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PRESENTATION

Operator

Welcome everyone to HTC's 2012 Q4 results conference call and the webcast in English. Today with us we have CFO, Mr. Chialin Chang; and IR Manager, Ms. Christine Chi. All lines have been placed on mute to prevent background noise. After the presentation, there will be a question-and-answer session for investor and analysts. Please follow the instruction given at that time if you would like to ask a question.

For your information, this conference call is now being broadcasted live over the Internet. Webcast replay and English transcript will be available within an hour after the conference is finished. Please visit www.htc.com under the Investor section.

Now, I would like to introduce Ms. Christine Chi, IR Manager. Ms. Chi, you may begin.

Christine Chi - HTC Corporation - IR Manager

Okay. Good morning, good afternoon and good evening, ladies and gentlemen. Welcome to HTC's 2012 fourth quarter analyst call. This is Christine Chi, HTC's manager of Investor Relations.

The event is now being broadcasted live via HTC's website at www.htc.com. If you are joining us through the dial-in line, your call is now being placed on mute. As the conference is being broadcasted to investors around the world, we will conduct this call in English only. The format of today's call will be as follows.

First, I will help to summarize our operation in the fourth quarter of 2012 followed by our guidance for the first quarter of 2013. Afterwards, HTC CFO, Mr. Chialin Chang, will lead the Q&A section.

Before we begin, I would like to draw your attention to the disclaimer statement on page 2. Please note that this presentation contains forward-looking statements. These statements are based on our current expectation. Actual result may differ materially from our expectation and the Company undertakes no obligation to update these forward-looking statements going forward. If you have no questions, I may begin to give overviews of fourth quarter 2012.



Please turn to page 3. On page 3, the revenue for fourth quarter was TWD60 billion, with gross margin of 23% and operating margins of 1%, net profit TWD1 billion, EPS TWD1.21 per share. These were in line with our original expectation.

Business update; throughout the quarter, momentum was seen in Japan and Thailand markets, supported by strengthened brand awareness and the launch of HTC Butterfly. US and China met expectations as we continued to optimize brand considerations and build strong local presence. EMEA showed sequential improvements in broader geographic locations. South Asia's footprint expanded due to the building of new distribution channels and introduction of customized mid-range device to meet market demand.

Page 4, recent announcement and appointment. In November HTC reached a global settlement with Apple resulting in a 10-year licensing agreement and the dismissal of all pending litigations. In December Benjamin Ho, previously the Executive Vice President of Far East Tone Telecommunications, was appointed as Chief Marketing Officer for HTC, charged with -- in-charge of HTC's marketing efforts.

We also engaged a three-year agreement to be official global phone supplier partners of the UEFA Champions League and UEFA European League.

For the high-end product, we tried to drive up the sales momentum. HTC Butterfly was the first quad-core smartphone with 5-inch full HD super LCD display, 9.1 millimeter slim design and eye catching color to draw customers' attention.

Windows Phone 8X and 8S continued to be considered as Windows Phone hero product by Microsoft. And also, with more efforts, we have come out with more affordable smartphones tailored-made to meet local demand in emerging markets.

Page 5, revenue for fourth quarter came in at TWD60 billion; for full year 2012 was TWD289 billion. Operating profit for fourth quarter was TWD0.6 billion; for full year 2012 was TWD18.8 billion.

Page 6, gross and operating margin came in line with the original guidance at 23% and 1% respectively. Page 7 and page 8 were the financial overview for income statement and balance sheet for your own reference.

And page 9, the guidance for first quarter 2013, revenue is expected to be at TWD50 billion to TWD60 billion. Gross margin is expected to be at TWD 21% to 23%. Operating margin is expected to be around 0.5% to 1%.

This wraps up our presentation. Now I will turn the podium to HTC CFO, Mr. Chialin Chang. Moderator, please the Q&A section.

QUESTIONS AND ANSWERS

Operator

We will now begin our question-and-answer session. Kindly leave the time to investor and analysts. For media, please come to HTC PR team after the call if any questions.

(Operator Instructions).

Jasmine Lu, Morgan Stanley.

Jasmine Lu - Morgan Stanley - Analyst

I just want to have two quick questions to clarify your guidance. The first one is on your revenue. So you guide TWD50 billion to TWD60 billion, that imply flat to down 17%. But you also in your presentation, Chi, highlight the driver actually came from the high-end. So can I assume that a sequential decline in Q1, the volume will be bigger than that?



Chialin Chang - *HTC Corporation - CFO*

What's your second question?

Jasmine Lu - *Morgan Stanley - Analyst*

No, I am saying that given the Q1 you mentioned is driven by the high-end, so does that mean that the volume decline will be greater than what you guide on the revenue side?

Chialin Chang - *HTC Corporation - CFO*

No, I understand your first question, but I thought you had two questions. Okay, this is a question that -- I will answer your question. Before I start, first of all, hello, everyone. Thank you for making the time to the call, getting on the call. A Happy New Year to everybody. For those of who celebrated Chinese New Year, Happy Chinese New Year. Hopefully, you will have a few days off to -- with your family there.

Let me answer your question now, Jasmine. First of all, we guided TWD50 billion to TWD60 billion for first quarter. I want to say a few things. One, first quarter continued to be a transition year and we expect the sequential revenue growth into the second quarter. First quarter revenue guided to be lower than the fourth quarter of last year for a few reasons. One, we want to give a range we have a high degree of confidence of achieving it.

This is a very highly dynamic, very competitive, fast-changing industry and we are one of the few industry players who actually guided, sort of providing a future guidance. So we want to provide a range we would feel comfortable about. That's number one.

Number two, first quarter continued to be a transition year before we are seeing a material increase in revenue due to our flagship product for 2013 along with the other products we decided about. So that's why we guided that way.

Third, to answer your question directly here, we did have a few high-end products which are quite popular namely -- one of you -- I think we referred to was the Butterfly, which is sold basically in select regions there in the US basically called the Droid DNA. Because it is only ranged in select region, even though in these region they are actually quite popular, so there is a limitation in revenue contribution.

With that said, we also do have a supply chain we are trying to catch up to meet the demand. Demand continued to be strong. For example, in Taiwan, as you heard about in the press there, we also started out a little bit in that. You can see the press report and also the online report from China which we just launched in January and also select countries in South Asia. That's why we are still seeing the revenue contribution in that regard. So I have just answered those questions here. I don't know if you have any further comment on that.

Jasmine Lu - *Morgan Stanley - Analyst*

Yes, so just wondering because I think compared with last year when you pushed the HTC One series as a flagship model, I think the launch timing, that's just more focused on the second quarter instead of Q1. But I think from the news report, I think most of the people are expecting the new M7 is going to hit the market in March instead. But that's why I am wondering why the volume was dropped despite it's a transition quarter?

Chialin Chang - *HTC Corporation - CFO*

Let me answer you -- let me further comment on this thing here. There will be a lot of speculation in terms of when in fact we will launch, when we actually are going to have a contribution in the revenue from a flagship product, et cetera, et cetera. What we are looking for 2013 for HTC, both internally and we would hopefully encourage the investment community and also press to look at us, is to see if HTC will continue to have a sequential revenue growth quarter after quarter.

I wouldn't just look at it sort of the -- in a very short-term exactly; when we announce the product exactly, when we launch a product exactly, when are we going to have a contribution in quarter one, how much compared to last year. I wouldn't sort of like go into that sort of pitching ourselves into it.

What we can tell you here is we have this year a very exciting product. We feel very strong about this flagship product and we received a very strong feedback from our operator and channel partners, and we are much better in terms of the -- hopefully, you will see that, in terms of market execution, in terms of our overall readiness. So what we aim for here is starting out into the first quarter, into the second quarter and third quarter seeing a sequential revenue growth here. So I wouldn't sort of continue to dig into at how much revenue you are going to have, how much coming from the new product, how much is actually revenue you have coming from the shipment in that compared to last year. I think what we want you to look at is the broader picture for us into 2013.

Jasmine Lu - *Morgan Stanley - Analyst*

Okay, thank you. So here now is my second question. For the margin guidance, 21% to 23%, is that completely reflecting the gross margin for the product or actually is there any other factors?

Chialin Chang - *HTC Corporation - CFO*

Yes, the -- I wouldn't comment on the product mix just because I wouldn't want to comment on anything to sort of steal the thunder in terms of product launch, the announcement and launch. So I will stay away from the sort of the comment on that. The second thing I would say I think something you are getting at is about whether I have provision to talk about it back in fourth quarter last year, yes, we do have some provision in there. Because what we are trying to make sure before the launch of Hero products, before we launch our couple of sort of serious exciting products into 2013 here, we do not want to make -- we want to make sure the channel from us till the end point that is not clogged.

So anything we need to facilitate in channel, making sure it's not clogged, that we make sure in our reserve here. So it's going to be a normal process we will continue to do. So compared to the -- sort of like pure, pure product gross margin perspective versus what we have in the overall gross margin, yes, there will be some difference in there as we guided in the -- in 2012 fourth quarter. Going forward quarter over quarter, we will look at the situation in that quarter. Maybe not just that quarter, also a one quarter to two quarters out, just to see how we look at things. This is something we actually think quite closely.

One thing to add on top of it here, and that's what we want to say here, is looking out in a sequential growth momentum, do we have that into 2013. That, to us, will be quite one gauge. And then associated with that, is how do we make sure that not just with selling products, we will continue to have a very healthy sell-out after we have a new product launched and also including the in-line products.

Jasmine Lu - *Morgan Stanley - Analyst*

Thank you.

Chialin Chang - *HTC Corporation - CFO*

Thank you.

Operator

Arthur Hsieh, UBS.



Arthur Hsieh - UBS - Analyst

My first question is about this margin again. So I am just wondering in terms of the margin, should we expect any kind of potential impact coming from this settlement related new item that we don't know how to model, that probably will cause the potential downside to the expectation? That's the first question.

Chialin Chang - HTC Corporation - CFO

Go ahead, Arthur, on the second question. You have two question, I assume.

Arthur Hsieh - UBS - Analyst

Thank you. Yes, the second question is with regard to OpEx guidance. I think actually last time, Chialin, you mentioned in terms of the quarterly OpEx a reasonable range probably will be in the range of TWD11 billion to TWD14 billion. So I am wondering now with a new Chief Marketing Officer in the position is there any new update on that?

Chialin Chang - HTC Corporation - CFO

Let me answer your second question first. There will not new update. It will stay the same as we guided to the market here. Obviously, very important thing for our marketing campaign and hopefully the people here on the call can now get out of here is our goal in the marketing campaign, not just the budget, obviously the overall market execution, it's very important for us to maintain a always-on campaign. Obviously, the always-on budget will be adjusted quarter over quarter, depends on strategic or tactical need at that quarter. But the guidance we have, that would remain basically the same in that regard. Obviously, marketing budget, which is part of the overall OpEx as we talk about in quarter four.

Let me answer your first question in terms of whether the settlement will have any impact on the slightly lower gross margin compared to quarter four. I will say the following; first of all, given the confidentiality, we are not going to be able to disclose further in terms of the settlement with Apple -- I assume that's what you referred to. This is a very good outcome for both of us and we are very glad that we can all move on to do what we do the best in terms of innovation.

As we said in the announcement, I think it's back in November, it will not have a material impact on our margin or financial condition. I don't know exactly the wording is said, but when we emphasize it will not have a material impact. So the answer to your question here, the slight drop in the gross margin is not due to that.

Arthur Hsieh - UBS - Analyst

Thank you.

Chialin Chang - HTC Corporation - CFO

Thank you, Arthur.

Operator

Pierre Ferragu, Bernstein.

Pierre Ferragu - Bernstein - Analyst

I was wondering how you've changed your operating model so far. So you are like probably 30% or 40% smaller in revenue than what you were a bit more than a year ago. Have you made the choices in terms of to be more produced on more specific markets? Will you continue to try and expand your distribution? And then in terms of money spend from marketing and channelling in 2013, what are the major difference we should expect in the way you spend money to push your products in 2013 compared to the previous years? Thank you.

Chialin Chang - HTC Corporation - CFO

Thank you, Pierre. I didn't quite get your question. I'm just going to repeat it and see if this is what you are asking exactly. You are talking about what's our view into 2013, how we will sort of expand geographically and also the different channel versus operator, how we will do differently versus 2012 and how we allocate our resources, is that your question?

Pierre Ferragu - Bernstein - Analyst

Yes, exactly. So in terms of channels and also perhaps in terms of geographic, are you getting more -- concentrating on more specific markets or do you want to continue to expand your reach?

Chialin Chang - HTC Corporation - CFO

Yes. To us -- I think this is a good question. This is also one of the things I would like to report to people on the call here. To us, 2013 is very important, not just for the industry players, it is also very important for HTC. What we are going to do, I wouldn't say differently, just continue to strengthen over 2012 period is we are focusing a lot in those developed markets and also emerging markets. We are deepening some of the regions there in terms of channels and in terms of the operators front.

Actually, let me define this way here. When you look at channels here, I think you probably assume is actually retails, in the retail market primarily coming from the emerging market. But there are certain key emerging markets which is going to have a very strong gross momentum and also the volume. For obvious reason, we are very heavy in that in terms not just the channel development, and also working with the operators there and also our entire sales infrastructure there.

In the operator channel part here, it's not just the operator itself and also the -- in certain markets, for example they sell not the naked phone but they sell the contracted phones, i.e., phone along with the contract here. We are focusing not just the operators own channel and also the channels selling that kind of contracts. We're very focused on that.

So to summarize in a simple term here, we are deepening some of the select very key markets. I think if you look at HTC internally, they are probably that top 15 to 20 markets that we exercise. Among them, actually, quite of them, we actually are putting even more resources in there in terms of the overall sales resource and investment resource in there.

In terms of marketing resource in that, it's very important we do a slightly different comparison to 2012 here. In addition working with the partners joint -- by joint marketing, we focus a lot to make sure that we have done enough campaign and marketing execution to create a kind of, in the end, strong brand preference and also the end market pool. That to us is important. So that's sort of, I will say, differentiate a little bit from what we did in 2012.

So I'll just pause here. Any more questions you are having?

Pierre Ferragu - Bernstein - Analyst

Thank you, Chialin Chang.



Chialin Chang - HTC Corporation - CFO

Thank you.

Operator

Richard Kramer, Arete Research.

Richard Kramer - Arete Research - Analyst

This may sound like a very basic question but I have several, maybe I'll start with the first one. Can you walk through what's driving the change in gross margin? Is it that HTC has been adjusting its product pricing, is it that it's very difficult to reduce the [bam] cost further given the high-end specs you need to deliver? Is it the lack of brand premium and what might help to reverse that slide in gross margins over the course of the year?

Chialin Chang - HTC Corporation - CFO

Richard, to answer your question, this is obviously not a very basic question of course. As always, your question never basic, so it is pretty sophisticated. Let me answer it this way here. Our goal in 2013 is to make sure that we could -- we're not trying to optimize the gross margin. We're trying to optimize gross profit, and optimizing gross profit you're going to have to optimize your volume.

Obviously, there is a product shipment perspective here. In that process, and my personal view here is, once you optimize your gross profit your gross margin cannot be too far off. It may be a few percentage off in terms of where you like to be but it may not be too far off. So the answer to your question here is we are optimizing the gross profit and that will come from the overall volume and also the overall mix in there. In that regard, hopefully, will gross margin will fall in a place which we feel comfortable.

We don't believe that we are facing limitation in terms of the working with the supplier. We always think that we work with supplier in a win-win outcome in which we benefit and also supplier benefit in the long-term as well. So we don't think there is a difference compared to 2012, but in terms of gross margin and gross profit, I just answered you.

Richard Kramer - Arete Research - Analyst

Okay. And a second question sort of very much about the culture of HTC and the target for the full year, can you talk a bit more about the balance between market share and profit? HTC top management had traditionally insisted on preserving brand premium, making best-in-class products and kind of avoiding what's become a very large portion of the market at the mid-range and very low-end, even below your sort of Wildfire range. Is that still the case? Have you rethought that especially given your comments about going after some top 15 to 20 markets which might not be the obvious ones and maybe more in emerging markets?

Chialin Chang - HTC Corporation - CFO

To answer your question directly here, our -- and it's actually quite consistent from what we had in the past and maybe it was not properly understood. So let me try to answer it this way here. We need to continue to have a very strong presence in the high-end because it's very important for HTC to be seen a very high-end premium brand. Operators see us doing that, operators want us doing that. The channel partners also want us doing that. And once you have that, you can expand your product portfolio, making sure you actually capture enough the market share.



So what we are going to do here is similar along the vein there. We need to have a strong presence, even more so in 2013 compared to 2012. And that will be important not just a Hero brand to maintain that kind of healthy dynamics with the top brand players and also important for us to continue to build the brand.

With that said, we are going to be very full active in terms of pursuing the market opportunity, catering into the price band, which we think is important. Because we recognize in some of the emerging markets, like you referred to, some of the low-end product here it's important for, one, people transition from feature phone to smartphone, second, some of the retails they want to just range in low-end because it's easier to sell. So it will be easier for us to create the kind border covering that. So for all those reasons here, we will fit into -- fit products into that needs in there and hopefully as we progress, people user will migrate what they use and continue to upgrade their phone in that regard.

So to summarize what I said here is, we are going to go after market share. Going after market share doesn't mean that we are going to sacrifice greatly the profitability. We don't believe that to actually contradict each other here. We still believe that it could be overall a consistent balance in that regard.

Richard Kramer - Arete Research - Analyst

Okay. And one other sort of fairly simple sort of clarification question. HTC used to give the unit volume numbers on a quarterly basis and you stopped doing so ostensibly because of the Apple dispute. We know that these numbers will be in the annual report. But will you start giving quarterly units again? And can you talk a little bit about the balance of the portfolio in the 2013 both from sales and overall models between Windows phone and Android, because obviously having two platforms now increases the cost and splits the brands investments but obviously gives you more options?

Chialin Chang - HTC Corporation - CFO

Yes. Let me answer your question in terms of the overall product portfolio, how we look at things here. Is that the question, right? What's the other part of it you want to ask, overall --?

Richard Kramer - Arete Research - Analyst

Well, and will you start giving us quarterly unit volumes again?

Chialin Chang - HTC Corporation - CFO

Right. Let me talk about our sort of strategy in terms of product portfolio and also specifically on the Window versus the Android. We would have a, I would say -- will continue to say we have a very strong product portfolio. But we actually have -- if I look at myself, looking at the entire 2012 product portfolio here, we feel pretty optimistic, even more so compared to 2012. Let me answer you in a few ways here.

One, in addition to a traditional developed market, the high-end market here, we traditionally have a very good product ranging in that. We will have a, using China as a start, a very good product portfolio, and what we learned and what we observed and we have experienced in the last few months here is some of these product portfolio actually work quite well in the other emerging markets.

So one product so well in certain big emerging markets, especially highly competitive emerging markets, tend to work well in the other emerging market, simply because you are coming out with the right product and the right time. So we are going to have a kind of optimal and balanced product portfolio to fit our overall ambition in terms of geographic emphasis in that regard. So I will say about our overall product portfolio into the entire 2013. Obviously, we certainly hope our announcement and the start of the launch of our Hero product will carry the rest of the product, either as a new product also in my product along with that and create the overall Hero effect.



Coming into the second question between Microsoft and Android, one of the HTC strength is our engineering effectiveness, efficiency and the overall quickness. And we believe that fit us well to work with these two platforms in terms of Android and Microsoft. And we can see Microsoft did a very strong campaign in fourth quarter of last year. Well, we continue to work with Microsoft and also with Android camp here is to have that kind of balance for ourselves. To us, it's to optimize the overall volume shipment and also hopefully to optimize the gross profit.

Specifically with the Microsoft, well, we continue to work with Microsoft from fourth quarter last year is adding on top of it -- we will continue to add into more HTC-specific differentiated feature and story which consumer really desire. We can add into the Microsoft platform, into the devices, which we believe will make the whole camp and also HTC and also both Microsoft as well benefitting even more.

In terms of your question about the shipment in there, I would say the following. One, in our annual report for 2012 you will see our entire 2012 overall shipments. And going into 2013, I personally have gone through quite a few companies transcripts and we understand there is always a balance. There is something else, a learning, coming in the past job -- in the past market versus in the industry here. We are trying to strike the right balance. What I would say here is we are gradually -- we will do better in terms of the disclosure in that regard. But we are always cognizant in terms of the -- on how we sort of tactically play the dynamics versus the disclosing to the investor community.

To be very honest with you, we're also looking at the competitive intelligence from the public available sources here. Whatever information we have is actually for us to adjust our tactical move here. So I would think the same from our competitors. So we always try to strike the right balance in that. And I have gone through other vendors, their transcript in that. So we are moving into a more optimal industry standard in that. So, hopefully, we would -- I would request you some patience here about moving in that direction.

Richard Kramer - *Arete Research - Analyst*

Okay, thank you.

Chialin Chang - *HTC Corporation - CFO*

Thank you, Richard.

Operator

James Faucette, Pacific Crest.

James Faucette - *Pacific Crest - Analyst*

I had two questions. I'm wondering if you can comment on your state of inventory and the channel. And I think you mentioned that you expect to draw down your inventory during the first quarter ahead of new product launches. And can you talk about the level of the inventory that you see generally among all of the handset makers coming into the new year?

My second question is related to pricing, and can you just talk about what you are seeing in terms of pricing pressure from competitors and how you expect that to develop during 2013? Thank you.

Chialin Chang - *HTC Corporation - CFO*

Thank you. Let me answer your first question first. In terms of the overall industry inventory, channel inventory, I would not be able to comment on that. I don't know -- I don't have the knowledge strong enough to comment on the overall channel inventory.



In terms of our own channel inventory and the overall health of the channel for HTC here, I want to just emphasize we want to make sure there is nothing clogged in the channel in quarter one. And I do not say that our implied -- sale implied that. Our quarter one currently we are trying to sell in the channel. There's something wrong in the channel here. What I can see today looking into the coming weeks and months, I do not see what we had back in 2012 in terms of taking a one-time impairment, we do not see that. Of course, like I said, in fourth quarter last year, we are trying to take a lot more prudent approach in terms of making sure -- put aside something to facilitate if there's some things that need to move, we'll remove. That's number one I would say.

To answer your second question in terms of pricing pressure, there's always pricing pressure all the time, everywhere. So this is basically the industry we live with and it just happened to a lot of industry as well. To getting into more granular color in that, in the high-end, obviously for consumer that are buying that kind of high-priced products here, in addition to small change in pricing what consumers really wanted to see is are we providing consumer a "wow" devices in terms of not just the hardware, in terms of not just the premium design, but the entire overall consumer experience which we think is important. So maybe that, a small change in pricing, will not have a not huge impact.

But when you're getting into a mid-end or going below mid-end here, the pricing pressure will be a lot more important. And obviously, for us, we are pretty vigilant about that and especially in some of the emerging markets. And then that, we call it a tactical move, when we need to make a tactical move to get into the optimal "wow" in revenue and gross margin, we will do that.

James Faucette - *Pacific Crest - Analyst*

That's great. Thank you.

Chialin Chang - *HTC Corporation - CFO*

Thank you.

Operator

(Operator Instructions).

[Sean Louie, FTJI].

Sean Louie - *FTJI - Analyst*

I have a couple of questions for you.

Chialin Chang - *HTC Corporation - CFO*

Sure.

Sean Louie - *FTJI - Analyst*

Okay, great. First question is everyone is concentrating on Android phone but I'm really not interested in Android. I'm interested in Windows. I would like to hear your views. Say, in a couple of quarter's time, if you are selling more Windows phones versus Android, will your margins be better under that circumstance?



Chialin Chang - HTC Corporation - CFO

I wouldn't -- I will actually comment on -- I'll make two points to your question because the first point I mentioned, I'm not sure if the audience got my point, which I think is important. For us to sell more Windows phones, it's important -- just like what everybody is telling the Android platform-based phone, there got to be some differentiation; the kind of differentiation in the hardware, design, user interface, key selling story in that. For us to sell more Windows phones, what we think is important is for HTC to embed a kind of HTC unique story in that regard, in the coming months here. Hopefully the consumer and people on the call here would feel what I said.

Second, in terms of the margin impact, I personally do not, given that we only launched the 8X and the 8S model here compared to quite a few more models in terms of the -- with the Android product, I did not see a sort of big step difference in terms of margin profile for Windows phones versus the Android phone. So it will be very hard for me to comment on that if you have more Windows phone the market share would be -- the market share would go in the direction.

Sean Louie - FTJI - Analyst

Okay, I understand. I'm trying to figure out if part of your strategy is to really push the Windows side of your business, because it would appear to me that -- you look at carriers in the US and you look at carriers in the EU, there is basically only two players in Windows. There is you and Nokia. So I know that market share is very small right now, but should Microsoft push it and perhaps you guys and Nokia as well, there is an opportunity there to gain more market share. So -- and my question actually was kind of is a strategy of yours to push the Windows side of your business in 2013 perhaps more than the Android?

Chialin Chang - HTC Corporation - CFO

Right. We -- I want you to know that what I said in the first point is actually quite important. We are not pushing one platform over the other. We believe two platforms could co-exist quite well and that's healthy for the whole industry as well.

We believe we can sell more Windows phones if we have more HTC story in that, which we are working quite closely with Microsoft. So with that we believe we can increase our overall shipment in terms of the HTC, Microsoft-based product here. In terms of how would that translate into -- in terms of the percentage of shipment versus overall HTC shipment or revenue or profit, I will not be able to say that. Because even though -- I don't know. What we hope is to also have a strong growth in the Android platform-based HTC phones. And eventually, if that kind of breakdown is similar to industry breakdown, so be it. If breakdown is actually higher in Microsoft, so be it. I think that's always good either way for us. To us, it's overall volume for the entire HTC phone. We are -- I do know we are fighting on -- we are firing on all cylinders in terms of geographic -- in terms of the geographic emphasis, in terms of the product portfolio and also the overall marketing execution.

Sean Louie - FTJI - Analyst

Okay. That's very clear. May I just ask one quick question, one other quick question?

Chialin Chang - HTC Corporation - CFO

Sure.

Sean Louie - FTJI - Analyst

Okay. You have quite a lot of assets, hard assets on your balance sheet and you've been accumulating machinery and equipment now over the past couple of years. I guess you placed those orders when times were perhaps a little bit better. My question now is looking forward into 2013,

are you going to see perhaps a return to being an ODM where you take orders for other companies or are we going to see some cuts to staff and perhaps a shedding of those assets?

Chialin Chang - HTC Corporation - CFO

What part of the assets are you talking about?

Sean Louie - FTJI - Analyst

The assets which was -- your assets, for example, building and structures, machinery and equipment. I noticed that you have -- for the past couple of years you've been accumulating machinery and equipment on to your balance sheets and I've been to your sites and --

Chialin Chang - HTC Corporation - CFO

Yes. So what are you referring to? You're referring we are going to transition to -- and your related question in taking orders for OEM basis, what exactly is your question? I believe you're not just referring to the hard asset, you're referring to more sort of strategic part of it.

Sean Louie - FTJI - Analyst

Yes, I guess so. Because over the -- if you are looking at the quarterly run rate for this year, your SG&A has remained actually pretty high even when your sales come down. So I'm wondering if there is -- if perhaps you're looking to actually cut that this year. And my guess is that might come out of the production side of your business, and if not, as you were an ODM before, would you be perhaps strategically open to the opportunity of looking at fulfilling ODM business once again?

Chialin Chang - HTC Corporation - CFO

Right. You're referring to the question I thought you were trying to ask. Let me answer your question in two points. One, HTC is a branded Company. We have a long way to go. But this is a 6-7 years branded Company. We are very happy in certain very high-end market and even certain emerging market. People very in favor of HTC brand. This brand will continue. The product we ship will be HTC brand. This is very important. This will not change. Otherwise all the marketing resources and all the efforts from the entire HTC employee and all the stake holders are not put into the optimal use. That's number one.

Number two, with that said, manufacturing is a very key part of HTC. Because having that we are able to have a very smooth integration between R&D and the pilot into the manufacturing to have the right product readiness in terms not just the overall quality, overall product readiness and the entire design process. So that to us is an important, for those two points here.

Are we going to work with any other partner to have very unique innovative business model? We may from time to time in that. And any interesting thing to create shareholder values, we would do that. And that is very important that HTC brand will continue to be there prominently, which is very important. So I want to answer it and emphasis in those two points.

Sean Louie - FTJI - Analyst

Thank you very much.



Chialin Chang - HTC Corporation - CFO

Thanks.

Operator

Alvin Kuo, Jih Sun Securities Investment Consulting.

Alvin Kuo - Jih Sun Securities Investment Consulting - Analyst

Thanks for taking my question. My first question is regarding the -- for the brand strategy, because from the [PC] brand competition point of view Samsung, Apple and Lenovo, Sony, LG, they all have presence from different screen size, no matter six, five below, over six or seven or even higher. Will we limit ourselves just below five or will we have presence from six or seven or even higher screen size is my first question?

Chialin Chang - HTC Corporation - CFO

To answer your question, we will not limit ourselves to below five, I'll just comment on here, and then we will have more exciting product line up in the coming months you would see.

Alvin Kuo - Jih Sun Securities Investment Consulting - Analyst

Thanks. And the second question is regarding for China strategy because China is so important market for everybody. Could you just shed some light for the pricing or product or even marketing where we differentiate ourselves from China like -- or any other clue for us?

Chialin Chang - HTC Corporation - CFO

So let me -- let me answer you and I know it's going to be one of the people answering our China strategy. We spent a lot of resources and the time and the senior executives the last year in terms of how we continue to develop the China market. China market to us is a market we should be quite familiar with, even the Greater China region here. This is something we consider as part of our home market that we want to do well. And the few things we'll need to do right which we are doing, one, the brand. Why is the brand so important? And I'll just tell you about this.

You can go to the market yourself that whatever the HTC product in there is always -- expect the really Hero product, which we are one of the few who can provide that. Anything outside of that, you'll find maybe some of the local brand or other brands who may have similar in terms that simplified hardware spec, but price, material lower than that. But we still enjoy the kind of the demand from consumer. That will be part of its brand and that brand is very important.

We at HTC have the kind of unique mixture in terms of being in the Greater China also very strong in the important developed country with a high-end. That's something we think is important for us to play the China market. So extension of that point is, we are going to continue to work hard in upgrading people so we have even bigger market share in the high-end brand, high-end price brand.

Second, it doesn't mean -- and also just to answer Richard's question here -- it doesn't mean we will only stop there. For example, we are going to have CNY1,999 retail price and above. We are going to go down. But we are not going down all the way to below CNY10,000 -- not CNY10,000, the CNY1,000 yet because we believe there is still room to play from CNY1,999 -- from CNY1,000 to CNY2,000 there is still room. We'll continue to play. If you watch HTC closely, we already having a product, that's a product migration that's priced at around CNY1,500 and which we also enjoy a good demand from consumers. So that is something related, we want to say that. That's number one.



Number two, we are continuously expanding our channel footprint, which is very important. To grow in China you need to expand your channel footprint. And how do we optimize the channel footprint is something operationally we are doing here.

Number three, product portfolio is very important. In my personal view the -- not just the product portfolio of China, it is a highly competitive market here. I may not get it right, but just my personal observation here, the life cycle in China market is probably shorter than the average of the whole industry. It shows this market not only has very high potential, but also very competitive.

So having the right product at the right time is very important, and also how you manage the life cycle of that product or that series of product is also very important. If we could get that right, then you are going to have a very healthy life for that certain product. That, to us, is also very important.

Lastly, but not the least, is working with the -- continue to have a strong partnership with the operators there. And China is also one of the markets here the operator also have a very strong influence in the channel. They will continue in the years to come. So having the right understanding, the partnership, go to the market together, which to us is important. So those are the things we are doing. And we actually have very high hopes for our presence and our effort in China. Hopefully a year from now, we can sort of be happy to what we are going to achieve.

Alvin Kuo - *Jih Sun Securities Investment Consulting - Analyst*

Perfect. Thank you so much.

Chialin Chang - *HTC Corporation - CFO*

Thanks.

Operator

Alvin Kwock, JP Morgan.

Alvin Kwock - *JP Morgan - Analyst*

Thanks for taking my question. I got a couple of them. First of all, could you disclose the 2012 geographical mix for the Company? Thank you.

Chialin Chang - *HTC Corporation - CFO*

2012 what?

Alvin Kwock - *JP Morgan - Analyst*

Geographical mix.

Chialin Chang - *HTC Corporation - CFO*

Geographical mix. I cannot disclose it. If I disclose it, I can disclose it, I would have put in on paper for you to see. And then as I answered Richard's question here, I am trying to migrate into a -- well, recognizing the competitive dynamics in that direction here. But, yes, you guys are going to bear with me on that.



I'll just -- I'll tell you the quarter four. I'll tell you every quarter what we see things in that, which we say -- may not be that explicitly dated. But I'll just say -- and more specific in the quarter four. Quarter four, when we look at the guidance we gave and look at the --at the end of quarter four, what we see in terms of how different regions live up to the guidance given this highly dynamic and fast changing industry here.

Within China and the US and north part of Asia, basically performing in line with what we initially expected when we gave out the guidance. We actually -- our EMEA region actually performing better, improved over third quarter here. My personal view here is the EMEA region hopefully will continue to see the sequential improvement after third quarter.

We do not -- our South Asia -- not the entire South Asia, but I would say the Southeast Asia part of it did not perform up to what we expected. Primarily, it is due to our own, I would say, our own decision in changing that because we are going to work more on developing local sales, local market and making sure we grow the local market to avoid a lot of the cross-border issues.

So that's the part -- we do a lot of rebuilding in terms of working out what's the right channel strategies, what's the right -- who are the right channel partners. That will continue on into the first quarter. So as a result of that, the South Asia revenue did not meet our -- what we initially anticipated. That was sort of made up by the EMEA region. So, hopefully, that's enough color for you to digest.

Alvin Kwock - JP Morgan - Analyst

Okay, that's the color -- if I can just ask lastly, if you just split into emerging market and developed market, do you think emerging market's volume right now is already bigger than developed markets?

Chialin Chang - HTC Corporation - CFO

You say emerging market what?

Alvin Kwock - JP Morgan - Analyst

Emerging market's volume [in rational terms] are already getting big than developing market for the Company?

Chialin Chang - HTC Corporation - CFO

Emerging markets in terms of unit shipments is bigger than the developed market?

Alvin Kwock - JP Morgan - Analyst

Correct.

Chialin Chang - HTC Corporation - CFO

I don't have the exact number in there because simply some of the countries define emerging markets or not. I think the -- if you look at the entire -- sort of globally here, there is select emerging markets outside China we're seeing a material progress. These are one of those sort of large emerging market in that. And the -- I don't have -- that's not how we look at things in terms to separate these countries into emerging market, look at a shipment here and separate these into a developed market and see how much of a volume is in there.

Well, we look at things our internal matrix and that's how incentivise our sales team and build our sales infrastructure is the following way. We look at this Company's -- this country's potential. Look at where we are, look at this country in terms of volume potential in the coming years, how are



we going to play it, how are we going to invest in there, where we think should be the market share, what's the right product mix in there and how we meet the targets, are we progressing in terms of reaching that kind of goal on a quarterly and also annual basis. That's how we look at things here.

Simply the fact that the -- we do not tally in terms of separate out the emerging market volumes versus developed countries volume which is because that's not how we look at things.

However, just to answer your question, I think something you're referring to here, we also recognize in the next two or three years a lot of emerging markets feature phone are going to transition into smartphone and there is a volume (inaudible) in that. Is HTC going to part of it? We certainly want to be part of it here.

So what you will see is emerging market volume will continue to grow but not at the expense of the developing market. We hope the whole two synergies will continue to grow together.

Alvin Kwock - *JP Morgan - Analyst*

Okay. Another question I got is -- one observation that I got of HTC is that I think smartphones, I think they are becoming a less of a technology product and more a consumer product. So the product cycle is getting shorter. First of all, do you agree with this and, second of all, if this is correct, what available strategy are you going to have here? Are you going to start to increase the model number for the full year as compared to the last year or are you going to think about the different model strategy? Thank you.

Chialin Chang - *HTC Corporation - CFO*

You mean the -- what's your second part of the -- the increase of model number?

Alvin Kwock - *JP Morgan - Analyst*

Yes, that right. Because the last couple of years I see there is assets -- the consolidated numbers of models. Do you think HTC would continue to consolidate the number of models or would start to increase the number of model offering?

Chialin Chang - *HTC Corporation - CFO*

I will say the following way. To answer your first question here is we don't see a -- yes, there is some - there maybe to some extent a commonization in terms of the mid-end product or some the low-end product here. But the overall smartphone industry is always a balance of that.

The good thing about it is this industry will continue to feel excited about because there is lot more innovation in that. And hopefully, when we announced the -- our Hero product, when you guys have a chance to see the Hero product here, you would agree with what we said.

The innovation in the design, in the hardware, in the software, in the user interface and also the overall user experience will continue to feel like there's a lot of room to improve and to innovate. So this is a product here got people -- draw people into the smartphone industry. That's number one.

Number two, in terms of product portfolio, it's important to say the following. One, in our Hero product obviously we're are going to have to continue to manage the lifecycle better than we did in 2012. And hopefully, that Hero product will create enough halo effect, carry -- bring along the rest of the product portfolio.



To add on top of that, we are going to do things also tactically. There is opportunity we could benefit consumer and also benefit our shareholder to create that kind of revenue and volume here, we will do that. But not creating the kind of -- a long list of things that sometimes the market may feel like it's confusing. So what we're going to do in terms of our product portfolio, in terms our Hero product, in terms of how we name things, in terms not creating some potential cannibalization among the product here, that's the whole picture we're looking into it here. I hopefully feel like we can do even better in 2013 versus 2012.

Alvin Kwock - *JP Morgan - Analyst*

Thank you, Chialin. Thanks for that.

Chialin Chang - *HTC Corporation - CFO*

Thank you.

Operator

Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

Yes, Chialin, just maybe one other question on your outlook for the cash and the balance sheet. HTC has traditionally paid very extensive dividend and now it's obviously, clearly, a more difficult picture in terms of the resources and the cash that you're likely to generate in the coming year.

Can you talk a little bit about how you might advise the Board on what to do about the dividend going forward and whether this year it's going to be one where we are going to expect to see the cash spent or cash -- negative cash flow because you are investing so heaving in marketing?

Chialin Chang - *HTC Corporation - CFO*

Obviously, if you look at the marketing, look at the -- I'll say it this way here. We want cash flow and also our cash level pretty heavily. Anything that should have been turned into cash, we drive on that. That's number one. Number two, in terms of the cash level and also how much is being paid out in the past year. I will not be able to give you a comment on the call here, as I have talked to some of the investors here. It will be more clear into the -- probably next earning call here it will be quite clear in terms of how we see things here.

Well, obviously, there is a preliminary discussion in that with the Board, with the top management team in that regard. To us it's a balance of strategic need versus the -- how we understand the different industry dynamics and rewarding shareholder. There is always a balance in that.

We also take reference in terms of how the other players are doing in the similar or in the broader hi-tech industry. So all these are taken into the account here. I understand I did not give you a specific answer in that, yes, because you have to wait until probably next earning call. But, yes, we are in discussion. All I can tell you here, we are watching the cash flow and also cash level very carefully.

The good thing about it is we have very strong balance sheet and we have no debt. If we want to get a bank facility, it's pretty straightforward to us to get. But for us managing cash level is still something we think is quite important.

Richard Kramer - *Arete Research - Analyst*

Okay, thank you.



Chialin Chang - HTC Corporation - CFO

Thanks, Richard.

Operator

We have currently no question in line. I will pass the call back to CFO, Mr. Chialin Chang, for closing remarks. Mr. Chang, please begin.

Chialin Chang - HTC Corporation - CFO

If there is no more question here, thank you everybody for getting on the call. Again, for those who celebrate Chinese New Year, Happy Chinese New Year. I will just end the note by saying that I appreciate all the people in the investment community and all the investors and also our friends in the press.

What we are looking at here, getting into 2013 here is, how do we get a sequential revenue momentum. That something to us is quite important. We understand we did not provide very specific things in terms of some of the makes where we are going to have new products, the contribution, et cetera, because for the competitive reasons here, we are trying to be prudent in that.

But one thing we just want to end the note here is, this is something we monitor quite closely here. We want to have a continued quarterly momentum, unlike what we -- what happened to us back in 2012. So that something to us is very important. Thank you everyone.

Operator

Thank you for your participation in HTC's conference. There will be a webcast replay within an hour. Please visit www.htc.com under the Investor section. You may now disconnect. Goodbye.

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