

HTC CORPORATION

2nd Q BUSINESS REVIEW

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htc

DISCLAIMER STATEMENT

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2Q09 BUSINESS REVIEW

- 2Q revenue reached NT\$38.2bn, up 10% YoY, inline with mid point of guidance range (NT\$37.5bn~NT\$38.5bn).
- 2Q GPM was 32% (better than $31\% \pm 0.2\%$ guidance), margin upside mainly comes from cost structure improvement.
- 2Q OPEX ratio came better than guidance ($14.5\% \pm 0.2\%$) at 13.8%; therefore, 2Q operating margin came at 18.0%, also better than 16.5% mid-point guidance.

* All the numbers above are based on unconsolidated financial statements.

BUSINESS ENVIRONMENT

- Mid-tier converged devices started emerging, attractive price/performance will further drive smart phone penetration.
- Next generation mobile broadband user experience would be benchmarked by user-friendly interface, social-network embedded communication, intuitive touch-panel based navigation and efficient multi-task operating system.
- Mobile broadband trend continues to grow wireless industry and dominates the growth opportunity. Competition in converged innovation becomes critical in mobile device industry and could lead to vendor landscape reshuffle.
- US market is relatively healthier while European market weaker.

MANAGEMENT INITIATIVES

- Phase I branding process was more than successful amid a learning and uncertain stage. Meaningful brand awareness has been built as a leading Smartphone innovator and organization /talent has also been established toward brand focus.
- A proactive phase II branding process has begun from the Hero launch and HTC cycling team sponsorship at Tour De France . Management aims to further drive growth at phase II by delivering the best customer experience. A holistic product launch approach on brand, channel, sales and marketing is expected to be boosted at this phase.
- The HTC “Sense” delivers HTC brand commitment to provide user centric experience and receives global media recognition in the three key themes, Make it Mine, Stay Close and Discover the Unexpected. HTC “Sense” further raises the bar of competition and demonstrates our leadership in the Android platform.

MANAGEMENT INITIATIVES

- Management adjusts product mix to expand into the mid-tier ASP product segment; percentage of revenue contribution begins from 2H09.
- Management aims to maintain a balance between profitability & volume in the transition (entering mid tier price product segment) to drive volume growth and market share.
- Management sees China as key growth driver within 3 years when 3G infrastructure and operating environment become mature; initial engagement on all technology standards from major carriers has begun.
- Invited one new board director - Mr. Hochen Tan, the ex-Chairman of Chung Hua Telecommunication Co., into HTC Board.

MANAGEMENT INITIATIVES

- Invited Richard Brennan, the ex-CMO of Orange, into CEO office and act as senior executive for HTC brand and customer experience development.
- Employee stock bonus dilution is 1.678%, calculated based on the closing share price prior to the annual shareholders meeting date on June 19th.
- The ex-dividend date and the cash dividend payout date are August 3 and September 2, 2009 respectively.
- The board approved a 13 million shares treasury share buyback program with the NT\$6.5 billion as the cap of buyback amount lasting to Oct. 2.

2Q09 P&L (UNCONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>2Q 08</u>	<u>1Q 09</u>	<u>2Q 09</u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	34.62	31.59	38.20	20.9%	10.3%
<u>GROSS PROFIT</u>	<u>11.96</u>	<u>9.50</u>	<u>12.24</u>	<u>28.8%</u>	<u>2.3%</u>
<u>RSGA EXPENSE</u>	<u>5.05</u>	<u>4.64</u>	<u>5.28</u>	<u>13.9%</u>	<u>4.6%</u>
NOP	6.91	4.85	6.89	42.3%	-0.3%
NPBT	7.30	5.39	7.11	31.9%	-2.5%
NPAT	6.62	4.87	6.50	33.4%	-1.7%
GPM	34.5%	30.1%	32.0%		
RSGA RATIO	14.6%	14.7%	13.8%		
EPS*(NT\$)	11.54	6.54	8.73 (before ex-rights)		

*The EPS was calculated based on the outstanding shares at the time.

2Q09 P&L (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>2Q 08</u>	<u>1Q 09</u>	<u>2Q 09</u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	34.97	31.41	38.14	21.4%	9.1%
<u>GROSS PROFIT</u>	<u>12.13</u>	<u>9.61</u>	<u>12.05</u>	<u>25.3%</u>	<u>-0.7%</u>
<u>RSGA EXPENSE</u>	<u>5.21</u>	<u>4.59</u>	<u>5.17</u>	<u>12.8%</u>	<u>-0.8%</u>
NOP	6.92	5.03	6.88	36.8%	-0.6%
NPBT	7.39	5.44	7.13	31.2%	-3.4%
NPAT*1	6.62	4.87	6.50	33.4%	-1.7%
GPM	34.7%	30.6%	31.6%		
RSGA RATIO	14.9%	14.6%	13.6%		
EPS*2(NT\$)	11.54	6.54	8.73 (before ex-rights)		

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

*2The EPS was calculated based on the outstanding shares at the time.

2Q09 KEY FINANCIALS (UNCONSOLIDATED)

(NT\$ Billion)	June 30, 08	Mar 31, 09	June 30, 09	QOQ	YOY
CASH*¹	73.24	71.72	68.50	-4.5%	-6.5%
AR	19.28	17.56	29.83	69.9%	54.7%
INVENTORY	5.53	4.64	4.46	-4.0%	-19.4%
NET WORTH	48.86	65.64	56.93* ²	-13.3%	16.5%
INVENTORY PROVISION	1.18	2.35	2.79	19.0%	135.6%
AR PROVISION	0.32	0.75	0.75	0.0%	134.4%
WARRANTY PROVISION	4.60	4.84	5.28	8.9%	14.7%

*¹Includes cash equivalents.

*²After the deduction of cash dividend NT\$20.125bn (NT\$27/per share)

2Q09 KEY FINANCIALS (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>June 30, 08</u>	<u>Mar 31, 09</u>	<u>June 30, 09</u>	<u>QOQ</u>	<u>YOY</u>
CASH*¹	74.65	73.98	70.57	-4.6%	-5.5%
AR	18.97	17.28	29.40	70.1%	55.0%
INVENTORY	6.58	5.78	5.58	-3.5%	-15.1%
NET WORTH*²	48.86	65.64	56.93* ³	-13.3%	16.5%
INVENTORY PROVISION	1.65	2.57	2.98	16.2%	80.5%
AR PROVISION	0.50	0.78	0.79	1.8%	60.0%
WARRANTY PROVISION	4.60	4.85	5.28	9.0%	14.9%

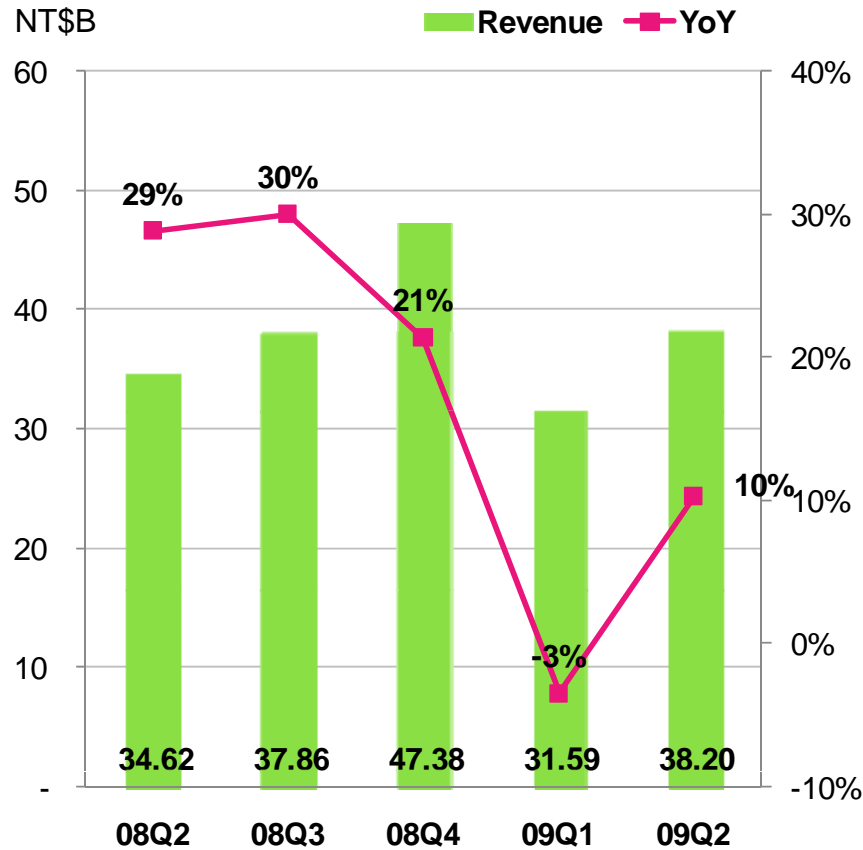
*¹Includes cash equivalents.

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

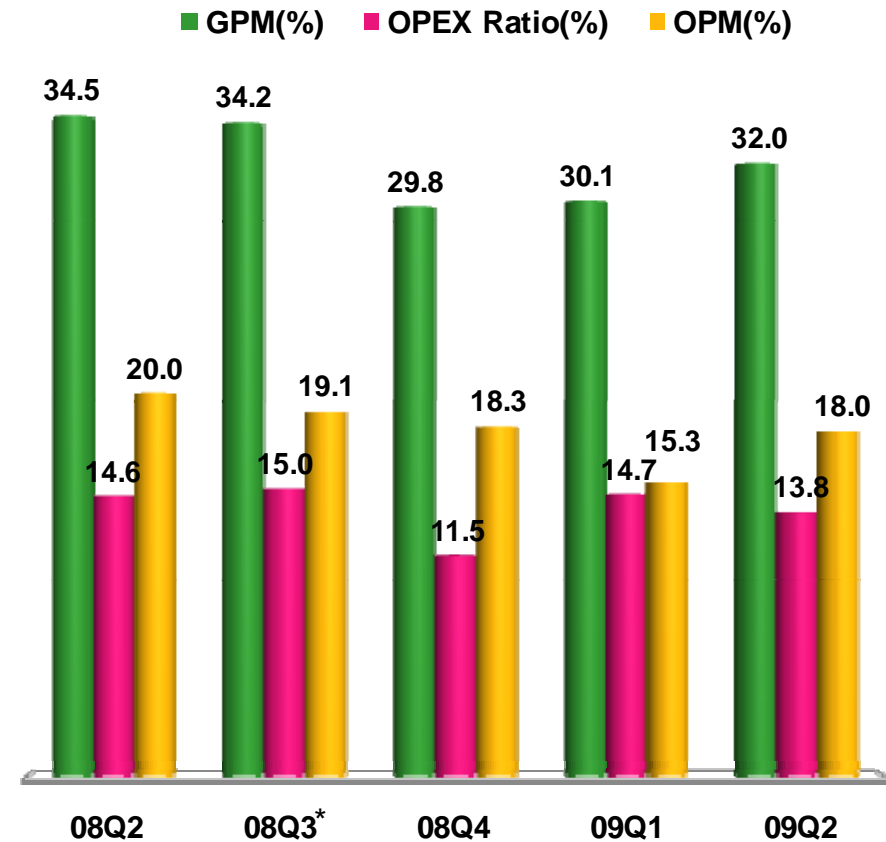
*³After the deduction of cash dividend NT\$20.125bn (NT\$27/per share)

FACT SHEET UPDATES – BUSINESS STATUS

REVENUE



MARGIN

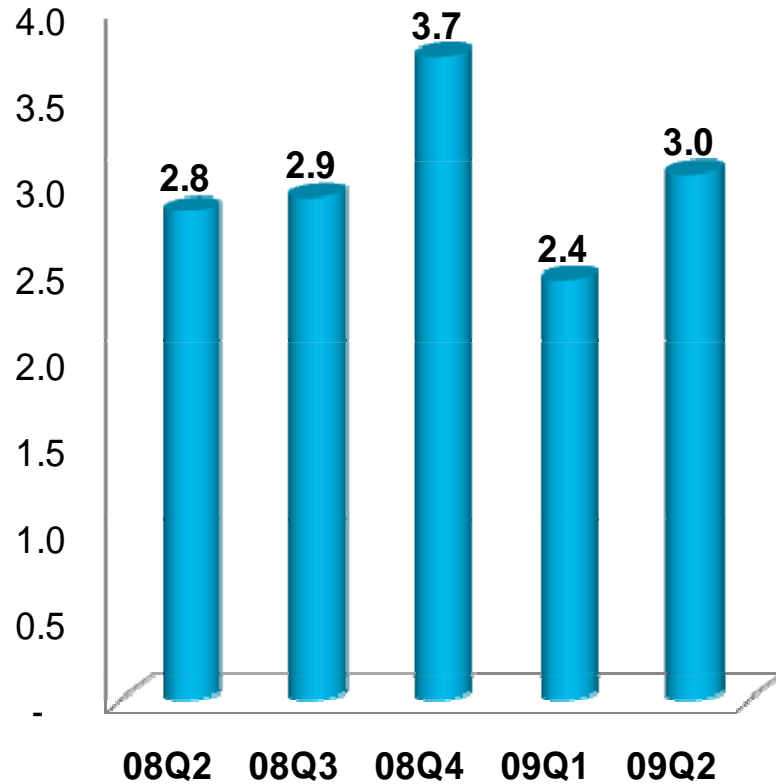


*Excluded 2 adjustments of NT\$0.24 billion for accounting adjustment and PSP expenses in 3Q 08, the adjusted NOP post-bonus is NT\$7.47bil in 3Q whereas OPM post-bonus is 19.7% in 3Q 08.

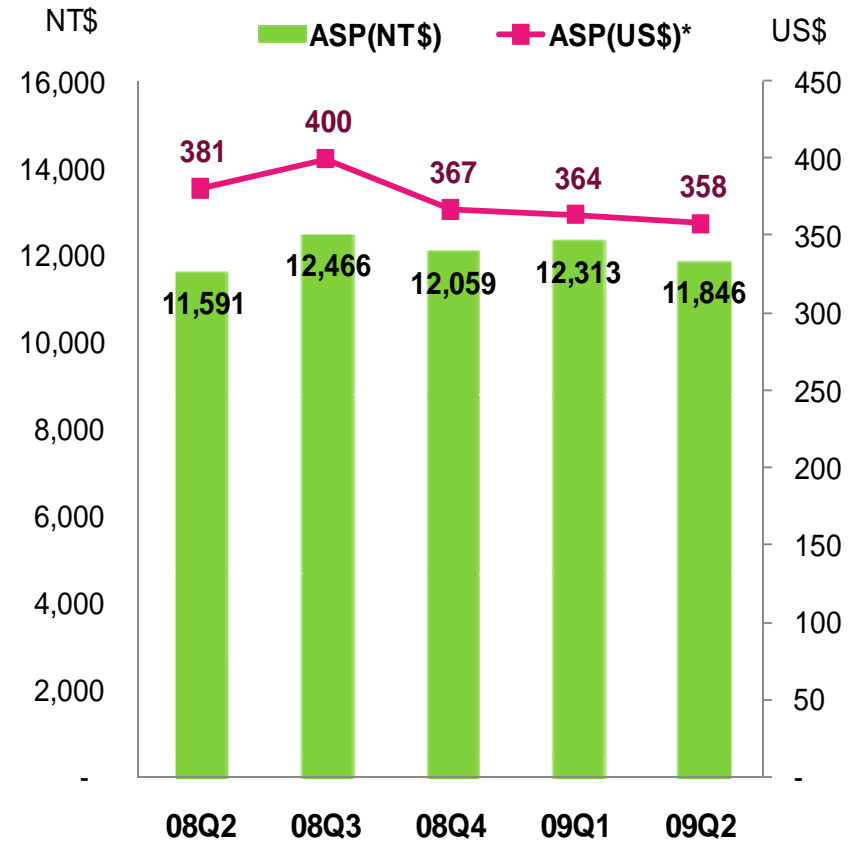
FACT SHEET UPDATES – BUSINESS STATUS

SHIPMENT

Unit: Million



AVERAGE SELLING PRICE



*The ASP(US\$) is translated to the US dollar at average exchange rate for each quarters. The exchange rates for 2Q08 to 2Q09 are 30.43, 31.16, 32.84, 33.85 and 33.08 respectively.

3Q09 BUSINESS OUTLOOK

- 3Q revenue expects to decline mid to high single digit YoY or from NT\$34bn to NT\$36bn.
- Non ODM unit shipment expects to grow mid single digit YoY while the Non ODM ASP will decline more than 10% YoY. ODM revenue expects to drop QoQ.
- GPM expects to be around $32.5\% \pm 0.5\%$.
- OPEX ratio expects to be around $15\% \pm 0.5\%$.

* All the numbers above are based on unconsolidated numbers.

2009 BUSINESS OUTLOOK

- Revenue expects to decline low to mid single digit from the 2008 level, lower than original guided 10% growth.
- Gross margin comes in at upper level of guided range (30%~32%).
- OPEX ratio increased from 13.5% to slightly above 15%, in order to expand marketing campaign on brand awareness.
- Management is taking necessary actions to lift the business momentum in the 4th Q.

* All the numbers above are based on unconsolidated numbers.

FAQs

- Q: Please comment why HTC lowers 2009 revenue guidance?
 - A: The main reason for us to revise down our 2H revenue is OS platform transitional/ramping issues; and also three other reasons : (1). A couple products being delayed from 2H to next year. (2). ODM unit drops faster than expected. (3). Slower than expected China ramp due to lack of 3G infrastructure and operating environment.
 - Management targets to strengthen HTC brand awareness and plan to increase marketing spending in 4Q to launch our phase II brand development with focus on a holistic product rollout strategy which covers sales, marketing, channel and store front.
- Q: How should we foresee margin trend after better than expected 2Q number and 3Q guidance?
 - A: Better than expected YTD gross margin not only clarifies overly concerned pricing pressure but also show our competitiveness on operation efficiency. As mid-tier price smart phone market emerges, we will continue making efforts to improve overall efficiency on engineering, manufacturing, sales/marketing as well as strategic supply chain management.
- Q: Please comment HTC's products strategy as mid-tier price converged device emerging?
 - A: HTC has pioneered smart phone industry and will be leading the trend to drive mid-tier price adoption as industry cycle approaches to ramping stage. We are committed to bring down current converged architecture cost to mid-tier price level, yet maintaining device performance and attractive user experiences.

FAQs

- Q: Please comment impact to HTC when late comers start competing against Android platform?
 - A: We are happy to see more adoption on Android platform from peers because it not only proves our vision, but also likely to reshape the mobile OS landscape to favor HTC positioning. We aim to maintain our leadership position on Android platform by delivering the best system performance, proprietary smooth HTC user experience and operator-friendly customization services.
- Q: What do you expect the shipment volume of Hero, the 3rd Android model?
 - A: Primary purpose of “Hero” launch is to unveil HTC experience “Sense”, we expect present Android portfolio (Magic & Hero) to drive total volume but not Hero along. We aim to deliver HTC “Sense” into our Android portfolio with different IDs and price segments going forward.
- Q: Please comment importance of owning proprietary mobile OS?
 - A: There is certain advantage to vertically owned OS to design converged device, like Apple, but it could be damaging to the smart phone design if proprietary OS can not compete against open OS in scale. We believe WM and Android OS are well positioned and highly ranked in the smart phone industry that it is our best interest to partner/leverage the two OS to our converged device development at this stage.

FAQs

- Q: Please comment upcoming OPEX trend impacted from increasing branding campaign?
 - A: HTC experience has come to another milestone when we launched HTC “Sense”. In order to strengthen our brand awareness beyond global operators, we need to increase marketing budget to channel promotion programs as well as end consumer level advertisement. That is why we raised our 2009 OPEX ratio to slightly above 15% from previous 13.5%.
- Q: Please explain why AR jumped significantly in 2Q09’s result?
 - A: It mainly comes from impact of customer mix shifted toward those who have relatively longer payment term requirements. The AR quality remains healthy and we keep strict credit management policy and take risk mitigation actions such as credit insurance to enhance AR quality.