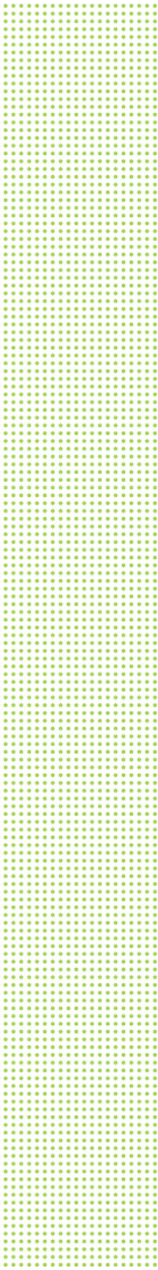


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# HTC CORPORATION

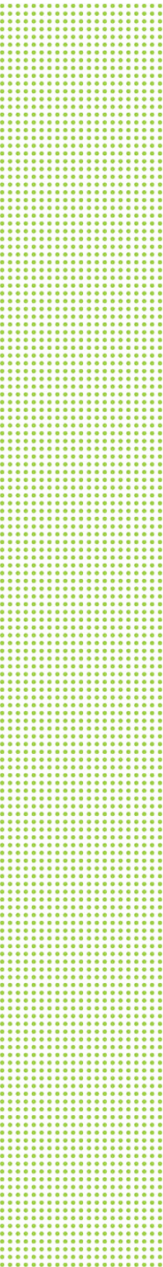
## 4Q17 RESULTS SUMMARY

March 26<sup>th</sup> 2018



# 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

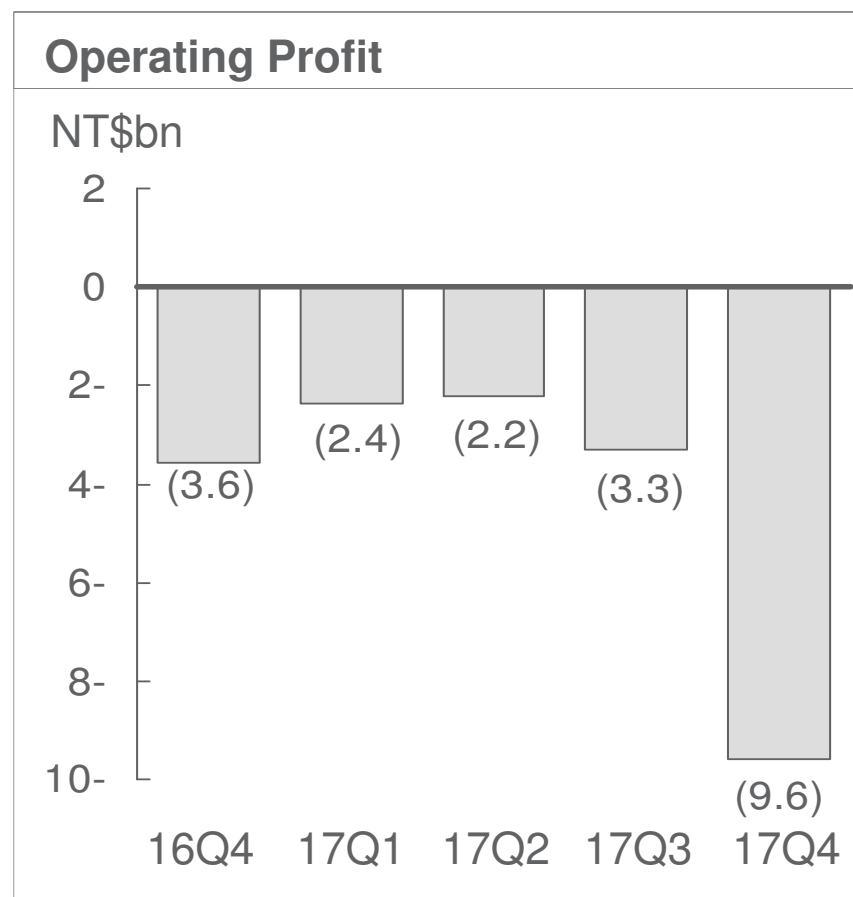
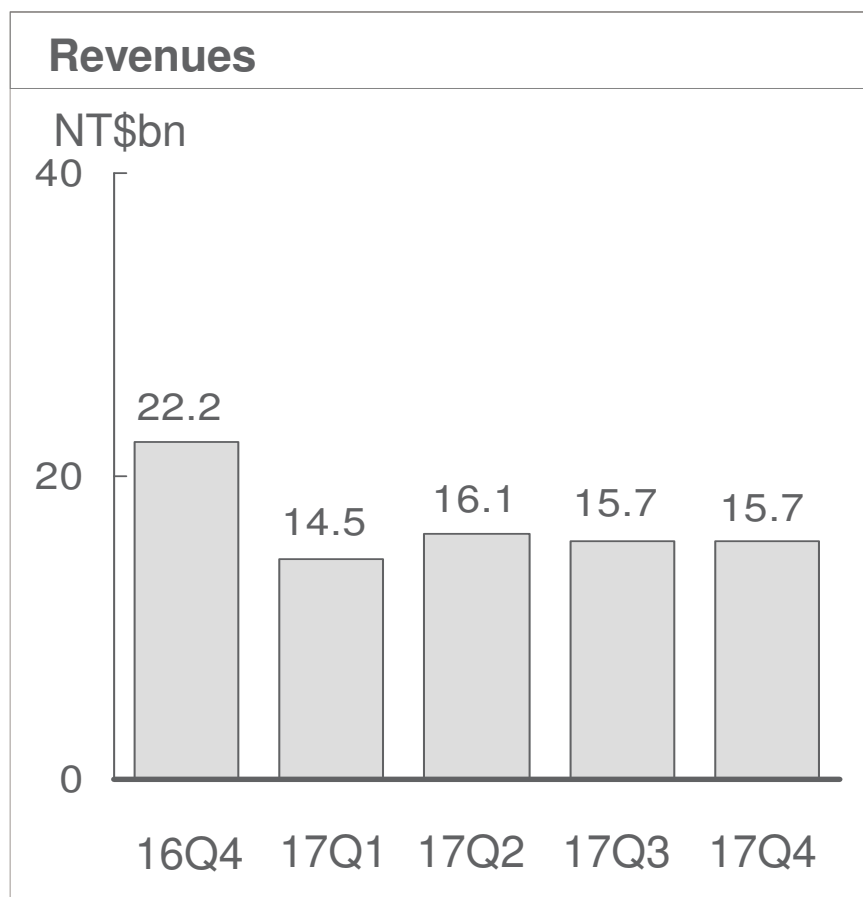
## 4Q17 Financial Highlights:

- Quarterly revenue of NT\$15.7 billion with gross margin of -30.8%
- Quarterly operating loss of NT\$9.6 billion with operating margin of -60.8%
- Quarterly net loss after tax: NT\$9.8 billion, or -NT\$11.93 per share
- Quarterly loss due to market competition, product mix, pricing, and recognized inventory write-downs according to International Financial Reporting Standard (IFRS).

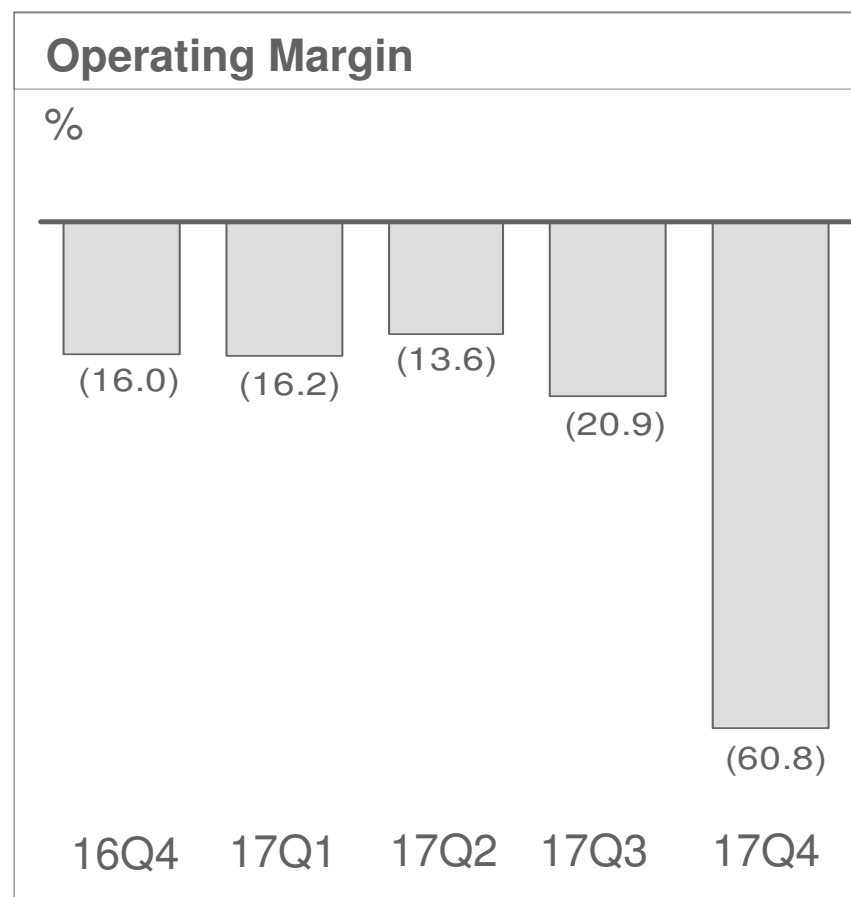
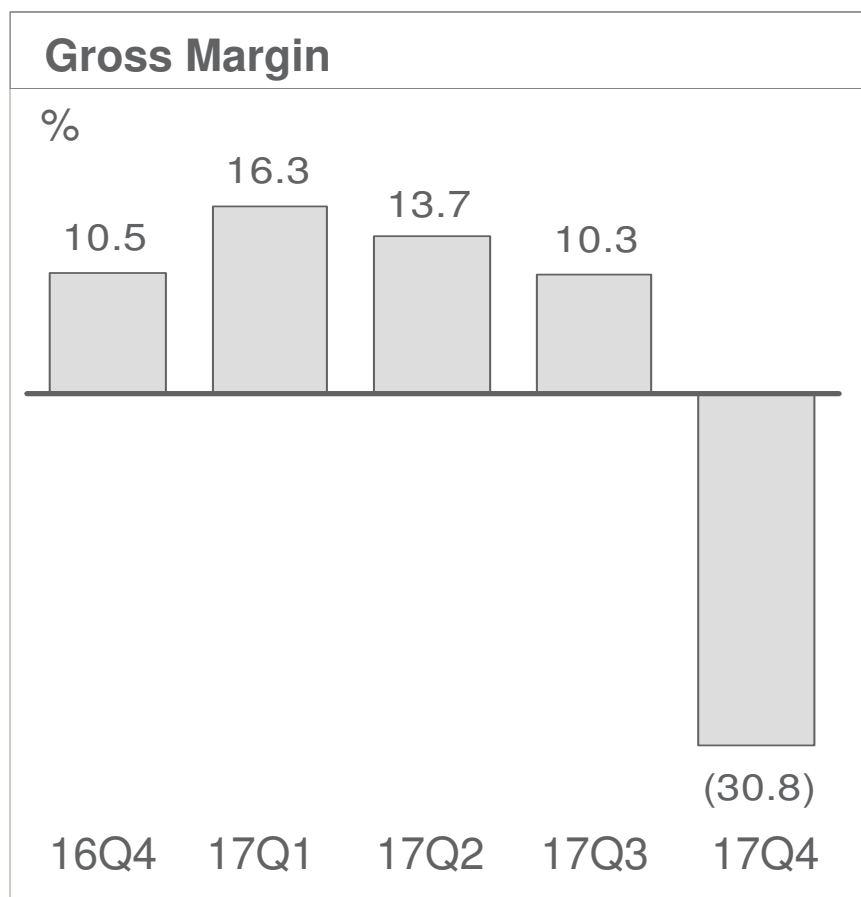
## Business Update

- HTC successfully completed the US\$1.1 billion business cooperation agreement with Google at the end of January, and the gain related to the transaction will be recognized in Q1'18, enabling greater investment in emerging technologies, which will be vital across all of our businesses and present significant long-term growth opportunities.
- HTC has also undertaken a strategic review of the business to optimize teams and processes, and bringing the regions under common leadership for greater coordination of the smartphone and virtual reality businesses, as well as enabling greater leverage of our extensive expertise across the group.
- There has been significant innovation over this period, with the launch of the VIVE Focus standalone VR system in China, and the VIVE Pro premium PC VR system in January earning 29 awards and wide media acclaim at the Consumer Electronics Show (CES) in Las Vegas in January 2018, including many 'best in show' awards.
- With a clear product focus and a series of measures in place to enable stronger execution, HTC is positioned well for another strong year of innovation at the forefront of its markets.

# REVENUES AND OPERATING PROFIT



# GROSS AND OPERATING MARGINS





## 4Q 2017 P&L (CONSOLIDATED)

NT\$bn	4Q 16	3Q 17	4Q 17
REVENUES	22.2	15.7	15.7
GROSS PROFIT	2.3	1.6	-4.8
OPERATING EXPENSE	5.9	4.9	4.7
SALES MKTING.	2.1	1.4	1.1
RESEARCH DEV.	2.7	2.6	2.6
GENERAL ADM.	1.1	0.9	1.0
OPERATING PROFIT	-3.6	-3.3	-9.6
NPBT	-3.3	-3.1	-9.8
NPAT <sup>1</sup>	-3.1	-3.1	-9.8
GROSS MARGIN (%)	10.5%	10.3%	-30.8%
OPERATING MARGIN (%)	-16.0%	-20.9%	-60.8%
EPS <sup>2</sup> (NT\$)	-3.77	-3.80	-11.93

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

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



## 4Q 2017 BALANCE SHEET (CONSOLIDATED)

NT\$bn	Dec 31, 16	Sep 30, 17	Dec 31, 17
TOTAL ASSETS	103.1	83.3	<b>66.6</b>
Cash <sup>1</sup>	35.8	23.0	<b>18.4</b>
AR	16.0	9.9	<b>8.5</b>
INVENTORY	14.2	15.9	<b>7.4</b>
OTHER ASSETS	37.1	34.5	<b>32.3</b>
TOTAL LIABILITIES	51.3	39.4	<b>32.9</b>
TOTAL EQUITY <sup>2</sup>	51.8	43.8	<b>33.7</b>
<b>METRICS<sup>3</sup></b>			
DAYS SALES OUTSTANDING	80	74	<b>67</b>
INVENTORY TURNOVER DAYS	92	123	<b>69</b>
DAYS PAYABLE OUTSTANDING	128	118	<b>74</b>

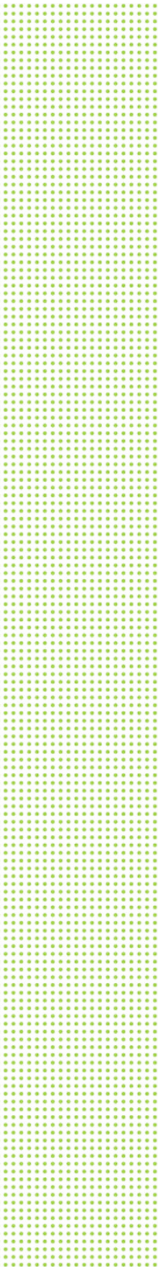
1. Includes time deposits with original maturities more than 3 months

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 DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 10,443,227	16	\$ 30,080,217	29
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	65,199	-	143,642	-
Available-for-sale financial assets - current (Note 32)	312,106	-	199,344	-
Debt investments with no active market - current (Note 32)	-	-	8,067	-
Trade receivables, net (Notes 11 and 33)	8,537,096	13	15,961,835	15
Other receivables (Note 11)	103,497	-	168,526	-
Current tax assets (Note 27)	131,901	-	184,817	-
Inventories (Note 12)	7,381,426	11	14,163,571	14
Prepayments (Note 13)	1,742,986	3	1,833,499	2
Non-current assets held for sale (Note 14)	1,647,763	3	-	-
Other current financial assets (Notes 10 and 34)	7,988,363	12	5,750,450	6
Other current assets	135,821	-	68,414	-
Total current assets	<u>38,489,385</u>	<u>58</u>	<u>68,562,382</u>	<u>66</u>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Note 32)	91	-	86	-
Financial assets measured at cost - non-current (Notes 9 and 32)	3,187,240	5	3,363,736	3
Debt investments with no active market - non-current (Note 32)	-	-	25,009	-
Investments accounted for using equity method (Note 16)	413,120	1	531,445	1
Property, plant and equipment (Notes 17 and 33)	10,798,613	16	12,025,496	12
Investment properties, net (Note 18)	-	-	1,527,001	1
Intangible assets (Note 19)	2,315,441	3	3,878,356	4
Deferred tax assets (Note 27)	8,990,648	14	8,957,876	9
Refundable deposits (Note 32)	139,016	-	1,501,480	1
Net defined benefit asset - non-current (Note 23)	18,119	-	40,439	-
Other non-current assets (Note 13)	2,233,733	3	2,735,876	3
Total non-current assets	<u>28,096,021</u>	<u>42</u>	<u>34,586,800</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 32)	\$ 75,184	-	\$ 133,420	-
Note and trade payables (Notes 20 and 33)	14,569,222	22	26,247,728	26
Other payables (Note 21)	11,681,890	18	18,348,734	18
Current tax liabilities (Note 27)	253,240	-	155,651	-
Provisions - current (Note 22)	3,377,201	5	3,384,311	3
Other current liabilities (Note 21)	2,850,713	4	3,004,432	3
Total current liabilities	<u>32,807,450</u>	<u>49</u>	<u>51,274,276</u>	<u>50</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 27)	47,147	-	81,294	-
Guarantee deposits received (Note 32)	5,681	-	22,106	-
Total non-current liabilities	<u>52,828</u>	<u>-</u>	<u>103,400</u>	<u>-</u>
Total liabilities	<u>32,860,278</u>	<u>49</u>	<u>51,377,676</u>	<u>50</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 24)</b>				
Share capital - ordinary shares	8,208,261	12	8,220,087	8
Capital surplus	15,551,491	24	15,614,641	15
Retained earnings				
Legal reserve	18,297,655	27	18,297,655	18
(Accumulated deficits) unappropriated earnings	(6,093,403)	(9)	10,841,425	10
Other equity	(2,268,428)	(3)	(1,202,302)	(1)
Total equity attributable to owners of the parent	33,695,576	51	51,771,506	50
<b>NON-CONTROLLING INTERESTS</b>	<u>29,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>33,725,128</u>	<u>51</u>	<u>51,771,506</u>	<u>50</u>
<b>TOTAL</b>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 25 and 33)	\$ 62,119,814	100	\$ 78,161,158	100
OPERATING COST (Notes 12, 23, 26 and 33)	<u>60,780,122</u>	<u>98</u>	<u>68,726,567</u>	<u>88</u>
GROSS PROFIT	<u>1,339,692</u>	<u>2</u>	<u>9,434,591</u>	<u>12</u>
OPERATING EXPENSES (Notes 23, 26 and 33)				
Selling and marketing	4,792,893	8	8,861,758	11
General and administrative	3,532,107	5	4,223,697	6
Research and development	<u>10,440,209</u>	<u>17</u>	<u>10,957,200</u>	<u>14</u>
Total operating expenses	<u>18,765,209</u>	<u>30</u>	<u>24,042,655</u>	<u>31</u>
OPERATING LOSS	<u>(17,425,517)</u>	<u>(28)</u>	<u>(14,608,064)</u>	<u>(19)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	673,103	1	643,078	1
Other gains and losses (Notes 8, 14, 17 and 26)	(85,851)	-	3,448,618	4
Finance costs	(33,315)	-	(5,298)	-
Share of the profit or loss of associates and joint venture (Note 16)	<u>(87,255)</u>	<u>-</u>	<u>(62,282)</u>	<u>-</u>
Total non-operating income and expenses	<u>466,682</u>	<u>1</u>	<u>4,024,116</u>	<u>5</u>
LOSS BEFORE INCOME TAX	(16,958,835)	(27)	(10,583,948)	(14)
INCOME TAX BENEFIT (Note 27)	<u>38,476</u>	<u>-</u>	<u>23,845</u>	<u>-</u>
LOSS FOR THE YEAR	<u>(16,920,359)</u>	<u>(27)</u>	<u>(10,560,103)</u>	<u>(14)</u>
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	(33,129)	-	(53,981)	-
Income tax relating to items that will not be reclassified to profit or loss (Note 27)	<u>4,014</u>	<u>-</u>	<u>6,532</u>	<u>-</u>
	<u>(29,115)</u>	<u>-</u>	<u>(47,449)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(1,401,328)	(2)	(2,254,715)	(3)
Unrealized gain (loss) on available-for-sale financial assets	<u>131,392</u>	<u>-</u>	<u>(153,449)</u>	<u>-</u>

(Continued)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
	<u>\$ (1,269,936)</u>	<u>(2)</u>	<u>\$ (2,408,164)</u>	<u>(3)</u>
Other comprehensive loss for the year, net of income tax	<u>(1,299,051)</u>	<u>(2)</u>	<u>(2,455,613)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (18,219,410)</u>	<u>(29)</u>	<u>\$ (13,015,716)</u>	<u>(17)</u>
NET LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ (16,905,713)	(27)	\$ (10,560,103)	(14)
Non-controlling interests	<u>(14,646)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (16,920,359)</u>	<u>(27)</u>	<u>\$ (10,560,103)</u>	<u>(14)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ (18,205,286)	(29)	\$ (13,015,716)	(17)
Non-controlling interests	<u>(14,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (18,219,410)</u>	<u>(29)</u>	<u>\$ (13,015,716)</u>	<u>(17)</u>
LOSS PER SHARE (Note 28)				
Basic	<u>\$ (20.58)</u>		<u>\$ (12.81)</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

## HTC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Share Capital Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity			Treasury Shares	Total	Non- controlling Interests	Total Equity
			Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for- sale Financial Assets	Unearned Employee Benefit				
BALANCE, JANUARY 1, 2016	\$ 8,318,695	\$ 15,505,853	\$ 18,297,655	\$ 21,782,432	\$ 1,473,417	\$ (13,633)	\$ (371,369)	\$ (200,955)	\$ 64,792,095	\$ -	\$ 64,792,095
Net loss for the year ended December 31, 2016	-	-	-	(10,560,103)	-	-	-	-	(10,560,103)	-	(10,560,103)
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	(47,449)	(2,254,715)	(153,449)	-	-	(2,455,613)	-	(2,455,613)
Buy-back of treasury shares	-	-	-	-	-	-	-	(436,869)	(436,869)	-	(436,869)
Retirement of treasury shares	(111,600)	(192,769)	-	(333,455)	-	-	-	637,824	-	-	-
Share-based payments	<u>12,992</u>	<u>301,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,447</u>	<u>-</u>	<u>431,996</u>	<u>-</u>	<u>431,996</u>
BALANCE, DECEMBER 31, 2016	8,220,087	15,614,641	18,297,655	10,841,425	(781,298)	(167,082)	(253,922)	-	51,771,506	-	51,771,506
Net loss for the year ended December 31, 2017	-	-	-	(16,905,713)	-	-	-	-	(16,905,713)	(14,646)	(16,920,359)
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	(29,115)	(1,401,850)	131,392	-	-	(1,299,573)	522	(1,299,051)
Issuance of stock from exercise of employee stock options	100	445	-	-	-	-	-	-	545	-	545
Share-based payments	(11,926)	(63,595)	-	-	-	-	204,332	-	128,811	-	128,811
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,676</u>	<u>43,676</u>
BALANCE, DECEMBER 31, 2017	<u>\$ 8,208,261</u>	<u>\$ 15,551,491</u>	<u>\$ 18,297,655</u>	<u>\$ (6,093,403)</u>	<u>\$ (2,183,148)</u>	<u>\$ (35,690)</u>	<u>\$ (49,590)</u>	<u>\$ -</u>	<u>\$ 33,695,576</u>	<u>\$ 29,552</u>	<u>\$ 33,725,128</u>

The accompanying notes are an integral part of the financial statements.

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ (16,958,835)	\$ (10,583,948)
Adjustments for:		
Depreciation expenses	1,006,481	1,752,322
Amortization expenses	1,386,637	1,639,516
Bad debt (reversed) expense	(362,870)	1,175,179
Finance costs	33,315	5,298
Interests income	(283,574)	(382,550)
Dividend income	(47,284)	(138,761)
Compensation costs of employee share-based payments	128,811	431,996
Share of the profit or loss of associates and joint venture	87,255	62,282
Net loss (gain) on disposal of property, plant and equipment	80,397	(3,196,381)
Net gain on sale of investments	(24,305)	-
Impairment loss on financial assets	109,779	-
Impairment loss on non-financial assets	6,048,636	2,054,453
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	20,207	48,727
Decrease in trade receivables	7,787,609	2,857,064
Decrease in other receivables	77,814	312,686
Decrease in inventories	1,068,702	2,918,208
Decrease in prepayments	90,513	2,567,469
(Increase) decrease in other current assets	(67,407)	26,197
Decrease in other non-current assets	396,101	1,993,672
Decrease in note and trade payables	(11,678,506)	(3,350,657)
Decrease in other payables	(6,662,537)	(6,574,405)
Decrease in provisions	(7,110)	(2,607,947)
Decrease in other current liabilities	(1,595,625)	(685,331)
Cash used in operations	(19,365,796)	(9,674,911)
Interest received	280,246	336,626
Interest paid	(33,315)	(5,298)
Income tax return (paid)	109,418	(275,929)
Net cash used in operating activities	<u>(19,009,447)</u>	<u>(9,619,512)</u>
<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	(218,734)	(203,283)
Proceeds from disposal of financial assets measured at cost	91,107	-
Acquisition of associates	(6,019)	(363,754)
Proceeds from disposal of investments accounted for using equity method	-	182,579
Net cash inflow on acquisition of subsidiaries	5,974	-
Payments for non-current assets held for sale	(3,830)	-
Proceeds from disposal of non-current assets held of sale	-	6,060,000
Payments for property, plant and equipment	(262,375)	(601,427)

(Continued)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Proceeds from disposal of property, plant and equipment	\$ 17,766	\$ 2,935,283
Increase in advance receipts - disposal of property	1,388,243	-
Decrease in refundable deposits	1,362,464	78,862
Payments for intangible assets	(566)	(75,455)
Increase in other current financial assets	(2,237,913)	(1,650,160)
Dividend received	<u>47,284</u>	<u>83,844</u>
Net cash generated from investing activities	<u>183,401</u>	<u>6,421,941</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refund of guarantee deposits received	(16,425)	(8,053)
Proceeds from exercise of employee stock options	545	-
Buy-back of treasury shares	<u>-</u>	<u>(436,869)</u>
Net cash used in financing activities	<u>(15,880)</u>	<u>(444,922)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>(795,064)</u>	<u>(1,624,089)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(19,636,990)	(5,266,582)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>30,080,217</u>	<u>35,346,799</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<u>\$ 10,443,227</u>	<u>\$ 30,080,217</u>

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)