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PALTEK
(JASDAQ:7587)

Results Explanatory Meeting

Fiscal Year 2004 First Half

2004.8.10 (Tue)

Proprietary to PALTEK CORPORATION

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Safe Harbor Disclaimer

This presentation may provide projections or other forward-looking statements regarding future events and/or future financial performance. We wish to caution you that such statements are just predictions and that actual events or results may differ materially due to changes in the market and/or other business conditions.

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Contents

- Fiscal Year 2004 First Half Results
- Fiscal Year 2004 Projections
- Business Strategy

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Part 1

Fiscal Year 2004 First Half Results

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Business Environment of PALTEK (Summary)

Category		Business Climate	Comments
General Business Trend		Initial state Actual state	The Japanese economy showed the sign of recovery with the growth of consumer spending. Capital spending shows the upward trend.
Applications	Communication (Broadband)		Core network market was sluggish, but broadband related demand showed solid sales.
	Industrial		With the strong recovery of the capital investment, products for industrial equipment show solid sales.
	Consumer		Consumer market was over all favorable, but not all customers enjoyed strong sales.
Customers	Large companies		Business results varied by customer. Some of our major customers showed good business condition.
	Others		Customers in industrial application showed strong sales.

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Summary of FY2004 First Half Results

- Sales increased by 4.7% on a year-over-year basis
  - Sales of PLD solutions increased 3.6% y/y.
  - Sales of analog solution increased 2.7% y/y.
  - Sales of system solution increased 17.3% y/y.
  - Sales amount in Q2 increased 14.3% from the previous quarter.
- Operating profit declined by 26.6% y/y.
  - PLDs were successfully deployed into volume production in many projects earlier than expected , which helped to increase revenue, but negatively affected the profit margin.

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First Half Results (FYE2004:Consolidated)

¥ millions

	FY2004 1st Half Results	FY2003 Previous Forecast (as of 2.13.2004)	Increase/ Decrease Percentage	FY2003 1st Half Results	Increase/ Decrease Percentage
Sales	9,230	9,030	2.2%	8,817	4.7%
Operating Profits	450	492	△8.4%	614	△26.6%
Operating Profits ratio	4.9%	5.4%		7.0%	
Recurring Profits	515	445	15.8%	626	△17.7%
Net Profits	274	221	24.2%	323	△15.2%
EPS	23.20 yen			27.34 yen	
ROA	8.1%			10.6%	
ROE	6.5%			8.1%	

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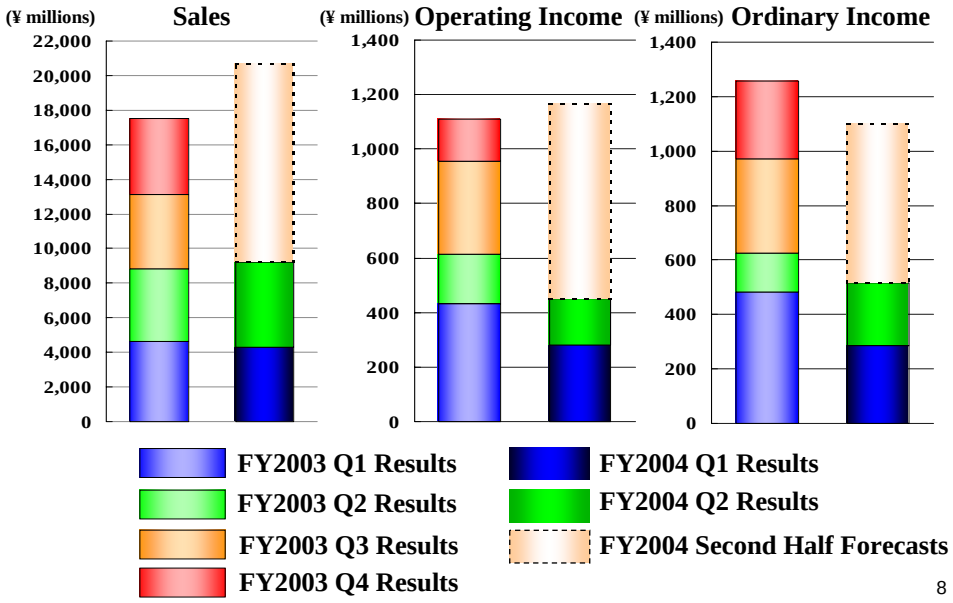
Summary of the First Half in FY2004 (Consolidated)



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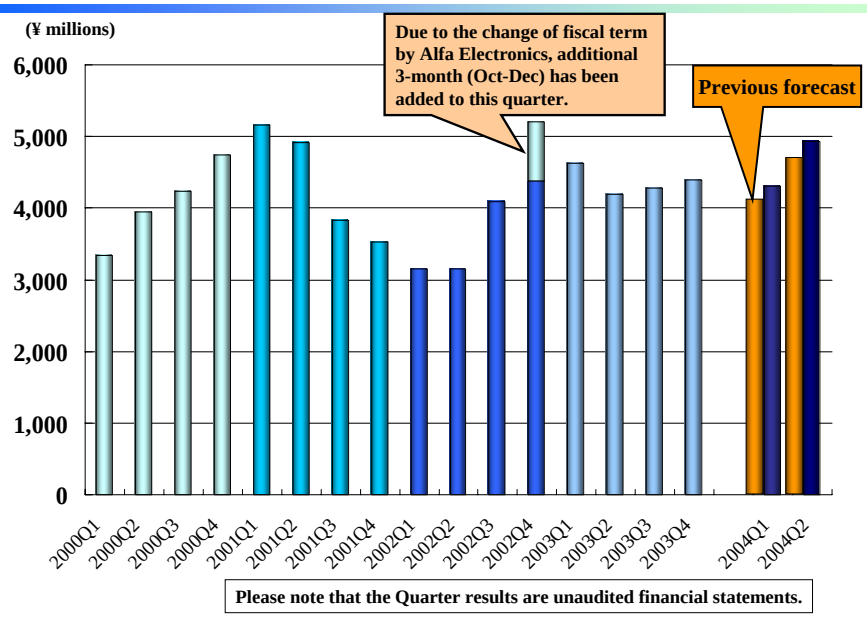
Sales by Quarter (Consolidated)



Please note that the Quarter results are unaudited financial statements.

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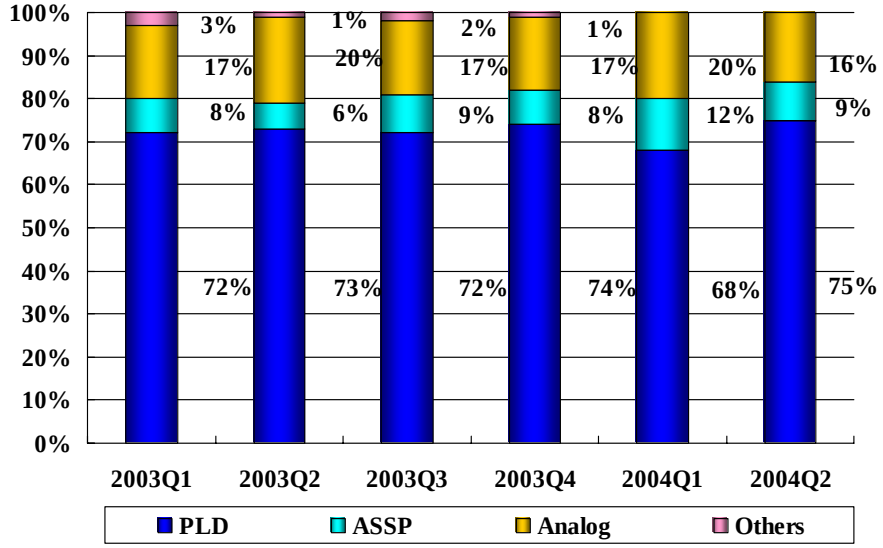
Sales by Products (Consolidated)



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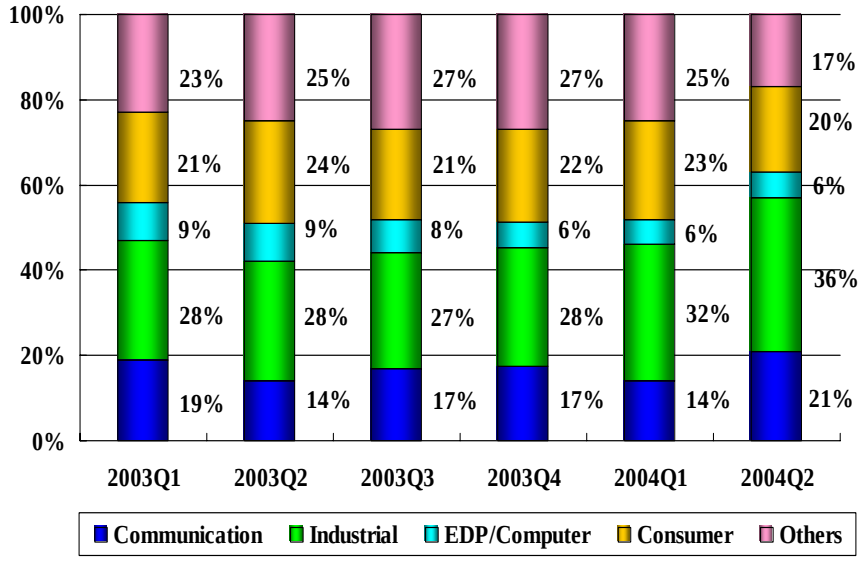
Sales by Applications (Consolidated)



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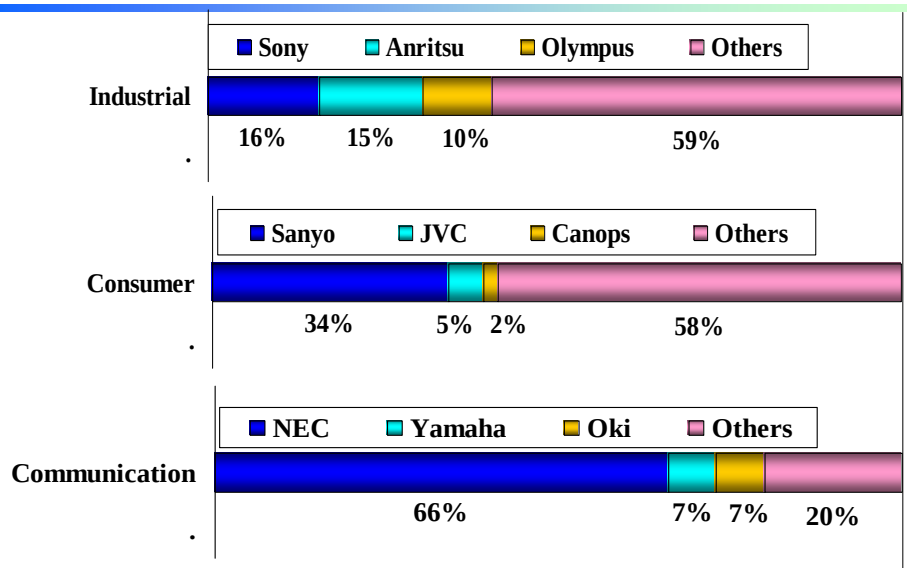
Sales by Applications (Consolidated)



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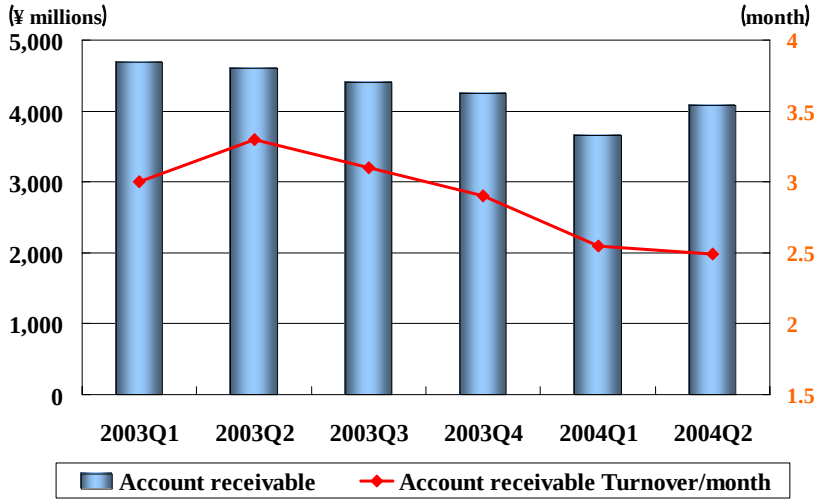
Change of the account receivable (consolidated)

- Account receivable turnover period is shortened by 0.8 month to 2.5 months.



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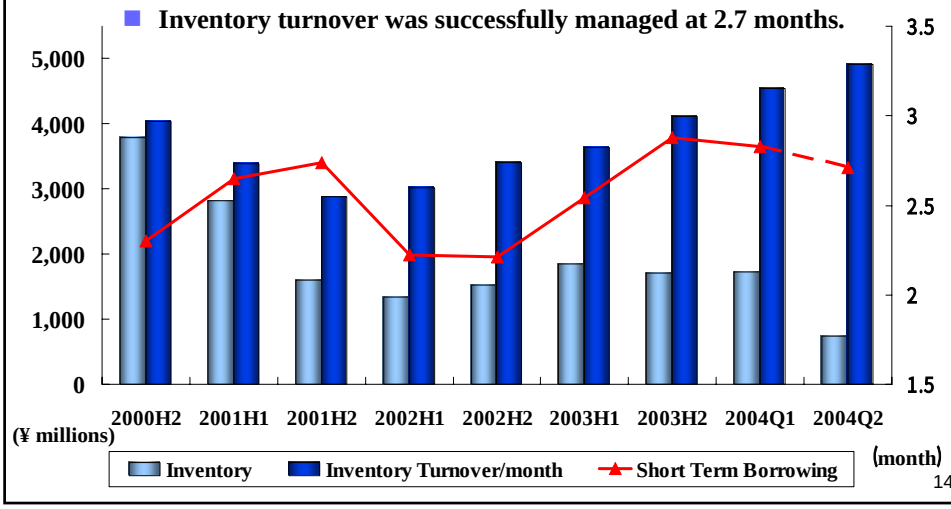
Change of the inventory and debt payable (Consolidated)

- Short-term borrowing is reduced significantly to realize efficient cash flow.
- Inventory is increased to prepare for sales forecast in the latter half of FY2004.
- Inventory turnover was successfully managed at 2.7 months.



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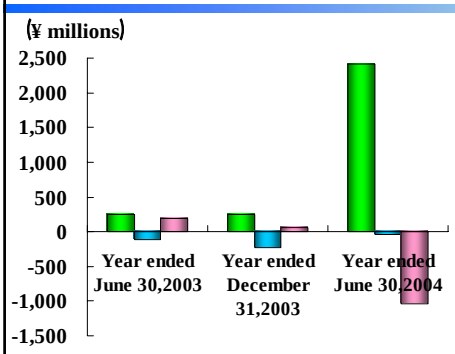
Cash Flow (Consolidated)



[Cash flows from operating activities]

- Pre-tax net income for current period is 500 million yen.
- Temporarily, large positive cash flow was recorded due to procurement action for a large project at H1 end.

[Cash flows from financing activities]

- Cash flow from financing activities recorded negative 1 billion yen by paying back short-term borrowings.

	Year ended June 30,2003	Year ended December 31,2003	Year ended June 30,2004
Cash flows from operating activities	246	249	2,410
(Depreciation cost included in the above account)	(67)	(132)	(57)
Cash flows from investing activities	△118	△230	△39
(Capital investment included in the above account)	(△39)	(△68)	(△27)
Cash flows from financing activities	196	56	△1,040
Net increase in cash and cash equivalents	1,465	1,179	2,510

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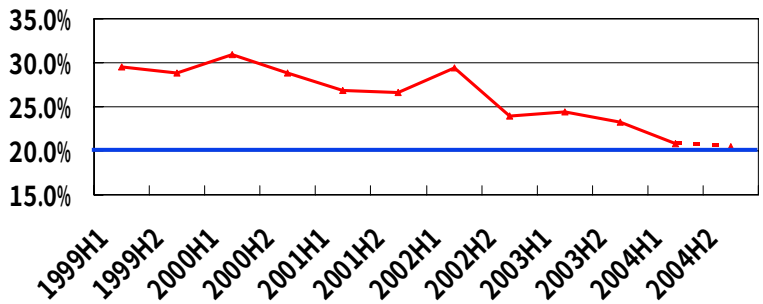
Notable features of the fiscal half-year financial statement(1)～Gross margin rate～

- Gross margin ratio declined faster than expected.
  - PLD is now actively deployed into volume production
- Gross margin is expected to stay at 20% throughout the year.

Change of gross margin rate



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Notable features of the fiscal half-year financial statement(2)～results of each solution～

PLD Solutions

- Sales of PLD solutions increased 3.8% y/y.
- Sales amount in Q2 increased by 25.2% from Q1.
- Strong sales was recorded from industrial applications such as the terrestrial digital broadcasting system, measurement equipment and medical equipment.
- PLD products were adopted into broadband communication equipments earlier than expected.
- Aggressive price strategies are deployed to cultivate into broader application fields.

Analog Solutions

- Sales of analog solutions increased 2.7% y/y.
- Model change timing has prevented more aggressive growth, but kept stable revenue flow.
- Sales promotion in Kanto area started aggressively.

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Notable features of the fiscal half-year financial statement(3)～result of each solution～

System Solutions

- Sales of system solutions increased by 15.4% y/y.
- Solutions for broadband network showed strong sales continuing from last quarter.
  VoIP Solution (Audio Codes Ltd.)
  Broadband router (Brecis Communications)
- Trinity Security Systems deployed gateway products. PALTEK as an exclusive distributor launched the promotion of Trinity's gateways.

- Aggressively promoting NeoMagic's multimedia processor to mobile phone manufacturers targeting mobile TV broadcasting

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Part 2

Fiscal Year 2004 Projections

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Business environment for FY2004 (Summary)

Category		Business climate	Forecast
General Business Trend			Digital consumer products will stay strong and capital investment remains active.
Applications	Communication (Broadband)		Network infrastructure applications remain sluggish while broadband applications enjoy strong investment.
	Industrial		Capital investment is expected to be active until the end of the year.
	Consumer		Digital consumer products such as mobile phones and digital cameras remain strong.
Customers	Large companies		Business performances vary customer to customer. The key factors will depend on applications.
	Others		Industrial applications are expected to remain strong.

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Business Forecast of FY2004 (consolidated)

- **Sales will increase 18.0% y/y.**
  - Sales of PLD solutions will increase by 18% y/y.
  - Sales of analog solution will increase by 13% y/y.
  - Sales of system solution will increase by 25% y/y.
  - Sales is expected to increase by 24% from H1 to H2.
- **Operating profit will increase by 4.8% y/y.**
  - Gross margin will stay at 20% throughout the year
- **Net income for the year will decline by 10.2% from the previous year.**
  - As forecasted

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Year End Projections (FYE2004:consolidated)

¥ millions

	FY 2004 Forecasts	FY2003 Previous Forecast (as of 2.13.2004)	Increase/ Decrease Percentage	FY2003 Results	Increase/ Decrease Percentage
Sales	20,658	20,032	3.1%	17,502	18.0%
Operating Profits	1,165	1,206	△3.4%	1,111	4.8%
Operating Profits ratio	5.6%	6.0%		6.3%	
Recurring Profits	1,099	1,099	0.0%	1,258	△12.6%
Net Profits	568	568	0.0%	632	△10.2%
EPS	47.96 yen	48.00 yen	—	50.65 yen	—

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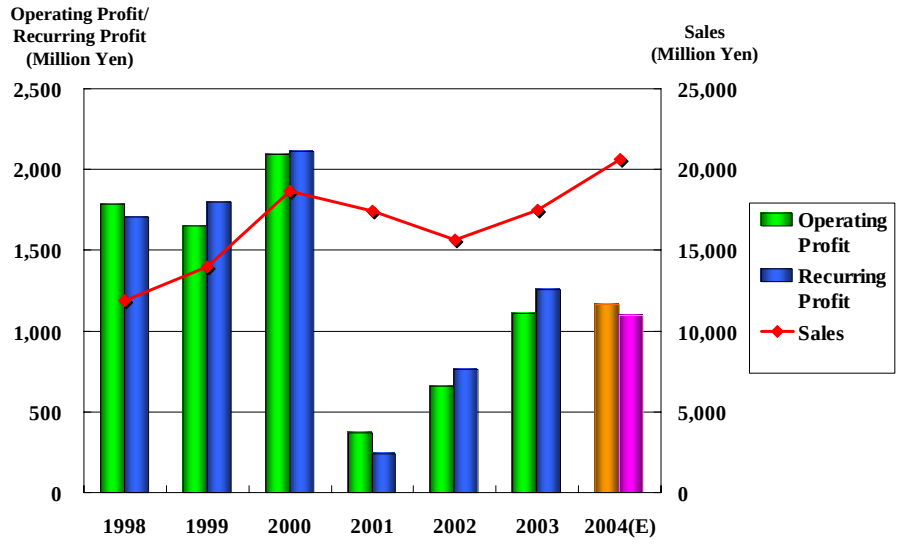
Year-on-Year Growth (consolidated)



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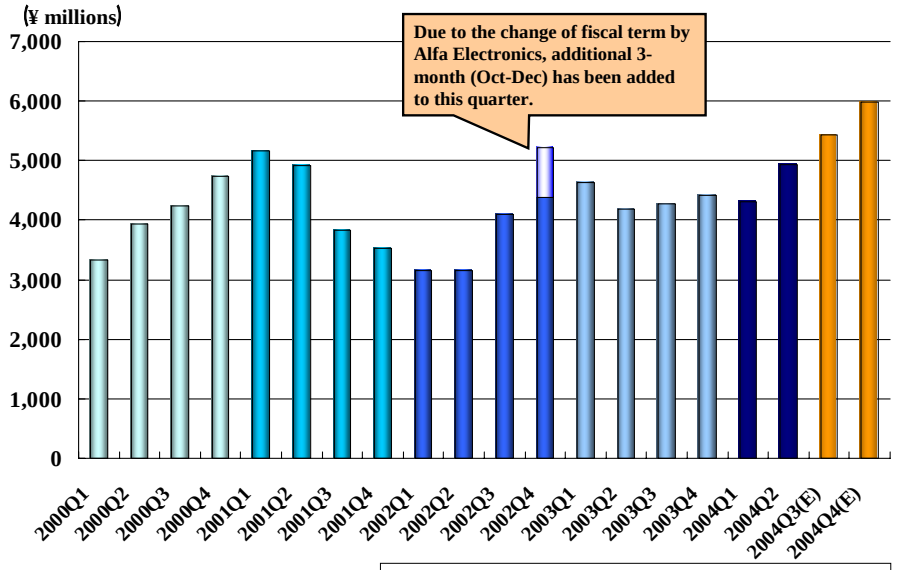
Sales by Quarter (Consolidated)



Please note that the Quarter Results are not properly audited.

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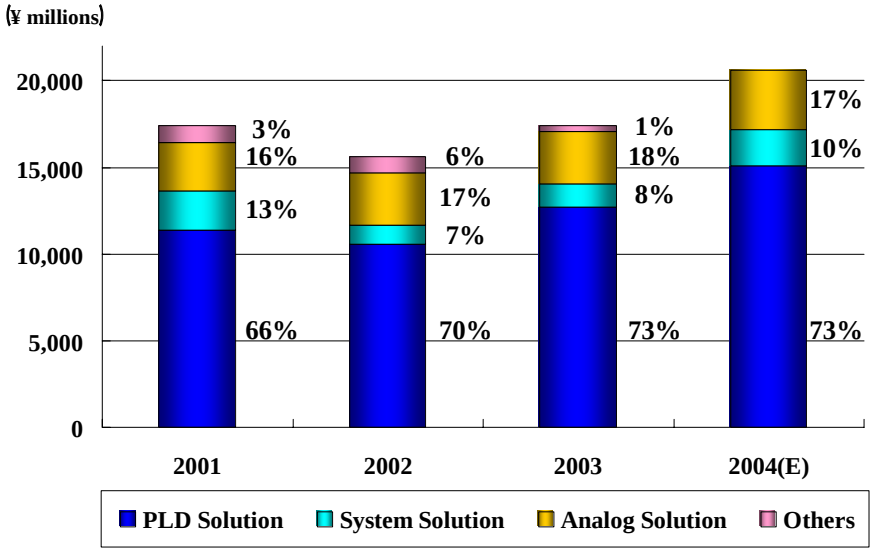
Sales by Products (Consolidated)



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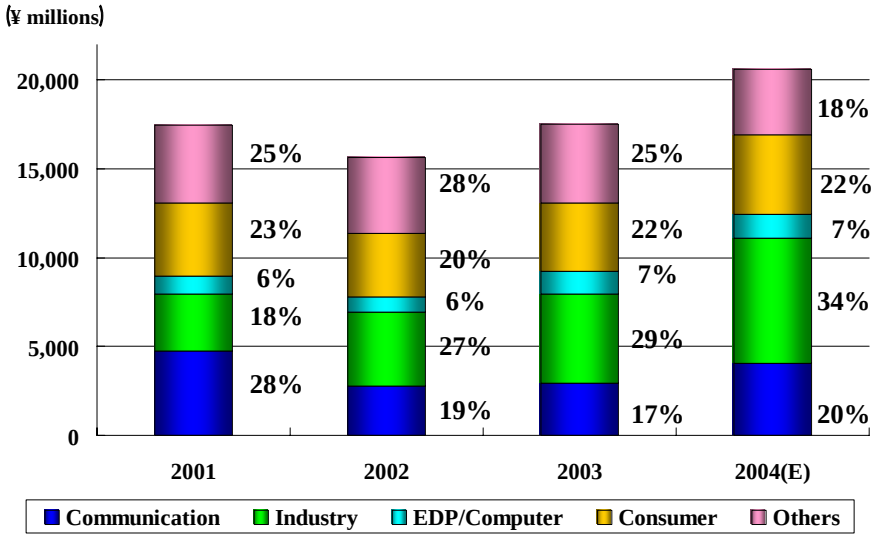
Sales by Applications (Consolidated)



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Business strategies for FY2004 (1)

PLD Solutions

- Sales of PLD solutions are expected to increase by 18% y/y.
- H2 sales is expected to increase by 27% from H1.
- Industrial applications such as broadband communication applications are expected to boost sales.
- Increased cost competitiveness of PLD will widen business opportunities into mass production phase.

Analog Solutions

- Sales of analog solutions are expected to increase by 13% y/y.
- Design-in projects will start production
- Continued sales promotion to new customers in Kanto area

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Business strategies for FY2004 (2)

System Solutions

- Sales of system solutions are expected to increase by 25% y/y.
- VoIP Solutions(AudioCodes) will enjoy strong growth. More board- and box-type solutions will be increased.

半導体

モジュール

ボックス

- Aggressively increase new product lines and solutions

Other Business Strategies

- Logistic and Operation performance to be enhanced to prepare for increased line items and volume units.
- Closer coordination and control among group companies to realize operation efficiency.

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Part 3

Business Strategy

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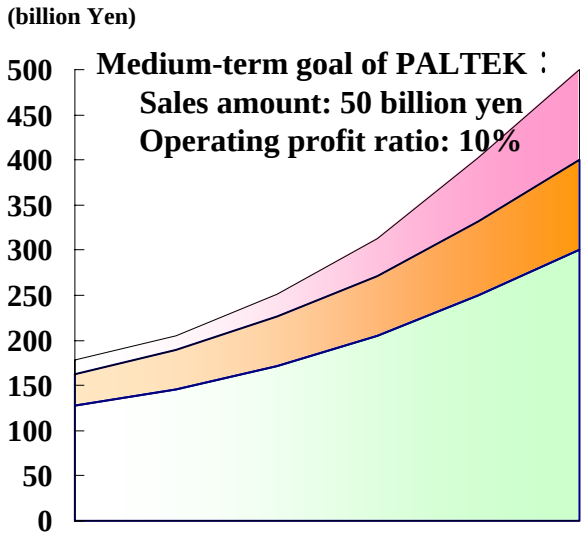
Medium-Term Vision：Strategy



① Create new high value added business

② Focus on growing markets and growing customers

③ Accelerate the growth of PLD market with our special skills

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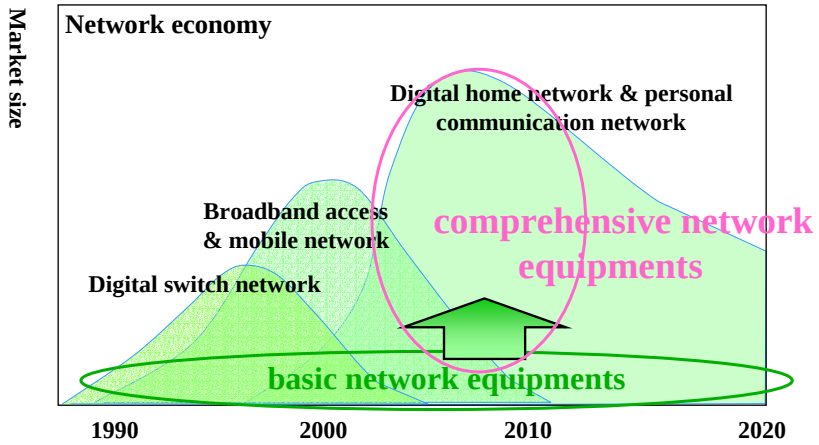
Broader Business Opportunities
～Everything is networked now～

- PALTEK is rich in experience and knowledge in network/communication applications.
- At the age of Broadband Communication, PALTEK is ready to cover the various market from Communication infrastructure to digital broadcasting, from home networking to personal communication.



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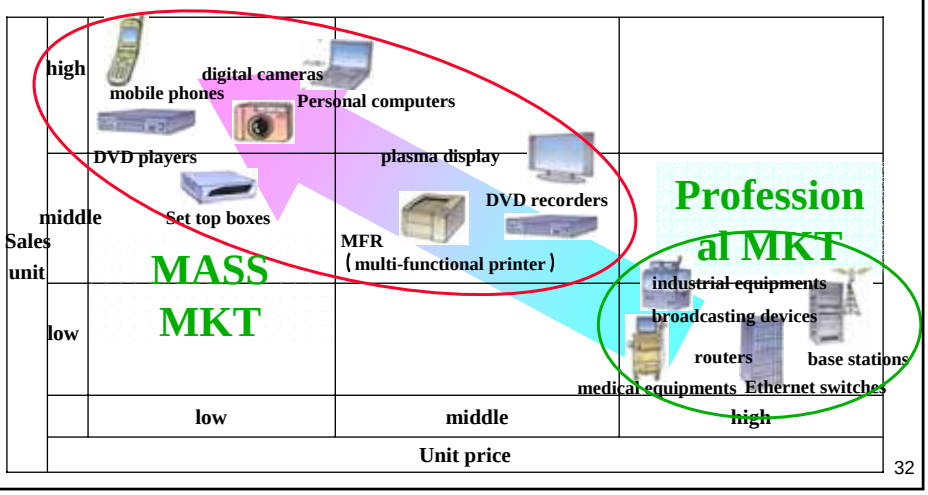
Broader Business Opportunities
～From Professionals to Consumer～

- Market coverage to expand from Infrastructure/Professional-centric applications to Home/Consumer applications
- Product lines to be expanded to enrich PALTEK's solution coverage in order to answer the market needs



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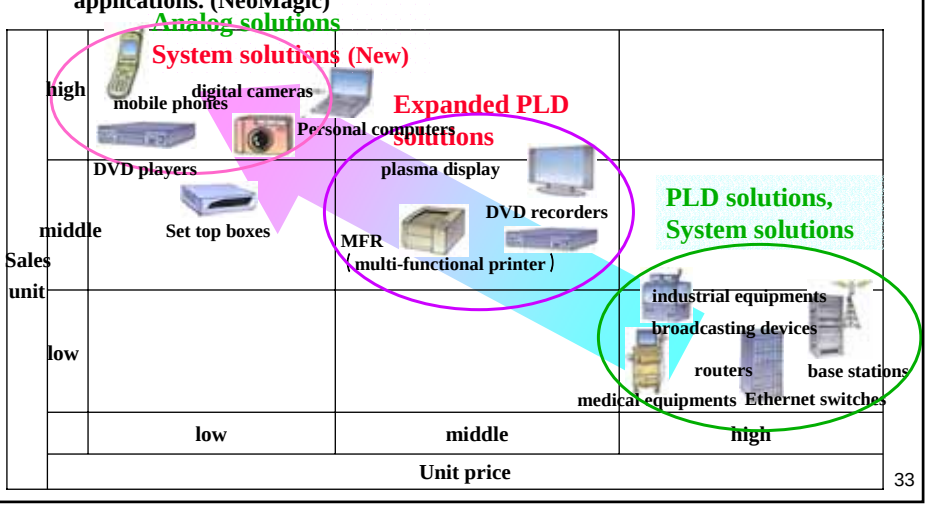
Broader Business Opportunities
～PALTEK Solutions～

- More Market coverage
  - PLD is now cost-competitive enough to penetrate into mid-size volume production to consumer market.
  - Expanded product offerings are now capable of covering digital consumer applications. (NeoMagic)



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New opportunity in New mobile broadcasting

- Represent NeoMagic (listed in NASDAQ as) in Japanese market
- NeoMagic is a market leader in media application processor
- <u>NeoMagic's application processor enables mobile broadcasting with its H.264 capabilities as well as low-power consumption</u>
- <u>Actively saught by Japanese mobile phone manufacturers</u>
- Strong engineering knowledge and resources at Paltek enable the market penetration faster than anyone else
- Mobile broadcasting-equipped mobile phone to debut at the end of 2005. Expected to be "Next killer application"

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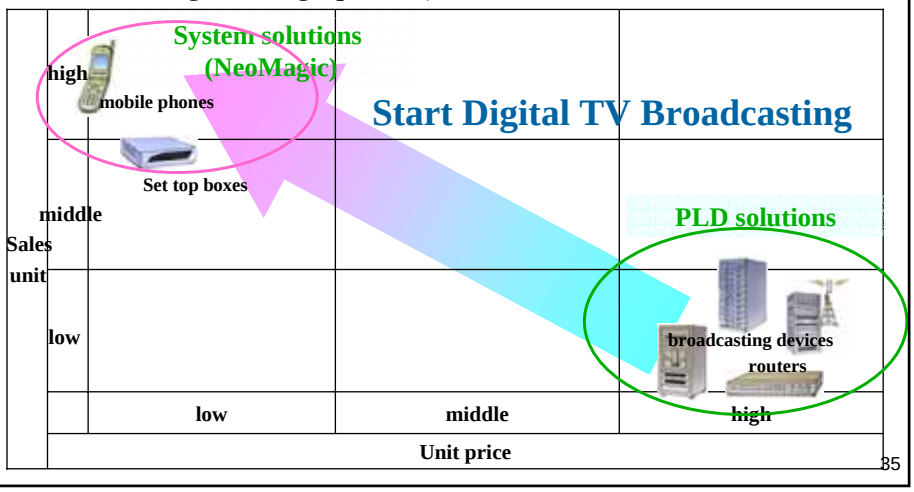
Terrestrial Digital broadcasting

- Until now: Professional use=Studio systems and transmitters (PLD was a dominant product offering)
- From now: Consumer use=Mobile phones to watch digital TV broadcasting (NeoMagic product)



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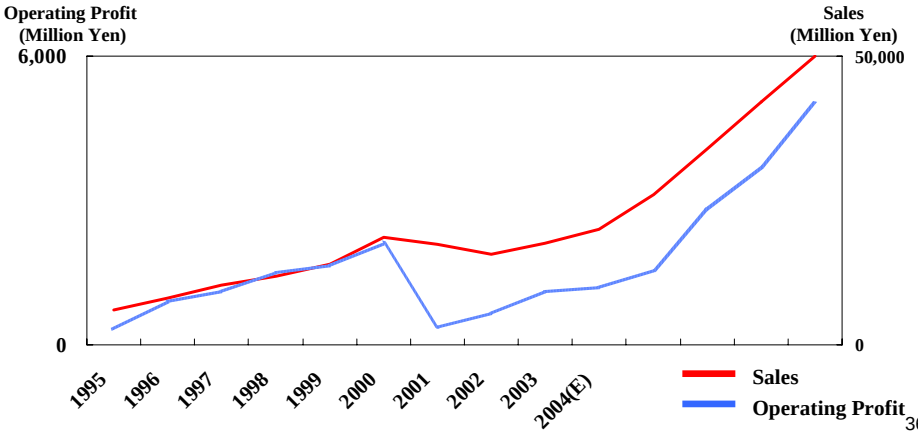
Pursuant to High Value and High Efficiency

- Engineering and marketing solutions to create value
- Operation efficiency to handle mass volume

Our goal to reach
¥50B revenue and
10% profit margin



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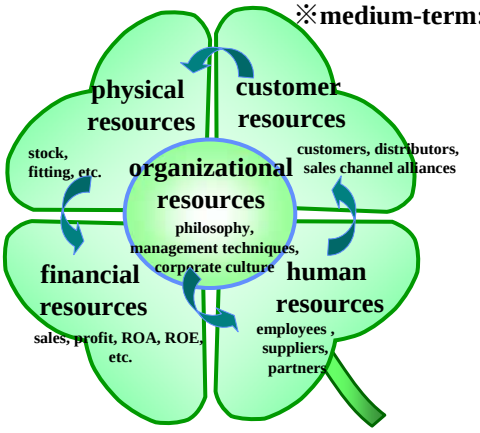
Medium-term goal of PALTEK

PALTEK group's medium-term goal: 50 billion yen sales and 10% operating profit ratio

※medium-term: 3-5 years



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IR Contact

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FAX: +81-45-477-2012
E-mail: IR@paltek.co.jp

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Part 4 Attachments

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Agenda

- Semiconductor Markets Trends
  - Worldwide / Americas / Japan
- Subsidiaries Companies
- Definitions of Applications

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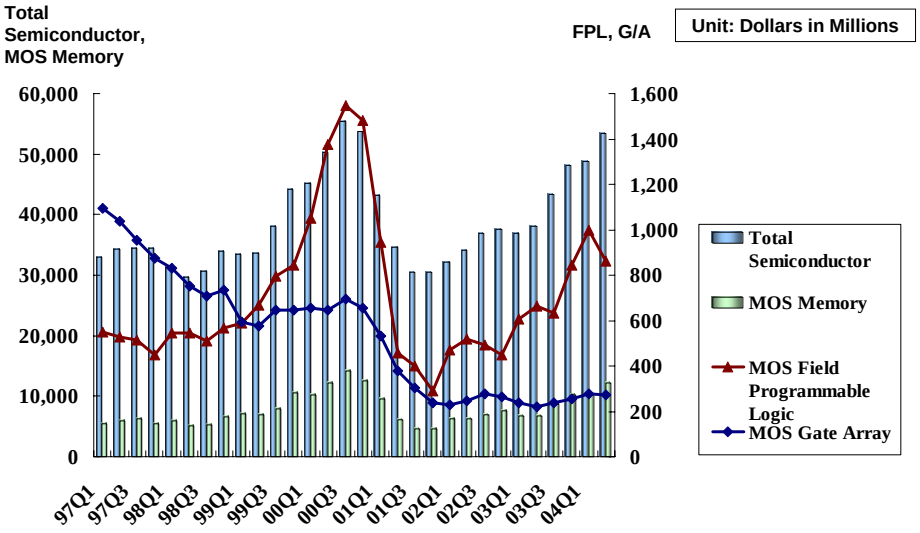
Worldwide Semiconductors



Source: WSTS

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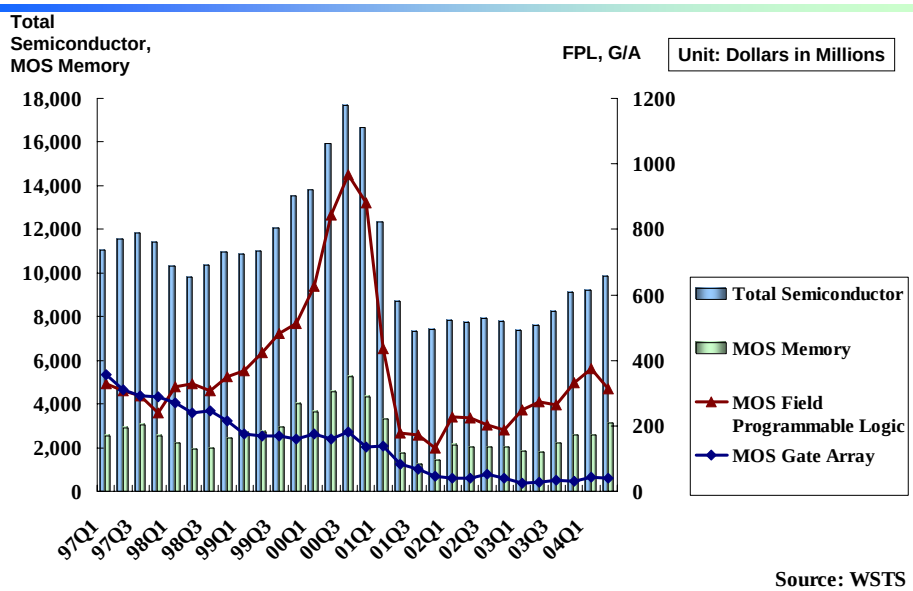
Americas Semiconductors



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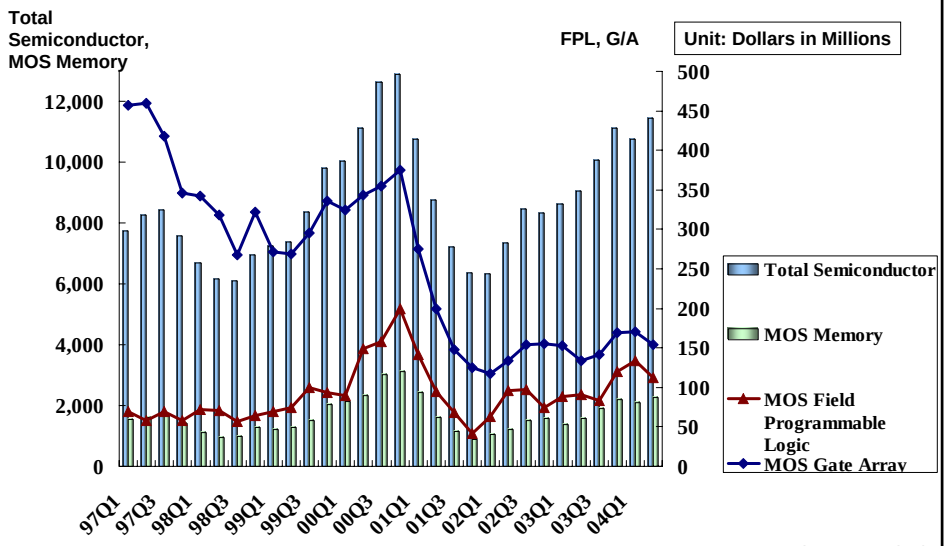
Japan Semiconductors



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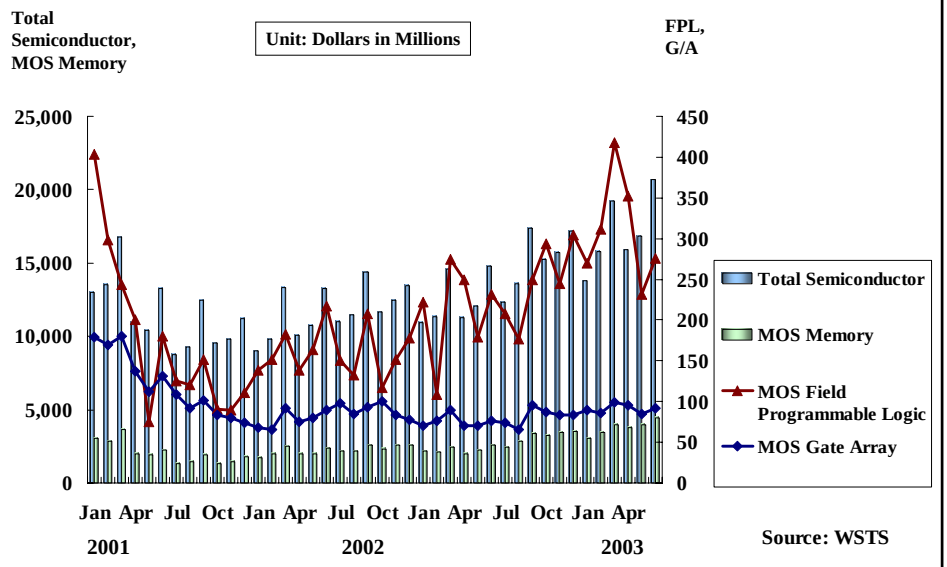
Worldwide Semiconductors



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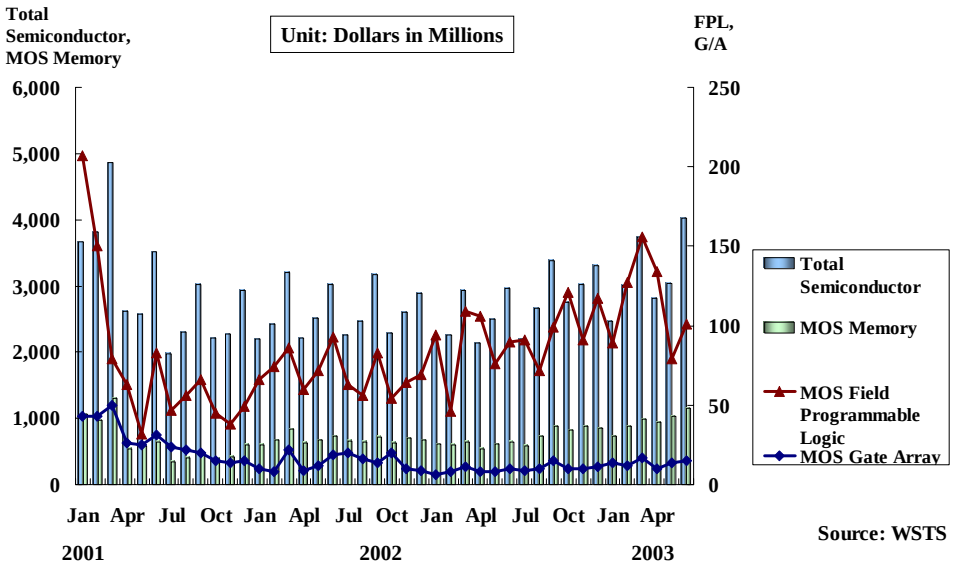
Americas Semiconductors



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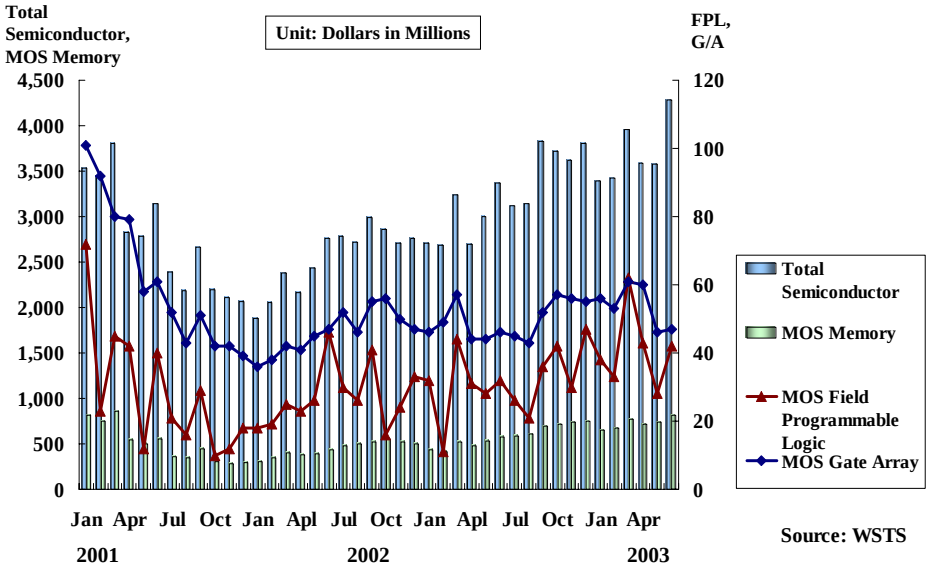
Japan Semiconductors



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Subsidiaries Companies

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Alpha Electronics, Inc.

ALPHA アルファ電子株式会社

http://www.alpha-denshi.co.jp/

Name:	**Alpha Electronics, Inc.**
Established:	**September 1974**
Headquarters:	**1-14-33 Esaka, Suita-shi, Osaka**
Capital:	**97.2 Million Yen (As of December 31)**
Capital Ratio:	**88.8%**
Acquisition:	**October 1998**
President:	**Keizo Inoue**
Business:	**Bridgehead in Kansai region for PALTEK group Product Offerings include semiconductors, electronic components, and system equipment Kanto office started its operation in Oct 2003.**
Products:	**National Semiconductor, Alpha Electronics , Sophia Systems, Xecom Corp. etc.**

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Spinnaker Systems, Inc.

SPINNAKER SYSTEMS

http://www.spinnaker.co.jp/

Name:	Spinnaker Systems, Inc.
Established:	October 1, 1995
Headquarters:	Shin-Yokohama Square BLDG. 2-3-12 Shin-Yokohama Kouhoku-ku Yokohama 222-0033 Japan
Capital:	245.5 Million Yen (As of December 31)
Capital Ratio:	100%
President:	Kazuo Fukushima
Business:	・EDA Software ・IP (Intellectual Property) Design ・Technology Consultant
Business Partners:	Real Intent, Inc., SynTest Technologies, Inc., Veritools, Inc., Amphion Semiconductor Ltd., Cast, Inc., IPFlex, Inc. etc.

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Definitions of Applications

Category	Products
Communication	Applications for communication infrastructure and Broadband Switching, Terminal, Gateway, Routing/IP, Wireless Access
Industrial	Applications for digital broadcasting equipments, medical equipments and measurement equipments
Consumer	Applications for mobile phones, DSCs, audios and game consoles
EDP/Computer	Applications for computer peripheral devices, storage and imaging devices

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