

# **PALTEK**

## **(JASDAQ:7587)**

*Fiscal Year 2006 First Quarter*

*Explanatory Meeting*

*(English Translation of original presentation)*

*May 16, 2006*

## **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.



## Agenda

- ◆ Results of FY2006Q1
- ◆ Modified Guidance for FY2006



- ◆ Results of FY2006Q1



## FY2006Q1 Summary

**P/L**

- ◆ Better than the previous guidance but was below FY05Q1
  - ◆ More revenue was recorded due to lingering Altera business
  - ◆ Analog, ASSP, and memory business were stronger than estimates.

**B/S**

- ◆ Inventory was reduced significantly to prepare for termination of Altera business by the end of March

**Topics**

- ◆ Xilinx products started shipping from April 1, 2006
- ◆ Acquired NS Microelectronics

FY2006 Q1 Results Reporting

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## FY2006Q1 Results (consolidated)

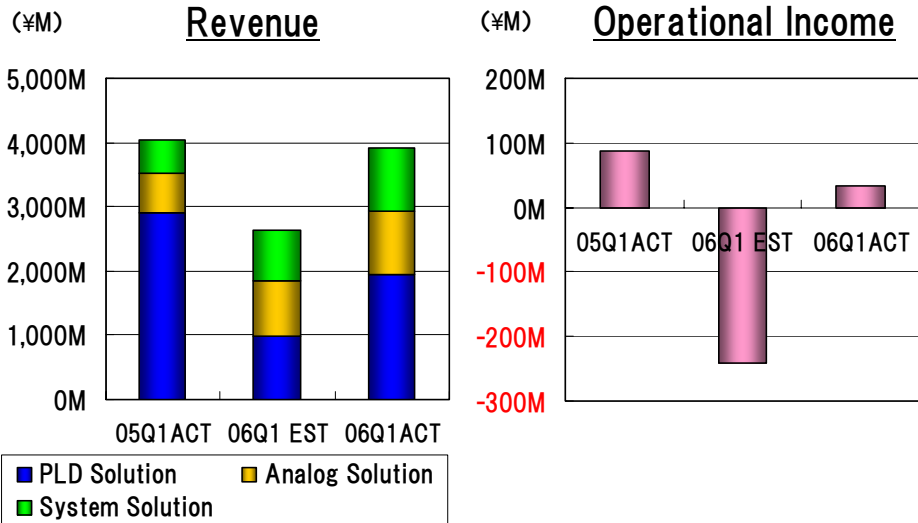
	FY05Q1	FY06Q1	Change
Revenue	4,035M	3,904M	-3.2%
Operating Income	88M	32M	-63.1%
Operating Income (%)	2.2%	0.8%	
Ordinary Income	40M	195M	386.1%
Net Income	23M	119M	401.6%

FY2006 Q1 Results Reporting

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## FY2006Q1: previous estimate vs actual

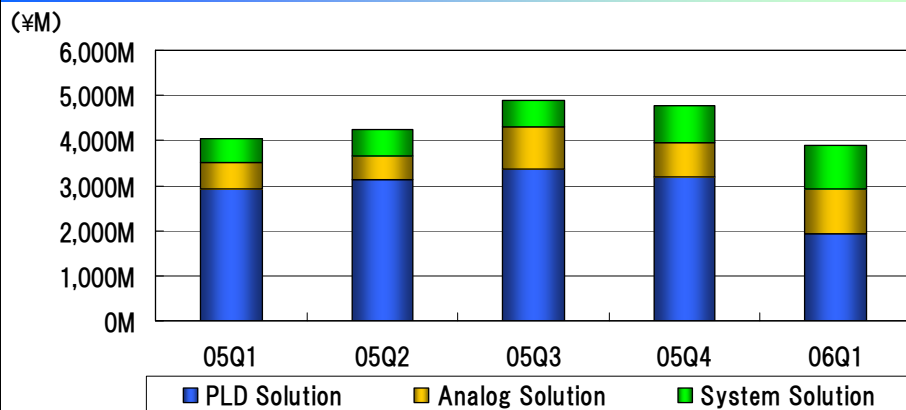


FY2006 Q1 Results Reporting

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## Revenue by solution (consolidated)



	05Q1	05Q2	05Q3	05Q4	06Q1
PLD Solution	72%	74%	69%	67%	50%
Analog Solution	15%	12%	19%	16%	25%
System Solution	13%	14%	12%	17%	25%

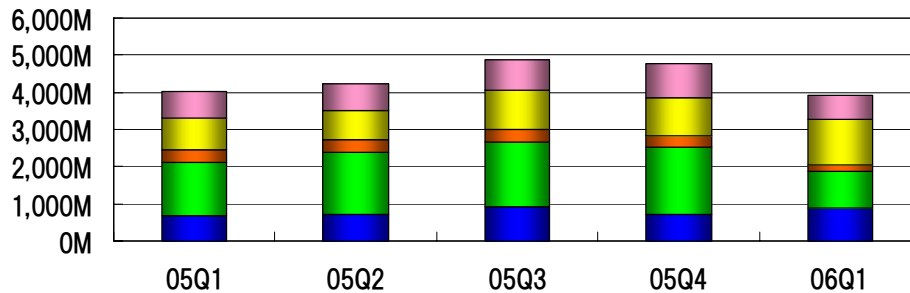
FY2006 Q1 Results Reporting

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## Revenue by application (consolidated)

(¥M)



■ Communication 
 ■ Industrial 
 ■ Computer 
 ■ Consumer 
 ■ Others

	05Q1	05Q2	05Q3	05Q4	06Q1
Communication	16%	17%	19%	15%	23%
Industrial	36%	40%	36%	38%	26%
Computer	9%	8%	6%	7%	4%
Consumer	21%	18%	22%	21%	31%
Others	18%	17%	17%	19%	16%

FY2006 Q1

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## Important topics

1. Termination of Altera business
2. Status of Xilinx business
3. Acquired NS Microelectronics Co., Ltd

FY2006 Q1 Results Reporting

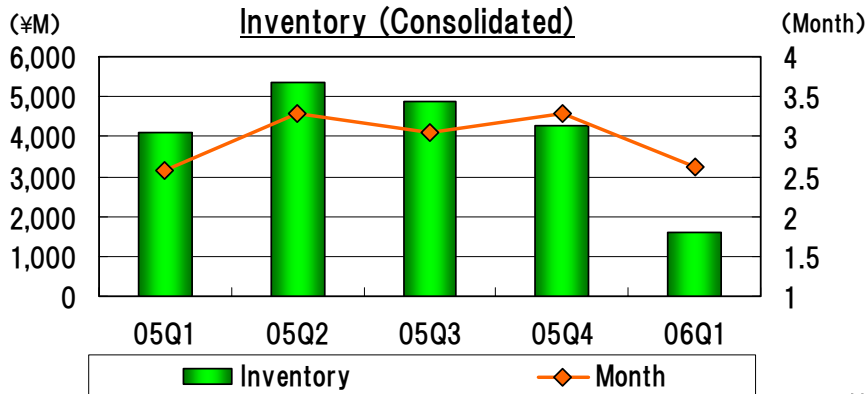
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# (1) Termination of Altera Business

## ◆ Return of Inventory

- ◆ Altera products have been returned periodically as customer transfer is progressed
- ◆ Inventory return is scheduled to complete by the end of May
  - No Altera inventory at mid-year (June)



FY2006 Q1 Results Reporting

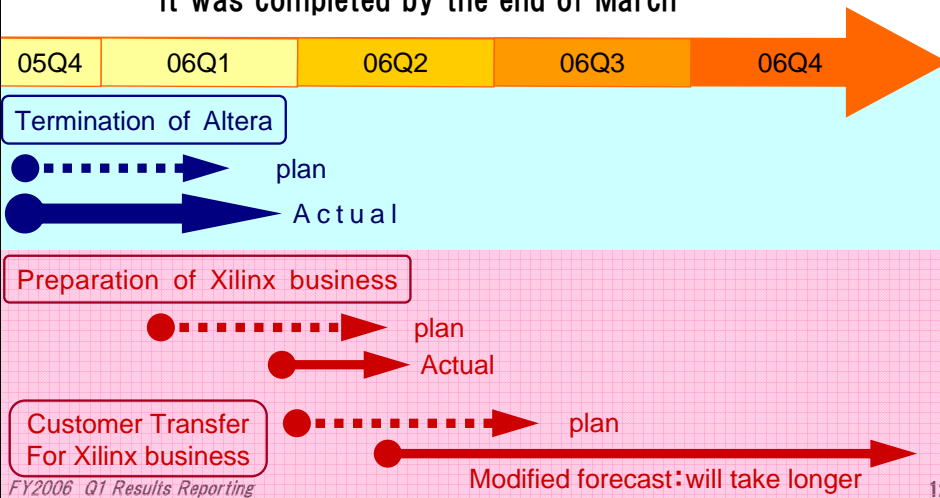
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# (1) Termination of Altera Business

## ◆ Customer Transfer

- ◆ It took longer and more work than initial estimates, but it was completed by the end of March



FY2006 Q1 Results Reporting

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## (2) Xilinx Business ~ Starting up

Category	Initial forecast	Actual/Modified Forecast	
Operations	◆ Operation readiness by March end	◆ Started shipping on April 3 <sup>rd</sup> . Going well according to plan	◎
Sales Promotion	◆ Training for sales and engineers, promotional readiness completed (dedicated web site, seminar plans, newsletter, etc) by March end	◆ All PLD sales and engineering personnel passed certification program by Xilinx  ◆ Promotional readiness is going well	◎  ○
Customer Transfer	◆ Customer transfer to be completed by the end of Q2	◆ Delayed for 3~6 months (Details in next page)	△

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## (2) Xilinx Business ~Customer transfer

### ◆ Activities

Large-Middle Customers	Started Customer visit to request change of distributors for assigned customers
Broadbase Customers	Started demand creation activities for Xilinx products

### ◆ Progress Status

- ◆ Majority of customers are favorable for PALTEK to be assigned as their Xilinx distributor

Large-Middle Customers	Transfer completed (by number of customers): 25% (Started shipping from Q2) In progress: 65% (will be transferred gradually from Q3) Not favorable for distributor change: 10%
Broadbase Customers	Various promotional campaigns and seminars are set up and going to promote Xilinx products

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## (2) Xilinx Business ~Customer Transfer

### ◆ Customer transfer delayed and actions to expedite

Why delayed?	<ul style="list-style-type: none"> <li>◆ Termination of Altera business took longer than initial estimates: much time and efforts were spent by salesforce</li> <li>◆ Frequent changes in distributors by semiconductor suppliers increase workload at customer to accommodate such changes and it is taking longer</li> <li>◆ Some customers accommodate distributor changes only at their predetermined timing (Quarter-end, mid-year end, or once a year)</li> </ul>
Counter Actions	<ul style="list-style-type: none"> <li>◆ Work closely with Xilinx               <ul style="list-style-type: none"> <li>·To expedite Customer transfer</li> <li>·To expand assigned customer list</li> </ul> </li> <li>◆ Find new business projects among newly-assigned customers</li> <li>◆ Develop broadbase customers</li> </ul>

FY2006 Q1 Results Reporting

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## (3) Acquisition of NSM ~Schedule and Value

### ◆ Acquisition of NS Microelectronics

Date	Contents
February 2006	Started negotiation
March 31, 2006	Signed a letter of intent to acquire NSM
May 16, 2006	Completed acquisition

### ◆ Number of shares obtained: 1,800 shares (obtained 100% of issued shares)

- ◆ Obtained from Nippon Denso Industry, National Semiconductor Japan, OKI Electric Industry

### ◆ Value:515 million yen

FY2006 Q1 Results Reporting

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### (3) Acquisition of NSM ~Corporate Profile

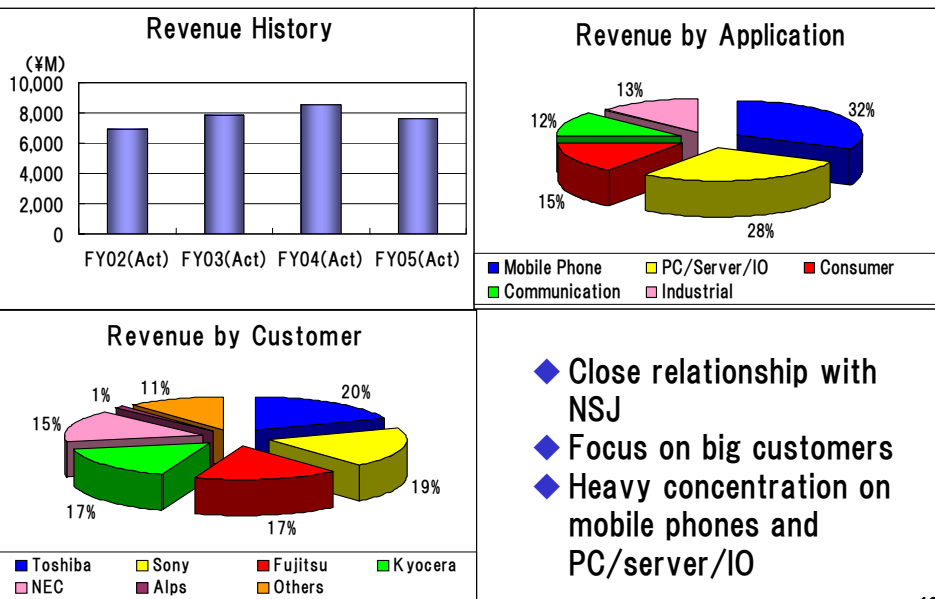
Name	NS Microelectronics Co., Ltd
Location	Shibaura 3-16-1Minato-ku Tokyo
Branch	Singapore
President	Yukihiko Maruyama, President
Founded	February 24, 1997
Capital	¥90 million (May 2005)
Total Equity	¥3,917 million (May 2005)
Sales	¥7,595 million (May 2005)
Employees	49 (May 16, 2006)
Business	Sales and distribution of semiconductors and electrical components
Suppliers	National Semiconductor, Synaptics, Winbond Electronics, etc
Customers	Toshiba, Fujitsu, SONY, NEC, Kyocera Alps, etc

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### (3) Acquisition of NSM ~business profile



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### (3) Acquisition of NSM ~Next actions

- ◆ Objectives of acquisition
  - ◆ Establish the second pillar of business
    - Balanced business portfolio
  - ◆ Expansion of Customer base among large-size customers
  - ◆ Strengthen System-based solution
    - Synergy effects with PLD Business
  - ◆ Obtain oversea operation branch
    - Singapore branch
  
- ◆ Next Actions
  - ◆ Improve NSM's balance sheet
  - ◆ Improve logistic and operation efficiency
  - ◆ Strengthen System-based solution
    - Promote NS's high-end analog products



## Modified guidance for FY2006



## Modified Guidance

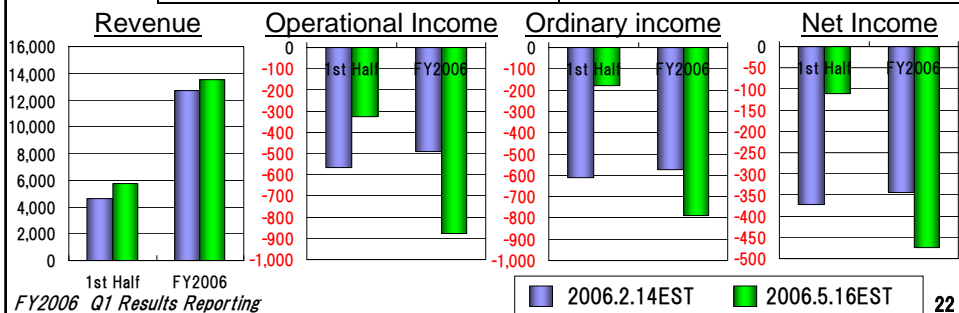
Due to following reasons, PALTEK now modifies its FY2006 guidance

- Delay of customer transfer for Xilinx business
- Acquisition of NSM
- Results of FY06Q1



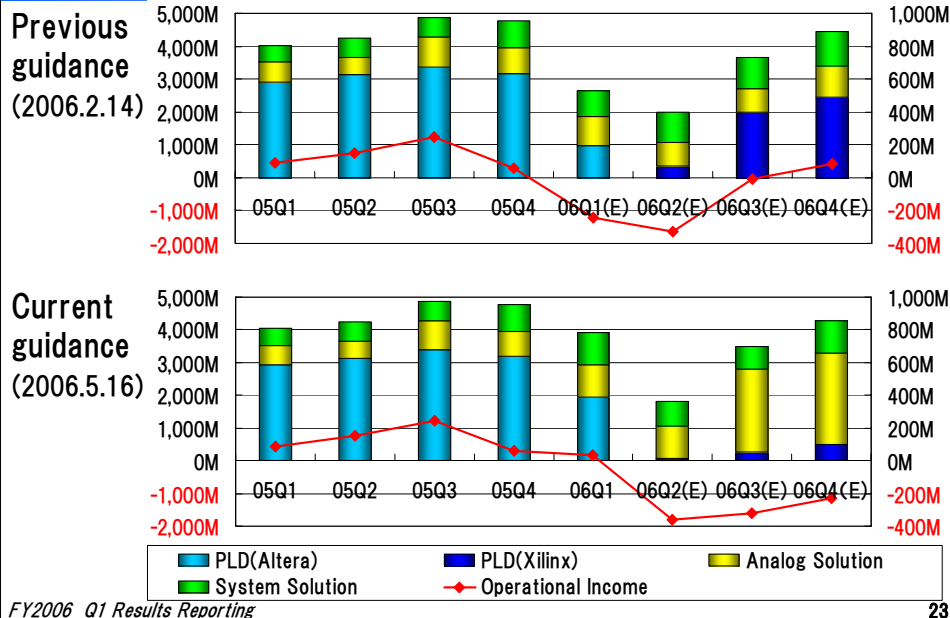
## Modified Guidance for FY2006

	FY2006 1st Half			FY2006		
	2006.2.14EST	2006.5.16EST	Change	2006.2.14EST	2006.5.16EST	Change
Revenue	4,620	5,720	23.8%	12,740	13,510	6.0%
Operational Income	-567	-325	42.7%	-490	-875	-78.6%
Operational Income (%)	—	—		—	—	
Ordinary Income	-609	-180	70.4%	-575	-790	-37.4%
Net Income	-372	-110	70.4%	-344	-474	-37.8%





## Modified Guidance: Revenue trend



## Modified Guidance ~main points (12months)

### ◆ Revenue

Category	Reasons for changes	Change
PLD Solution	Delay of customer transfer for Xilinx business	-3,030M
Analog Solution	Acquisition of NSM Mobile phone projects were strong	+ 4,060M

### ◆ Profits

Category	Reasons for changes	Change
Operational Profits	Delayed customer transfer for Xilinx business Acquisition of NSM	-385M
Ordinary Profits	Reduced Operational Profits Exchange rate gain, other income	-215M
Net Income	Reduced Ordinary Profits	-130M



## Summary

- ◆ Expedite reconstruction of PLD business
  - ◆ Expedite customer transfer for assigned customers
  - ◆ Develop broadbase customers for Xilinx business
- ◆ Consolidation of NSM
  - ◆ Improve NSM's balance sheet
  - ◆ Improve logistic and operation efficiency
  - ◆ Strengthen System-based solution
    - Promote NS's high-end analog products
- ◆ Annual Dividends remain at 10 yen/share
- ◆ Reduced compensation for executive management remain in effects



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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, factory automation equipment , measurement equipments and other professional equipments
Consumer	Applications for mobile phones, DSCs, audios and game consoles, flat TVs, other home entertainment devices
EDP/Computer	Applications for computer peripheral devices, storage and imaging devices including printers and projectors.