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## **D-Link Reports 4Q 06 Pro Forma Consolidated Financials**

- Fourth quarter 2006 net revenue was NT\$11.311bln, up 0.9% quarter-over-quarter.
- Fourth quarter 2006 gross margin was 34.6% compared to 31.0% in 3Q06.
- Fourth quarter 2006 operating margin was 13.4% compared to 9.1% in 3Q06.
- Fourth quarter 2006 tax rate was 22.9% of PBT, compared to 19.6% in 3Q06.
- Fourth quarter 2006 net income was NT\$823mln, up by 15.4% from NT\$713mln in 3Q06.
- Fourth quarter 2006 EPS, on post-dividend-distribution fully diluted basis, was NT\$1.24, up by 15.4% from NT\$1.07 per share in 3Q06.
- All of the figures of 4Q06 are pro forma.

**Taipei, Taiwan, February 12, 2007** - D-Link Corporation ("D-Link", "the Company", or "the Group") (TAIEX 2332) today announces its global pro forma consolidated financial results for the fourth quarter and the whole year of 2006.

For the full year of 2006, pro forma net revenue totaled NT\$41.695bln, a 14.6% increase over FY 2005. Gross margin rose to 32.2% as compared to 31.2% of FY 2005. Operating margin jumped to 9.2%, as compared to 7.0% of FY 2005. Net margin increased to 6.1%, as compared to 4.5% of the previous year, due primarily to better product mix toward more switches, operational efficiency gain, and well-executed tax strategy.

For the fourth quarter of 2006, D-Link delivered another quarterly record high revenue by posting net revenue of NT\$11.311bln, marginally up by 0.9% over 3Q06, or up by 14.7% compared to the year-ago figure. Owing to better product mix towards more profitable upscale switches sales for both D-Link brand and its ODM/OEM subsidiary Alpha, significant shipping cost saving as well as EUR currency appreciation, consolidated gross margin rose to 34.6% in 4Q06 from 31.0% in 3Q06, compared to 31.0% in the year-ago comparable quarter. Operating expenses of 21.2% of net revenue were slightly below the 21.9% of the previous quarter, or compared to 24.5% in 4Q05 due to less spending on R&D. Operating profit margin improved significantly to 13.4% from 9.1% in 3Q06, or 6.6% in 4Q05.

On the non-op side, the gains consisted of NT\$2mln of capital gain, NT\$ 4mln of FX gain, and NT\$14mln of financial/other incomes. The gains were offset by NT\$14mln of long-term investment loss from one time write-down on one minority affiliate, and NT\$178mln of provisional inventory loss. The loss was stemmed from Alpha's substantial year-end inventory provision adjustment, and D-link's major write-down of all 11b wireless products as well as additional accrual of higher provision on consumer products of D-Link 1.0 version. To sum up, D-Link had NT\$172mln of non-operating loss in 4Q06.

The profit before tax amounted to NT\$1,342mln, or equivalent to NT\$2.02 per share by adopting NT\$6,634mln post-distribution diluted capital. The pre-tax profit was knocked out by NT\$307mln tax expenses and NT\$213mln minority interests, leaving consolidated net income of NT\$823mln in the bottom line of the fourth quarter, or diluted EPS of NT\$1.24. The tax rate applied to 4Q06 was 22.9%, relatively higher than 19.6% in 3Q06, due mainly to higher international taxes charged to regions such as Europe and North America.

All financial metrics of D-Link's balance sheet remained healthy as of December 31, 2006. NT\$6,125mln Cash and NT\$845mln short-term money market investment totaling NT\$6,970mln, increased by NT\$2,347mln from NT\$4,623mln at the September quarter, primarily due to stronger cash flow resulting from less receivables and inventory. The December quarter Account Receivables decreased to NT\$8,306mln from NT\$9,644mln in the previous quarter owing mainly to better A/R collection management. Therefore, Days A/R was shortened to 67 days from 75 days at the end of September 2006. Inventory went down to NT\$7.250bln from NT\$7.887bln as of September 30, 2006 due to seasonal inventory digestion in the fourth quarter. QoQ Days Inventory was shortened to 91 days from 96 days as of the end of September 2006. Cash was cycled at 82 days, compared to 88 days as of September 30, 2006. The current ratio and debt/equity ratio were improved in December quarter. In short, D-Link financial standing was noticeably improved to a stronger position in both profitability and liquidity.

To break down 4Q06 revenue by regions, D-Link's global operation cast 26%, 27%, and 47% of consolidated sales on North America, Europe, and APAC & Emerging markets respectively. For the Group, North America's sales was up 7.4% sequentially or down 3.7% compared to the figure in the year-ago comparable quarter, Europe's went up substantially 19.7% QoQ, or up 10.6% YoY, owing to relatively stronger seasonality from Christmas shopping, and APac & Emerging markets' was seasonally down by 10.4% QoQ but up 28.1% YoY. In 4Q06, D-Link's geographic revenue remained well diversified as a global player and continued to offer good balance between growth and profit.

By product categories, WLAN remained to rank the No.1 item, accounting for 33% of 4Q06 consolidated revenue, followed by Switch 27%, Broadband 25%, Digital Home 10%, and NIC & Others 5%. Switch grew 1.2% QoQ or up 33.3% on year-over-year basis, WLAN grew 12.3% QoQ or up 8.0% YoY, Broadband rose by 5.0% YoY but down 9.8% QoQ, and Digital home increased 14.6% YoY or up 2.1% QoQ.

According to In-Stat 3Q 2006 statistics, in unit terms, D-Link remained at the helm as the global connectivity leader in SMB/SOHO/Consumer segments, commanding 24.3% of global market shares, up 0.5% from 23.8% in the previous quarter, ahead of Linksys' 18.7% and Netgear's 16.9%, respectively. D-Link kept its solid leading position in global SMB/SOHO/Consumer networking connectivity.

Ken Kao, Chairman & CEO of D-Link noted, "D-Link had another satisfactory quarter and annual results, not only for revenue milestone achievement, but for profit expansion. We continued to gain switch market shares from our competitors, especially in the lucrative emerging markets. We were particularly glad to see that we have progressively evolved ourselves into a value player, in addition to being a volume winner as evidenced by the fact that the bottom line growth has kept outperforming the top line growth for four consecutive quarters in 2006." Mr. Kao commented, "For 2007's industry outlook, demand from SMB sector remains healthy. This sector will keep its growing pace throughout the entire year in almost all fronts worldwide. As for consumer products such as 11n, VoIP, IP Camera, and etc., relatively stronger demand is expected to occur in 2007. With all these, we anticipate industry will continue its gradual recovery in 2007 from 2005 & 2006's stagnation."

Mr. Kao said, "Regarding D-Link 07 growth drivers, we are prepared to launch a series of new models on both SMB products such as intelligent & wireless switches, SAN, and consumer products, i.e. pre-N routers, and VoIP Dect phone & IP camera based on D-Link 2.0 platform in attempt to continuously outperform the industry average growth rate. In terms of regional strategy, we will further penetrate SMB market by aggressive engagement with integrator channels and become more cost conscious managing our retail business in North America. In Europe, we will discreetly select telcos projects at reasonable profitability. For emerging markets and Asia Pacific where we have strong presence and channel partnerships, we will keep aggressive expansion to keep D-Link far ahead of our competitors." Mr. Kao added, "Due to normal seasonality, we anticipate 1Q07 revenue to be single digit down, maintaining the similar sales pattern as the past several years. Gross margin in 1Q07 is projected to ramp to a better margin range of 31.5%-32.5%. By regions, we project market for pre-N products will gradually ramp up in North America and immediately followed by Europe. Emerging markets and Asia Pacific will continue its strong demand for networking infrastructure equipment. Our view of having a normal season sales

momentum within the first quarter of 2007 remains unchanged.”

### **About D-Link**

D-Link is the global leader in total products shipped for consumer networking connectivity according to reports published by the Synergy Research Group. D-Link is the worldwide leader and award winning designer, developer, and manufacturer of networking, broadband, digital electronics, voice and data communications solutions for the digital home, Small Office/Home Office (SOHO), Small to Medium Business (SMB), and Workgroup to Enterprise environments. With in-depth worldwide market channel coverage over 100 countries and full-range product offering of Ethernet adapters, switches and routers for professional and home users, D-Link is a dominant market participant and price/performance leader in the networking and communications market. D-Link Corporation headquarter is located at No.289, Sinhu 3rd Road, Neihu District, Taipei City 114, Taiwan. Phone: 886-2-6600-0123; FAX 886-2-6600-9898; Internet [www.dlink.com.tw](http://www.dlink.com.tw)

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