

HTC CORPORATION

2Q14 BUSINESS REVIEW

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July 31st, 2014

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.
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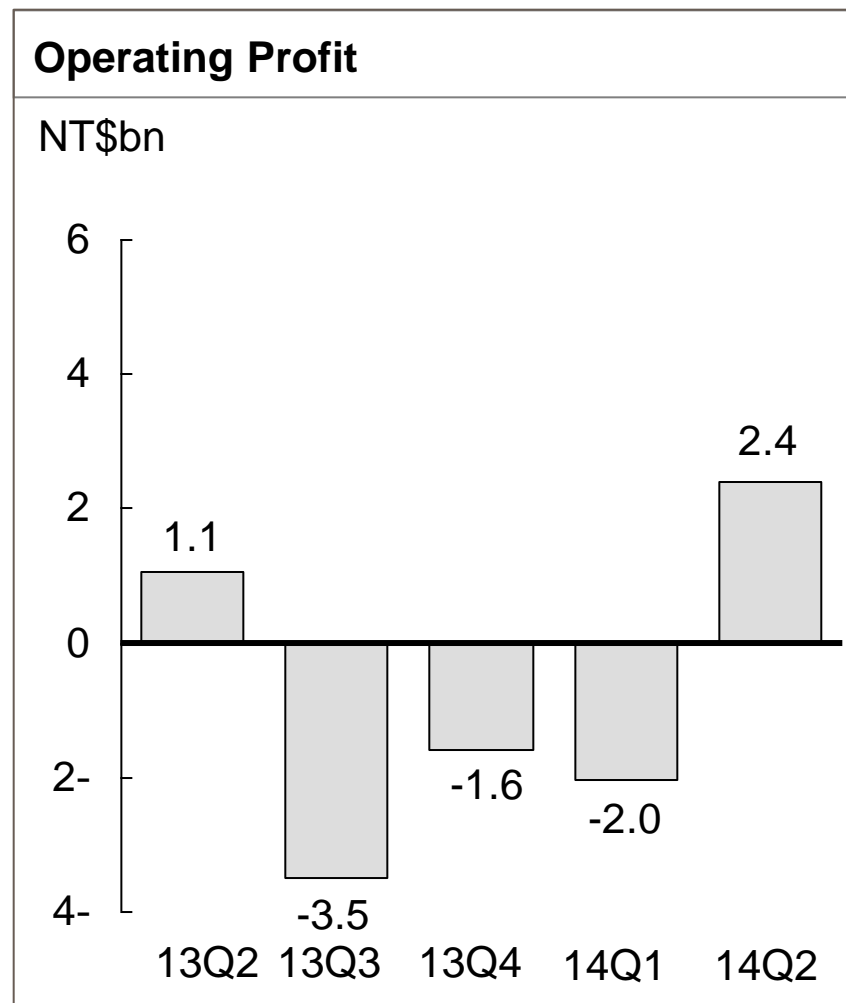
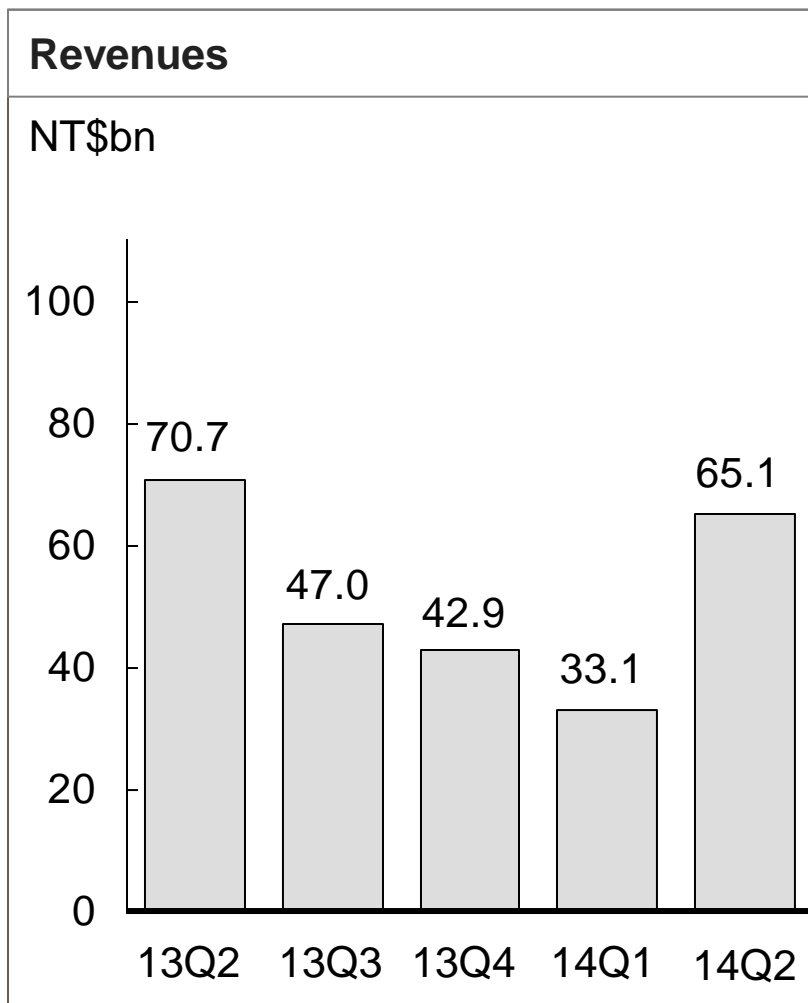
EXECUTIVE SUMMARY

- 2Q Financial Highlights
 - Revenue was NT\$65.1 billion
 - Gross margin and operating margin were 22.2% and 3.7%, respectively
 - Net profit after tax was NT\$2.3 billion, or NT\$2.74 per share
- Business Overview
 - In US, HTC One (M8) continues to impress the market with availability with all four major operators.
 - In Europe, HTC One mini 2 extended the best-in-class HTC One (M8) experience in a more compact format. Emerging European markets continued to see market share gain.
 - HTC One (M8) and Desire 816 continued to dominate in Taiwan. For the first time, HTC rank #1 measured in both unit share and value share.
 - Overall sales momentum was sound in China and India, as a result of a well-catered product portfolio to the very fast-growing market.

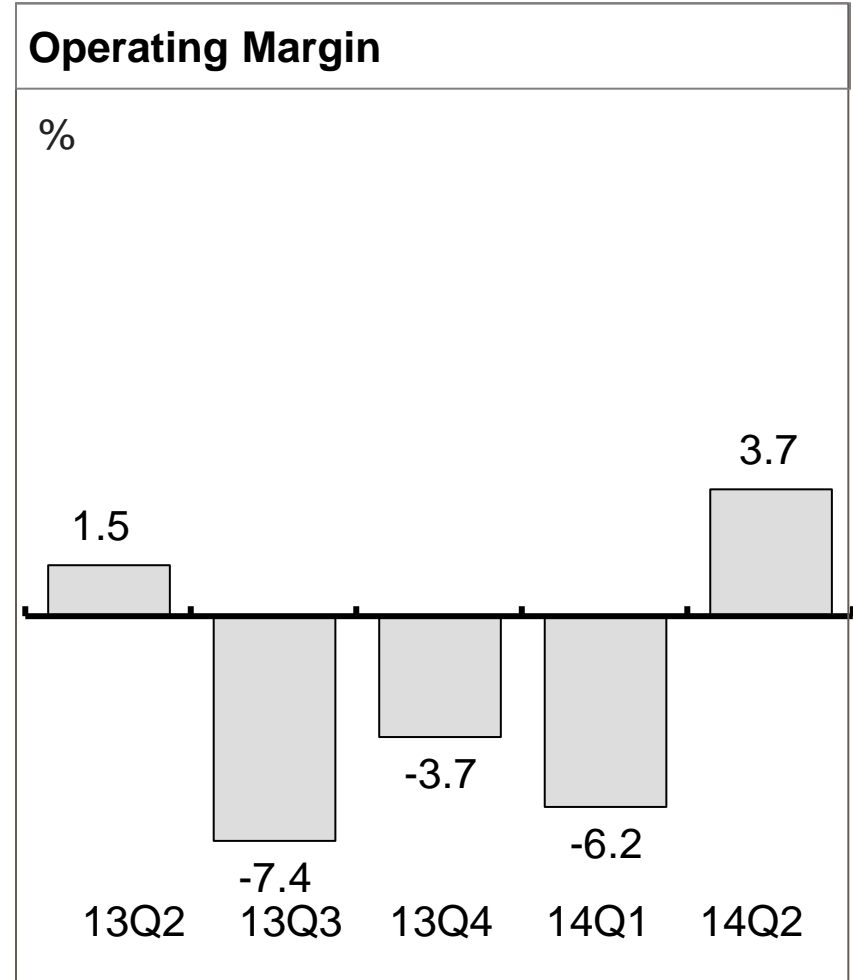
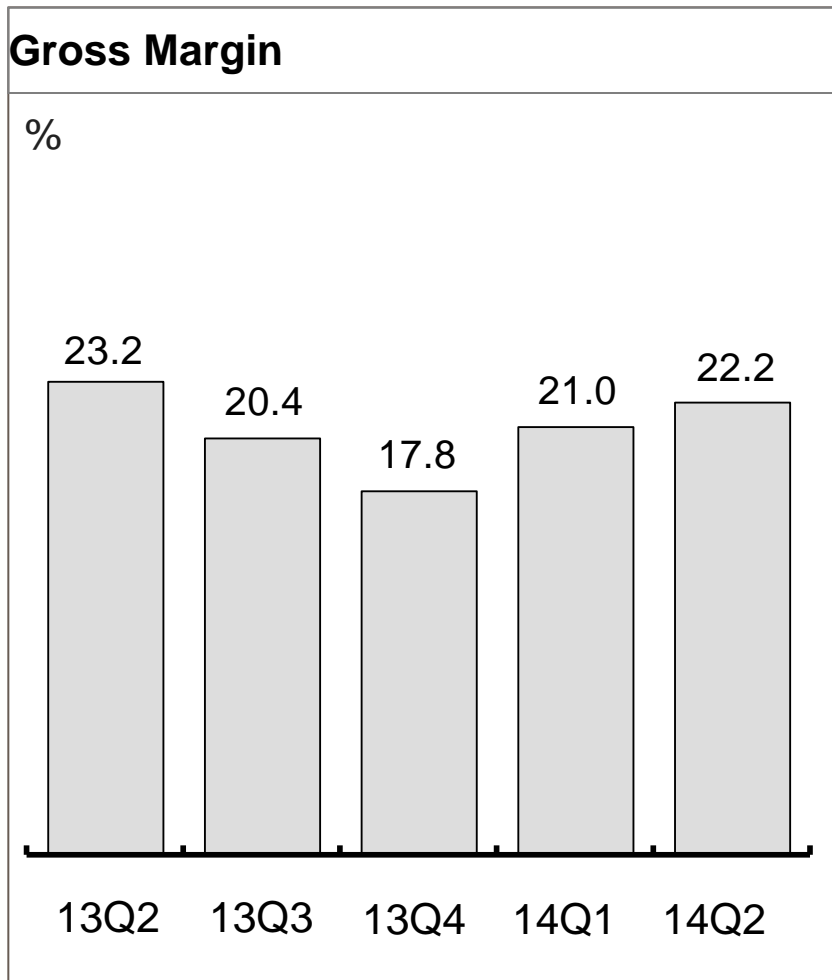
EXECUTIVE SUMMARY

- Product Innovation
 - HTC One (E8) brings the iconic HTC One family's signature look to a new level. With vertically curved, tapered sides, edge-to-edge display and lightweight unibody frame, a design ergonomically enabled ultimate user experience.
 - HTC One mini 2 features a compact 4.5" HD display, HTC Sense 6 with HTC BlinkFeed, 5MP front-facing camera, with iconic metal craftsmanship; a best-in-class HTC One (M8) experience in a more compact design
 - HTC Dot View app available on Google Play for feature upgrades, wallpaper customizations, and functionality renewal (such as ability to redial the three most recent calls, alarm on recent notifications, and etc.)
- Awards and honors
 - The HTC One (M8) and HTC Dot View was, once again, given the Gold Medal in Design and Innovation award at the Computex d&I award, which was organized by the Taiwan External Trade Development Council (TAITRA) and iF (International Forum Design), highest ranked honor.

REVENUES AND OPERATING PROFIT



GROSS AND OPERATING MARGINS



2Q 2014 P&L (CONSOLIDATED)

NT\$bn	2Q 13	1Q 14	2Q 14
REVENUES	70.7	33.1	65.1
GROSS PROFIT	16.4	7.0	14.4
OPERATING EXPENSE	<u>15.3</u>	<u>9.0</u>	<u>12.0</u>
SALES MKTING.	10.3	4.5	7.6
RESEARCH DEV.	3.4	3.0	3.1
GENERAL ADM.	1.6	1.5	1.3
OPERATING PROFIT	1.1	-2.0	2.4
NPBT	1.5	-1.88	2.8
NPAT ¹	1.2	-1.88	2.3
GROSS MARGIN (%)	23.2%	21.0%	22.2%
OPERATING MARGIN (%)	1.5%	-6.2%	3.7%
EPS ² (NT\$)	1.50	-2.28	2.74

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

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

2Q 2014 BALANCE SHEET (CONSOLIDATED)

NT\$bn	Jun 30, 13	Mar 31, 14	Jun 30, 14
TOTAL ASSETS	209.9	165.5	178.7
CASH	48.1	43.9	48.4
AR	48.2	22.9	36.3
INVENTORY	28.1	25.1	25.9
OTHER ASSETS	85.5	73.6	68.1
TOTAL LIABILITIES	128.9	89.0	100.5
TOTAL EQUITY ¹	81.0	76.5	78.2
<i>METRICS</i>²			
DAYS SALES OUTSTANDING	53	72	46
INVENTORY TURNOVER DAYS	63	96	52
DAYS PAYABLE OUTSTANDING	119	156	84

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

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

3Q 2014 BUSINESS OUTLOOK

- Revenue is expected to be in the range of NT\$42 billion to NT\$47 billion
- Gross profit margin is expected to be 22.50% to 23.00%
- EPS is expected to be in the range of NT\$0.05 to NT\$0.69

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quietly brilliant

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

	June 30, 2014		June 30, 2013			June 30, 2014		June 30, 2013	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND EQUITY				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 48,437,642	27	\$ 48,115,859	23	Short-term borrowings	\$ -	-	\$ 9,936,630	5
Financial assets at fair value through profit or loss - current	84,055	-	48,502	-	Financial liabilities at fair value through profit or loss - current	62,185	-	-	-
Held-to-maturity financial assets - current	-	-	100,612	-	Derivative financial liabilities for hedging - current	1,683	-	-	-
Derivative financial assets for hedging - current	6,525	-	-	-	Note and trade payables	50,031,814	28	65,760,801	31
Trade receivables, net	36,313,574	20	48,203,254	23	Other payables	39,984,859	22	44,723,615	21
Other receivables	2,242,387	1	1,845,947	1	Current tax liabilities	236,817	-	347,900	-
Current tax assets	138,498	-	360,743	-	Provisions - current	8,650,366	5	5,601,489	3
Inventories	25,904,240	15	28,052,138	13	Other current liabilities	1,181,390	1	1,633,504	1
Prepayments	6,653,053	4	6,569,646	3	Total current liabilities	<u>100,149,114</u>	<u>56</u>	<u>128,003,939</u>	<u>61</u>
Other current financial assets	2,528,414	1	4,140,566	2	NON-CURRENT LIABILITIES				
Other current assets	77,862	-	33,547	-	Deferred tax liabilities	149,602	-	670,638	-
Total current assets	<u>122,386,250</u>	<u>68</u>	<u>137,470,814</u>	<u>65</u>	Guarantee deposits received	264,111	-	183,014	-
NON-CURRENT ASSETS					Total non-current liabilities	<u>413,713</u>	<u>-</u>	<u>853,652</u>	<u>-</u>
Available-for-sale financial assets - non-current	206	-	152	-	Total liabilities	<u>100,562,827</u>	<u>56</u>	<u>128,857,591</u>	<u>61</u>
Financial assets measured at cost - non-current	2,786,544	2	4,547,521	2	EQUITY				
Investments accounted for using the equity method	221,675	-	5,551,231	3	Share capital - common stock	8,403,521	5	8,520,521	4
Property, plant and equipment	24,232,069	14	25,908,958	12	Capital surplus	14,790,977	8	16,601,557	8
Intangible assets	7,956,346	4	11,304,591	6	Retained earnings				
Deferred tax assets	8,331,551	5	9,002,443	4	Legal reserve	18,149,350	10	18,149,350	9
Refundable deposits	268,636	-	175,723	-	Special reserve	-	-	854,138	-
Long-term receivables	1,240,724	1	4,516,650	2	Unappropriated earnings	47,606,423	27	50,770,725	24
Prepaid pension cost - non-current	133,942	-	131,469	-	Total retained earnings	<u>65,755,773</u>	<u>37</u>	<u>69,774,213</u>	<u>33</u>
Other non-current assets	11,181,076	6	11,307,739	6	Other equity	552,739	-	228,899	-
Total non-current assets	<u>56,352,769</u>	<u>32</u>	<u>72,446,477</u>	<u>35</u>	Treasury shares	(11,326,818)	(6)	(14,065,490)	(6)
					Total equity	<u>78,176,192</u>	<u>44</u>	<u>81,059,700</u>	<u>39</u>
TOTAL	<u>\$ 178,739,019</u>	<u>100</u>	<u>\$ 209,917,291</u>	<u>100</u>	TOTAL	<u>\$ 178,739,019</u>	<u>100</u>	<u>\$ 209,917,291</u>	<u>100</u>

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

	Six Months Ended June 30			
	2014		2013	
	Amount	%	Amount	%
REVENUES	\$ 98,181,238	100	\$ 113,455,432	100
COST OF REVENUES	<u>76,753,545</u>	<u>78</u>	<u>88,396,606</u>	<u>78</u>
GROSS PROFIT	<u>21,427,693</u>	<u>22</u>	<u>25,058,826</u>	<u>22</u>
OPERATING EXPENSES				
Selling and marketing	12,106,713	13	14,191,385	12
General and administrative	2,878,635	3	3,164,649	3
Research and development	<u>6,064,205</u>	<u>6</u>	<u>6,609,543</u>	<u>6</u>
Total operating expenses	<u>21,049,553</u>	<u>22</u>	<u>23,965,577</u>	<u>21</u>
OPERATING PROFIT	<u>378,140</u>	<u>-</u>	<u>1,093,249</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	312,756	1	509,536	-
Other gains and losses	204,637	-	(145,047)	-
Finance costs	(13,498)	-	(1,873)	-
Share of the profit or loss of associates and joint ventures	<u>(5,830)</u>	<u>-</u>	<u>171,722</u>	<u>-</u>
Total non-operating income and expenses	<u>498,065</u>	<u>1</u>	<u>534,338</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	876,205	1	1,627,587	1
INCOME TAX	<u>500,054</u>	<u>1</u>	<u>292,950</u>	<u>-</u>
PROFIT FOR THE PERIOD	<u>\$ 376,151</u>	<u>-</u>	<u>\$ 1,334,637</u>	<u>1</u>
EARNINGS PER SHARE				
Basic	<u>\$ 0.46</u>		<u>\$ 1.60</u>	
Diluted	<u>\$ 0.46</u>		<u>\$ 1.60</u>	

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

	Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 876,205	\$ 1,627,587
Adjustments for:		
Depreciation expenses	1,560,013	1,408,280
Amortization expenses	925,882	1,002,080
Impairment loss recognized on trade receivables	-	1,009,364
Finance costs	13,498	1,873
Interests income	(195,577)	(347,759)
Dividend income	(6,982)	(13,232)
Compensation cost of employee share options	97,340	-
Share of the profit or loss of associates and joint ventures	5,830	(171,722)
Losses on disposal of property, plant and equipment	747	1,563
Gain on sale of investments	(103,525)	(29,735)
Impairment loss recognized on financial assets measured at cost	66,905	-
Impairment losses on non-financial assets	257,109	1,123,441
Net changes in operating assets and liabilities		
Decrease (increase) in financial instruments held for trading	140,427	(41,552)
Decrease in derivative financial instruments for hedging	-	204,519
Increase in trade receivables	(12,942,402)	(7,958,792)
Increase in other receivables	(109,219)	(367,888)
Increase in inventories	(2,561,791)	(4,999,538)
Increase in prepayments	(849,309)	(2,113,542)
Decrease in other current assets	46,946	5,550
Decrease (increase) in other non-current assets	657,150	(1,443,183)
Increase (decrease) in note and trade payables	3,755,963	(7,857,396)
Increase in other payables	2,265,897	4,407,900
Increase (decrease) in provisions	441,481	(3,280,025)
Increase (decrease) in other current liabilities	225,263	(154,602)
Cash used in operations	(5,432,149)	(17,986,809)
Interest received	140,831	393,969
Interest paid	(13,498)	(642)
Income tax paid	(871,614)	(3,247,533)
Net cash used in operating activities	(6,176,430)	(20,841,015)

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

	Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	-	56,738
Payments to acquire financial assets measured at cost	(426,937)	(120,244)
Proceeds on sale of financial assets measured at cost	2,289,731	-
Payments for property, plant and equipment	(743,795)	(1,672,142)
Proceeds from disposal of property, plant and equipment	10,482	-
Decrease in refundable deposits	84,258	14,419
Decrease in other receivables - related parties	-	6,600,093
Payments for intangible assets	(217,381)	(193,761)
Decrease in other current financial assets	242,609	2,420,878
Dividend received	6,982	658,846
Net cash generated from investing activities	1,245,949	7,764,827
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	-	9,936,630
Increase in guarantee deposits received	7,696	123,015
Net cash generated from financing activities	7,696	10,059,645
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	61,486	166,259
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,861,299)	(2,850,284)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	53,298,941	50,966,143
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 48,437,642	\$ 48,115,859