

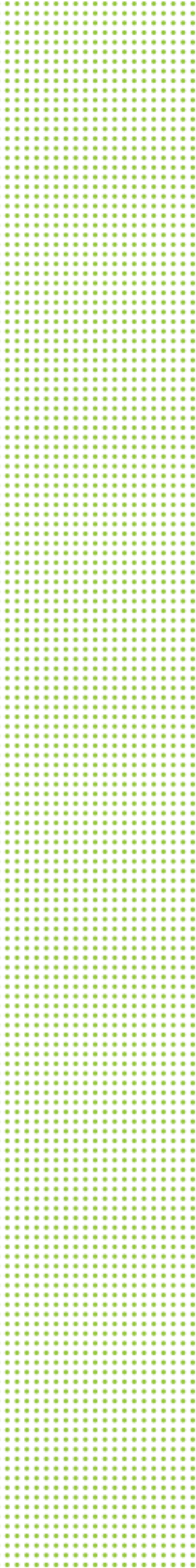


# HTC CORPORATION

## 4Q16 BUSINESS REVIEW

Peter Shen, CFO

February 14<sup>th</sup>, 2017



# DISCLAIMER STATEMENT

- This presentation and release contain “forward-looking statements” which may include projections of future results of operations, financial condition or business prospects based on our own information and other sources.
- Our actual results of operations, financial condition or business prospects may differ from those expressed or implied in these forward-looking statements for a variety of reasons, including but not limited to market demand, price fluctuations, competition, international economic conditions, supply chain issues, exchange rate fluctuations and other risks and factors beyond our control.
- The forward-looking statements in this release reflect the current belief of HTC as of the date of this release. HTC undertakes no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date.



# EXECUTIVE SUMMARY

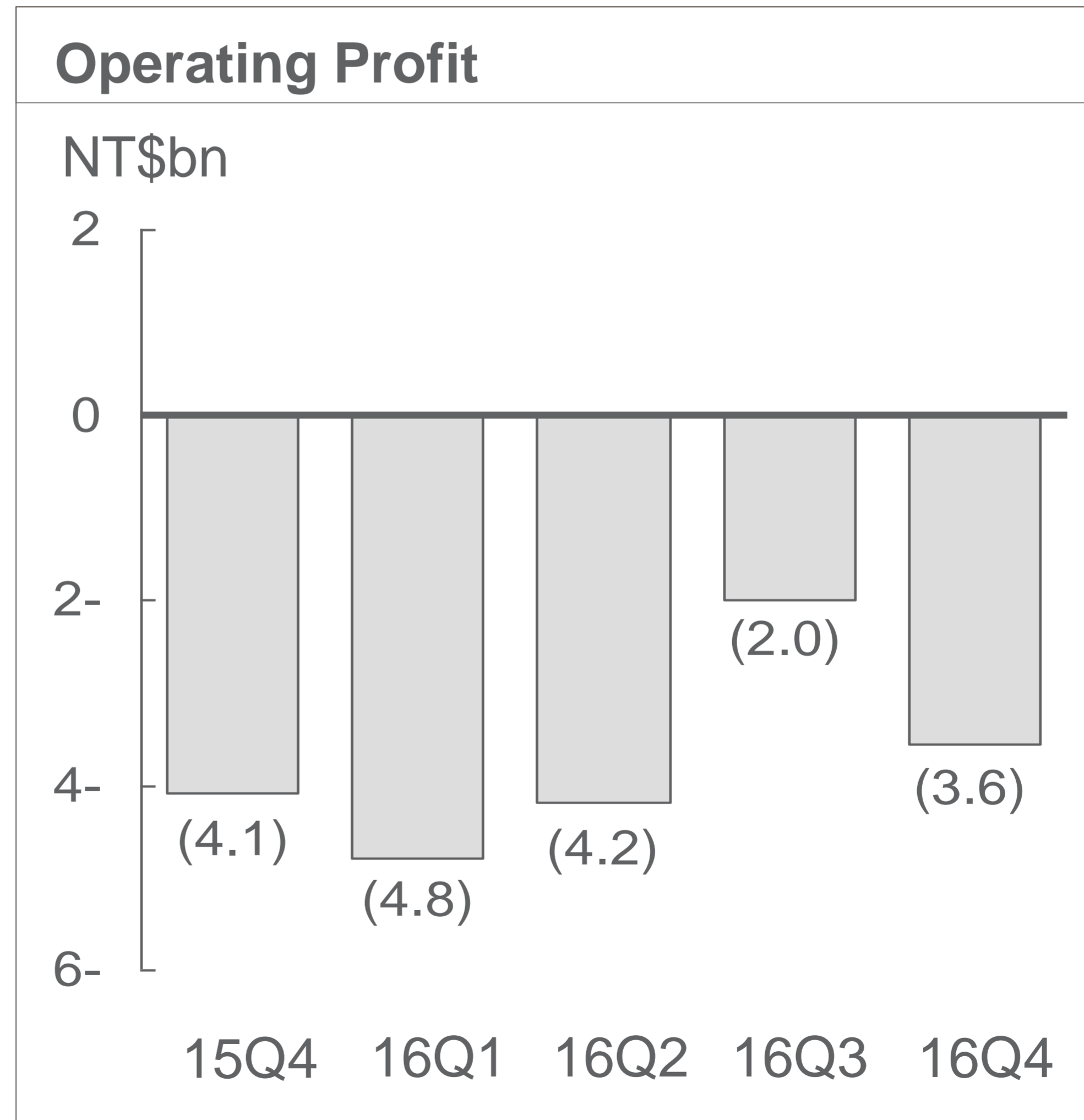
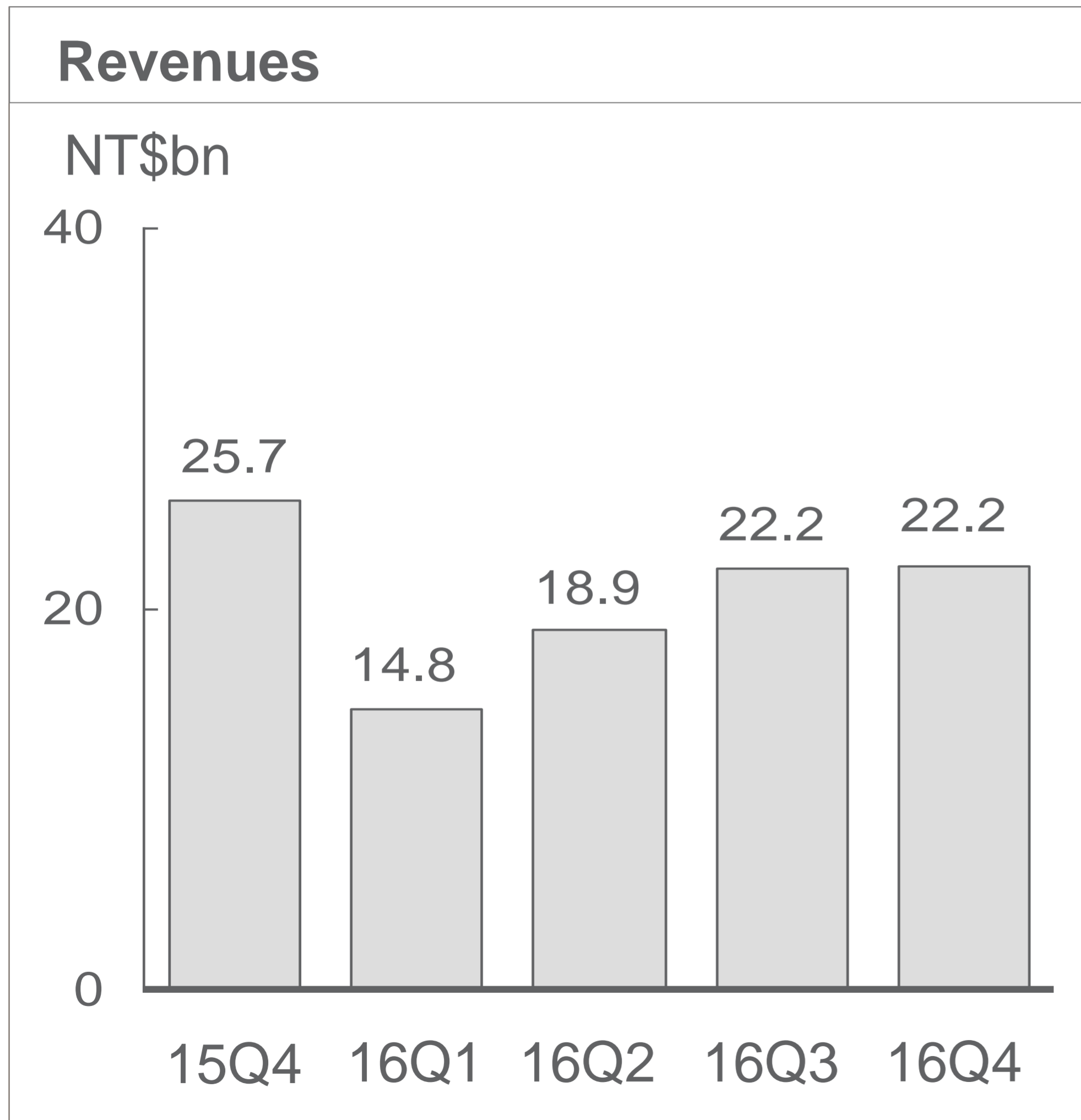
## 4Q16 Financial Highlights:

- Revenue of NT\$22.2 billion with gross margin of 10.5%
- Operating loss of NT\$3.6 billion with operating margin of -16.0%
- Net loss after tax of NT\$3.1 billion, or -NT\$3.77 per share

## Business Update

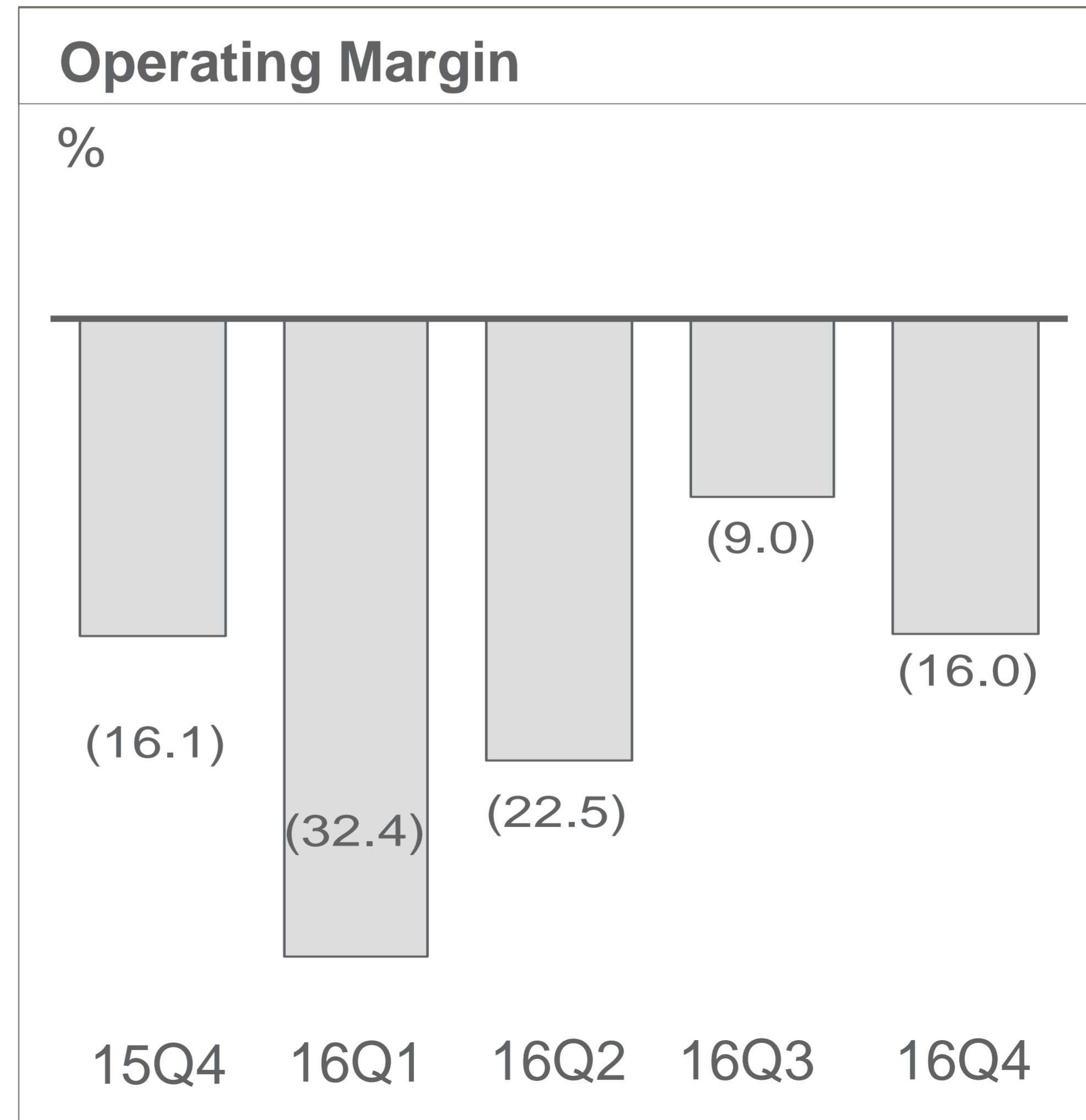
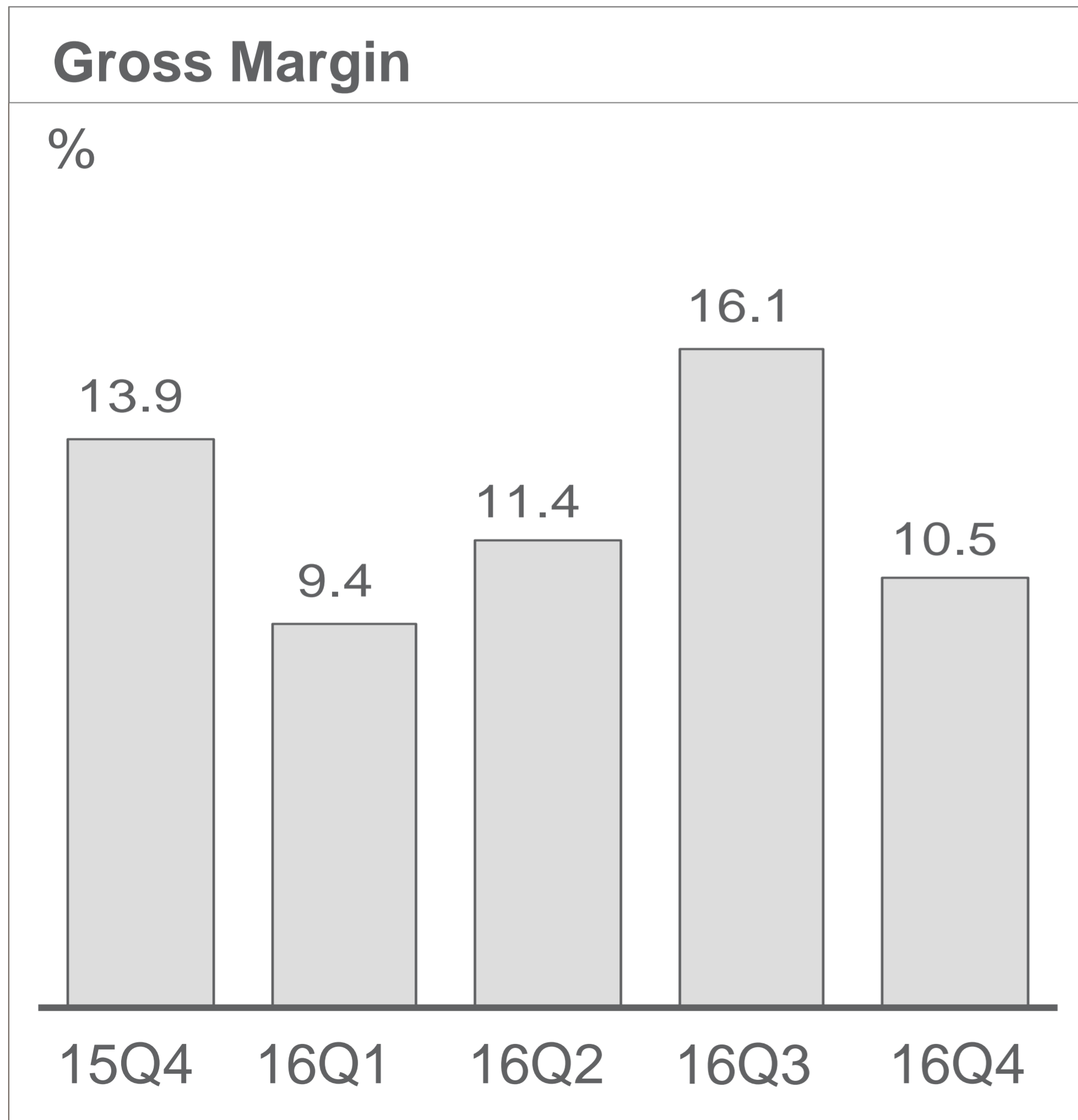
- HTC saw robust sales performance in Q4, with quarterly revenue improving sequentially over 2016, while OPEX has been aggressively managed through enhanced resource realignment to deliver a 34% cost reduction over the year.
- Q4 saw the global launch of the HTC 10 evo in November, while HTC Desire 10 pro and lifestyle edition phones also entered select markets and have been well received.
- HTC continues to build the virtual reality ecosystem around HTC VIVE, with several events underlining the growing reach of the Vive platform, including opening the first VIVE-based arcade in Taipei, first demo days for VIVE X accelerator program in Beijing, Taipei, and San Francisco, and the launch of VIVE studios.

# REVENUES AND OPERATING PROFIT





# GROSS AND OPERATING MARGINS



# 4Q 2016 P&L (CONSOLIDATED)

NT\$bn	4Q 15	3Q 16	4Q 16
REVENUES	25.7	22.2	<b>22.2</b>
GROSS PROFIT	3.6	3.6	<b>2.3</b>
OPERATING EXPENSE	<u>7.7</u>	<u>5.6</u>	<b><u>5.9</u></b>
SALES MKTING.	3.5	2.2	<b>2.1</b>
RESEARCH DEV.	3.0	2.5	<b>2.7</b>
GENERAL ADM.	1.2	0.9	<b>1.1</b>
OPERATING PROFIT	-4.1	-2.0	<b>-3.6</b>
NPBT	-3.7	-1.8	<b>-3.3</b>
NPAT <sup>1</sup>	-3.4	-1.8	<b>-3.1</b>
GROSS MARGIN (%)	13.9%	16.1%	<b>10.5%</b>
OPERATING MARGIN (%)	-16.1%	-9.0%	<b>-16.0%</b>
EPS <sup>2</sup> (NT\$)	-4.10	-2.18	<b>-3.77</b>

<sup>1</sup> Attributable to stockholders of parent company, excluding minority interest.

<sup>2</sup> EPS was calculated based on number of outstanding shares at that time.



# 4Q 2016 BALANCE SHEET (CONSOLIDATED)

NT\$bn	Dec 31, 15	Sep 30, 16	Dec 31, 16
TOTAL ASSETS	129.4	111.7	<b>103.1</b>
Cash <sup>1</sup>	39.4	34.3	<b>35.8</b>
AR	18.5	17.6	<b>16.0</b>
INVENTORY	19.1	19.3	<b>14.2</b>
OTHER ASSETS	52.4	40.5	<b>37.1</b>
TOTAL LIABILITIES	64.6	56.7	<b>51.3</b>
TOTAL EQUITY <sup>2</sup>	64.8	55.0	<b>51.8</b>
<b><i>METRICS</i></b> <sup>3</sup>			
DAYS SALES OUTSTANDING	74	76	<b>80</b>
INVENTORY TURNOVER DAYS	93	105	<b>92</b>
DAYS PAYABLE OUTSTANDING	122	139	<b>128</b>

1. Includes time deposits with original maturities more than 3 months

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

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

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**thank you**\_\_\_\_\_



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

	December 31, 2016		December 31, 2015			December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>ASSETS</b>					<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents	\$ 30,080,217	29	\$ 35,346,799	27	Financial liabilities at fair value through profit or loss - current	\$ 133,420	-	\$ 36,544	-
Financial assets at fair value through profit or loss - current	143,642	-	95,493	-	Note and trade payables	26,247,728	26	29,598,385	23
Available-for-sale financial assets - current	199,344	-	303,289	-	Other payables	18,348,734	18	24,993,276	19
Debt investments with no active market - current	8,067	-	8,266	-	Current tax liabilities	155,651	-	163,252	-
Trade receivables, net	15,961,835	15	18,518,948	14	Provisions - current	3,384,311	3	5,992,258	5
Other receivables	168,526	-	466,791	1	Other current liabilities	3,004,432	3	3,689,763	3
Current tax assets	184,817	-	212,033	-	Total current liabilities	<u>51,274,276</u>	<u>50</u>	<u>64,473,478</u>	<u>50</u>
Inventories	14,163,571	14	19,123,637	15					
Prepayments	1,833,499	2	4,400,968	4	<b>NON-CURRENT LIABILITIES</b>				
Non-current assets held for sale	-	-	3,768,277	3	Deferred tax liabilities	81,294	-	97,351	-
Other current financial assets	5,750,450	6	4,100,290	3	Guarantee deposits received	22,106	-	30,159	-
Other current assets	68,414	-	94,611	-	Total non-current liabilities	<u>103,400</u>	<u>-</u>	<u>127,510</u>	<u>-</u>
Total current assets	<u>68,562,382</u>	<u>66</u>	<u>86,439,402</u>	<u>67</u>					
					Total liabilities	<u>51,377,676</u>	<u>50</u>	<u>64,600,988</u>	<u>50</u>
<b>NON-CURRENT ASSETS</b>									
Available-for-sale financial assets - non-current	86	-	75	-	<b>EQUITY</b>				
Financial assets measured at cost - non-current	3,363,736	3	3,396,151	3	Share capital - ordinary shares	8,220,087	8	8,318,695	6
Debt investments with no active market - non-current	25,009	-	-	-	Capital surplus	15,614,641	15	15,505,853	12
Investments accounted for using equity method	531,445	1	240,237	-	Retained earnings				
Property, plant and equipment	12,025,496	12	15,432,130	12	Legal reserve	18,297,655	18	18,297,655	14
Investment properties, net	1,527,001	1	1,708,489	1	Unappropriated earnings	10,841,425	10	21,782,432	17
Intangible assets	3,878,356	4	5,561,444	4	Other equity	( 1,202,302)	( 1)	1,088,415	1
Deferred tax assets	8,957,876	9	8,699,322	7	Treasury shares	-	-	( 200,955)	-
Refundable deposits	1,501,480	1	1,580,342	1	Total equity	<u>51,771,506</u>	<u>50</u>	<u>64,792,095</u>	<u>50</u>
Long-term receivables	-	-	1,488,775	1					
Net defined benefit asset - non-current	40,439	-	79,470	-					
Other non-current assets	2,735,876	3	4,767,246	4					
Total non-current assets	<u>34,586,800</u>	<u>34</u>	<u>42,953,681</u>	<u>33</u>					
<b>TOTAL</b>	<u>\$ 103,149,182</u>	<u>100</u>	<u>\$ 129,393,083</u>	<u>100</u>	<b>TOTAL</b>	<u>\$ 103,149,182</u>	<u>100</u>	<u>\$ 129,393,083</u>	<u>100</u>

HTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT (UNAUDITED)  
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 78,161,158	100	\$ 121,684,231	100
OPERATING COST	<u>68,726,567</u>	<u>88</u>	<u>99,731,124</u>	<u>82</u>
GROSS PROFIT	<u>9,434,591</u>	<u>12</u>	<u>21,953,107</u>	<u>18</u>
OPERATING EXPENSES				
Selling and marketing	8,861,758	11	17,452,673	15
General and administrative	4,223,697	6	4,975,964	4
Research and development	<u>10,957,200</u>	<u>14</u>	<u>13,727,616</u>	<u>11</u>
Total operating expenses	<u>24,042,655</u>	<u>31</u>	<u>36,156,253</u>	<u>30</u>
OPERATING LOSS	<u>( 14,608,064)</u>	<u>( 19)</u>	<u>( 14,203,146)</u>	<u>( 12)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	643,078	1	928,036	1
Other gains and losses	3,448,618	4	( 2,286,659)	( 2)
Finance costs	( 5,298)	-	( 8,123)	-
Share of the profit or loss of associates and joint venture	<u>( 62,282)</u>	<u>-</u>	<u>( 11,648)</u>	<u>-</u>
Total non-operating income and expenses	<u>4,024,116</u>	<u>5</u>	<u>( 1,378,394)</u>	<u>( 1)</u>
LOSS BEFORE INCOME TAX	<u>( 10,583,948)</u>	<u>( 14)</u>	<u>( 15,581,540)</u>	<u>( 13)</u>
INCOME TAX BENEFIT	<u>( 23,845)</u>	<u>-</u>	<u>( 48,472)</u>	<u>-</u>
LOSS FOR THE YEAR	<u>(\$ 10,560,103)</u>	<u>( 14)</u>	<u>(\$ 15,533,068)</u>	<u>( 13)</u>
LOSS PER SHARE				
Basic	<u>(\$ 12.81)</u>		<u>(\$ 18.79)</u>	



HTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	(\$ 10,583,948)	(\$ 15,581,540)
Adjustments for:		
Depreciation expenses	1,752,322	2,539,046
Amortization expenses	1,639,516	1,956,533
Bad debt expenses	1,175,179	-
Finance costs	5,298	8,123
Interests income	( 382,550)	( 419,969)
Dividend income	( 138,761)	( 352,074)
Compensation costs of employee share-based payments	431,996	550,688
Share of the profit or loss of associates and joint venture	62,282	11,648
Net gain on disposal of property, plant and equipment	( 3,196,381)	( 8,385)
Transfer of properties, plants and equipment to expense	-	8,339
Gain on sale of investments	- ( 327)	( 327)
Impairment losses on non-financial assets	2,054,453	4,859,336
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	48,727	181,171
Decrease in trade receivables	2,857,064	10,621,336
Decrease in other receivables	312,686	112,713
Decrease (increase) in inventories	2,918,208 (	3,850,023)
Decrease in prepayments	2,567,469	2,225,138
Decrease in other current assets	26,197	4,658
Decrease in other non-current assets	1,993,672	2,666,129
Decrease in note and trade payables	( 3,350,657) (	14,204,958)
Decrease in other payables	( 6,574,405) (	7,108,608)
(Decrease) increase in provisions	( 2,607,947)	151,079
(Decrease) increase in other current liabilities	( 685,331)	2,546,629
Cash used in operations	( 9,674,911)	( 13,083,318)
Interest received	336,626	334,309
Interest paid	( 5,298)	( 8,123)
Income tax paid	( 275,927)	( 295,351)
Net cash used in operating activities	( 9,619,510)	( 13,052,483)

HTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments to acquire debt investment with no active market	( 24,548)	-
Payments to acquire financial assets measured at cost	( 203,283)	( 700,245)
Proceeds from disposal of financial assets measured at cost	-	327
Acquisition of associates	( 363,754)	( 16,531)
Proceeds from disposal of investments accounted for using equity method	182,578	-
Proceeds from disposal of non-current assets held of sale	6,060,000	-
Payments for property, plant and equipment	( 601,427)	( 987,329)
Proceeds from disposal of property, plant and equipment	2,935,283	345,464
Increase in refundable deposits	-	( 1,317,602)
Decrease in refundable deposits	78,862	-
Payments for intangible assets	( 75,455)	( 93,683)
Increase in other current financial assets	( 1,650,160)	( 3,765,336)
Dividend received	83,844	38,166
Net cash generated from (used in) investing activities	6,421,940	( 6,496,769)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refund of guarantee deposits received	( 8,053)	( 13,071)
Dividends paid to owners of the Company	-	( 314,636)
Buy-back of treasury shares	( 436,869)	( 200,955)
Net cash used in financing activities	( 444,922)	( 528,662)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	( 1,624,090)	( 318,845)
NET DECREASE IN CASH AND CASH EQUIVALENTS	( 5,266,582)	( 20,396,759)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	35,346,799	55,743,558
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 30,080,217	\$ 35,346,799