

Slight shortfall for 3Q

Maintain Neutral for now

HTC today reported its Sep. revenue and self-assessed 3Q08 results, both of which came in slightly below market expectations. We reiterate our Neutral rating and will review our key assumptions in light of RIMM's recent downward margin revisions and HTC's sharp price correction (-25% in 2M). HTC will host its earnings call on 31 October.

Slight shortfall for 3Q08

Sep. revenue of NT\$13.7bn (+8% MoM and 30% YoY) was below the market's expectation of NT\$14bn. We believe the slight shortfall was due to delayed shipments in late Sep. when typhoons lashed Taiwan. Both PTP/ATP were below our estimate by 7-8% (or NT\$600mn) largely due to lower GPM (in line with company guidance of 34-35% but below our estimate of 35.5%, up 90bp QoQ) and FX loss (euro weakening against US\$).

Targets unchanged for 2008

HTC reiterates its target to achieve revenue in the high end of 20-30% YoY for 2008 despite the shortfall in September. Management said this is doable as pricing and competition remain stable. We expect 4Q08 revenue to grow 30% QoQ to NT\$49bn (26% YoY vs 32% YTD) but think GPM should decline due to higher weighting on ODMs/G1.

Revisit outlook for products and pricing

We will re-examine our key assumptions (ie, 23% revenue growth and flat OPM) once we have better visibility on HTC's product line-up for 2009, the competitive landscape (models from competitors and pricing), and the ecosystem (Google's role/profitability) for Android (Google-powered) smartphones.

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	25,387	28,941	30,865	37,431	45,604
EPS (Pre Bonus)	33.625	38.332	48.668	59.021	71.908
EPS (Post Bonus)	24.472	28.749	40.881	49.578	60.403
EPS Change (YoY)	118.0%	17.5%	42.2%	21.3%	21.8%
Dividend / Share	20.49	25.80	30.36	37.95	45.54
Free Cash Flow / Share	31.63	51.10	32.12	37.96	64.95

* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	16.90x	14.38x	10.11x	8.34x	6.85x
Dividend Yield	4.96%	6.24%	7.34%	9.18%	11.01%
Free Cash Flow Yield*	7.65%	12.36%	7.77%	9.18%	15.71%
Price/Book Value	7	6	5	4	4

* For full definitions of *iQmethod*SM measures, see page 7.



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Stock Data

Price	NT\$413.50
Price Objective	NT\$585.00
Date Established	24-Sep-2008
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	NT\$380.77-NT\$683.08
Mrkt Val / Shares Out (mn)	US\$9,698 / 755.0
Average Daily Volume	9,261,136
ML Symbol / Exchange	HTCCF / TWO
Bloomberg / Reuters	2498 TT / 2498.TW
ROE (2008E)	51.1%
Net Dbt to Eqty (Dec-2007A)	-98.1%
Est. 5-Yr EPS / DPS Growth	25.0% / 35.0%
Free Float	70.0%



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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

iQprofileSM HTC Corp.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	104,817	118,580	154,427	192,925	237,607
Gross Profit	34,037	45,700	54,071	65,654	80,000
Sell General & Admin Expense	(4,391)	(10,808)	(11,035)	(12,901)	(15,373)
Operating Profit	26,692	31,026	32,778	40,477	49,943
Net Interest & Other Income	406	1,127	1,327	1,580	1,880
Associates	NA	NA	NA	NA	NA
Pretax Income	27,098	32,153	34,105	42,057	51,823
Tax (expense) / Benefit	(1,711)	(3,212)	(3,240)	(4,626)	(6,219)
Net Income (Adjusted)	25,387	28,941	30,865	37,431	45,604
Average Fully Diluted Shares Outstanding	755	755	755	755	755

Key Cash Flow Statement Data

Net Income (Reported)	25,387	28,941	30,865	37,431	45,604
Depreciation & Amortization	632	556	1,853	2,315	2,851
Change in Working Capital	(2,050)	4,243	(3,645)	(5,255)	7,752
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	907	6,041	(3,025)	(3,832)	(4,870)
Cash Flow from Operations	24,876	39,781	26,048	30,660	51,337
Capital Expenditure	(996)	(1,200)	(1,800)	(2,000)	(2,300)
(Acquisition) / Disposal of Investments	45	5	0	0	0
Other Cash Inflow / (Outflow)	44	(50)	0	0	0
Cash Flow from Investing	(907)	(1,245)	(1,800)	(2,000)	(2,300)
Shares Issue / (Repurchase)	(243)	(1,747)	0	0	0
Cost of Dividends Paid	(4,997)	(14,134)	(22,098)	(30,678)	(45,124)
Cash Flow from Financing	(5,241)	(15,881)	(22,098)	(30,678)	(45,124)
Free Cash Flow	23,880	38,581	24,248	28,660	49,037
Net Debt	(34,397)	(55,036)	(57,577)	(55,753)	(60,552)
Change in Net Debt	(18,728)	(22,655)	(2,150)	2,018	(3,913)

Key Balance Sheet Data

Property, Plant & Equipment	2,910	3,717	5,517	7,517	9,817
Other Non-Current Assets	1,273	3,555	4,337	5,660	6,792
Trade Receivables	21,812	21,291	34,124	46,814	46,815
Cash & Equivalents	34,397	55,036	57,577	55,753	60,552
Other Current Assets	5,602	6,845	9,089	10,625	12,984
Total Assets	65,994	90,444	110,644	126,369	136,960
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1	1	1	1	1
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	23,421	34,367	45,799	54,770	64,883
Total Liabilities	23,422	34,368	45,800	54,771	64,884
Total Equity	42,574	56,077	64,844	71,597	72,077
Total Equity & Liabilities	65,996	90,445	110,644	126,368	136,960

iQmethodSM - Bus Performance*

Return On Capital Employed	74.5%	58.1%	51.1%	55.1%	63.7%
Return On Equity	77.4%	58.7%	51.1%	54.9%	63.5%
Operating Margin	25.5%	26.2%	21.2%	21.0%	21.0%
EBITDA Margin	26.1%	26.6%	22.4%	22.2%	22.2%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.0x	1.4x	0.8x	0.8x	1.1x
Asset Replacement Ratio	1.6x	2.2x	1.0x	0.9x	0.8x
Tax Rate (Reported)	6.3%	10.0%	9.5%	11.0%	12.0%
Net Debt-to-Equity Ratio	-80.8%	-98.1%	-88.8%	-77.9%	-84.0%
Interest Cover	NA	NA	NM	NM	NM

Key Metrics

Stock comp. adjusted ROIC	76.3%	50.3%	46.3%	48.7%	53.7%
Stock comp. adjusted ROE	56.5%	44.0%	42.9%	46.1%	53.3%
Stock comp. adjusted EPS	24.47	28.75	40.88	49.58	60.40
Stock comp. adjusted P/E	16.90x	14.38x	10.11x	8.34x	6.85x

* For full definitions of iQmethodSM measures, see page 7.

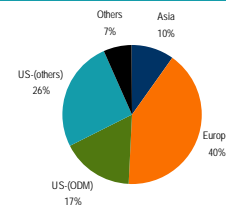
Company Description

HTC is a leading brand for converged devices (PDA and smart phones) in Taiwan. Products are sold under channels and telecom carriers. % of sales from ODMs (ie Palm) dropped to below 10% in 4Q07. HTC generated about 40% of sales each from Europe and America and 20% from the rest of the world.

Investment Thesis

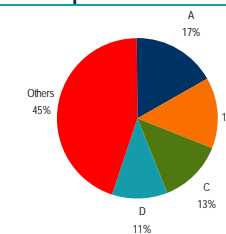
Our investment thesis is based on (1) secular growth for smartphones, (2) HTC's strong product cycle, (3) HTC's rising brand recognition, (4) potential upside from Google projects, (5) less impact from increase in labor costs in China and strength in currency (RMB/TWD), (6) attractive PE/ROE vs global peers, and (7) increase in cash payout.

Chart 1: HTC: Revenue by region, 2007



Source: HTC, Merrill Lynch estimates

Chart 2: HTC: Top customers in 2007



Source: HTC

Stock Data

Price to Book Value

4.8x

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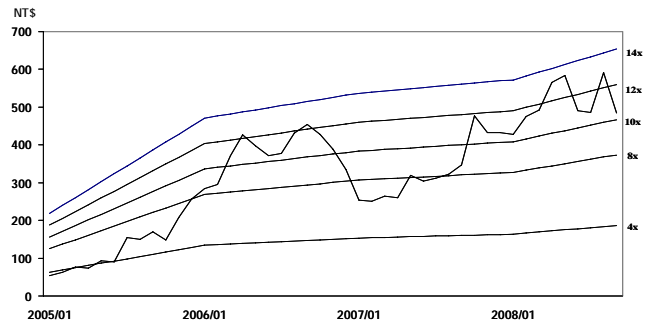
Table 1: HTC: Review of 3Q08 preliminary results

(NT\$m)	Post-bonus							Pre-bonus		
	3Q08P	3Q08E	Diff	2Q08	QoQ	3Q07	YoY	3Q08P	2Q08	QoQ
Sales	37,859	38,049	0%	34,621	9%	29,108	30%	37,859	34,621	9%
Gross Profit		13,507		11,969		11,011			12,100	
Operating Expense		(5,395)		(5,054)		(3,580)			(3,800)	
Operating Profit		8,112		6,915		7,431			8,310	
Non-operating Income		360		380		597			380	
Pre-tax Profit	7,846	8,472	-7%	7,295	8%	8,028	-2%	9,352	8,690	8%
Net Profit	7,071	7,650	-8%	6,615	7%	7,433	-5%	8,414	7,810	8%
EPS (NT\$)	9.37	10.13		8.76		9.84				
Gross Margin		35.5%		34.6%		37.8%				
Opex		-14.2%		-14.6%		-12.3%				
Operating Margin		21.3%		20.0%		25.5%				
Pre-tax Margin	20.7%	22.3%		21.1%		27.6%		24.7%	25.1%	
Net Margin	18.7%	20.1%		19.1%		25.5%		22.2%	22.6%	
Tax Rate	-9.9%	-9.7%		-9.3%		-7.4%		-10.0%	-10.1%	

Source: HTC, Merrill Lynch estimates

Chart 3: QFII holding


Source: TEJ

Chart 4: HTC: P/E bands-update


Source: TEJ, Merrill Lynch estimates

Table 2: Valuation comparison

	ML	ML	Price	Mkt Cap	EPS (Local)		EPG		PER (x)		ROE (%)		Cash	Price
	Symbol	Rating	6-Oct-08	(US\$m)	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E	Yield	YTD
HTC	HTCCF	C-2-7 Neutral	NT\$413.5	10,071	40.88	49.58	7%	21%	10.1	8.3	51%	55%	6%	-4%
Acer	ASIYF	C-1-7 Buy	50.2	4,006	5.60	6.84	11%	22%	9.0	7.3	18%	20%	7%	-14%
Asustek	AKCPF	C-1-7 Buy	57.3	7,848	6.51	7.42	-9%	14%	8.8	7.7	15%	15%	3%	-41%
Hon Hai	HNHAF	C-2-7 Neutral	99.0	23,677	8.91	10.96	-15%	23%	11.1	9.0	16%	18%	3%	-41%
Lenovo	LNVEF	C-2-7 Neutral	HK\$3.4	3,909	0.35	0.39	620%	11%	9.8	8.8	26%	25%	1%	-51%
Dell	DELL	C-1-9 Buy	US\$15.3	32,582	1.14	1.37	-5%	20%	13.4	11.1	61%	74%	0%	-38%
HPQ	HPQ	B-1-7 Buy	43.0	114,165	2.91	3.62	23%	24%	14.8	11.9	21%	29%	1%	-15%
APPLE	AAPL	C-1-9 Buy	97.1	85,871	5.19	5.70	32%	10%	18.7	17.0	27%	25%	0%	-51%
Palm	PALM	C-1-9 Buy	5.9	637	-0.67	-0.48	NM	NM	NM	NM	-10%	-14%	0%	-7%
RIMM	RIMM	C-1-9 Buy	61.0	35,042	2.26	3.61	104%	60%	27.0	16.9	40%	42%	0%	-46%
Nokia	NOK	B-1-7 Buy	17.8	63,667	2.20	2.23	9%	1%	8.1	8.0	41%	44%	4%	-54%
Motorola	MOT	C-1-7 Buy	6.7	15,251	0.06	0.38	-75%	533%	112.0	17.7	1%	5%	3%	-58%

Source: Merrill Lynch estimates

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Table 3: HTC: Quarterly income statement (bonus-adjusted from 1Q08)

(NT\$m)	1Q08A	2Q08A	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E	2010E
Sales	32,703	34,621	38,049	49,054	41,769	43,523	47,658	59,975	118,580	154,427	192,925	237,607
Cost of Sales	(21,001)	(22,652)	(24,542)	(32,162)	(27,425)	(28,652)	(31,492)	(39,701)	(72,880)	(100,357)	(127,270)	(157,607)
Gross Profit	11,702	11,969	13,507	16,893	14,344	14,871	16,166	20,274	45,700	54,071	65,654	80,000
Operating Expense	(4,245)	(5,054)	(5,395)	(6,598)	(5,534)	(5,767)	(6,205)	(7,671)	(14,665)	(21,293)	(25,177)	(30,057)
Promotion	(1,653)	(2,198)	(2,359)	(2,845)	(2,339)	(2,437)	(2,621)	(3,239)	(9,872)	(9,055)	(10,636)	(12,712)
ADM	(422)	(458)	(487)	(613)	(501)	(522)	(558)	(684)	(927)	(1,980)	(2,265)	(2,661)
R&D	(2,171)	(2,398)	(2,549)	(3,139)	(2,694)	(2,807)	(3,026)	(3,748)	(3,866)	(10,258)	(12,276)	(14,684)
Operating Profit	7,456	6,915	8,112	10,295	8,809	9,104	9,961	12,603	31,023	32,778	40,477	49,943
Non-operating Income	199	380	360	388	355	385	405	435	1,128	1,327	1,580	1,880
Net Interest Income	313	395	410	432	400	420	440	470	816	1,550	1,730	2,020
Investment Income	(229)	(66)	(80)	(85)	(75)	(75)	(75)	(75)	104	(460)	(300)	(300)
Disposal Gain									1	0	0	0
Exchange Gain	51	166							658	217	0	0
Others	64	(115)	30	41	30	40	40	40	(452)	20	150	160
Pre-tax Profit	7,655	7,295	8,472	10,683	9,164	9,489	10,366	13,038	32,151	34,105	42,057	51,823
Tax Expense	(710)	(680)	(822)	(1,028)	(1,008)	(1,044)	(1,140)	(1,434)	(3,212)	(3,240)	(4,626)	(6,219)
Net Profit	6,945	6,615	7,650	9,655	8,156	8,445	9,226	11,604	28,939	30,865	37,431	45,604
EPS	9.20	8.76	10.13	12.79	10.80	11.19	12.22	15.37	38.33	40.88	49.58	60.40
Gross Margin	35.8%	34.6%	35.5%	34.4%	34.3%	34.2%	33.9%	33.8%	38.5%	35.0%	34.0%	33.7%
Operating Expense	-13.0%	-14.6%	-14.2%	-13.5%	-13.3%	-13.3%	-13.0%	-12.8%	-12.4%	-13.8%	-13.1%	-12.7%
Operating Margin	22.8%	20.0%	21.3%	21.0%	21.1%	20.9%	20.9%	21.0%	26.2%	21.2%	21.0%	21.0%
Pre-tax Margin	23.4%	21.1%	22.3%	21.8%	21.9%	21.8%	21.8%	21.7%	27.1%	22.1%	21.8%	21.8%
Net Margin	21.2%	19.1%	20.1%	19.7%	19.5%	19.4%	19.4%	19.3%	24.4%	20.0%	19.4%	19.2%
Tax Rate	9.3%	9.3%	9.7%	9.6%	11.0%	11.0%	11.0%	11.0%	10.0%	9.5%	11.0%	12.0%
Sequential Growth												
Sales	-16%	6%	10%	29%	-15%	4%	10%	26%	13%	30%	25%	23%
Cost of Sales	-7%	8%	8%	31%	-15%	4%	10%	26%	3%	38%	27%	24%
Gross Profit	-29%	2%	13%	25%	-15%	4%	9%	25%	34%	18%	21%	22%
Operating Expense	-30%	19%	7%	22%	-16%	4%	8%	24%	100%	45%	18%	19%
Operating Profit	-29%	-7%	17%	27%	-14%	3%	9%	27%	17%	6%	23%	23%
Non-operating Income	-53%	91%	-5%	8%	-9%	8%	5%	7%	178%	18%	19%	19%
Pre-Tax Profit	-30%	-5%	16%	26%	-14%	4%	9%	26%	19%	6%	23%	23%
Tax Expense	-19%	-4%	21%	25%	-2%	4%	9%	26%	88%	1%	43%	34%
Net Profit	-30%	-5%	16%	26%	-16%	4%	9%	26%	15%	7%	21%	22%

Source: Merrill Lynch estimates

Price objective basis & risk

HTC Corp. (HTCCF)

Our price objective of NT\$585 is based on 13x 2008/09E. We believe HTC deserves to trade at a premium to the sector, as it has partially completed its transitions (ie, clientele and brand) and has a huge net cash position (10-15% of market cap). Risks: Execution of model transition to the HTC/Dopod brand, product development, relationship with key customers and competition from leading handset brands, Research in Motion and Apple.

Analyst Certification

I, Tony Tseng, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Largan Precision	LGANF	3008 TT	Laura Chen
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	SSCP CO LTD	SSCPF	071660 KS	Daniel Kim, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho
NEUTRAL				
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Qisda Corp	BNQCF	2352 TT	Jeffrey Su
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Sillitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Unisteel Tech	UNSGF	USTL SP	Ronnie Ho
	Wellypower	XTTWF	3080 TT	Jeffrey Su

06 October 2008

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

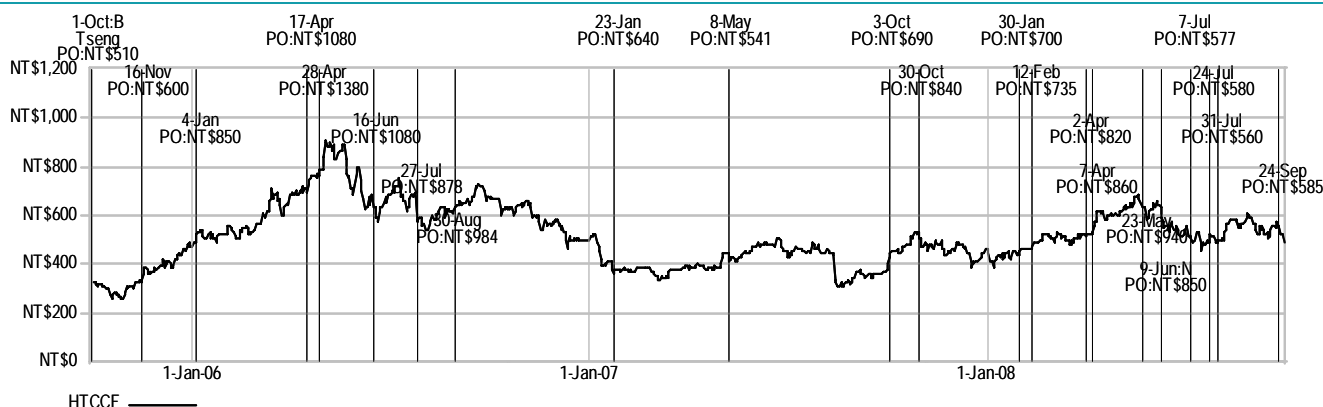
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Important Disclosures

HTCCF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

Investment Rating Distribution: Electronics Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	42	40.00%	Buy	8	20.51%
Neutral	32	30.48%	Neutral	3	11.11%
Sell	31	29.52%	Sell	2	7.41%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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