

HTC CORPORATION

3Q14 BUSINESS REVIEW

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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

- 3Q Financial Highlights
 - Revenue: NT\$41.9 billion
 - Gross margin and operating margin: 22.9% and 0.4%, respectively
 - Net profit after tax: NT\$0.6 billion, or NT\$0.78 per share
- Business Overview
 - HTC One (M8) momentum continued despite stiff competition
 - Desire 610 and 510 experienced good demand, selling well in both the US and Europe
 - Desire 816 maintained solid sales throughout Taiwan, China, India and the Middle East
 - Desire 820, the world's first 64-bit octa-core smartphone, was launched in China and received wide distribution support from the major operators

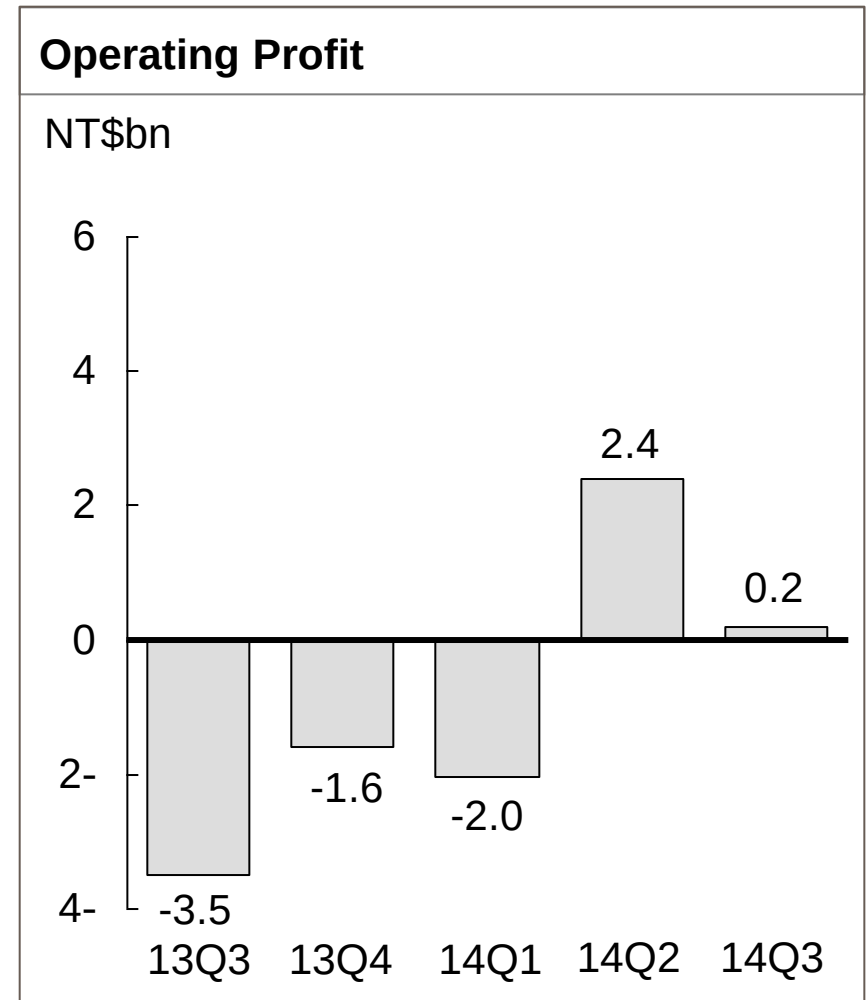
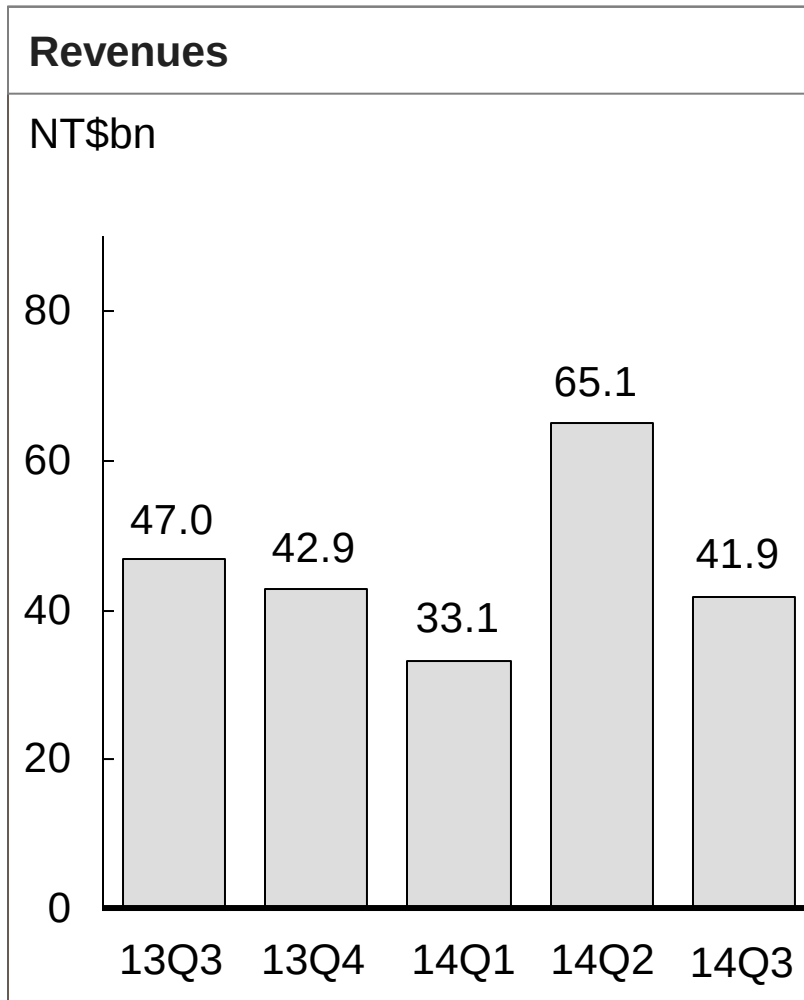
EXECUTIVE SUMMARY

- Product Innovation:
 - ‘Double Exposure’ launch introduced:
 - HTC Eye Experience, a powerful suite of imaging features that allows users to better put themselves in the picture, including advanced face tracking enhances the quality of video chat and conference calls, and an array of tools that enable users to combine, merge or crop images in creative new ways.
 - HTC Desire Eye, encapsulates this imaging focus, integrating all of the HTC Eye Experience features with market-leading 13 megapixel cameras and intelligent dual-LED flash at both front and back for superb photography and the ultimate selfies.
 - Zoe, a collaborative, social video-editing application, allows users to create and remix videos into highlight reels comprising a couple of still images or entire series of video clips, complete with soundtracks and themes, that can be easily shared on social media.
 - RE, a remarkable camera that conveys HTC’s vision of expanding the mobile ecosystem beyond the smartphone.
 - Nexus 9, the new premium tablet designed in close collaboration with Google that boasts an array of advanced technologies.

EXECUTIVE SUMMARY

- Awards and honors
 - Adding to the number of awards received, HTC One (M8) was named 'Best Designed Smartphone of the Year' by Mobile Choice and '#1 Best phone in 2014' by TechRadar
 - HTC Desire 820 followed in the footsteps of the Desire 816 in being honoured in the 2014 'Best of IFA Awards' by Android Central, and received 'Best Mid-range Smartphone' by Android Authority.

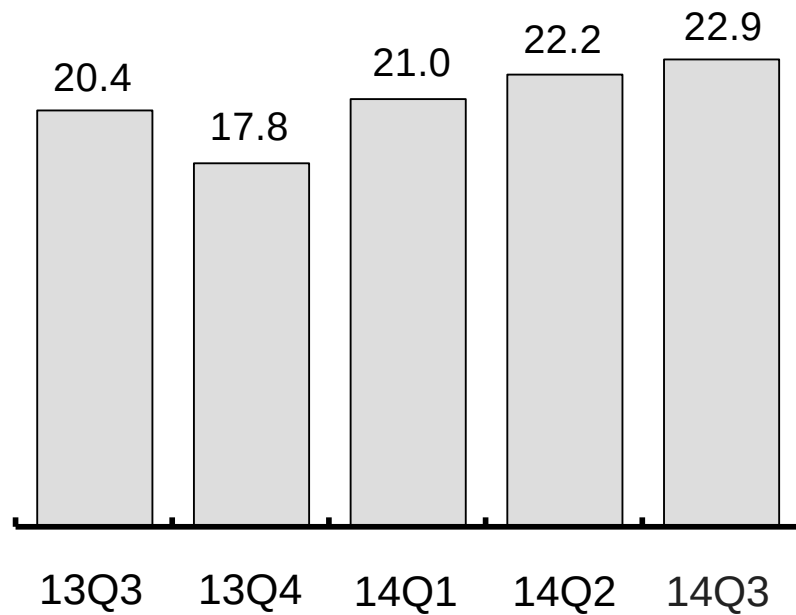
REVENUES AND OPERATING PROFIT



GROSS AND OPERATING MARGINS

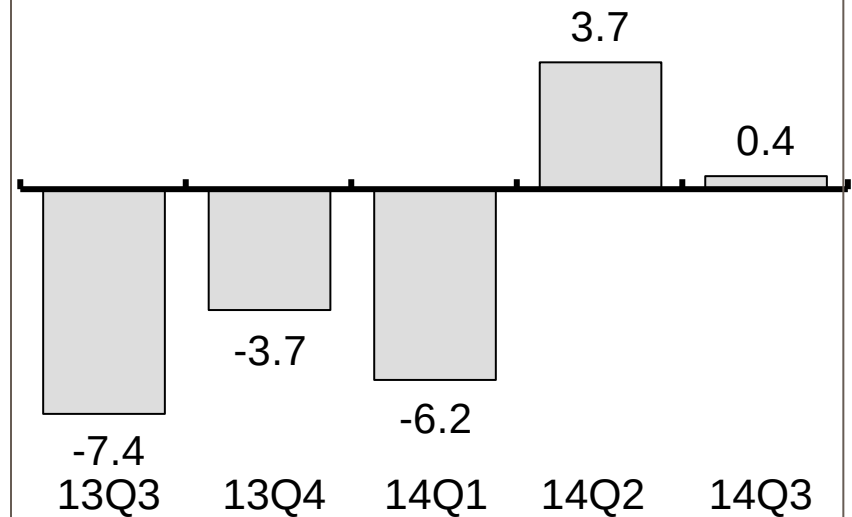
Gross Margin

%



Operating Margin

%



3Q 2014 P&L (CONSOLIDATED)

NT\$bn	3Q 13	2Q 14	3Q 14
REVENUES	47.0	65.1	41.9
GROSS PROFIT	9.6	14.4	9.6
OPERATING EXPENSE	13.1	12.0	<u>9.4</u>
SALES MKTING.	7.5	7.6	4.8
RESEARCH DEV.	2.9	3.1	3.2
GENERAL ADM.	2.7	1.3	1.4
OPERATING PROFIT	-3.5	2.4	0.2
NPBT	-3.0	2.8	0.6
NPAT ¹	-3.0	2.3	0.6
GROSS MARGIN (%)	20.4%	22.2%	22.9%
OPERATING MARGIN (%)	-7.4%	3.7%	0.4%
EPS ² (NT\$)	-3.58	2.74	0.78

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

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

3Q 2014 BALANCE SHEET (CONSOLIDATED)

NT\$bn	Sep 30, 13	Jun 30, 14	Sep 30, 14
TOTAL ASSETS	183.5	178.7	165.4
CASH	43.1	48.4	54.7
AR	30.9	36.3	25.2
INVENTORY	26.0	25.9	23.2
OTHER ASSETS	83.5	68.1	62.3
TOTAL LIABILITIES	106.3	100.5	86.6
TOTAL EQUITY ¹	77.2	78.2	78.8
<i>METRICS²</i>			
DAYS SALES OUTSTANDING	83	46	74
INVENTORY TURNOVER DAYS	77	52	77
DAYS PAYABLE OUTSTANDING	146	84	132

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

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

4Q 2014 BUSINESS OUTLOOK

- Revenue is expected to be in the range of NT\$43 billion to NT\$47 billion
- Gross profit margin is expected to be 19% to 21%
- EPS is expected to be in the range of NT\$0.07 to NT\$0.46



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

	September 30, 2014		September 30, 2013			September 30, 2014		September 30, 2013	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND EQUITY				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 54,672,202	33	\$ 43,119,840	24	Financial liabilities at fair value through profit or loss - current	\$ 13,290	-	\$ 19,871	-
Financial assets at fair value through profit or loss - current	275,725	-	-	-	Note and trade payables	43,421,932	26	54,374,041	30
Held-to-maturity financial assets - current	-	-	100,185	-	Other payables	34,565,203	21	42,473,734	23
Derivative financial assets for hedging - current	29,445	-	-	-	Current tax liabilities	277,357	-	138,292	-
Trade receivables, net	25,234,361	15	30,933,802	17	Provisions - current	6,550,061	4	6,449,212	3
Other receivables	773,967	1	2,167,035	1	Other current liabilities	1,525,493	1	1,933,535	1
Current tax assets	247,383	-	391,628	-	Total current liabilities	86,353,336	52	105,388,685	57
Inventories	23,209,305	14	26,022,627	14					
Prepayments	6,389,171	4	6,350,136	3	NON-CURRENT LIABILITIES				
Other current financial assets	666	-	2,805,927	2	Deferred tax liabilities	195,519	-	683,091	1
Other current assets	50,982	-	133,524	-	Guarantee deposits received	40,091	-	261,320	-
Total current assets	110,883,207	67	112,024,704	61	Total non-current liabilities	235,610	-	944,411	1
NON-CURRENT ASSETS					Total liabilities	86,588,946	52	106,333,096	58
Available-for-sale financial assets - non-current	183	-	214	-					
Financial assets measured at cost - non-current	2,808,821	2	4,520,429	3	EQUITY				
Investments accounted for using the equity method	219,320	-	5,477,519	3	Share capital - common stock	8,403,521	5	8,501,395	5
Property, plant and equipment	23,727,490	14	25,551,795	14	Capital surplus	14,840,181	9	15,475,351	8
Intangible assets	7,603,306	5	9,381,477	5	Retained earnings				
Deferred tax assets	8,429,894	5	8,830,166	5	Legal reserve	18,149,350	11	18,149,350	10
Refundable deposits	264,723	-	174,859	-	Special reserve	-	-	854,138	-
Long-term receivables	1,275,703	1	5,645,128	3	Unappropriated earnings	48,247,106	29	47,796,989	26
Prepaid pension cost - non-current	138,008	-	137,535	-	Total retained earnings	66,396,456	40	66,800,477	36
Other non-current assets	10,018,132	6	11,738,813	6	Other equity	466,501	1	(298,498)	-
Total non-current assets	54,485,580	33	71,457,935	39	Treasury shares	(11,326,818)	(7)	(13,329,182)	(7)
					Total equity	78,779,841	48	77,149,543	42
TOTAL	\$ 165,368,787	100	\$ 183,482,639	100	TOTAL	\$ 165,368,787	100	\$ 183,482,639	100

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

	Nine Months Ended September 30			
	2014		2013	
	Amount	%	Amount	%
REVENUES	\$ 140,045,152	100	\$ 160,502,999	100
COST OF REVENUES	<u>109,033,500</u>	<u>78</u>	<u>125,868,182</u>	<u>79</u>
GROSS PROFIT	<u>31,011,652</u>	<u>22</u>	<u>34,634,817</u>	<u>21</u>
OPERATING EXPENSES				
Selling and marketing	16,942,246	12	21,745,830	13
General and administrative	4,252,373	3	5,833,096	4
Research and development	<u>9,281,987</u>	<u>7</u>	<u>9,466,735</u>	<u>6</u>
Total operating expenses	<u>30,476,606</u>	<u>22</u>	<u>37,045,661</u>	<u>23</u>
OPERATING PROFIT (LOSS)	<u>535,046</u>	<u>-</u>	<u>(2,410,844)</u>	<u>(2)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	478,981	-	956,771	1
Other gains and losses	527,308	1	(31,063)	-
Finance costs	(16,263)	-	(8,393)	-
Share of the profit or loss of associates and joint ventures	<u>(8,184)</u>	<u>-</u>	<u>146,795</u>	<u>-</u>
Total non-operating income and expenses	<u>981,842</u>	<u>1</u>	<u>1,064,110</u>	<u>1</u>
PROFIT (LOSS) BEFORE INCOME TAX	1,516,888	1	(1,346,734)	(1)
INCOME TAX	<u>500,054</u>	<u>-</u>	<u>292,365</u>	<u>-</u>
PROFIT (LOSS) FOR THE PERIOD	<u>\$ 1,016,834</u>	<u>1</u>	<u>(\$ 1,639,099)</u>	<u>(1)</u>
EARNINGS (LOSS) PER SHARE				
Basic	<u>\$ 1.23</u>		<u>(\$ 1.97)</u>	
Diluted	<u>\$ 1.23</u>		<u>(\$ 1.97)</u>	

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

	Nine Months Ended September 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 1,516,888	(\$ 1,346,734)
Adjustments for:		
Depreciation expenses	2,312,234	2,163,076
Amortization expenses	1,394,663	1,497,393
Impairment loss recognized on trade receivables	-	1,009,364
Finance costs	16,263	8,393
Interest income	(283,912)	(409,458)
Dividend income	(22,765)	(16,282)
Compensation cost of employee share options	146,544	-
Share of the profit or loss of associates and joint ventures	8,184	(146,795)
Losses on disposal of property, plant and equipment	57,217	2,555
Gains on sale of investments	(157,226)	(29,735)
Impairment loss recognized on financial assets measured at cost	66,905	-
Impairment losses on non-financial assets	168,979	1,424,478
Ineffective portion of cash flow hedges / gains on disposal of subsidiaries	(218)	(175,436)
Net changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(100,138)	26,821
Decrease in derivative financial instruments for hedging	-	204,519
(Increase) decrease in trade receivables	(1,863,189)	9,283,985
Decrease (increase) in other receivables	1,363,691	(683,523)
Decrease (increase) in inventories	221,274	(3,109,103)
Increase in prepayments	(585,427)	(1,906,586)
Decrease (increase) in other current assets	73,826	(105,440)
Decrease (increase) in other non-current assets	1,525,210	(1,880,323)
Decrease in note and trade payables	(2,853,919)	(19,213,479)
(Decrease) increase in other payables	(2,914,319)	3,886,917
Decrease in provisions	(1,658,824)	(2,432,302)
Increase in other current liabilities	569,366	154,919
Cash used in operations	(998,693)	(11,792,776)
Interest received	210,319	452,839
Interest paid	(16,263)	(8,393)
Income tax paid	(992,385)	(3,302,711)
Net cash used in operating activities	(1,797,022)	(14,651,041)

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

	Nine Months Ended September 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	(432,463)	(153,789)
Proceeds on sale of financial assets measured at cost	2,357,366	-
Net cash inflow on disposal of subsidiaries	-	144,266
Payments for property, plant and equipment	(920,733)	(2,153,720)
Proceeds from disposal of property, plant and equipment	10,103	856
Decrease in refundable deposits	88,171	11,607
Decrease in other receivables - related parties	-	6,600,093
Payments for intangible assets	(227,947)	(199,017)
Decrease in other current financial assets	2,770,357	3,755,517
Dividend received	22,765	661,896
Net cash generated from investing activities	<u>3,667,619</u>	<u>8,724,447</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	-	201,321
Refund of guarantee deposits received	(216,324)	-
Cash dividends	-	(1,662,455)
Payment for treasury shares	-	(409,024)
Net cash used in financing activities	<u>(216,324)</u>	<u>(1,870,158)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(281,012)</u>	<u>(49,551)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,373,261	(7,846,303)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>53,298,941</u>	<u>50,966,143</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 54,672,202</u></u>	<u><u>\$ 43,119,840</u></u>