

# INTERIM REPORT



4<sup>th</sup> Quarter 2005

February 14, 2006

## Quarterly Highlights

*All figures NOK*

- ❑ Operating revenues totalled 7 million in the 4<sup>th</sup> quarter 2005, compared to 6.5 million in the corresponding period in 2004.
- ❑ EBITDA ended at –1.9 million as compared to –11.8 million in the same quarter 2004.
- ❑ Net profit ended at 5 million compared to –12.8 in the 4<sup>th</sup> quarter 2004.
  
- ❑ The new product Dolphin SuperSockets was launched in the 4<sup>th</sup> quarter
- ❑ Kristin Clemet and Monica June Myklebust Øyen proposed as new board members
- ❑ The application for listing on Oslo Stock Exchange to be filed March 1

## Summary of annual accounts

Total operating revenues for the full year ended at 50.4 million, an increase of 88.8% compared to last years corresponding figure of 26.7 million.

Operating profit (EBITDA) for the year was 11.9 million, an increase from –16.1 million in 2004. Net profit for the full year was 19.3 million, up from –17 million in 2004. EPS was 3.16 for 2005 compared to –2.78 in 2004. The equity ratio at year end was a solid 76,9%.

## Markets and customers

Dolphin had good progress in extending the deliveries to its major OEM customers. During 2004 and 2005 Dolphin has developed customized products to suite future needs of the OEM customers and the company believes it is well positioned to further develop relations with OEM customers.

During the 4<sup>th</sup> quarter Dolphin shipped the first orders for the new PCI Express Cards. In all, Dolphin introduced a series of 3 cards for PCI, one single card, one dual channel card and a two link (or 2D) card. Technical details and product description is published on the Dolphin

website ([www.dolphinics.no](http://www.dolphinics.no)). The PCI Express I/O subsystems are now rapidly gaining popularity in PCs and servers.

Also during the 4<sup>th</sup> quarter, Dolphin made substantial progress in testing of its SuperSockets software in beta sites using MySQL, as well as with Oracle at a major server vendor.

## Products and technology

---

Dolphin has decided to use the so called RapidChip microchip technology and the manufacturer LSI Logic to make a replacement chip for the existing Dolphin microchips LC-3 and PSB66. Both chips will be incorporated into one chip. This will reduce the production cost and extend the life of the existing Dolphin microchips. LSI Logic has been supplying critical components for Dolphin for more than 10 years.

## Operating revenues

---

4<sup>th</sup> quarterly revenue was 7.0 million and the full year revenue was a solid 50.4 million compared with revenues of 6.5 million for the 4<sup>th</sup> quarter and 26.7 million in the full year 2004. Operating revenues consist partly of revenue from OEM customers with embedded solutions, partly from high performance computer cluster revenue and some revenue from the newly launched Dolphin SuperSockets.

## Operating costs

---

Operating expenses was 8.9 million for the reporting quarter and 38.6 million for the full year 2005, compared with 2004 figures of 18.3 million and 42.8 million respectively. The development in operating expenses is effected by the nature of development activities, as a larger part of development cost was capitalized in the 4<sup>th</sup> quarter of 2005 than in the same quarter 2004. Further more, a favourable development in unit costs during 2005 is partly explained by larger production volume for certain products. For the purpose of annual comparison, in the accounts for the 4<sup>th</sup> quarter of 2004, an extraordinary wright off of inventory effected operating cost negatively by 8.5 million.

## Profit trends

---

The year 2005 ended exceptionally profitable for Dolphin. This is partly due to the fact that a few large orders that was expected to be placed in 2004, was postponed until 2005. In addition, during 2005, after a period of test volume deliveries, commercial volume shipments to a new customer in the medical imaging industry commenced. The trend is that more orders are based on long term contracts, thus giving a more stable basic revenue and profit development.

The appreciation of the US dollar through the year has led to a net currency gain for the 4<sup>th</sup> quarter of 1.1 million as compared to a loss of 0.9 million in the last quarter of 2004. As virtually no sales are invoiced in NOK, the main revenues in Dolphin consist of USD and

EUR. This currency exposure is partly balanced as a significant part of production components are purchased in USD.

Due to better outlook for the future and a change in the Norwegian tax law regarding tax losses carried forward, the company has booked a deferred income tax asset of 5.7 million in the 4<sup>th</sup> quarter 2005. The deferred tax asset impacts the net profit for the quarter and the year 2005 positively by 5.7 million.

## Equity and financing

---

Total equity in Dolphin as of 31<sup>st</sup> of December 2005 was 35.3 million, corresponding to an equity ratio of 76.9 %.

Cash and cash equivalents amounted to 19 million. Cash flow from operations was 10.6 million in the last quarter and 18.4 million for the year.

## Organisation

---

Dolphin has 22 employees and 7 associates. Alex Gundersen joined Dolphin in February 2006 as chief financial officer and is also in charge of investor relations.

## Outlook

---

The positive trend in 2005, both in new sales, the positive market introduction of the new Dolphin Supersocket product and the competitiveness of the planned RapidChip technology, are signs that provide a basis for sound prospects for future development of Dolphin's business.

## Accounting principles

---

Dolphin Interconnect Solutions AS follows the principles of IFRS in its 4<sup>th</sup> quarter report and full year 2005 annual report. The figures for the accounting year 2004 has been recast in accordance with IFRS and are reported in accordance with the regulations for interim reporting in IAS 34. The transition to IFRS has led to material changes particularly in regards of development costs, as the cost component is now capitalized as opposed to directly expensed according to NGAAP. This has given a positive effect on profit through lower reported labour costs in the income statement. Depending on its nature, development projects are depreciated over 3 to 5 years.

# Dolphin Interconnect Solutions Group

## Income Statement

	Q4 / 05	YTD 2005	Q4 / 04	YTD 2004	Q4 / 04	YTD 2004
	IFRS	IFRS	IFRS	IFRS	NGAAP	NGAAP
<b>OPERATING REVENUES</b>						
Sales	6 786 787	49 426 396	6 335 317	25 405 832	6 335 317	25 405 832
Other operating revenue	205 411	996 600	174 092	1 287 385	174 092	2 867 385
<b>TOTAL OPERATING REVENUE</b>	<b>6 992 198</b>	<b>50 422 996</b>	<b>6 509 409</b>	<b>26 693 217</b>	<b>6 509 409</b>	<b>28 273 217</b>
<b>OPERATING EXPENSES</b>						
Cost of goods sold	2 698 574	18 246 211	11 870 844	20 983 476	11 870 844	20 983 476
Payroll expenses	2 956 120	9 321 430	3 289 229	10 203 346	3 931 781	13 829 875
Other operating expenses	3 213 826	10 982 780	3 169 053	11 597 554	3 259 769	11 788 017
<b>TOTAL OPERATING EXPENSES</b>	<b>8 868 520</b>	<b>38 550 421</b>	<b>18 329 126</b>	<b>42 784 376</b>	<b>19 062 394</b>	<b>46 601 368</b>
<b>EBITDA</b>	<b>-1 876 323</b>	<b>11 872 575</b>	<b>-11 819 717</b>	<b>-16 091 159</b>	<b>-12 552 985</b>	<b>-18 328 151</b>
Depreciation	2 739	10 902	18 291	72 867	782	72 867
Write-down of negative goodwill	0	0	0	0	-19 151 163	-19 151 163
<b>OPERATING PROFIT (EBIT)</b>	<b>-1 879 062</b>	<b>11 861 673</b>	<b>-11 838 008</b>	<b>-16 164 026</b>	<b>6 597 395</b>	<b>750 145</b>
<b>FINANCIAL INCOME AND COSTS</b>						
Interest income	75 969	82 906	7 219	7 818	7 219	7 818
Foreign exchange gains	1 225 188	2 564 281	33 592	408 360	33 592	408 360
Foreign exchange losses	158 097	914 280	949 923	1 151 726	949 923	1 151 726
Interest expense	6 327	1 845	77 680	72 498	77 680	72 498
<b>NET FINANCIAL PROFIT</b>	<b>1 136 733</b>	<b>1 731 062</b>	<b>-986 792</b>	<b>-808 046</b>	<b>-986 792</b>	<b>-808 046</b>
<b>PROFIT BEFORE TAXES</b>	<b>-742 329</b>	<b>13 592 735</b>	<b>-12 824 800</b>	<b>-16 972 072</b>	<b>5 610 603</b>	<b>-57 901</b>
Income taxes	-5 710 216	-5 703 405	3 557	12 876	3 557	12 876
<b>NET PROFIT</b>	<b>4 967 887</b>	<b>19 296 140</b>	<b>-12 828 357</b>	<b>-16 984 948</b>	<b>5 607 046</b>	<b>-70 777</b>
Avg.no. of shares outstanding	6 102 341	6 102 341	6 102 341	6 102 341	6 102 341	6 102 341
Net profit per share	0,60	3,16	-2,10	-2,78	0,92	-0,01

# Dolphin Interconnect Solutions Group

## Balance Sheet

NON-CURRENT ASSETS	31.12.2005 IFRS	31.12.2004 IFRS	31.12.2004 NGAAP
Goodwill	0	0	-14 271 810
Capitalized development cost	7 391 478	2 711 463	0
Deferred income tax assets	5 712 575	0	0
Operating equipment	29 869	57 161	57 161
Other long term receivables	2 369	2 100	2 100
Pension assets	0	0	855 977
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>13 136 291</u></b>	<b><u>2 770 724</u></b>	<b><u>-13 356 572</u></b>
<b>CURRENT ASSETS</b>			
Inventories	7 516 453	7 387 012	7 387 012
Other short term receivables	3 757 436	2 537 865	2 537 865
Trade receivables	2 435 399	5 940 644	5 940 644
Cash and cash equivalents	19 015 579	5 278 816	5 278 816
<b>TOTAL CURRENT ASSETS</b>	<b><u>32 724 868</u></b>	<b><u>21 144 337</u></b>	<b><u>21 144 337</u></b>
<b>TOTAL ASSETS</b>	<b><u>45 861 159</u></b>	<b><u>23 915 061</u></b>	<b><u>7 787 765</u></b>
<b>EQUITY AND LIABILITIES</b>			
	31.12.2005 IFRS	31.12.2004 IFRS	31.12.2004 NGAAP
<b>EQUITY</b>			
<b>Subscribed equity</b>			
Share capital	610 234	610 234	610 234
Share premium fund	928 551	928 551	298 347
<b>Total subscribed equity</b>	<b><u>1 538 785</u></b>	<b><u>1 538 785</u></b>	<b><u>908 581</u></b>
<b>Retained equity</b>			
Retained earnings	33 763 147	14 426 048	443 904
<b>Total retained equity</b>	<b><u>33 763 147</u></b>	<b><u>14 426 048</u></b>	<b><u>443 904</u></b>
<b>TOTAL EQUITY</b>	<b><u>35 301 932</u></b>	<b><u>15 964 833</u></b>	<b><u>1 352 485</u></b>
<b>NON CURRENT LIABILITIES</b>			
Other long-term liabilities	1 227 380	1 310 482	1 310 482
Pension obligations	1 846 194	1 514 948	0
<b>TOTAL NON CURRENT LIABILITIES</b>	<b><u>3 073 574</u></b>	<b><u>2 825 430</u></b>	<b><u>1 310 482</u></b>
<b>CURRENT LIABILITIES</b>			
Trade payables	4 106 073	2 838 715	2 838 715
Public duties payable	726 453	898 336	898 336
Other current liabilities	2 653 128	1 387 747	1 387 747
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>7 485 653</u></b>	<b><u>5 124 798</u></b>	<b><u>5 124 798</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>45 861 159</u></b>	<b><u>23 915 061</u></b>	<b><u>7 787 765</u></b>

Oslo 14.02.2006

Jan E Engebretsen  
Chairman of the board

Alf Rasmussen  
Member of the board

Viktor B Sandland  
Member of the board

Kåre Løchsen  
Managing director

## Dolphin Interconnect Solutions Group

### Cash Flow Statement / Change in Equity

CASH FLOW STATEMENT	Q4 / 05 IFRS	YTD 2005 IFRS	Q4 / 04 IFRS	YTD 2004 IFRS	Q4 / 04 NGAAP	YTD 2004 NGAAP
<b>Cash Flow from Operations</b>						
Operating result before tax	-742 329	13 592 735	-12 824 800	-16 972 072	5 610 603	-57 901
Depreciation	2 739	10 902	18 291	72 867	782	72 867
Expenses booked against negative goodwill	0	0	0	0	-19 151 163	-19 151 163
Changes in inventories	-2 141 920	-129 441	9 331 525	11 119 669	9 331 525	11 119 669
Changes in receivables	12 195 596	3 505 245	3 340 781	4 958 636	3 340 781	4 958 636
Changes in trade payables	-377 848	1 267 358	480 349	1 499 740	480 349	1 499 740
Changes in other current assets/debt items	1 632 904	195 674	3 225 036	-1 732 213	3 439 503	-1 603 684
<b>Net Cash Flow from Operations</b>	<b>10 569 141</b>	<b>18 442 473</b>	<b>3 571 182</b>	<b>-1 053 373</b>	<b>3 052 381</b>	<b>-3 161 836</b>
<b>Cash Flow from Investments</b>						
Purchase of operating equipment	0	0	-56 001	-56 001	-56 001	-56 001
Purchase of intangible assets	-1 147 163	-4 680 015	-518 801	-2 108 463	0	0
<b>Net Cash Flow from Investments</b>	<b>-1 147 163</b>	<b>-4 680 015</b>	<b>-574 802</b>	<b>-2 164 464</b>	<b>-56 001</b>	<b>-56 001</b>
<b>Cash Flow from Financial Activities</b>						
Rise of long-term debt	0	0	0	1 429 926	0	1 429 926
Payment of long term liabilities	-41 551	-83 102	-59 722	-119 444	-59 722	-119 444
<b>Net Cash Flow from Financial Activities</b>	<b>-41 551</b>	<b>-83 102</b>	<b>-59 722</b>	<b>1 310 482</b>	<b>-59 722</b>	<b>1 310 482</b>
Net change in cash and equivalents	9 380 427	13 679 356	2 936 658	-1 907 355	2 936 658	-1 907 355
Foreign currency effect on cash	23 142	57 407	-12 563	-41 566	-12 563	-41 566
Opening balance, cash and equivalents	9 612 010	5 278 816	2 354 721	7 227 737	2 354 721	7 227 737
<b>Closin balance, cash and equivalents</b>	<b>19 015 579</b>	<b>19 015 579</b>	<b>5 278 816</b>	<b>5 278 816</b>	<b>5 278 816</b>	<b>5 278 816</b>
CHANGE IN EQUITY	Q4 / 05 IFRS	YTD 2005 IFRS	Q4 / 04 IFRS	YTD 2004 IFRS	Q4 / 04 NGAAP	YTD 2004 NGAAP
Equity opening balance	30 328 558	15 964 833	28 801 520	32 998 830	-4 246 232	1 472 311
Currency converting effect	5 487	40 959	-8 329	-49 049	-8 329	-49 049
Net profit	4 967 887	19 296 140	-12 828 357	-16 984 948	5 607 046	-70 777
<b>Equity closing balance</b>	<b>35 301 932</b>	<b>35 301 932</b>	<b>15 964 833</b>	<b>15 964 833</b>	<b>1 352 485</b>	<b>1 352 485</b>