# Annual
# Report 2014

Execution

Innovation

Heritage

**D-Link**®
**Building Networks for People**

# Financial Highlights

NT$ in thousands

| | 2014 | 2013 |
|---|---|---|
| Net Sales | 30,305,802 | 30,588,474 |
| Gross Profit | 8,273,704 | 8,067,782 |
| Operating Income | 307,025 | 398,273 |
| Income Before Tax | 143,457 | 746,251 |
| Net Income | 61,543 | 647,609 |
| FX Rate (USD to NTD) | 30.3548 | 29.7671 |
| Cash & Cash Equivalents | 3,613,497 | 3,275,650 |
| Total Assets | 25,532,158 | 24,457,789 |
| Long Term Loans | 0 | 768,550 |
| Shareholder's Equity | 12,828,488 | 13,347,713 |
| Shares Outstanding ** | 647,756 | 647,580 |
| FX Rate (USD to NTD) | 31.7660 | 29.95 |

** in thousands

# Letter to Shareholders, Customers, Partners, and Employees

**ROGER KAO**
Chairman & CEO

**A.P. CHEN**
President

## Challenges and Opportunities

In 2014, despite a difficult macroeconomic environment, D-Link was able to achieve a great deal in a very competitive marketplace. The number of mydlink Cloud registered users reached over two and a half million, more than doubling the total seen in 2013. In particular, D-Link's IP camera solutions have proven popular, earning an over 30% share of the consumer retail market in the U.S. and an over 60% share of the consumer retail market in Europe. Meanwhile, the continued development of our Connected Home product line — our collection of smart, automated solutions for the Internet of Things era — has positioned D-Link as a firm with several key competitive advantages in what promises to be an explosively expanding home automation market.

Still, 2014 was a challenging year for us. Falling commodity prices and the end of quantitative easing from the U.S. both contributed to slowing growth in emerging markets. The oil price crisis and sanctions imposed against Russia as a result of its dispute with the Ukraine took a heavy toll on the ruble, negatively impacting D-Link's bottom line in the process.

Global economic instability notwithstanding, D-Link's future prospects are bright and our strategy is sound. We are mitigating financial risk in economically volatile countries while aggressively pursuing opportunities in those parts of the world where we believe we can do better. We are prioritizing the continued development of our popular IP cameras, mydlink Cloud services, and Connected Home line as we seek to win new subscribers and translate our recent success in consumer markets to greater success in small to medium-sized business (SMB) markets that can also benefit from D-Link's new offerings. And as we enter a new era of connectivity, we are pressing forward with an ever-improving product-mix that, buoyed by increased R&D investment, is paving the way toward an exciting future for both our company and our customers.

## Financial Performance

In 2014, D-Link's global consolidated revenue totaled NT$ 30.3 billion. Operating income was NT$ 307 billion. Net income was NT$ 111 million, compared to the previous year's NT$ 676 million. Still, thanks to improved product mix performance, a combined gross margin of 27.3% was seen in 2014, a slight increase over the 26.4% gross margin seen in 2013. Operating profit margin dropped to 1% from 1.3% last year. Annual earnings per share were NT$ 0.1, versus the previous year's NT$ 1.06. Substandard overall operating performance in 2014 was due mainly to the rising US dollar in emerging market economies.

## Market Share

According to technology research and advisory firm Gartner ([1]), in 2014, D-Link ranked first in the Enterprise WLAN market based on standalone access points (762,600 units), with a worldwide market share of 50.4 %, up from 45.7% in 2013. In the Enterprise Ethernet Switch market, D-Link ranked third based on total port shipments (63.6 million ports) for a worldwide market share of 15.0%. Additionally, broadband products achieved annual shipments of 7.9 million units, and digital home products achieved annual shipments of 2.1 million units. Based on revenue share by product category ([2]), wireless products accounted for 33.4% of annual turnover, followed by 27.6% for switches, 18.7% for broadband telecom, and 20.3% for digital home and others.

[1] Source: Gartner, Market Share: Enterprise Network Equipment by Market Segment, Worldwide, 4Q14 and 2014.

[2] Source: D-Link 2014 Financial Report.

## A Strong Vision for the Future

Our focus on high-margin, value-added, cutting-edge solutions continues to differentiate D-Link from low-cost, low-quality competitors, who are quickly losing relevance in the rapidly evolving consumer and business spaces. In order to excel in a new era of connectivity, successful firms will need to rely on innovation, integration, and brand recognition – three of D-Link's core strengths.

Our success in the IP camera market is a direct result of playing to these strengths, and in many ways serves as a blueprint for future achievement. Featuring our pioneering Zero Configuration setup and the powerful mobile management capabilities delivered by our easy-to-use mydlink Cloud services, these products have proven to be an attractive option for customers seeking an ideal mix of control, reliability, and convenience. When used in conjunction with our Cloud Router and Cloud Storage solutions, they allow D-Link to offer high-performance, one-stop cloud networking and surveillance solutions that millions of customers across the globe already trust.

As we build upon our existing mydlink Cloud service framework in the future, you can also expect to see more innovative, integrated, all-in-one networking and security solutions tailored for SMBs. Taken together with a recent surge in the use of smart switches, which offer many of the benefits of managed switches but are less expensive and easier to manage, D-Link is poised to grab a bigger share of the SMB markets as businesses realize they can cut costs through more efficient networking and security solutions. D-Link's superior management tools, language support, and brand recognition further strengthen our position as an industry leader.

# ▸▸ **Globalization**
## through Localization

London, U.K.

Fountain Valley, U.S.A.

São Paulo, Brazil

# Emerging Markets, Asia-Pacific Region

**Despite an oftentimes difficult macroeconomic environment, D-Link was able to find new ways to win, particularly in India.**

Many emerging market economies sputtered in 2014. This turn for the worse was due to a variety of factors, including falling oil prices, political tensions, and the end of quantitative easing. Still, D-Link was able to find ways to grow.

In India, thanks to the much talked about Smart City project and the Digital India program, the computer networking industry is booming as government initiatives drive the digital economy forward. The emergence of an affluent middle class is triggering exponential growth in 3G/4G subscribers and broadband users, further accelerating demands for networking products from individual users. And as the size of business operations increases, large enterprises and SMBs are also investing in network infrastructure, resulting in huge business opportunities for networking vendors in the region.

Sound business planning and strategic alliances have allowed D-Link to reach out to a wider customer network with a broader product portfolio and more expansive end-to-end solutions. Accordingly, D-Link's growth was spectacular in India, with a net profit increase of over 60%, from Rs.135.83 million in 2013 to Rs.218.58 million in 2014. With a unit shipment market share hovering around 50%, D-Link emerged as the undisputed leader of WLAN products in the region.

Channel engagement has been a prime focus for D-Link, as channel/re-seller communities are an integral part of the business ecosystem in India. We have witnessed steady business growth for 3G/4G products as the proliferation of Internet adoption fueled by handheld devices like mobile phones and tablets has led to increased demand for wireless products.

The government sector has also been a major business driver in India, and D-Link has won many substantial contracts. In addition, there has been strong demand for D-Link's products from the education sector, as more and more campuses seek to modernize themselves with Wi-Fi and IP Camera surveillance solutions. Finally, partnerships with major telecom companies such as Airtel, Tata, and Hatchway have driven demand for D-Link's ADSL routers and led to some big victories for the company in a highly competitive market.

In 2014, Russia struggled economically due to falling oil prices, western sanctions imposed over the Ukraine crisis, and currency instability. Difficult economic conditions have changed the direction of market development, but have not restricted it. With brand presence in all the major Russian and CIS retail networks, 33 offices in Russia and 15 in the CIS, and 24-7 technical support with after-sales service throughout the region, D-Link is still a major player in these markets, with sales of Internet gateways, routers, and switches producing the bulk of revenue in the region.

The localization and customization of D-Link products for Russia and the CIS is a major focal point for company development in the region. By equipping the Russian R&D department with modern

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