

HTC CORPORATION

1Q14 BUSINESS REVIEW

CHIALIN CHANG, CFO / PRESIDENT OF GLOBAL SALES
EDWARD WANG, AVP OF FINANCE

May 6th, 2014

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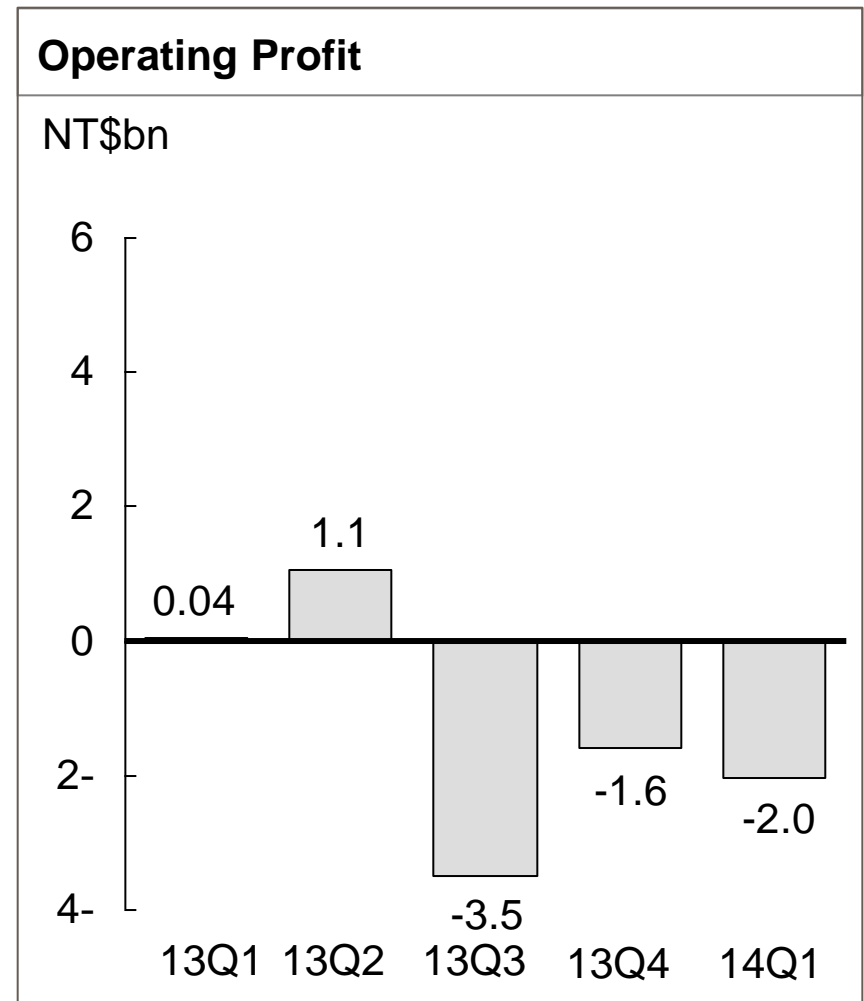
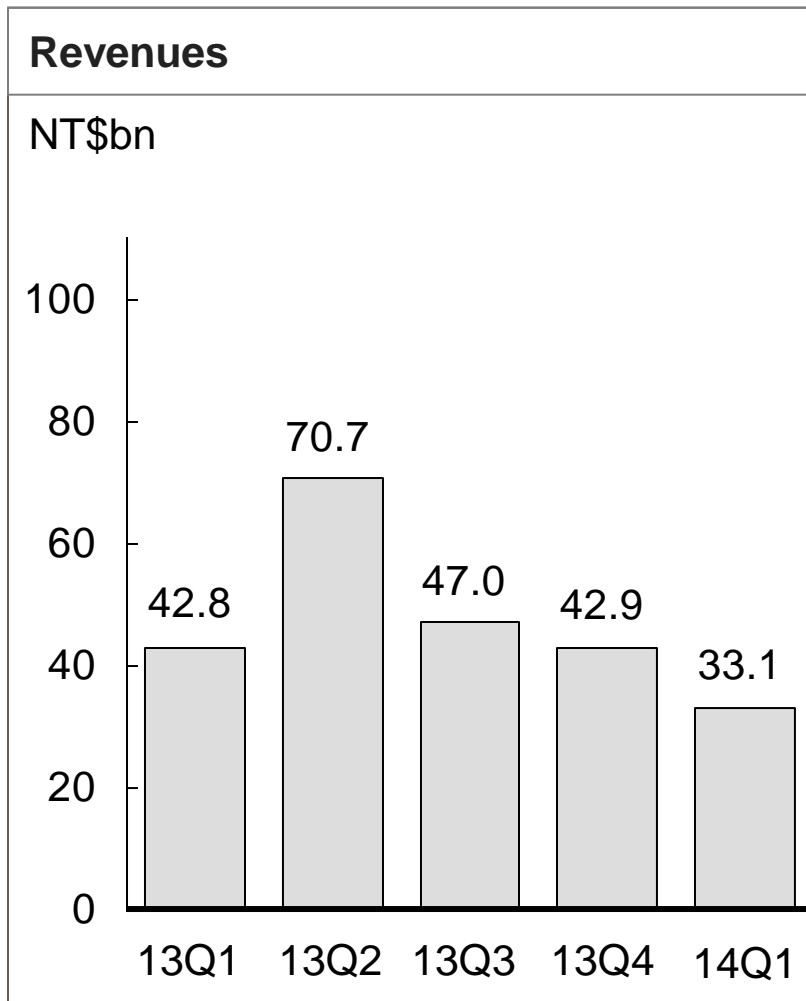
EXECUTIVE SUMMARY

- 1Q Financial Highlights
 - Revenue was NT\$33.1 billion
 - Gross margin and operating margin were 21.0% and -6.2%, respectively
 - Net lost after tax was NT\$1.88 billion
- Business Overview
 - For the first time, the HTC One (M8) was launched with all four major carriers in the US, and Sprint selected HTC to partner with an exclusive music edition called the HTC One (M8) Harman Kardon edition.
 - EMEA sales remained sound, largely due to continuous momentum from in-life products including the HTC One (M7), HTC One mini and HTC Desire 500, coupled with the successful launch of the new flagship - HTC One (M8).
 - In China, strong momentum for the HTC One (M8) and the HTC Desire 816, both are 4G-LTE enabled. Since its launch, the HTC Desire 816 has seen solid momentum in China and is now starting to rollout to additional markets.
 - The HTC One (M8) dominates in Taiwan.
 - Momentum in India for HTC One (M8) and Desire family products remain strong.

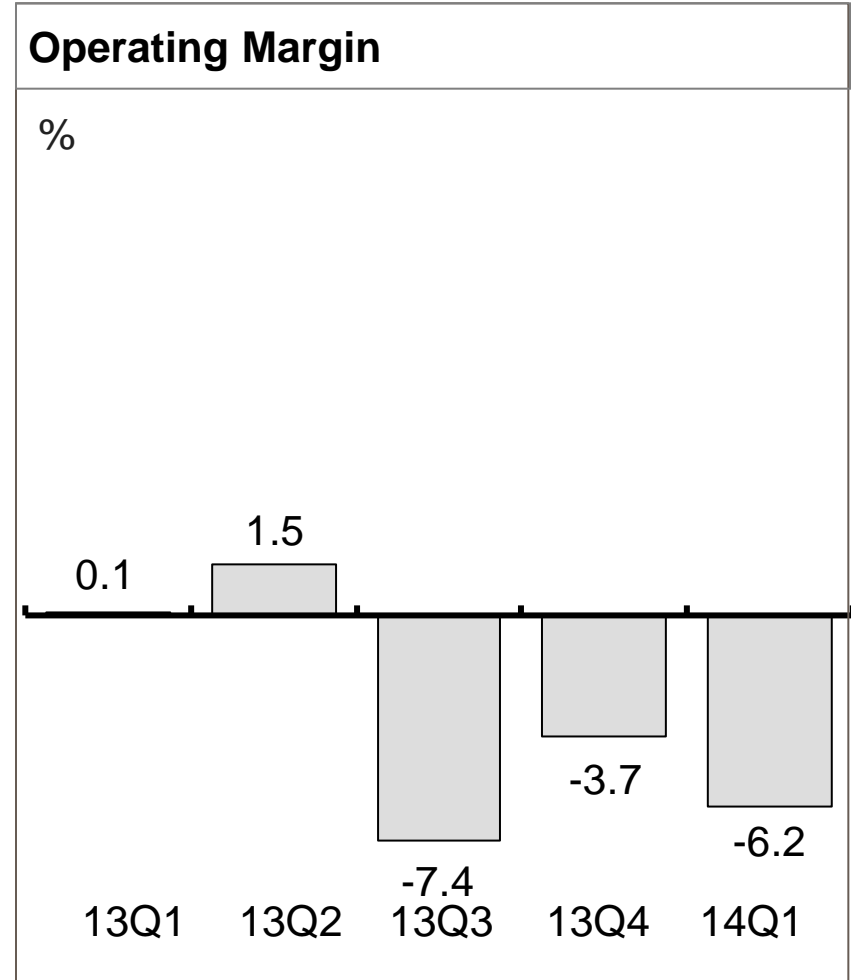
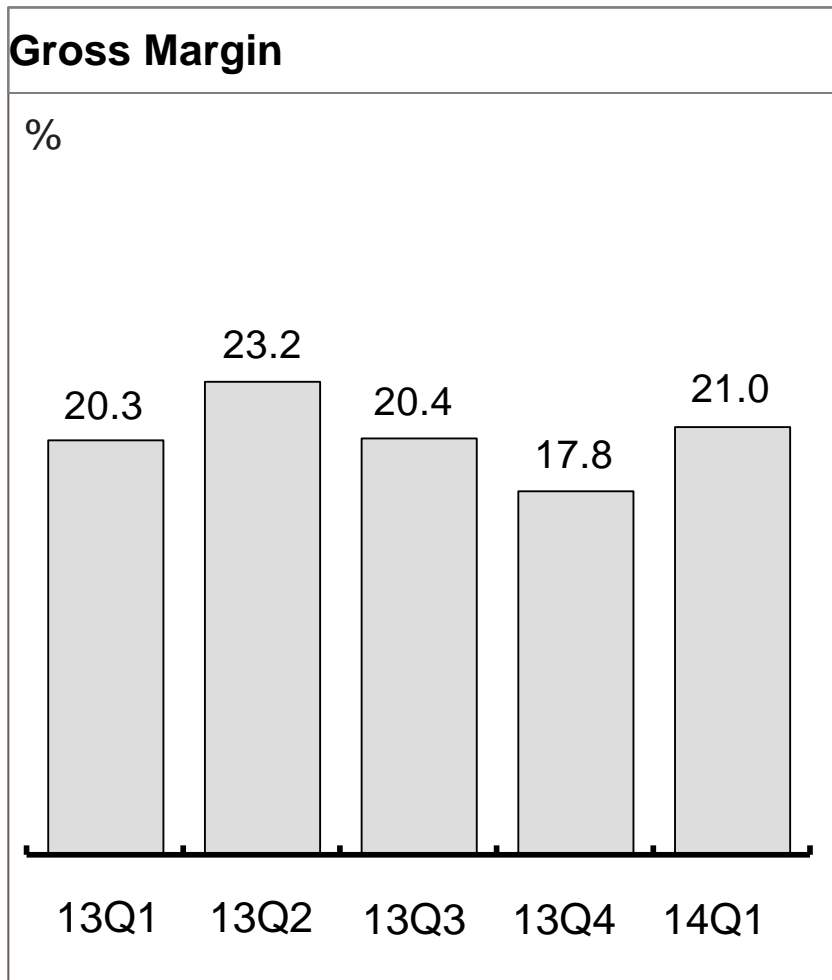
EXECUTIVE SUMMARY

- Product Innovation
 - HTC One (M8) features all-new HTC Sense 6, boasts a high quality metal unibody, new Duo Camera technology that delivers creative, professional-looking photos and amazing effects, and HTC BoomSound again sets new standards for audio quality on a smartphone. The new HTC Dot View casing protects the screen with retro dot-matrix style, amused end-user.
 - The HTC Desire line distils design elements from the HTC One family, and uses quality materials and an advanced feature set that makes it one of the best value line of smartphones ever introduced by HTC.
- Awards and Honors
 - The HTC One (M8) is continuing in the footsteps of the original HTC One (M7), garnering incredibly positive reviews from experts, partners and customers.
 - *"The HTC One (M8) is the best Android phone the world has ever seen. Period. Full stop. Of this, there is no doubt. In many ways, in fact, it is the best smartphone the world has ever seen."* – from BGR
 - *"Pictures don't do it justice: I only really understood how well-made the new One is when I held it in my hands."* – from The Verge
 - The HTC One (M7) was awarded "Best Smartphone of 2014" from the GSMA at MWC, and was also honored with the coveted Gold Design award from iF Design
 - The HTC Desire 816 has garnered positive attention and has been named "Best Mid-Range Phone" from Android Authority

REVENUES AND OPERATING PROFIT



GROSS AND OPERATING MARGINS



1Q 2014 P&L (CONSOLIDATED)

NT\$bn	1Q 13	4Q 13	1Q 14
REVENUES	42.8	42.9	33.1
GROSS PROFIT	8.7	7.6	7.0
OPERATING EXPENSE	<u>8.6</u>	<u>9.2</u>	<u>9.0</u>
SALES MKTING.	3.9	4.7	4.5
RESEARCH DEV.	3.2	3.1	3.0
GENERAL ADM.	1.5	1.4	1.5
OPERATING PROFIT	0.04	-1.6	-2.0
NPBT	0.10	1.15	-1.88
NPAT ¹	0.09	0.32	-1.88
GROSS MARGIN (%)	20.3%	17.8%	21.0%
OPERATING MARGIN (%)	0.1%	-3.7%	-6.2%
EPS ² (NT\$)	0.10	0.38	-2.28

1 Attributable to stockholders of parent company, excluding minority interest.

2 EPS was calculated based on number of outstanding shares at that time.

1Q 2014 BALANCE SHEET (CONSOLIDATED)

NT\$bn	Mar 31, 13	Dec 31, 13	Mar 31, 14
TOTAL ASSETS	204.1	172.6	165.5
CASH	47.4	53.3	43.9
AR	28.5	23.4	22.9
INVENTORY	38.1	23.6	25.1
OTHER ASSETS	90.1	72.3	73.6
TOTAL LIABILITIES	123.2	94.9	89.0
TOTAL EQUITY ¹	80.9	77.7	76.5
<i>METRICS</i> ²			
DAYS SALES OUTSTANDING	79	65	72
INVENTORY TURNOVER DAYS	96	74	96
DAYS PAYABLE OUTSTANDING	199	130	156

1. Attributable to stockholders of parent company, excluding minority interest.

2. Financial metrics are calculated based on quarterly numbers, starting from 2Q 2012

2Q 2014 BUSINESS OUTLOOK

- Revenue is expected to be in the range of NT\$65 billion to NT\$70 billion
- Gross profit margin is expected to be 21.30% to 22.00%
- EPS is expected to be in the range of NT\$2.21 to NT\$3.00

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HTC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNREVIEWED)
(In Thousands of New Taiwan Dollars)

	March 31, 2014		March 31, 2013			March 31, 2014		March 31, 2013	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND EQUITY				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 43,930,278	27	\$ 47,452,141	23	Short-term borrowings	\$ 2,518,268	2	\$ -	-
Financial assets at fair value through profit or loss - current	97,386	-	228,702	-	Note and trade payables	43,211,781	26	75,253,626	37
Held-to-maturity financial assets - current	-	-	101,036	-	Other payables	34,929,759	21	35,168,299	17
Trade receivables, net	22,936,333	14	28,542,304	14	Current tax liabilities	659,692	-	2,538,455	1
Other receivables	2,107,931	1	1,436,943	1	Provisions - current	6,311,041	4	7,649,765	4
Other receivables - related parties	-	-	6,788,707	3	Other current liabilities	952,823	1	2,185,362	1
Current tax assets	213,059	-	319,482	-	Total current liabilities	88,583,364	54	122,795,507	60
Inventories	25,122,403	15	38,103,851	19					
Prepayments	6,773,141	4	5,838,434	3	NON-CURRENT LIABILITIES				
Other current financial assets	2,601,678	2	4,179,754	2	Deferred tax liabilities	158,793	-	365,047	-
Other current assets	126,076	-	54,280	-	Guarantee deposits received	264,494	-	53,136	-
Total current assets	103,908,285	63	133,045,634	65	Total non-current liabilities	423,287	-	418,183	-
					Total liabilities	89,006,651	54	123,213,690	60
NON-CURRENT ASSETS					EQUITY				
Available-for-sale financial assets - non-current	208	-	173	-	Share capital - common stock	8,403,521	5	8,520,521	4
Financial assets measured at cost - non-current	5,062,511	3	4,444,000	2	Capital surplus	14,742,307	9	16,601,557	8
Investments accounted for using the equity method	224,645	-	5,316,819	3	Retained earnings	18,149,350	11	16,471,254	8
Property, plant and equipment	24,910,603	15	25,840,345	13	Legal reserve	854,138	-	-	-
Intangible assets	8,459,667	5	11,677,252	6	Special reserve	44,494,871	27	53,715,903	27
Deferred tax assets	8,727,935	5	8,577,968	4	Total retained earnings	63,498,359	38	70,187,157	35
Refundable deposits	275,570	-	181,926	-	Other equity	1,152,333	1	304,817	-
Long-term receivables	1,206,060	1	4,479,375	2	Treasury shares	(11,326,818)	(7)	(14,065,490)	(7)
Prepaid pension cost - non-current	129,776	-	125,230	-	Total equity	76,469,702	46	80,938,928	40
Other non-current assets	12,571,093	8	10,463,896	5					
Total non-current assets	61,568,068	37	71,106,984	35					
TOTAL	\$ 165,476,353	100	\$ 204,152,618	100	TOTAL	\$ 165,476,353	100	\$ 204,152,618	100

HTC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNREVIEWED)
(In Thousands of New Taiwan Dollars, Except Earning Per Share)

	Three Months Ended March 31			
	2014		2013	
	Amount	%	Amount	%
REVENUES	\$ 33,120,843	100	\$ 42,788,517	100
COST OF REVENUES	<u>26,157,178</u>	<u>79</u>	<u>34,106,365</u>	<u>80</u>
GROSS PROFIT	<u>6,963,665</u>	<u>21</u>	<u>8,682,152</u>	<u>20</u>
OPERATING EXPENSES				
Selling and marketing	4,464,754	13	3,922,834	9
General and administrative	1,539,892	5	1,547,885	4
Research and development	3,006,710	9	3,168,075	7
Total operating expenses	<u>9,011,356</u>	<u>27</u>	<u>8,638,794</u>	<u>20</u>
OPERATING (LOSS) PROFIT	<u>(2,047,691)</u>	<u>(6)</u>	<u>43,358</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	106,962	-	258,308	1
Other gains and losses	67,188	-	(242,554)	(1)
Finance costs	(4,863)	-	(48)	-
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(2,859)	-	43,681	-
Total non-operating income and expenses	<u>166,428</u>	<u>-</u>	<u>59,387</u>	<u>-</u>
(LOSS) PROFIT BEFORE INCOME TAX	<u>(1,881,263)</u>	<u>(6)</u>	<u>102,745</u>	<u>-</u>
INCOME TAX	<u>-</u>	<u>-</u>	<u>17,619</u>	<u>-</u>
(LOSS) PROFIT FOR THE PERIOD	<u>(\$ 1,881,263)</u>	<u>(6)</u>	<u>\$ 85,126</u>	<u>-</u>
ALLOCATIONS OF (LOSS) PROFIT FOR THE PERIOD ATTRIBUTABLE TO				
Owners of the parent	<u>(\$ 1,881,263)</u>	<u>(6)</u>	<u>\$ 85,126</u>	<u>-</u>
(LOSS) EARNINGS PER SHARE				
Basic	<u>(\$ 2.28)</u>		<u>\$ 0.10</u>	
Diluted	<u>(\$ 2.28)</u>		<u>\$ 0.10</u>	

HTC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNREVIEWED)
(In Thousands of New Taiwan Dollars)

	Three Months Ended March 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before income tax	(\$ 1,881,263)	\$ 102,745
Adjustments for:		
Depreciation	785,083	694,689
Amortization	464,673	494,060
Impairment loss recognized on trade and other receivables	-	575,816
Finance costs	4,863	48
Interests income	(62,173)	(159,635)
Dividend income	(3,680)	(10,005)
Compensation cost of employee share options	48,670	-
Share of the profit or loss of associates and joint ventures	2,859	(43,681)
Losses on disposal of property, plant and equipment	751	1,558
Gain on sale of investments	-	(29,735)
Impairment losses on non-financial assets	80,657	542,152
Net changes in operating assets and liabilities		
Decrease (increase) in financial instruments held for trading	64,911	(221,752)
Decrease in derivative financial instruments for hedging	-	204,519
Decrease in trade receivables	434,839	12,313,606
Decrease (increase) in other receivables	26,576	(63,616)
Increase in inventories	(1,603,502)	(14,494,140)
Increase in prepayments	(969,397)	(1,382,330)
Increase in other current assets	(1,268)	(15,183)
Increase in other non-current assets	(764,343)	(593,101)
(Decrease) increase in note and trade payables	(3,064,070)	1,635,429
Decrease in other payables	(2,840,701)	(3,677,970)
Decrease in provisions	(1,897,844)	(1,231,749)
(Decrease) increase in other current liabilities	(3,304)	397,256
Cash used in operations	(11,177,663)	(4,961,019)
Interest received	65,319	132,677
Interest paid	(3,378)	48
Income tax paid	(410,439)	(621,502)
Net cash used in operating activities	(11,526,161)	(5,449,892)

HTC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNREVIEWED)
(In Thousands of New Taiwan Dollars)

	Three Months Ended March 31	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of available-for-sale financial assets	-	56,738
Payments to acquire financial assets measured at cost	(383,349)	(48,382)
Payments for property, plant and equipment	(477,451)	(1,153,075)
Proceeds from disposal of property, plant and equipment	2,511	126,199
Decrease in refundable deposits	77,324	8,216
Payments for intangible assets	(132,557)	(127,150)
Decrease in other current financial assets	169,345	2,381,690
Dividends received	3,680	655,619
Net cash (used in) generated from investing activities	(740,497)	1,899,855
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,518,268	-
Increase in guarantee deposits received	8,079	-
Refund of guarantee deposits	-	(6,863)
Net cash generated from (used in) financing activities	2,526,347	(6,863)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	371,648	42,898
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,368,663)	(3,514,002)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	53,298,941	50,966,143
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 43,930,278	\$ 47,452,141