



03 04 05 06 **07**

TOTAL REVENUES

(\$ IN MILLIONS)

03 04 05 06 **07**

CASH FLOW FROM OPERATIONS

(\$ IN MILLIONS)

Financial highlights for fiscal year, ended April 27, 2007

Dear Fellow Stockholders,

In fiscal year 2007, Network Appliance achieved record levels of revenue and cash from operations, demonstrating the continued effectiveness of our corporate vision and business strategy. By providing customers with innovative solutions that allow them to simplify their data management and storage environments, while reducing their total cost of ownership, NetApp continues to capture market share and to grow significantly faster than the competition. We finished the year with \$2.8 billion in revenue, up 36% over FY 2006, and grew our cash from operations by 56% to \$864 million. We repurchased 22.7 million shares of stock, reflecting confidence in our business and a desire to return additional value to shareholders. And we earned the distinction of placing sixth on *Fortune* magazine's list of the top 100 best places to work, making the list for the fifth year in a row.

Customers today face rapidly changing business requirements. Demands are placed on them for nonstop 24-hour business continuity, but at the same time they are experiencing massive data growth while backup windows are shrinking. They must protect data in the face of rising costs and increasingly stringent requirements for archiving and compliance. They must implement more new applications with higher expectations for rapid provisioning and responsiveness to business changes—all under the shadow of heightened security concerns. These confluent challenges require new solutions that take an integrated approach to cost-effectively satisfying all of these demands.

The NetApp Difference

NetApp is uniquely positioned to help customers respond to these ever-increasing and varied business challenges. With our unified architecture, customers are able to increase their efficiency in storing and managing their vast amounts of data. With a NetApp system, customers can consolidate SAN, NAS, and iSCSI into one infrastructure to maximize flexibility while at the same time lowering costs. Our unified architecture, with one common operating system across all of our FAS storage product lines, allows customers to over-provision and flexibly respond to changing business requirements on the fly. And because our value-add resides in our system software, customers can minimize the amount of physical storage

media they need to buy, and at the same time achieve double the industry average utilization rates of their disk storage, leading to the highest return on investment in the industry.

Tightly coupled with our storage systems, we offer a manageability software family that helps customers to optimize the performance of the business applications running on their NetApp systems. These storage software offerings simplify the challenges that application and database administrators face, making them more efficient and improving data center productivity. The effectiveness of these software packages has stimulated strong partnerships with Microsoft, Oracle, SAP, and VMware. And coupled with our comprehensive world-class support, customers can increase their application service levels while decreasing their total cost of ownership. As a result, NetApp has driven increased business in primary storage environments in many of the largest data centers around the world.

NetApp has also achieved great success with our simple, sophisticated data protection and retention solutions. We estimate that over 80% of all data stored on disk in today's global enterprises is secondary storage—copies of original or "primary" production data. NetApp is uniquely positioned to empower customers with solutions that significantly reduce the amount of physical space required and lower the administrative cost to manage their secondary storage environments. We offer data protection and recovery

solutions for any heterogeneous primary storage environment, with unparalleled partner integration. Utilizing our software technology, customers can make virtual copies of their primary data, eliminate backup windows, offer instant end-user restores, and speed application testing and deployment. Our market share in the replication software market has grown to 27%, making us the number two provider in the industry.

Market Expansion

The market trends are irrefutable. Customers coping with storage and data management challenges are dealing with today's most rapidly changing areas of computing and communication infrastructure. Customers are looking for new and better solutions that take a fundamentally different approach to solving their challenges. With data center rack space issues and power consumption constraints further complicating their choices, the vendor who helps customers to decrease the amount of physical storage required to solve their problems and lower the administrative cost to manage their environments will be the clear leader in the years to come. NetApp software and solutions most effectively address these issues for customers around the world.

We believe Network Appliance has a sustainable competitive advantage for the long term. With our sophisticated, easy-to-use software built on the only unified

architecture in the industry, we will take our unique solutions into more opportunities and continue to expand market coverage over the next several years.

In fiscal 2007, our investments in market expansion focused on three key areas. First, we drove deeper and broader within our existing account base. We estimate that our share of storage spending in our existing accounts is still less than 20% today, but growing far faster than the competition. Second, we increased our focus on new account acquisition, particularly in the Storage 5000—our compilation of the 5,000 largest purchasers of storage in the world. We are in less than 50% of those accounts today, so the market opportunity there is tremendous. We also extended our reach downward into the small and medium-sized enterprise segments by offering lower price point products through expanded channels. Third, we expanded our channel breadth to leverage our partners' strengths in geographies, verticals, and accounts where historically we have had little presence. We helped make our channel partners extremely successful with their NetApp business, and as a result we continue to see the channels grow even faster than our overall business.

When we step back and look at how fast and how large we've grown, it is remarkable that our share of the networked storage market has reached just 10%. This is exciting to us, because it shows the vast opportunity that still awaits us. With the

strength of our product differentiation and competitive solutions, we believe that the largest gating factor to our future growth is market coverage and awareness. So we continue to hire people in sales and professional services to reach and support more of the global Storage 5000, and to invest in increasing the awareness of NetApp and our solutions in potential customers who don't know us yet.

NetApp also continues to invest in product development to maintain the level of innovation and product expansion that has stimulated our growth thus far. Our next-generation operating system, Data ONTAP® GX, is a terrific example. As the market moves toward a need for massive horizontal scaleout of modular systems, we offer this capability today and are marching toward convergence of our current operating system with the GX scaleout and global namespace capabilities. We're also investing in emerging heterogeneous product capabilities that help us to expand our reach into other vendors' environments.

Our goal is to become the preferred infrastructure provider for data management solutions worldwide. We believe the market will eventually converge onto an IP-based infrastructure; and although we offer SAN, NAS, and iSCSI connectivity with all of our storage systems, we have more IP-networking expertise than any other vendor. NetApp is the clear leader in IP-based storage, and the market is moving in our direction.

Regardless of the ebb and flow of the macroeconomic environment, we believe Network Appliance is well positioned to grow faster than the markets we serve and the competitors we face. We intend to maximize long-term revenue growth and long-term profitability by reinvesting responsibly in our business to drive additional market share gains.*

We would like to thank our employees for their tireless efforts in building a model company while delivering tremendous growth, our customers and partners for their trust and investment in NetApp, and our shareholders for their continued support. We look forward to our prospects for growth in 2008 and beyond.



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Chief Executive Officer



Tom Mendoza

President





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Founder and
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*This letter contains forward-looking statements that involve risk and uncertainty, and actual results could vary. These forward looking statements include statements regarding our expectations regarding continuing to capture market share, our belief that we have a sustainable competitive advantage for the long term, our expectations regarding continuing to expand market coverage over the next several years, and our expectations that we will continue to grow faster than the markets we serve and the competitors we face. Actual results could vary due to a number of risks including, but not limited to, the possibility that increased competition in the market for our products and solutions results in lower revenue and market share growth, changes in our ability to develop new products and functionality in a timely manner causes a decline in our competitive advantage, our ability to hire people and develop channels to expand our market coverage, a decline in economic conditions impacting our quarterly bookings, and other factors which result in lower customer demand for our products and solutions. Other equally important factors that could cause actual results to differ from those in the forward-looking statements are detailed in the risk factor sections of our 10-K and 10-Q reports on file with the SEC and accessible through our Web site, <http://investors.netapp.com>.

