

# **PALTEK**

**(JASDAQ:7587)**

***Results Explanatory Meeting***

***Fiscal Year 2006 First Half***

***August 10, 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

FY2006 First Half Results

FY2006 Guidance and Topics



FY2006 First Half Results



## FY2006 First Half Summary

P/L

- ◆ Revenue and profits exceeded the previous guidance
  - Contribution from revenue of Altera products in FY06Q1
  - Strong Analog, ASSP and Memory business
- ◆ NS Microelectronics (NSM) will be included from FY06H2

B/S

- ◆ Inventory level decreased dramatically due to termination of Altera business
- ◆ NSM is included in Consolidated B/S of FY06H1

C/F

- ◆ Large surplus of cash from operations due to collection of A/R
- ◆ Large out flow of cash mainly due to paying back loans

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## FY2006 First Half Results (Consolidated)

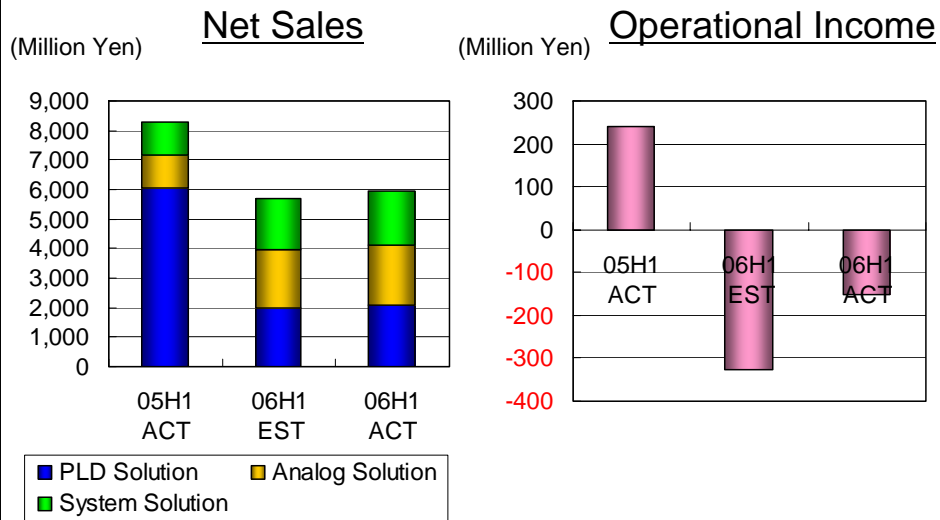
	FY06H1	FY05H1	Change	FY06H1 Guidance (2006.5.16)	Change
Net Sales	5,948M	8,289M	-28.2%	5,720M	4.0%
Operating Income	-150M	239M	-	-324M	53.7%
Operating Income (%)	-2.5%	2.9%		-5.7%	
Ordinary Income	-43M	105M	-	-180M	76.1%
Net Income	-37M	82M	-	-110M	66.4%
Net Income per share	-3.18	7.01		-	

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## FY2006 First Half Results (Consolidated)



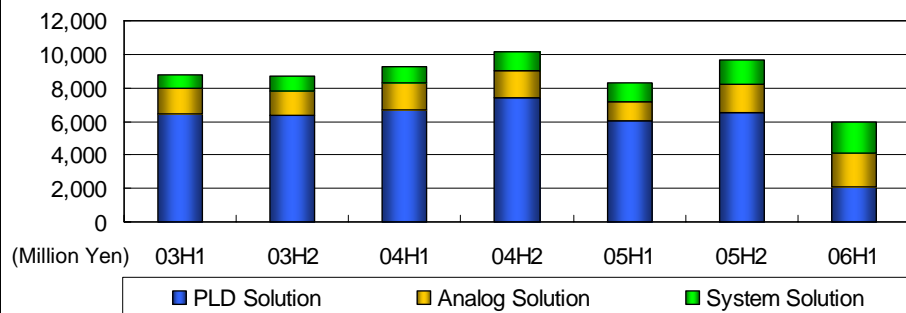
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## Revenue by Solution (Consolidated)

Revenue from PLD Solution is dramatically lower due to transition of PLD suppliers  
Other Businesses made solid growth



	03H1	03H2	04H1	04H2	05H1	05H2	06H1
PLD Solution	73%	73%	72%	73%	73%	68%	35%
Analog Solution	18%	17%	18%	16%	14%	17%	35%
System Solution	9%	10%	10%	11%	13%	15%	30%

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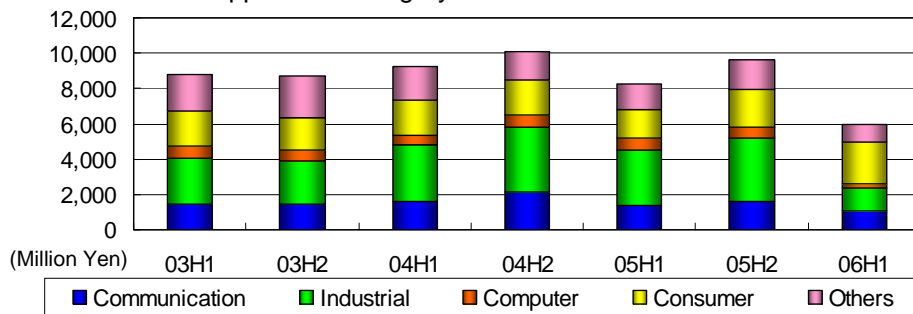
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## Revenue by Application (Consolidated)

Large decrease in revenue for industrial applications due to transition in PLD business

Strong Analog business for mobile phone brought solid revenue for Consumer application category



	03H1	03H2	04H1	04H2	05H1	05H2	06H1
Communication	17%	17%	17%	21%	17%	17%	19%
Industrial	30%	28%	34%	36%	38%	37%	21%
Computer	7%	7%	6%	7%	8%	6%	4%
Consumer	22%	21%	22%	20%	19%	22%	39%
Others	24%	27%	21%	16%	18%	18%	17%

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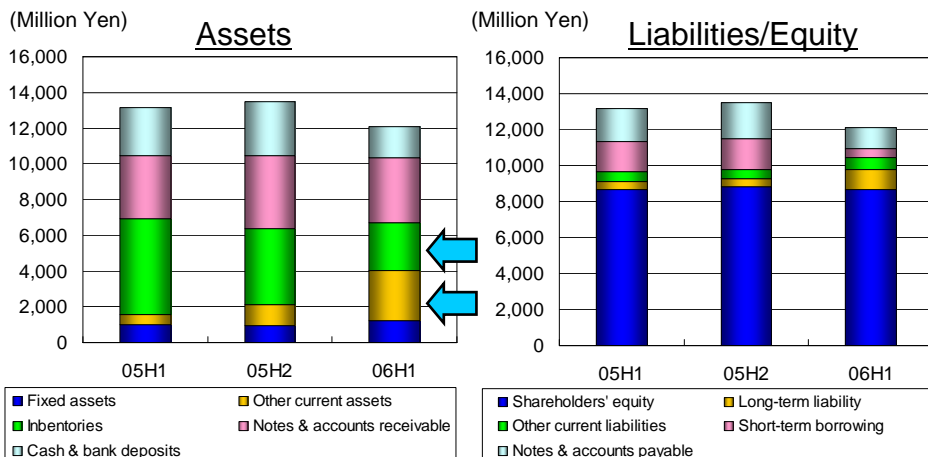


## Balance Sheet (Consolidated)

~ Impact from termination of Altera business ~

Inventory is down due to termination of Altera business

Large increase in A/R, included in "other current asset," for the above reason. (This A/R has been received in early July.)



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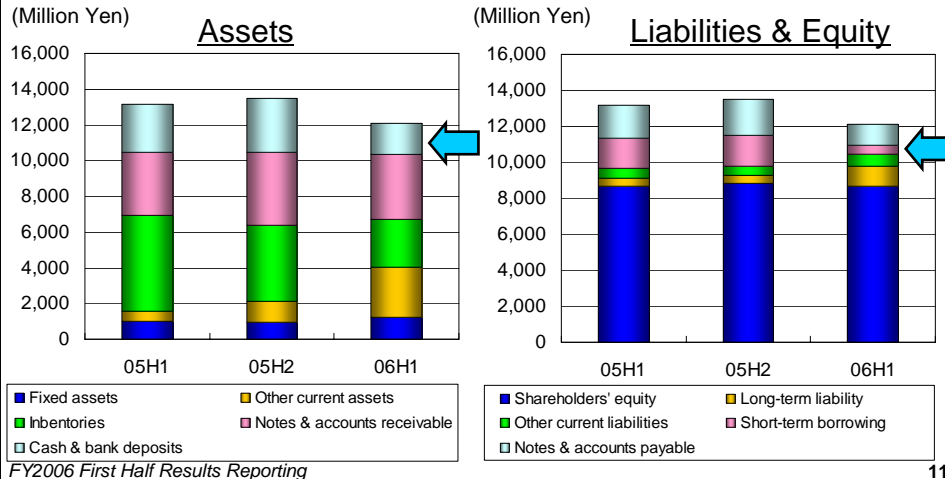
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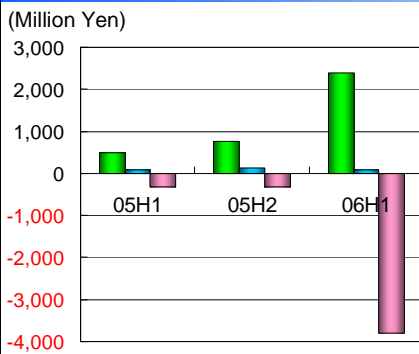
## Balance Sheet (Consolidated)

~ Impact from acquisition of NSM ~

Temporary increase in short term borrowing by acquisition of NSM  
 Returned borrowing with collected A/R  
 As a result, "cash & cash equivalents" and "short-term borrowing" decreased



## Cash Flow (Consolidated)



### [Cash flows from operating activities]

- + 2,394 million yen
- ◆ Due to termination of Altera Biz and delayed business development of Xilinx Biz, inventory level was down
- ◆ A/R collected

### [Cash flows from investing activities]

- + 91 million yen
- ◆ Acquisition of NSM

### [Cash flows from financial activities]

- 3,808 million yen
- ◆ PALTEK: paid borrowings and dividend
- ◆ NSM: returned borrowings and repayments of notes

( Million yen )	05H1	05H2	06H1
C/F from operating activities	497	772	2,394
(Depreciation )	54	103	34
C/F from Investing activities	77	138	91
(Capital investment)	-24	-38	-19
C/F from financing activities	-329	-310	-3,808
Cash and Cash Equivalent	2,658	3,013	1,691

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## Highlights

1. Termination of Altera Business
2. Development of Xilinx Business
3. Acquisition of NSM

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## 1. Termination of Altera Business

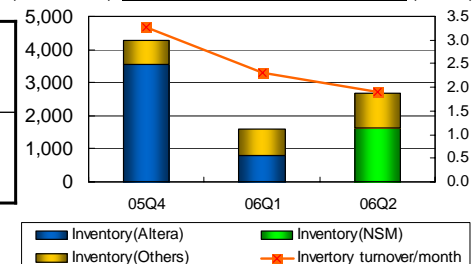
### 1<sup>st</sup> Quarter (January ~ March)

Customer Transfer	Transfer of customers to Altera's distributors
Inventory	Returned Inventory to Altera as business comes to end
Contract	Distribution agreement was terminated as of March 31, 2006

### 2<sup>nd</sup> Quarter (April ~ June)

Inventory	All Altera inventory was returned by May end
A/R	All A/R was collected by early July

(Million Yen) Change of the Inventory (Month)



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## 2. Status of Xilinx Business

### Sales and Marketing Activities

- Xilinx dedicated web site was open (February)
- PLD Solution newsletter commenced (March)
- Various trainings and seminars commenced (April)
- All sales and engineering personnel in PLD business passed certification exam (May)
- PSDB (PALTEK Solution DataBase) opened to provide 24-hr FAQ based and know-how based support (July)
- PCI Express original evaluation board released for sales (July)

### Logistics & Operations

- Passed Quality Audit by Xilinx (February)
- Commenced Shipping on April 3<sup>rd</sup>, Monday
- All IT programs are on schedule to be fully operational

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## PLD Business Process

### To develop new customer base

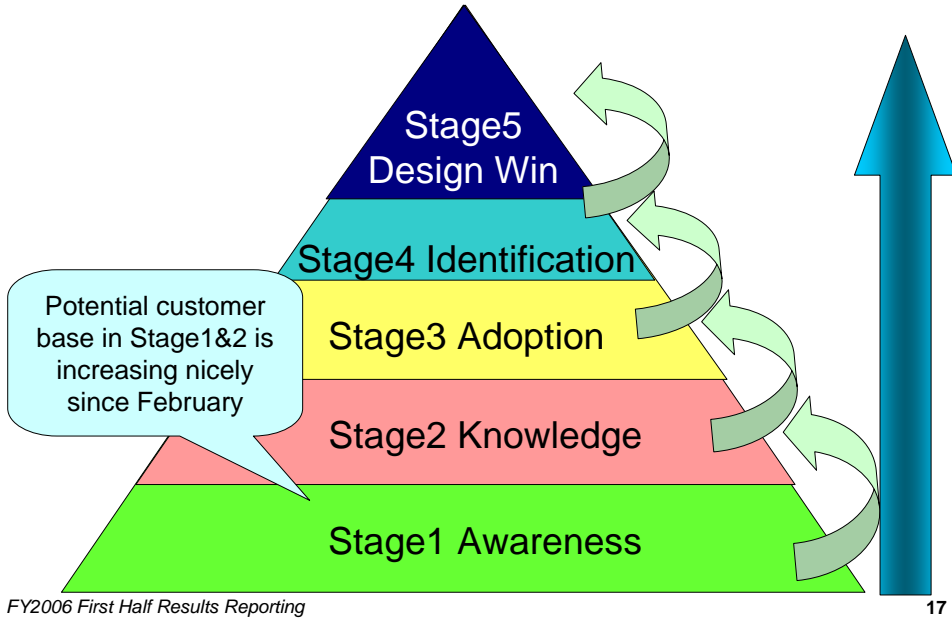
Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Awareness	Knowledge	Adoption	Identification	Design Win
Become aware of Xilinx PLD Solution and new products information	Acquire knowledge of designing methods, specification & performance of PLD products	Adopt designing tools and development boards/kits	Identify actual projects	Win projects by providing engineering support and operational excellence
PLD News Letter Xcell Journal Subscription Dedicated web site	Trainings and seminar Know-how through PSDB	Development tool and evaluation boards	Identify projects and specification required Device selection Support	Engineering support Help desk

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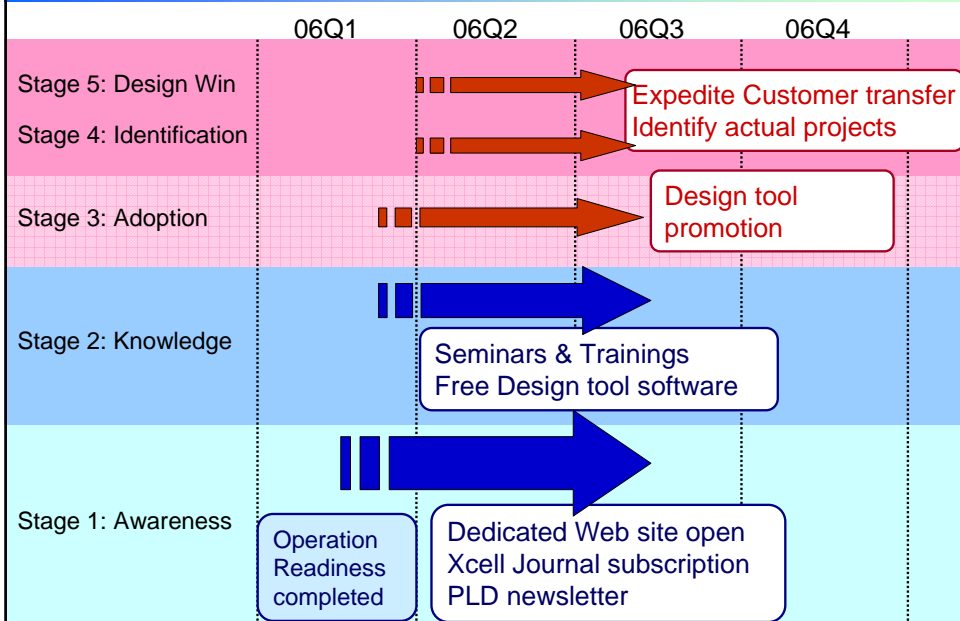
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## Process of Expanding PLD Customers



## Progress of Xilinx Business





## Progress of Xilinx Business

### Customer Transfer Status

Mid to Large Customers	Transfer Completed : 60% <b>Stage4,5</b> On Going : 13% (Discussion continues) Not Accepted : 27% ( percentage by number of customers) Additional 10+ customers are assigned
Broad base Customers	Potential customer base is growing contacted more than a few hundred customers in 2 months Free design tools DVD distributed to create design environment Attendance in seminars are growing # of purchased development tools are increasing

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## Customer Transfer : Large Accounts

### ■ Customer Stage : Already Stage 4 and higher

#### ◆ Already Xilinx users with design tools installed

Status	Current Actions	Next Actions
Transfer Completed	Order fulfillment to on-going projects Engineering support New projects	Stable order fulfillment Promotion to new projects System Proposal
Transfer in negotiation	Transfer in negotiation	Complete transfer New Projects Order fulfillment and engineering support
Not Accepted	New customer assignment	Customer Transfer

[Customer Transfer Process]

(1) Existing bookings remain with previous distributors

(2) New orders to go to PALTEK

Transfer decided

Complete transfer

Current Disty (1)

(2)


PALTEK

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## Customer Transfer : Broad-base Customers

### ■ Customer Stage : Stage 1~3

- ◆ Increase awareness of Xilinx & PALTEK
- ◆ PLD competitor/ASIC/ASSP users  New Customers

Customer Stage	Current Actions	Next Actions
Stage 1: Awareness	Dedicated web site PLD Newsletters Xcell journal subscription Trade shows and seminars	Identify good potential customers and raise their stage to Stage 2
Stage 2: Knowledge	Trainings and Seminars PSDB to answer FAQ for 24 hours	Raise to Stage 3 Increase customer knowledge
Stage 3: Adoption	Designing tool Development board PSDB	Raise to Stage 4&5 Identify actual business projects

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## 3. Progress after acquisition of NSM

### Improve financial positioning

PALTEK to finance NSM's borrowing

PALTEK will manage funding for NSM for future

### Install cost competitive operations

PALTEK will handle NSM's logistic operations, which are currently outsourced.

Milestones to be set soon to bring about NSM's logistic operations to PALTEK

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### 3. Progress after acquisition of NSM

Promotion of System Solution from both digital and analog aspects

Engineering aspects :

Cross training among engineers from all 4 companies in PALTEK Group started

Strengthen System solutions: creation of reference design

Sales aspects :

Expand NSM's customer base by taking advantage of PALTEK's broad customer base

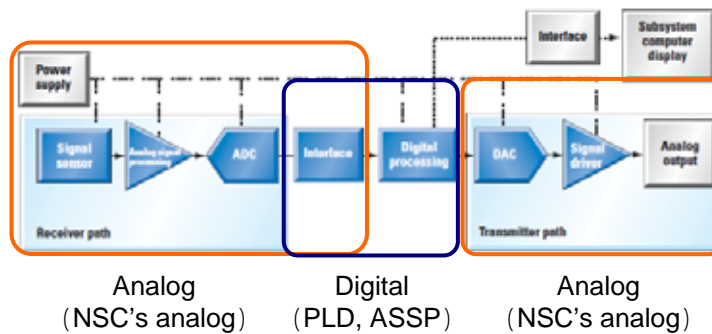


### 3. Progress after acquisition of NSM

Target applications of system solutions

- Wireless
- FA
- Measurement
- Broadcasting
- Medical

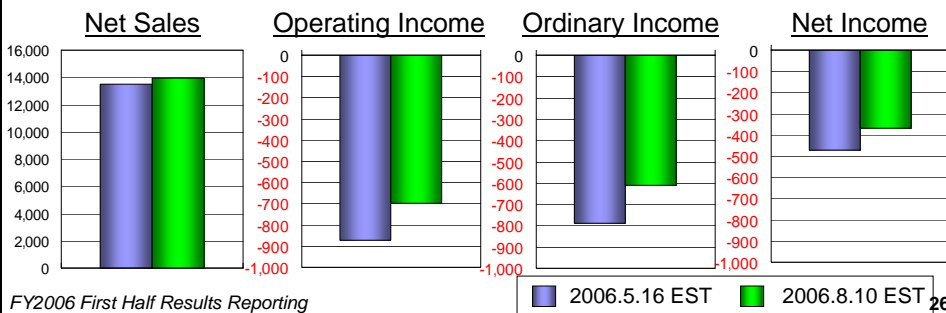
System Solution by PLD and high-end data converter and/or high speed interface



# FY2006 Projection

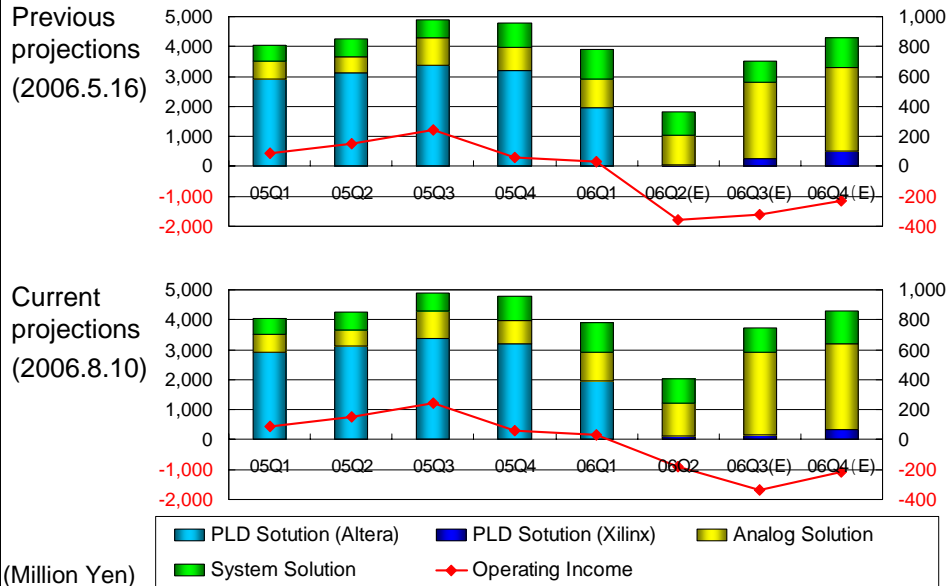
## FY2006 Projections

(Million Yen)	2006.5.16 EST	2006.8.10 EST	Change
Net Sales	13,510	13,980	3.5%
Operating Income	-875	-700	20.0%
Operating Income(%)	-	-	
Ordinary Income	-790	-610	22.8%
Net Income	-474	-370	21.9%





## FY2006 Projections ~ Revenue and OP trend



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## Points of current projection

### Revenue

Category	Reasons for increase/decrease	impacts
PLD Solution	Some delays in customer transfer	-200M
Analog Solution	Increase in demand from NSM Mobile phone business at Alpha is strong	360M
System Solution	Increase in demand from memory business	310M

### Profits

Category	Reasons for increase/decrease	impacts
Operational Profits	Increase in OP in H1 Maintain the previous projection for H2	175M
Ordinary Profits	Due to increase in operational profits	180M
Net Income	Due to increase in ordinary profits	104M

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## Key Action Items

### Expedite the reconstruction of PLD Business with Xilinx

- Expedite customer transfer for large accounts
- Development of broad-base customers

### Strengthen NSM's Business

- Improve financial standing
- Consolidation of Logistic Operations to PALTEK
- Expand customer base

### Promotion of System Proposal



## System Proposal Example

### PALTEK Original evaluation board

- Realized low-cost x4 PCI Express solution
- Developed with product line cards carried by PALTEK
- Proven solution will encourage customers to use PALTEK proposals

One example of PALTEK's future business strategies





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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.