Cash Flow from Investments	-44 920 570	-2 552 705	-8 055 784
Cash Flow from Financial Activities			
Payment of long term liabilities	-154 719	-35 122	-343 629
Issue of shares	40 492 304	0	44 293 634
Net Cash Flow from Financial Activities	40 337 585	-35 122	43 950 005
Net change in cash and equivalents	-12 057 551	-7 722 977	29 554 963
Foreign currency effect on cash	-241 528	-7 672	-17 300
Opening balance, cash and equivalents	48 553 242	19 015 579	19 015 579
Closing balance, cash and equivalents	36 254 163	11 284 930	48 553 242
CHANGE IN EQUITY	Q1 / 07	Q1 / 06	Full year 2006
Equity opening balance	75 714 025	35 301 932	35 301 932
Issue of shares	40 492 304	0	49 875 000
Cost of issue of shares	0	0	-5 581 366
Option granted to employees	309 877	0	0
Currency converting effect	-203 136	-3 621	-6 288
Net profit	-2 982 611	1 578 262	-3 875 253
Equity closing balance	113 330 459	36 876 573	75 714 025