HTC CORPORATION

4th Q BUSINESS REVIEW

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smart mobility

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THE Y08 BUSINESS REVIEW

- HTC successfully introduced Touch Diamond series products and the first Android-based phone – G1 in 2008, both of which led the industry trend changes in the user interface and mobile internet experience respectively.
- The management has executed Y08 business strategy and objectives well, resulting in solid operational performance measured by financial objectives, technology leadership, brand value creation and recognition and expense control.
- The corporate culture has evolved to customer first on top of the innovative aspiration. The adoptive working environment attracts and integrates international talents to excel the HTC experience in the daily operations to cement the brand value.
- Strong business growth in Y08. Annual revenue reached NT$152.6 billion, representing a 28.7% YoY growth rate. The non ODM business YoY growth was over 40%.
- On pre-bonus basis, the annual GPM and OPEX ratio was 33.6% and 9.8%* respectively, both of which are in line with the annual guidance provided. The NPAT was NT$34.2 billion, increased by 18.4% YoY.
- On post-bonus basis, the annual GPM and OPEX ratio was 33.2% and 13.4%*.

***The annual PSP adjustment was shown as net impact of NT$65 million in OPEX based on CPA's opinion which was different from the accounting treatment mentioned in last conference call.**

THE 4th Q 08' BUSINESS REVIEW

- The 4th Q revenue was NT$47.4 billion, up 25.1% sequentially and 21.4% YoY, slightly below the NT$48 billion guidance. The shortfall was caused by clients' inventory adjustment in December.
- The 4th Q GPM pre-bonus was 30.1% (post-bonus:29.8%), in line with the guidance provided. The quarterly average euro € exchange rate against NT$ is 43.15, in line with the guidance assumption.
- The 4th Q OPEX ratio pre-bonus was 8.2% (post-bonus:11.5%), better than the guidance of 8.7%*, due to rationalization of expenses.

***The OPEX ratio pre-bonus excluding the PSP adjustment.**

BUSINESS ENVIRONMENT

- The global economic weakened rapidly since the 4^{th} Q resulting low business visibility. The channels including operators and distributors are undertaking aggressive inventory trim down. This situation will carry into the 1^{st} Q affecting the overall handset shipment including the smart phone segment.
- Smart phone devices with Touch function prevail the market which confirms HTC's vision and highlights HTC's advantageous position to ride this industry trend. The converging devices market is likely to grow in Y09. The consumer will select products offering value differentiations within the lesser disposal budget.

Y09 BUSINESS OBJECTIVES

- Business Objectives
  - Business Growth : Annual revenue expects to grow by double digit. Balance the market share gain with gross margin maintenance.
  - Product Strategy: Focus on innovation and execution to enhance product proposition and keep up the differentiation. Expand product diversity to offer customers more choices.
  - OPEX : OPEX spending expects to balance with supporting business growth and cost control. Annual OPEX ratio expects to maintain around 13.5%* of revenue, based on post bonus basis.
- Business Strategy: THE HTC BRAND EXPERIENCE
  - Business goal: Grow the long term shareholder value.
  - Brand building: Execute on HTC brand experience to every customer contact points and focus on simplicity, innovation and WOW factors.
  - Actions to the weak economic environment: Grow business through differentiated products and continue to strengthen long term core competence with prudent approach in brand building, operational efficiency and investment activities. Tighter risk management in internal control points as well as supply chain. Expense rationalization has been implemented since the 4th Q last year.

***The OPEX ratio will be affected by pre-bonus net operating margin, due to the impact of employee bonus adjustment.**

MANAGEMENT INTITIATIVES

- The management will propose to the board to maintain high dividend payout policy, no lower than the cash dividend payout amount of NT$20 billion for Y2009 and Y2010. This is subject to the approval in the next board meeting in Feb.
- The employee bonus appropriation rate will be the same as that of Y08, 18% of net profit after taxes, prior to this employee bonus adjustment.
- The outstanding common shares number is 745,393,856 shares, post the cancelation of the 10 million treasury share buyback.
- A few products will be introduced in the Mobile World Congress in Barcelona in mid Feb.
- Joey Cheng will join HTC as the IR Director to provide more comprehensive IR coverage.
- The board approved to buy two land sites adjacent to HTC Taoyuan HQ to build supporting facilities to provide better working environment, both of which encompass 55,545 m^2. The total purchase amount is NT$1,147.5 million.
- The Shanghai plant begun production and will provide the incremental capacity needs to meet business growth.

4th Q '08 P&L – PRE-EMPLOYEE BONUS

(NT$ Bil.)	4Q 07	3Q 08	4Q 08*4	QOQ	YOY	Y08*4	YOY
REVENUES	39.01	37.86	47.38	25.1%	21.4%	152.56	28.7%
GROSS PROFIT	13.93*1	13.09	14.28	9.2%	2.5%	51.29	27.6%
RSGA EXPENSE	3.48*1	4.35*2	3.88	-10.8%	11.3%	14.94	54.9%
NOP	10.45	8.71*2	10.42	19.7%	-0.2%	36.39	19.2%
NPBT	10.87	9.18	10.70	16.6%	-1.5%	37.72	17.3%
NPAT	9.99	8.27	9.86	19.3%	-1.3%	34.25	18.4%
GPM(%)	35.7%	34.6%	30.1%			33.6%	
RSGA RATIO(%)	8.9%	11.5%	8.2%			9.8%	
EPS*3	17.42	10.94	13.07			45.41	

*1 Warranty service and inventory scrap were recognized as OPEX and non-operating expenses respectively before 2008. NT$2.6 billion in Q407 was adjusted into COGS.
*2 Excluded 2 adjustments of NT$0.24billion for accounting entry adjustment and PSP expenses in 3Q08, the RSGA expense is NT$4.10billion whereas RSGA% is 10.8% and NOP is NT$8.95billion.
*3 The EPS was calculated based on the outstanding shares at the time.
*4 The numbers were reviewed by CPA and subject to the board approval.

4th Q '08 P&L – POST-EMPLOYEE BONUS (EB)

(NT$ Bil.)	4Q 07	3Q 08	4Q 08*4	QOQ	YOY	Y08*4	YOY
REVENUES	39.01	37.86	47.38	25.1%	21.4%	152.56	28.7%
(EB ADJ in COGS)	0.26	0.16	0.18	20.5%	-29.1%	0.64	-15.1%
GROSS PROFIT	13.67*1	12.93	14.10	9.0%	3.1%	50.64	26.5%
(EB ADJ in RSGA)	2.24	1.32	1.58	19.3%	-29.3%	5.49	-14.8%
RSGA EXPENSE	5.72*1	5.67*2	5.46	-3.8%	-4.6%	20.43	27.0%
NOP	7.95	7.23*2	8.66	19.8%	8.9%	30.26	29.6%
NPBT	8.37	7.70	8.94	16.1%	6.8%	31.59	26.6%
NPAT	7.54	6.99	8.09	15.8%	7.3%	28.64	31.7%
ADJ GPM(%)	35.0%	34.2%	29.8%			33.2%	
ADJ RSGA RATIO(%)	14.7%	15.0%	11.5%			13.4%	
ADJ EPS*3	13.16	9.25	10.73			37.97	

*1Warranty service and inventory scrap were recognized as OPEX and non-operating expenses respectively before 2008. NT$2.6 billion in Q407 was adjusted into COGS.
*2Excluded 2 adjustments of NT$0.24billion for accounting entry adjustment and PSP expenses in 3Q08, the RSGA expense is NT$5.43billion whereas RSGA% is 14.3% and NOP is NT$7.47bil ion.
*3The EPS was calculated based on the outstanding shares at the time.
*4The numbers were reviewed by CPA and subject to the board approval.

4th Q '08 P&L (CONSOLIDATED)

(NT$ Bil.)	4Q 07	3Q 08	4Q 08*3	QOQ	YOY	Y08*3	YOY
REVENUES	38.75	37.63	47.07	25.1%	21.5%	152.35	28.9%
(EB ADJ in COGS)	0.26	0.16	0.18	12.5%	-30.8%	0.64	-15.1%
GROSS PROFIT	13.74*1	13.04	14.18	8.8%	3.2%	50.99	28.5%
(EB ADJ in RSGA)	2.24	1.32	1.58	19.7%	-29.5%	5.49	-14.8%
RSGA EXPENSE	5.71*1	5.65	5.31	-6.0%	-7.1%	20.65	27.3%
NOP	8.02	7.39	8.88	20.1%	10.6%	30.35	29.3%
NPBT	8.45	7.73	8.97	16.1%	6.1%	31.74	26.8%
NPAT	7.54	6.99	8.09	15.8%	7.3%	28.64	31.7%
ADJ GPM(%)	35.5%	34.6%	30.1%			33.5%	
ADJ RSGA RATIO(%)	14.7%	15.0%	11.3%			13.6%	
ADJ EPS*2	13.16	9.25	10.73			37.97	

*1Warranty service and inventory scrap were recognized as OPEX and non-operating expenses respectively before 2008. NT$1.3billion in Q407 was adjusted into COGS.
*2The EPS was calculated based on the outstanding shares at the time.
*3The numbers were reviewed by CPA and subject to the board approval.

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4th Q '08 KEY FINANCIALS

(NT$ Bil.)	Dec 31, 07	Sep 30, 08	Dec 31, 08*	QOQ	YOY
CASH	55.04	63.94	61.83	-3.3%	12.3%
AR	19.48	21.55	29.80	38.3%	52.9%
INVENTORY	6.12	7.88	7.42	-5.8%	21.2%
NET WORTH	56.08	56.00	60.66	8.3%	8.2%
INVENTORY PROVISON	0.92	1.48	1.62	10.0%	77.2%
AR PROVISION	0.27	0.54	0.55	2.1%	103.0%
WARRANTY PROVISION	3.47	4.86	5.23	7.6%	50.6%

*The numbers above were reviewed by CPA and subject to the board approval.

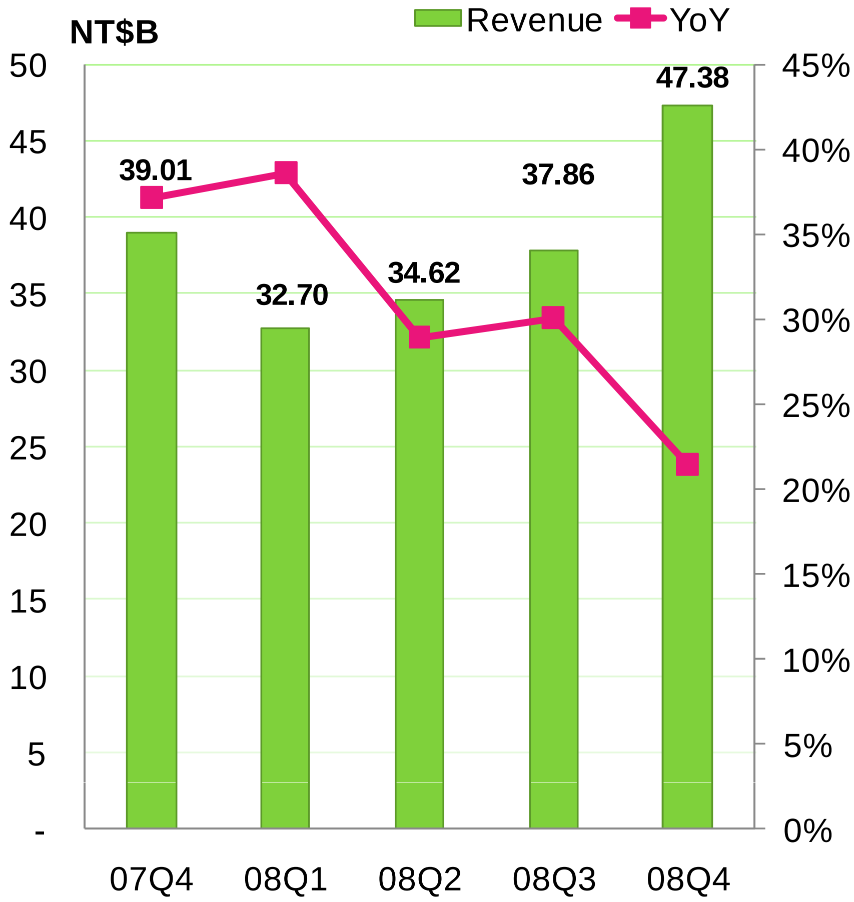
4^{th} Q '08 KEY FINANCIALS (CONSOLIDATED)

(NT$ Bil.)	Dec 31, 07	Sep 30, 08	Dec 31, 08*	QOQ	YOY
CASH	56.49	66.33	64.24	-3.2%	13.7%
AR	19.47	21.21	29.45	38.9%	51.3%
INVENTORY	7.24	8.47	8.25	-2.6%	14.0%
NET WORTH	56.08	56.00	60.66	8.3%	8.2%
INVENTORY PROVISON	1.12	2.07	1.91	-7.9%	70.1%
AR PROVISION	0.28	0.61	0.58	-5.7%	108.1%
WARRANTY PROVISION	3.47	4.85	5.23	7.8%	50.7%

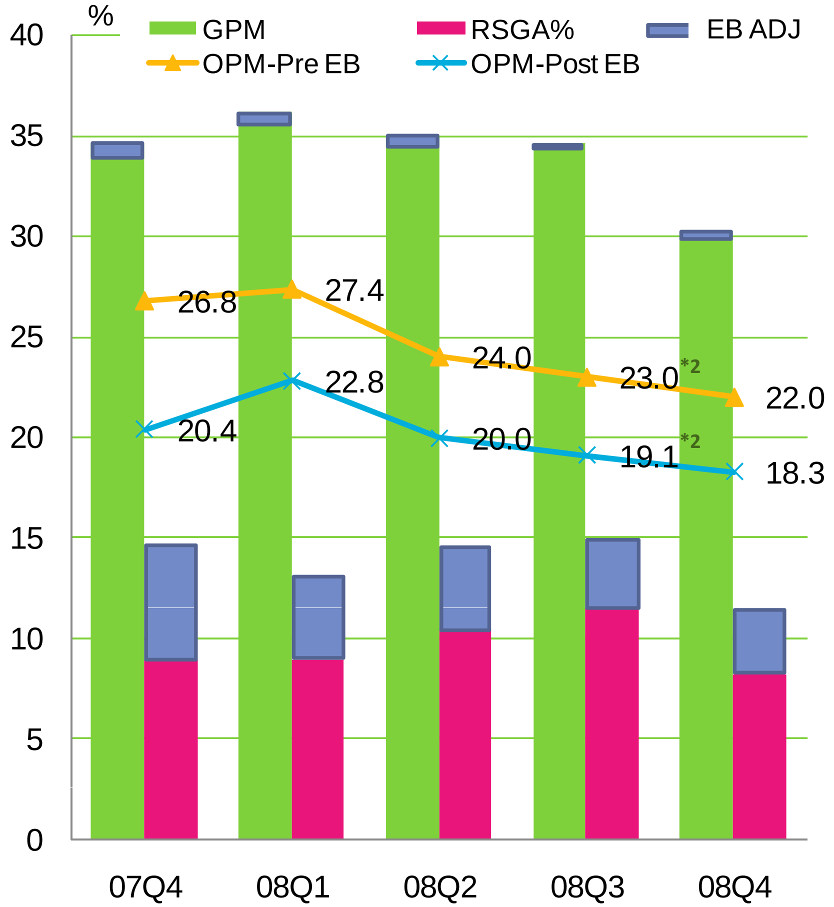
*The numbers above were reviewed by CPA and subject to the board approval.

FACT SHEET UPDATES – BUSINESS STATUS

REVENUE



MARGIN*1



*[1]Warranty service and inventory scrap were recognized as OPEX and non-operating expenses respectively before 2008. For comparison purpose, all margins in 2007 were adjusted to the same accounting criteria.

*[2]Excluded 2 adjustments of NT$0.24 billion for accounting adjustment and PSP expenses in 3Q 08, the adjusted NOP pre-bonus is NT$8.95billion whereas the adjusted OPM pre-bonus is 23.6%. The adjusted NOP post-bonus is NT$7.47bil in 3Q whereas OPM post-bonus is 19.7% in 3Q.

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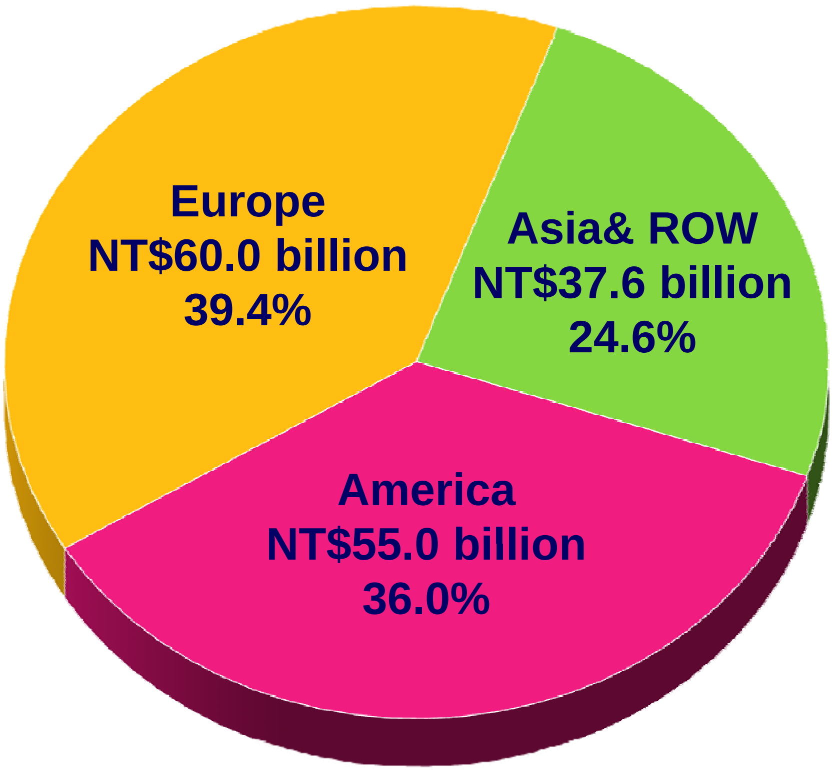
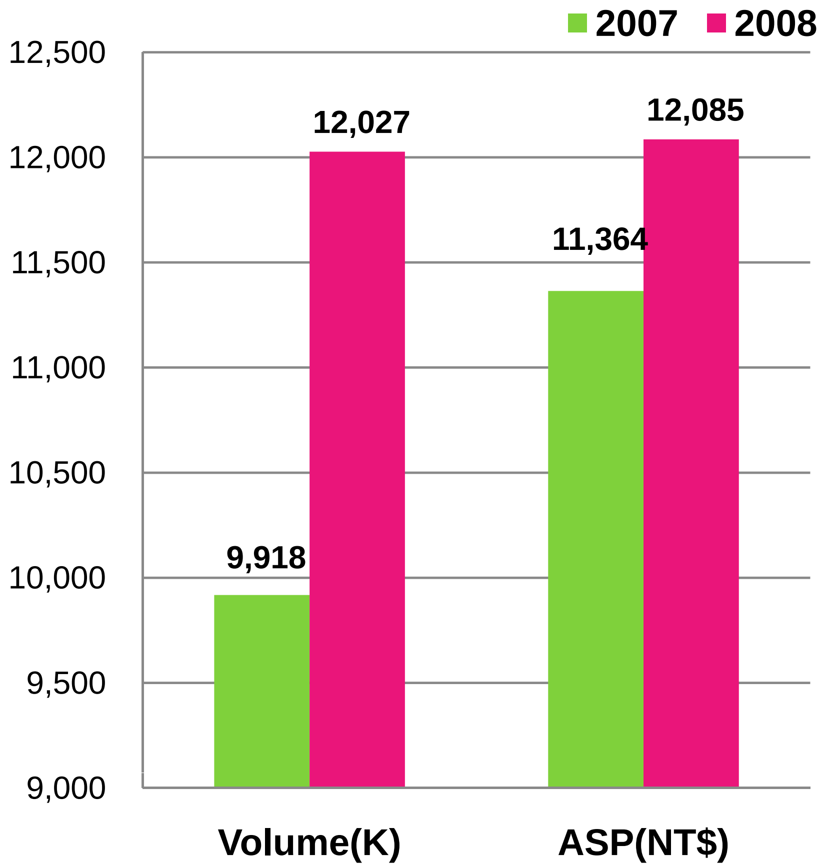
Y2008 OPERATIONAL FACT SHEET

REVENUE BREAKDOWN



VOLUME & ASP



THE 1st Q 09' BUSINESS OUTLOOK

- Due to the world economic slowdown and low business visibility, the 1st Q revenue is expected to be around NT$33 billion, a low-single digit YOY growth rate. Sales momentum is likely to pick up in the 2nd quarter when new products are introduced to the market.
- The GPM, net of the warrant provision reserve and the extra inventory write down adjustment, is expected to be around 30%* based on post employee bonus adjustment.
- EU business model will change to commission basis from cost-plus basis under the advice from tax counsel. As a result, the SG&A expenses will increase slightly.
- Interest income will be impacted by the declining interest rate. The Y08 average interest rate is around 2.1% vs. current 0.3%. Interest income in the 1st Q will decline to NT$ 100 million.

***Starting from this conference call, all margins will be under post-bonus bases.**

THE 1st Q 09' BUSINESS OUTLOOK

- Around NT$ 0.6 billion extra aged inventory provision write down. The warranty provision reserves was reversed by around NT$ 0.6 billion.
- The OPEX ratio (post-bonus) will increase to around 15%* due to lower revenue. The actual pre-bonus OPEX spending stays at the same level as that of the 4th Q Y08 and will support the new product launch events for the shipment in the 2nd Q.
- The operating profit margin expects to be around 15%*.

*Starting from this conference call, all margins will be under post-bonus bases.

QUESTIONS CONCERNED

- Q: Please comment the product competitiveness of the Y09.
  - A: Based on the feedback from our business partners, HTC is confident with the product strength in Y09. We will have a few product launch events in the 1st Q to demonstrate our product differentiation against others in the present market offerings.
- Q: Please comment your business strategy in WM and Android platform. Would the Android platform cannibalize the WM platform?
  - A: HTC likes to maintain leadership position in either market as we believe that either OS commands unique value proposition to different market segmentation. Any new OS entrant will change the market share landscape. We look for the net market share gain rather than the market share in individual OS market.
- Q: Will HTC continue the ODM business?
  - A: HTC did not have new engagement in new ODM business. ODM business accounts less than 10% of current revenue and expects to gradually phrase out by the end of this year.

QUESTIONS CONCERNED

- Q: HTC bought several pieces of land recently, what is the CAPEX plan associated with these land acquisition in Y09?
  - A: The lands purchased in Hsin Tien and Taoyuan are for Taipei R&D Center and HTC HQ park to meet the growth of HTC, the land payment and construction expenditure could amount to around NT$3 billion in Y09.
- Q: Please comment the subsidy program from the operators and the consequence of the margin impact.
  - A: The operators subsidy allocation depends on the revenue contribution from devices, products who have good differentiation would less worry on losing subsidy and margin impact.
- Q: Please comment the impact from the weak consumer demand to your business either by geographic or channel.
  - A: The slowdown economics impacts all markets. HTC is not immune either but is one of the lesser impacted one due to product leadership, diversified product portfolio, responsive product refreshment to the market change and solid distribution coverage globally with leading business partners.

QUESTIONS CONCERNED

- Q: The AR balance at the year-end is up to $29.79 billion. Please comment the AR quality.
  - A: Higher year-end AR balance is due to 2 major customers' payment of NT$3.4 billion are scheduled to be paid in early Jan because of New Year holidays. The amount has been paid in Jan. The AR balance at the end of Jan is NT$22.5 billion. Excluded the NT$3.4 billion payment, the AR balance at the Y08 year end is in line with the revenue growth in 4Q .
- Q: Why the year-end cash on hand lower than the level of the 3Q?
  - A: Major cash payments were paid in 4Q, which are NT$3.4 billion for treasury share buyback; NT$2.7 billion for the 1st installment payment of Hsin Tien land; and NT$1.47 billion for employee bonus. The cash on hand at the end of Jan is NT$69.4 billion.