

Our innovative solutions
are **Simplifying Data**
Management for enterprise
customers worldwide.

ANNUAL REPORT
2005





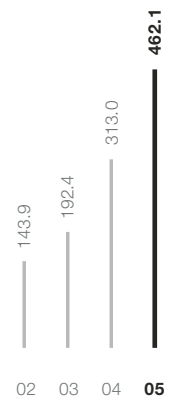
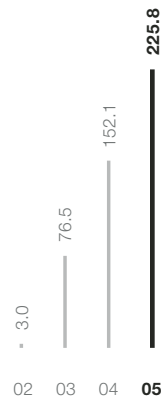
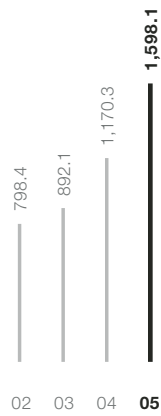
DAN WARMENHOVEN
Chief Executive Officer

TOM MENDOZA
President

STEVE GOMO
Executive Vice President

ROB SALMON
Executive Vice President

ED DEENIHAN
Executive Vice President



FINANCIAL HIGHLIGHTS
Fiscal Year Ended April 30

TOTAL REVENUES
(\$ in millions)

NET INCOME
(\$ in millions)

CASH FLOW FROM OPERATIONS
(\$ in millions)

NetApp again achieved outstanding growth by providing simple, innovative solutions and an absolute commitment to customer success.



DEAR FELLOW STOCKHOLDERS:

By all measures Network Appliance posted an impressive year in fiscal 2005. We achieved tremendous annual revenue growth of 37%—generating record revenues of \$1.6 billion and record net income of \$226 million—which was 48% higher than last year. Cash and investments on our balance sheet ended at nearly \$1.2 billion and deferred revenue increased 61% to \$449 million. A clear indicator of the financial strength of our business model was the \$462 million of cash generated from operations.

Last year we stated that our goal was to invest in our business in order to maximize revenue growth, grow our market share, and at the same time maintain our target operating margins. The fundamental strategy for accomplishing this was to provide our customers with unprecedented value through simple, innovative solutions and give them the best vendor interactions in the industry. Network Appliance successfully achieved these goals, again demonstrating the highest organic growth rates in the storage industry and taking share in the fastest growing segments of the market.

Market forces are moving in our direction. We predicted that storage would emerge as a separate and distinct data center infrastructure purchase, and that has in fact played out. Customers no longer think of storage as peripheral to the server, and the market is moving toward pure-play storage vendors. We anticipated and chose to invest in the emerging market areas with the strongest growth potential, like modular storage, data protection, iSCSI, and still-nascent grid computing. These growth segments are in their early stages, so with continued investment in our business—particularly in sales, services, and engineering—we expect to profitably capitalize on these opportunities and grow faster than the market and our competitors for the foreseeable future.

Simplifying Data Management

Our vision is straightforward: to simplify the data management challenges our customers face by delivering innovative storage solutions. Our greatest competitive advantage in achieving this is our single architecture. By offering one operating system across all of our storage systems, we give our customers

DAVE HITZ
Executive Vice President
Founder

JAMES LAU
Executive Vice President
Founder



Our team excels at predicting and capitalizing on **emerging market trends**, and we have the best people and partners in the industry to lead our growth.

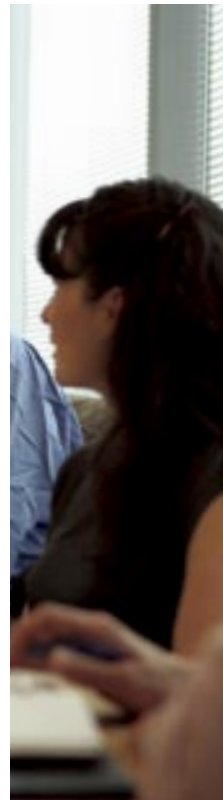
the flexibility to grow at their own pace, design the optimal implementation for their specific needs, and retain the freedom to change direction or utilize their NetApp products in different ways in the future. NetApp is the only vendor that offers customers the ability to run SAN, NAS, and iSCSI concurrently in one system, giving them the flexibility to deploy the most cost-effective solutions in the industry, both in terms of upfront costs and ongoing administration.

This flexibility is provided in part through modular storage. There is a growing trend in the market away from large, inflexible frame arrays and from inefficient direct-attached storage (DAS) toward modular unified storage. These legacy market segments are on the decline, and NetApp is squarely positioned to capture share as the market continues in this direction. NetApp specializes in modular storage. We deploy it through an appliance, driving simplicity in complex customer environments and helping them to solve business problems cost-effectively.

One of the most prominent data management problems customers face today is that of data protection.

As our customer base shifts deeper into the enterprise, data protection has become one of the largest drivers of our growth. During the past year our NearStore® secondary storage system and related software product revenue grew 115% over last year, driven primarily by corporations beginning to implement disk-to-disk backup, replicated data for business continuance, and regulatory compliance initiatives. Offering a single architecture allows customers to back up many storage devices to one system easily and cost-effectively, compared to the cumbersome like-to-like backup methods that other storage vendors offer. Network Appliance is the only company that can converge solutions for backup, business continuance, regulatory compliance, and archival storage all into one architecture that solves all four customer problems.

Network Appliance maintains a customer-centric focus in our innovation, including consciously developing ways to help customers protect and leverage investments they have already made in their storage infrastructure. With our software capabilities, cus-



tomers can virtualize heterogeneous storage systems and also back up data from other vendors' storage devices to NetApp products. Along that line, we announced the acquisition of Alacritus, which provides virtualized tape library ("VTL") solutions. In addition to our advanced backup capabilities, we now offer VTL technology to give customers the ability to reap the benefits of backing up to spinning media without disrupting their existing backup processes. We also announced deeper integration with VERITAS, bringing joint disk-based backup and e-mail archiving capabilities to market and expanding our footprint in the open systems arena.

Another expansion area of our business is the traditional Fibre Channel SAN and newer iSCSI markets. These "block-based" protocols have grown extremely fast for us. As the trend toward unified storage continues to accelerate, Network Appliance remains the primary beneficiary: exiting the fourth quarter of 2005 they were included in over 30% of our business. Our leadership in iSCSI storage has driven this growth. For example, cus-

tomers choose our solutions because they can back up a SAN implementation using iSCSI across their existing Ethernet-based network infrastructure. iSCSI has also stimulated the movement away from inefficient direct-attached storage as customers discover they can now cost-effectively and efficiently move storage to the network. Microsoft has also been a leading proponent of iSCSI adoption, driving demand for our Microsoft® Exchange and SQL Server data management software.


We see the future of storage moving toward a storage grid architecture, which provides a quantum leap in scalability and increases storage consolidation. The company that offers the most flexible and extensible solutions will be the biggest winner. With our single operating system and the ability to run multiple protocols concurrently, NetApp is poised to capitalize on this coming trend as it unfolds. And in fiscal 2006 we will deliver a converged, next-generation operating system integrated with the "near-infinite scale-out" technology acquired last year from Spinnaker

Networks. This next-generation OS will bring true "storage grid" functionality to the market.

Effectively Managing Growth

NetApp holds the enviable position where our degree of growth is gated primarily by our ability to hire people fast enough to capitalize on the converging market opportunities in front of us. In fiscal 2005 we added nearly 1,000 people to the NetApp team, ending the year with 3,800 employees. While this appeared to be a major undertaking, with focus and the implementation of effective processes, the NetApp team successfully accomplished this goal. We are confident we have the seasoned leadership team and systems in place to continue hiring at this rate as long as growth opportunities remain ahead of us.

Hiring additional talent enhances our capacity to bring new innovations to market quickly and further increases our competitive differentiation. Assisted by the additional resources in engineering, this coming year we will introduce product refreshes across our entire storage platform, while at the same



We will continue to prudently invest in our business to maximize revenue growth and long-term profitability.

time keep resources devoted to long-term growth catalysts like our next-generation operating system.

One of our top areas of focus in sales during fiscal 2005 was to further penetrate global enterprise accounts. We increased our business with our top enterprise customers by 37% compared to last year. Approximately half of our business now comes from enterprise customers. These customers tend to buy longer-term hardware maintenance and software maintenance subscriptions, which translate into the very healthy growth you have seen in our deferred revenues. As a result, deferred revenue should continue to outpace our revenue growth. In fiscal 2006 we plan to significantly increase the number of top enterprise accounts we focus on in order to grow this important segment, and we will make appropriate investments in sales to keep those customers growing and happy.

The NetApp Global Services organization is focused on accelerating the adoption rate of our technology, ensuring customer success, and enhancing customer loyalty and retention. We grew the number of

professional services staff over 50% this year, and we still have further to go in order to respond to the demand from Global 1000 companies. We will prudently invest in our services business over the next few years as long as the demand continues to exceed supply. At the same time, we will also invest in training our systems integration and reseller partners to help them further extend our reach.

Our reach will certainly be extended with the most significant partnership in our history. In April we announced that IBM will OEM the NetApp storage system product line. IBM will integrate and sell our products as they are refreshed over the coming year. This partnership is expected to extend coverage into geographies and verticals where we currently have little or no direct sales presence. It also helps us right away because it is a terrific endorsement of our technology.

Other notable partners that contributed to our growth this year include Arrow and Avnet, who manage the relationships with the many NetApp resellers and distributors. These partners grew to account for 9% of our total business this year. On the technology side,

Oracle, Microsoft, and Symantec/VERITAS top the list of influential partners having a positive impact on our business. Our SAP and IBM partnerships are early in their developmental stages and should continue to grow for us in the coming years. The investments we have made to stimulate growth in the indirect channel are paying off, with that segment growing even faster than our overall business this year.

Investing for the Future

As we reflect on fiscal 2005, we are proud of our accomplishments and confident that our strategy of investing in our business to maximize revenue growth and long-term profitability is an effective one. The results speak for themselves, and the NetApp team has demonstrated the ability to effectively manage our growth while ensuring that NetApp maintains its remarkable culture. For the third year in a row we were recognized in Fortune magazine's list of 100 Best Places to Work.

As we look ahead and evaluate our prospects, with innovative products effectively targeted at the highest growth segments of the market, and with the best people and partners



focused on capitalizing on the opportunities in front of us, we expect NetApp to continue to grow faster than the market and our competitors. We plan to continue to invest prudently in our business through hiring, buying back NetApp stock, and thoughtfully considering acquisitions of related technologies.

Our customers reinforce our belief that we are making the right investments to help them simplify their complex environments and take costs out of managing their business. Our objectives going forward are to continue to deliver exceptional value to our existing customers and make sure more global corporations learn how NetApp can help them solve their data management challenges.

On behalf of the Network Appliance leadership team, we would like to congratulate our employees on their success this year and thank them for their contributions toward maximizing shareholder value. We are excited to be part of a team where our opportunities abound and our growth prospects are gated only by the aspirations and efforts of our people. We look forward to another great year in fiscal 2006.

DAN WARMENHOVEN
Chief Executive Officer

TOM MENDOZA
President



Bringing **Simplicity** to complex customer data management challenges



Data is a driving force behind business in today's information age. It drives customer relationships, financial transactions, supply chains, and product shipments. It shapes competitive edge and responses to change. Managing data has become more complex than ever.

Companies must have a sound data management and protection strategy to maximize their effectiveness and minimize their risks. But after years of creeping complexity in the data center, it has become more difficult for IT professionals to keep up with the growing demands of nonstop real-time computing, a host of new applications, and government-mandated retention and retrieval, all while on very limited budgets.

Network Appliance understands the challenges our customers face. We help them reduce complexity as they grow by providing solutions that are more simple to deploy and operate.

NetApp was founded on the principle of simplifying data storage by creating elegant software solutions delivered in modular, scalable appliances.

Over time, as we expanded our product lines we preserved the single-architecture approach to maintain the inherent simplicity of our systems. At the same time, we made it easy for customers to use our products to virtualize and protect heterogeneous storage environments—leveraging their existing investments and simplifying their administration.

As a result, customers can solve multiple data management challenges like business continuance, data mirroring, regulatory compliance, and archival storage with far fewer resources.

And with the highest storage utilization rates in the industry, NetApp provides customers with unprecedented value through lower total cost of ownership. Reducing complexity with our “less is more” philosophy, customers increasingly turn to NetApp for all their data management needs.



Customer:

TELSTRA

Customer Profile:

Telstra, Australia's largest communication and ISP provider, designed a virtualized storage infrastructure with nearly 800TB of NetApp storage deployed at four major data centers. This dynamically provisioned storage model enables horizontal scaling for multiple applications, including a CRM system serving over

7,000 registered users and one of the largest Oracle®-based Linux® data warehouses in the world. Since simplifying its environment by consolidating seven business units onto this architecture, Telstra's facilities management costs have fallen and new project activation times have been reduced by up to 90%.



Customer:

**EDWARD
JONES**

Customer Profile:

Edward Jones, a multibillion-dollar international brokerage firm, has deployed several hundred terabytes of NetApp storage in data centers around the globe. This highly flexible NetApp architecture supports high-performance, mission-critical investment applications; provides secure archival for millions of customer records; and mirrors their data internationally for

maximum business continuance protection. Through a phased implementation, Edward Jones will support 24 x 7 e-mail availability for thousands of customers and employees worldwide. NetApp represents a key element of the firm's innovative IT strategy, which has helped Edward Jones earn top marks for customer satisfaction.

Driving Innovation for customer success and competitive advantage



Network Appliance strives to create the most innovative customer solutions in the industry. By taking a disciplined approach to insulating customers from complexity, NetApp brings to market a modular, integrated set of storage appliances all based on a single operating system. We pioneered unified storage; low-cost, disk-based data protection; and the use of SATA drives for primary storage, providing customers with the greatest flexibility, manageability, and ease of use. With every subsequent product development, we take care to preserve these benefits for the customer as well as to maintain our ability to build efficiently on those products in the future—allowing customers to retain the value of previous investments.

NetApp historically has been very effective at predicting emerging markets, developing leading-edge products for them and establishing early market leadership. Now our eye is on the storage grid. The storage grid will scale out for virtually unlimited performance and capacity while presenting a single system image to the server. NetApp solutions are designed with a storage grid future in mind—one that is

modular, nimble, scalable, and changeable on the fly—and capable of being automatically tuned for small deployments in a workgroup or department, as well as for massive data center deployments for industry's largest data infrastructures.

The most recent release of our Data ONTAP™ operating system incorporates highly innovative virtualization and dynamic utilization capabilities that are the building blocks for a complete storage grid architecture. And in the coming year, we will bring to market a converged operating system integrating the near-infinite scale-out capability we acquired from Spinnaker Networks last year.

Along the way we continue to provide customers with economical innovations that offer the highest rates of performance, reliability, and scalability in the industry, while at the same time reducing disk consumption. Uniquely, we endeavor to help customers accomplish more with fewer resources. Using the right combination of technology, services, and partners, NetApp solutions help solve their most critical IT and business challenges while maximizing ROI.

Investing for customer success, rewarded with Growth



By providing customers with unprecedented value through simple, innovative solutions, Network Appliance has been rewarded with impressive growth across all segments of our business. Around the world, NetApp has grown faster than the market and faster than competitors by listening to our customers and quickly responding to their needs.

From our roots as a vendor with a simple NAS appliance, NetApp took care to develop a unified architecture, giving customers flexibility and preserving their previous investments. With innovations like integrated iSCSI and nearline storage, we thoughtfully create products to help customers economically solve complex business problems. Today we have the largest share in the fastest growing segments of the overall storage market.

Our goal is to deliver exceptional value to customers by providing them with products and services that help them manage and grow their businesses in the most cost-effective fashion possible. We are committed to understanding their business. As their needs increase, we have grown our professional services organization by over 50% to provide them with unprecedented support. We will continue investing across our business to ensure that our customers achieve their key IT goals.

The investments we have made in our business have clearly paid off. And this is just the beginning. As we focus on the future, providing simplicity, innovation, and growth for our customers and shareholders drives everything we do at NetApp.



Customer:

AIRBUS

Customer Profile:

Airbus, the world's top aircraft manufacturer, has trusted NetApp to maximize productivity and efficiency across its design, manufacturing, and IT operations since the late 1990s. After relying on NetApp storage for scientific calculations associated with development of the A300 series, Airbus selected NetApp solutions to support development of the massive A380F, the largest commercial airfreighter ever.

Over the next two years, Airbus engineers will analyze hundreds of millions of sensor readings generated by 47,500 test flights and create hundreds of terabytes of project design files, 3D CAD models, and simulation results. The high-availability NetApp infrastructure will help Airbus meet key deadlines and speed time to market for this exciting new aircraft.

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**EXECUTIVE
STAFF**

Board Members

Jeff Allen
Executive Vice President,
Business Operations (Retired),
Network Appliance, Inc.

Carol Bartz
Chairman and
Chief Executive Officer,
Autodesk, Inc.

Alan Erhardt
Partner (Retired),
PricewaterhouseCoopers

Mark Leslie
Founder, Chairman and
Chief Executive Officer (Retired),
VERITAS Software Corporation

Nicholas Moore
Chairman (Retired),
PricewaterhouseCoopers

Sachio Semmoto
Chairman and
Chief Executive Officer,
eAccess Ltd.

George Shaheen
Chairman and
Chief Executive Officer (Retired),
Webvan Group, Inc.

Donald Valentine
Chairman, Founder, Sequoia Capital

Robert Wall
President,
On Point Developments, LLC

Dan Warmenhoven
Chief Executive Officer,
Network Appliance, Inc.

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Executive Vice Presidents**

Dan Warmenhoven
Chief Executive Officer

Tom Mendoza
President

Steve Gomo
Chief Financial Officer and
Executive Vice President, Finance

Andy Kryder
Secretary, General Counsel,
and Vice President, Legal and Tax

Ed Deenihan
Executive Vice President,
NetApp Global Services

Dave Hitz
Executive Vice President, and Founder

James Lau
Executive Vice President,
Chief Strategy Officer and Founder

Rob Salmon
Executive Vice President,
Worldwide Sales

Senior Vice Presidents

Paul Albright
Senior Vice President, Marketing

George Bennett
Senior Vice President, Americas Sales

Ron Bianchini
Senior Vice President,
Scalable Systems

Mark Jon Bluth
Senior Vice President, Operations

Steve Kleiman
Senior Vice President,
Chief Technology Officer

Pat Linehan
Senior Vice President and
General Manager, Europe,
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Jerry Lopatin
Senior Vice President, Engineering

Gwen McDonald
Senior Vice President,
Human Resources

Suresh Vasudevan
Senior Vice President,
Product Management

Independent Auditors

Deloitte & Touche, LLP
San Jose, California

Transfer Agent and Registrar

Computershare Investor Services, LLC
Chicago, Illinois

Annual Meeting

The Annual Meeting of Stockholders will be held at 3 p.m. Pacific Time on Wednesday, August 31, 2005, at the company's headquarters located at 495 East Java Drive, Sunnyvale, CA.

Investor Relations

Network Appliance, Inc. welcomes inquiries from stockholders and other interested investors.

To obtain a copy of the company's quarterly financial results and other corporate information, please direct your request to our Web site at www.investors.netapp.com or send an e-mail to investor_relations@netapp.com.

You may also contact us by phone at (800) 445-2234 (U.S.) or at (408) 822-7098 or by writing to Investor Relations at Network Appliance, Inc., 495 East Java Drive, Sunnyvale, CA 94089.

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