Annual Report 2013

Innovation

Execution

Heritage

▸▸ Financial Highlights

NT$ in thousands

	2013	2012	% Change
Net Sales	30,588,474	32,466,950	-6
Gross Profit	8,067,782	9,481,716	-15
Operating Income	398,273	692,755	-43
Income Before Tax	746,251	1,104,048	-32
Net Income	647,609	778,964	-17
FX Rate (USD to NTD)	29.7671	29.6239	0
Cash & Cash Equivalents	3,275,650	4,030,555	-19
Total Assets	24,457,789	24,509,118	0
Working Capital	6,781,450	6,848,008	-1
Long Term Loans	768,550	1,070,000	-28
Shareholder's Equity	13,347,713	13,656,058	-2
Shares Outstanding **	647,580	647,580	0
FX Rate (USD to NTD)	29.95	29.136	3

** in thousands

Letter to Shareholders, Customers, Partners, and Employees

ROGER KAO
Chairman & CEO

A.P. CHEN
President

Challenges and Opportunities

In 2013, despite facing a challenging business environment, D-Link made several key achievements. D-Link Cloud Camera shipments grew by 36.3% over 2012, gaining number one market share in the United States and Europe. The number of mydlink™ Cloud Services Global registered users exceeded one million, and D-Link led the way as the first mover in the new, faster 802.11ac routers.

There were still challenges. New competitors from China entered the market such as XiaoMi, Tencent, and Alibaba. The maturity of the Internet equipment market also intensified price competition, and the general macro economy was uncertain, all of which had an effect on D-Link's performance.

Conditions mildly improved in the U.S and Europe during the second half of 2013, and slow but stable growth in China pulled the global economy up. With elections to be held in India and Brazil, and Russia's economy going into a recession following anti-government protests in Ukraine, D-Link is keeping a hopeful yet modest forecast for 2014.

Financial Performance

In 2013, D-Link's global consolidated revenue totaled NT$30.6 billion. Operating income was NT$398.3 million. Net income was NT$647.6million, compared to the previous year's NT$779 million. A combined gross margin of 26.4% was seen in 2013, taking into account inventory provisional loss, which was slightly lower than the 26.8% in 2012. Operating profit margin dropped to 1.3% from 2.1% last year. Annual earnings per share were NT$1.06, versus the previous year's NT$1.23. Substandard overall operating performance in 2013 was due mainly to global economic stagnancy and excessive price competition.

Market Share

According to technology research and advisory firm Gartner[1], in 2013, D-Link ranked first in the Enterprise WLAN market based on standalone access points (764,000 units), with a worldwide market share of 45.7%. In the Enterprise Ethernet Switch market, D-Link ranked third based on total port shipments (61.6 million ports), for a worldwide market share of 15.3%. Additionally, broadband products achieved

annual shipments of 20.1 million units, and digital home products achieved annual shipments of 2.9 million units. Based on revenue share by product category[2], wireless products accounted for 34% of annual turnover, followed by 28% for switches, 18% for broadband devices, and 20% for digital home and others.

A Strategy to Win in the Cloud Era

D-Link has defined areas of strategic focus to compete in the Cloud Era. In the consumer market, the first of these areas is Cloud Cameras. D-Link's IP cameras have risen to prominence in the fast-growing IP surveillance market. The unique mydlink platform features Zero Configuration setup that has helped differentiate the line of IP cameras, making them an industry favorite. Another strategic area is the portable router, an indispensable tool for users who need reliable and fast connectivity on the go. D-Link became a first mover in next- generation Wireless 11AC technology, which provides the bandwidth required by users carrying more mobile devices with larger screens and with higher data needs. Being first to market with this the new technology, it's no accident that D-Link has become the number one worldwide provider for 11ac connectivity in the consumer market.

The BYOD (Bring Your Own Device) trend is driving network infrastructure upgrades, transforming the SMB and enterprise markets dramatically. D-Link's unified wireless solutions benefit the BYOB trend with features that provide flexibility, scalability, and offer powerful tools for deployment and management. Meanwhile, SMBs have started upgrading to smart switches from managed switches, enabling them to streamline IT operations and cut costs. These next generation smart switches greatly reduce complexity while offering superior management tools and language support. Another area of strategic focus is D-Link's 4S package surveillance solutions, a line of devices that work together by combining Surveillance, Switches, Storage and Software as a ready-to-deploy solution. In 2013, these competitive advantages have beaten competitors and seized market opportunities worldwide.

mydlink Cloud Services

In 2013, the mydlink Cloud service gave users the features that they want – real-time monitoring, remote management, mobile access, media streaming, and file sharing – enhancements that

Globalization
through Localization

London, U.K.

Fountain Valley, U.S.A.

São Paulo, Brazil

Emerging Markets, Asia-Pacific Region

In 2013, Emerging Markets and the Asia Pacific Region accounted for 65% the company's total sales revenue

Emerging markets continued to be the major engine of D-Link's expansion, with steady year-on-year growth in Russia, Latin America, the Asia Pacific region, the Middle East, and Africa. D-Link succeeded by increasing local brand awareness, maintaining competitive price points, and developing customized solutions that meet customer needs.

In Russia, despite fierce competition and a lackluster economy, D-Link retained its dominant position as a key market player in the Small Office and Home (SOHO) segment. D-Link also continues to lead the Russian market in the enterprise sector with its access layer switches for ISPs and the budget sector of the video surveillance market. D-Link Russia continued to expand its operations and now has a total of 40 offices in the country with 19 offices in the CIS (Commonwealth of Independent States). This expansion is strengthening brand presence in major Russian and CIS retail networks. Since the opening of the toll-free All-Russia Call Center, there has been an increase in academic partners and authorized training centers at leading Russian and CIS Universities and specialized secondary schools. Part of the success in the academic arena comes from D-Link Russia's participation in a number of social projects, such as IT Planet, the Delphic Games, and WorldSkills Russia 2013, among other academic competitions.

D-Link's strategy in Russia includes customization of products for state and commercial organization projects, training seminars,

educational publications, and marketing and technical support for partners. The bestselling products in 2013 were Internet gateways, routers, and xDSL products. The mydlink and new 802.11ac product lines are earning recognition in the Russian market and promise further growth. Plans include expanding local production, extending the distribution network, increasing cooperation with educational institutions, and further developing the local partner network.

In Latin America, 2013 saw growth in the networking market through the adoption of mobile technology, data analysis, and cloud computing in the region. Analysts estimate that the Brazilian market generated approximately US$2 billion in revenue in cloud computing services. Businesses occupying the networking sector will multiply throughout the country and generate revenues of approximately $4.5 billion. While the lack of telecommunications infrastructure outside major metropolitan areas is still a barrier for widespread adoption of cloud computing services, research shows that cloud computing is a high priority for companies operating in Brazil.

In Brazil, growth in the information technology (IT) market was 10.9% at $60 billion, almost double the global average of 5.9%. The majority of the revenue from the IT industry in Brazil remained in the hardware segment, which generated $35.3 billion, followed by services, with $15.4 billion, and software, with $9.4 billion. Brazil ranked seventh in world rankings of IT

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