

PALTEK

(JASDAQ:7587)

Results Explanatory Meeting ***For Fiscal Year 2006***

February 9, 2007

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 Results

FY2007 Guidance



FY2006 Results



Summary of Business in FY2006

1. Re-building PLD Business

■ Termination of Altera PLD Business	Remained inventory was returned at book price Maintained strong customer relationship
■ Prompt launch of Xilinx PLD Business	Sales and logistic operations were ready by April Customer transfer took longer than expected Real revenue stream was postponed to CY2007

2. Strengthen non-PLD Business

■ Expand Analog Business	NSM joined PALTEK Group in May, 2006 => Strong Customer base, rich experiences in analog business
■ Expand System Solution Business	Concentrate on strong product lines with solid growth and good profits =>Revenue was up 65%

3. Retain and invest in people

■ Invest in people	Invest in people to maintain and bring higher engineering skills and knowledge for the future
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FY2006 Results: Summary



- Revenues and profits were down due to transition of PLD suppliers
 - Large decline in revenue in PLD Solution due to supplier transition
 - Large increase in revenue due to addition of NSM in Analog Solution
 - Strong growth in System Solution due to solid memory and ASSP business
 - Net loss was decreased due to non-operational profits of ¥433 Million



- Total assets decreased due to;
 - decreased inventory to correspond the transition of PLD suppliers
 - decreased cash and cash equivalent from returning short term loans



- Cash flow from operation was a large surplus due to decrease in inventory and collection of account receivables
- Cash flow from financing activities was a large deficit due to return of loans, repayment of notes, and payment of dividends



FY2006 Results (consolidated)

(Million yen)

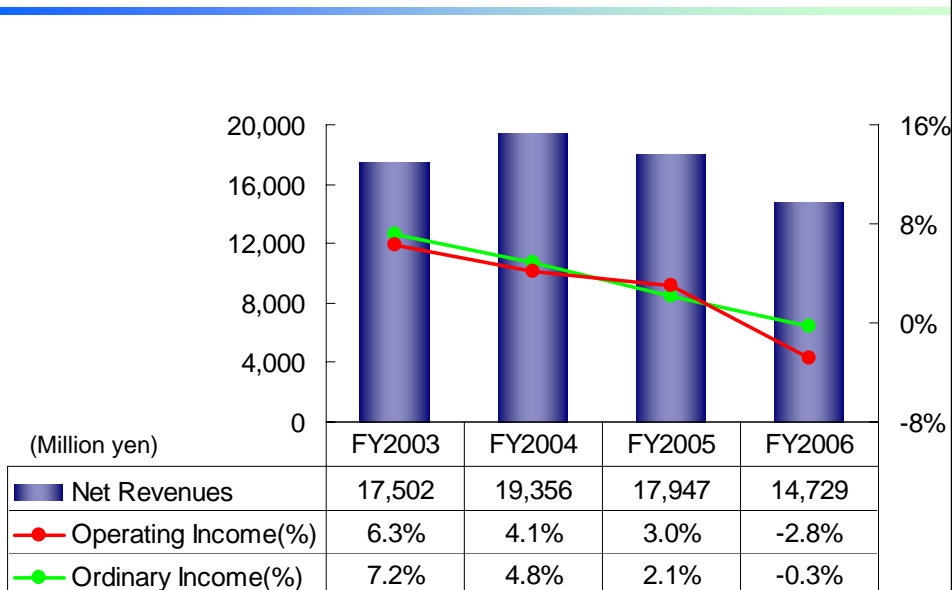
	FY2005	FY2006	Change
Net Revenues	17946	14729	-17.9%
Operating Income	541	-412	-
Operating Income %	3.0%	-2.8%	
Ordinary Income	373	-42	-
Net Income	243	-36	-
Earning per Share	20.47	-3.13	-
Return on Asset	2.8%	-0.3%	
Return on Equity	2.8%	-0.4%	

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Revenue Trend (consolidated)

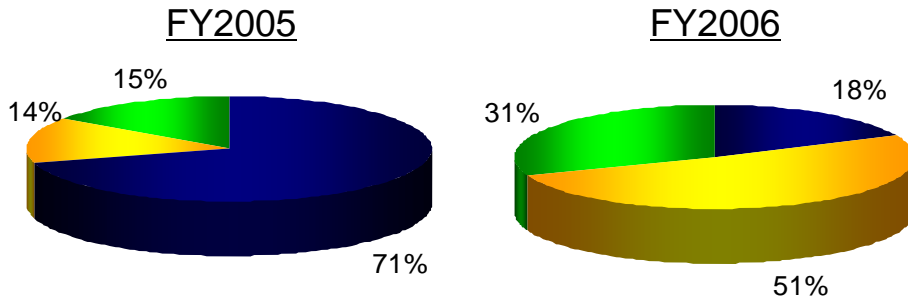


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Sales by Solution Category (consolidated)



(Million Yen)	FY2005	FY2006	Change	Reasons for change
PLD Solution	12,676	2,690	-79%	Change of suppliers
Analog Solution	2,514	7,480	197%	Acquisition of NSM
System Solution	2,755	4,558	65%	Growth of memory and ASSP
Total	17,946	14,729	-18%	

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Strengthen Analog Solution

- Expand Tier 1 customer coverage -

- 6 major customers together make about 9 billion in revenue in Analog business

Company	Major Applications
Toshiba	[Computer]: laptops [Consumer]: Audio Video
Fujitsu	[Communication]: Base stations [Computer]: Laptops, servers
Sony	[Consumer]: Audio Video, games
Sanyo	[Consumer]: Cell phone, digital camera
Kyocera	[Consumer]: Cell phone, PHS
NEC	[Consumer]: Cell phone [Communication]: Base station
Others	[Industrial]: Factory automation, measurement, medical equipment, etc

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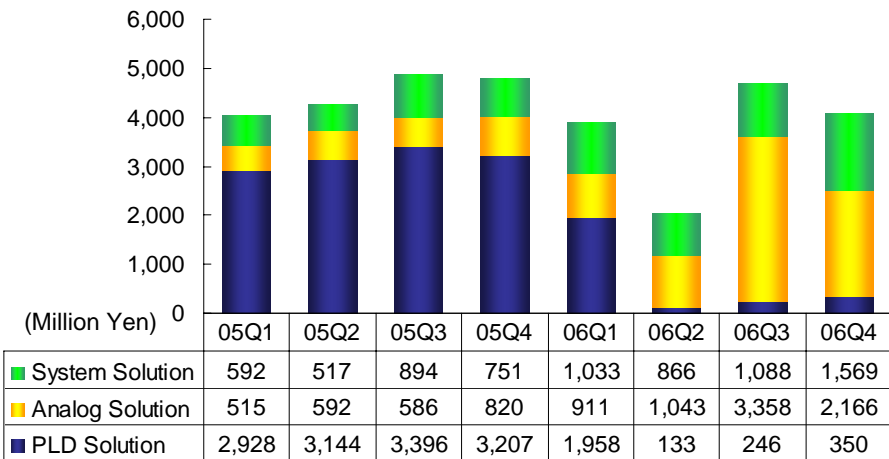
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Quarterly Sales by Solution Category (consolidated)

- Analog Solution: NSM was acquired in May 2006, and added to consolidated revenue from Q3 of FY2006

(06Q3 includes 4 months revenue for NSM)

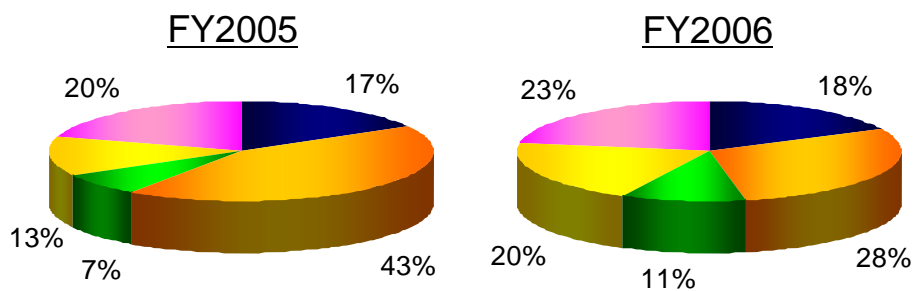


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Sales by Application category (consolidated)



(Million Yen)	FY2005	FY2006	Change	Reasons for changes
Communication	3,012	2,612	-13%	PLD for base station declined while analog grew
Industrial	7,706	4,318	-44%	PLD for broadcasting, medical, measurement declined
Computer	1,311	1,553	18%	Analog grew for laptop and server
Consumer	2,265	2,919	29%	Analog grew for cell phone, PHS, and Audio-video
Others	3,651	3,325	-9%	

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Changes in Balance Sheet (consolidated)

(Million yen)

	Balance Sheet	2005	2006	Change	Reasons for change
A s s e t s	Cash and bank deposits	3,049	2,148	-900	Return of bank loans and repayment of notes
	Account Receivable	4,058	3,966	-91	
	Inventories	4,273	3,246	-1,026	Returned Altera products worth about \$30million, and increased memory and ASSP products in inventory
	Other current assets	1,171	338	-832	Return of deferred tax liabilities
	Fixed Assets	935	1,344	408	
	Total Assets	13,487	11,044	-2,443	
L i a b i l i t i e s	Account Payable	1,970	1,430	-540	Decrease in procurement of PLD products
	Short-term loans	1,738	95	-1,642	Payment of returned Altera products was used to return loans
	Other current liabilities	500	494	-6	
	Fixed Liabilities	441	373	-67	
	Net Assets	8,769	8,651	-117	
	Total Liabilities and Net Assets	13,487	11,044	-2,443	

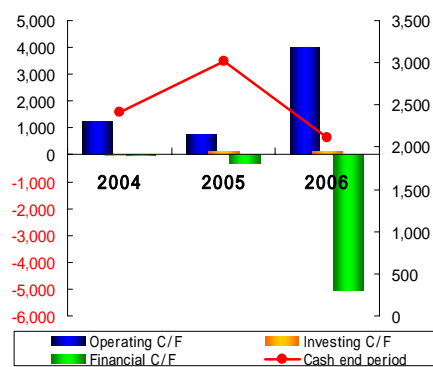
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Cash Flow (consolidated)

(Million yen)



[Cash Flow from Operating activities]

Surplus of 4,016 million yen due to decrease in inventory and collection of account receivables

[Cash Flow from Investing activities]

Surplus of 114 million yen due to acquisition of NSM

[Cash Flow from Financing activities]

Deficit of 5,037 million yen due to return of loans, repayment of notes and payment of dividends

Cash flow	2004	2005	2006
Operating cash flow	1,273	772	4,016
(Depreciation)	(117)	(103)	(64)
Investing cash flow	-22	138	114
(Capital investment)	-44	-38	-35
Financing cash flow	-18	-310	-5,037
Cash & Cash equivalent	2,412	3,013	2,108

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FY2007 Guidance

FY2007 Guidance (consolidated)

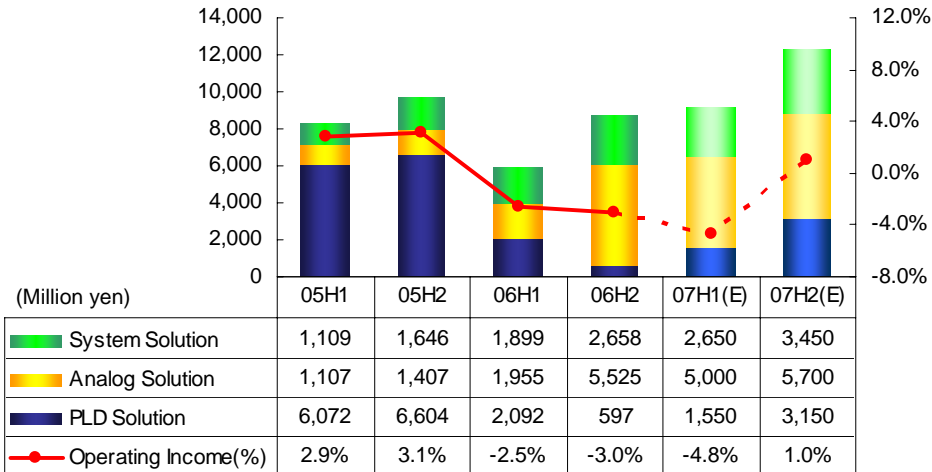
(Million yen)

	FY2006 ACT			FY2007 Estimate		
	1H	2H	Year	1H	2H	Year
Net Revenues	5,948	8,781	14,729	9,200	12,300	21,500
Gross Profit	1,078	1,366	2,445	1,227	1,838	3,065
SGA	1,229	1,627	2,857	1,665	1,715	3,380
Operating Income	-150	-261	-412	-438	123	-315
Operating Income %	-2.5%	-3.0%	-2.8%	-4.8%	1.0%	-1.5%
Ordinary Income	-43	0	-42	-458	88	-370
Net Income	-37	-23	-66	-283	53	-230



Revenue Trend (consolidated)

- Revenue will recover due to growth from all 3 business units
- Profit hits the bottom in H1 of 2007 and return profitable in H2

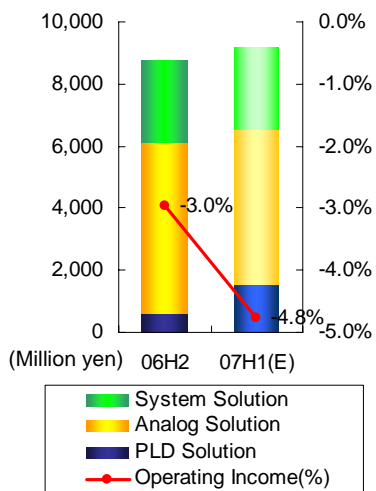


2006 FYE Results Reporting ◆ H2 of 2006 has 7-month-worth of revenue from N S M 17



Changes in profits between 06H2 and 07H1

- A few extraordinary events cause increase of loss from operation in the 1st half of 2007 despite of revenue increase from the 2nd half of 2006



- Gross margin is expected to decrease by 2.2% from 06H2 to 07H1

[PLD Solution]

- Special margin sharing program for a transferred customer in 1st half of 2007 => Normal margin from 2nd half of 2007
- Large % of revenue is from large customers and causes lower margin => Need to reconstruct broad customer bases

[Analog Solution]

- Increase in large but low margin projects

[System Solution]

- High-margin software product sales contributed higher margin in H2 of 2006

- Increase in SGA (38 million yen)

- Largely increase in people expense

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Next Action (1) - PLD Solution -

■ Business Status - Customer Transfer -

Large Customers	Transfer of assigned customers are nearly completed
Broad base	Continuing aggressive sales promotions

■ Goals and Strategies

- Increase Xilinx's share at assigned customers
 - By winning more designs through system-based proposals and strong engineering support
- Expand customer bases
 - Increase awareness of Xilinx products among broad-base customers. Aggressive sales promotion activities have brought bookings from 521 accounts since April 2006. The goal is to bring the number to past average of about 2000 account base.
- Creation of more value added proposals
- System-based proposal from both digital and analog points of view



Next Action (1) - PLD Solution -

- Provide system-based proposals with PLDs as core devices
- Provide value-added and verified engineering support by taking advantage of actual experiences of engineering support



PALTEK Solution Data Base

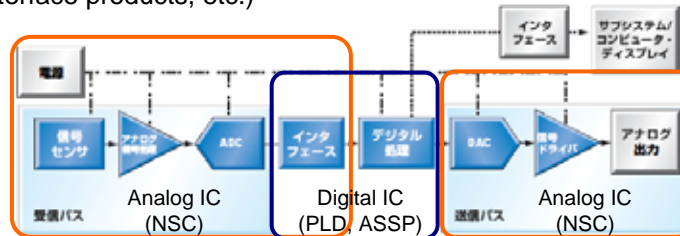
PALTEK Original Evaluation Board





Next Action (2) - Analog Solution -

- Expand business with 6 large customers
 - Increase market share at each account
 - Maintain high share in existing business fields
 - Increase high-performance analog business
- Expand customer base
 - More penetration to PALTEK's wide range of industrial application customer base
- System-based proposal by converging digital and analog solutions
 - Increase high-performance analog business (AD/DA converter, interface products, etc.)



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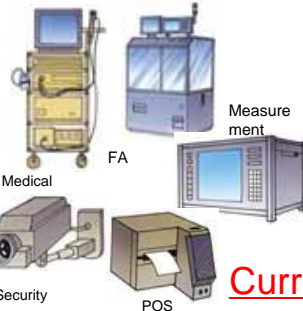


Analog Business: Expand application coverage

Previous focus applications



Industrial



Communication



Broadcasting



Enterprise



Current focus applications

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Next Action (3) - System Solution -

■ Business Status

- Continue large growth of memory business
 - 235% sales increase from FY2005
 - Memory business accounts for 35% of System Solution category
- Develop CMOS Image sensor business
- Continue solid growth of ASSP business
 - Core ASSP products saw 10% - 30% growth in FY2006
 - ASSP business accounts for 46% of System Solution category
 - Expand customer bases and design-wins of target projects



Investment to future growth

The Source of PALTEK's Value is

- Abilities to provide system-based proposals for both customers and suppliers
- Abilities to provide system-based proposals converging both digital and analog skills and knowledge



- Investment to bring about such solutions
- Investment to those who have such high engineering skills and knowledge
- Investment to develop reference boards and designs

PALTEK For the future growth			
	2006	2007	2008
Goals	Maintenance of competitive edges and reconstruction for recovery	Recovery of business scale and investment for the future	Transformation to profitable growth
Actions	<ul style="list-style-type: none"> Retain capable people Return all Altera inventory Reconstruction of PLD business Strengthen other business 	<ul style="list-style-type: none"> Evolution of solutions Expansion of customer base Strengthen group management 	

PALTEK IR Contacts

For INQUIRIES, please contact:

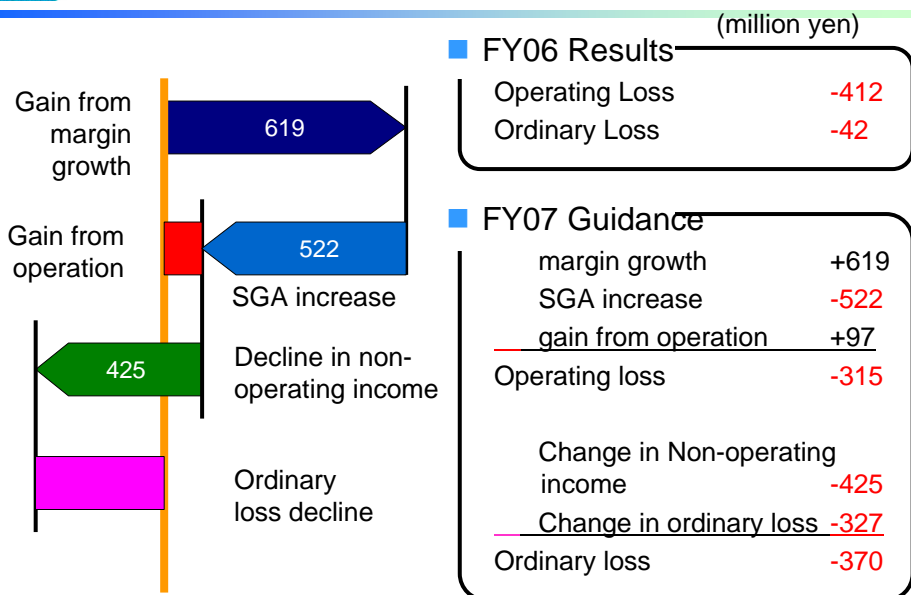
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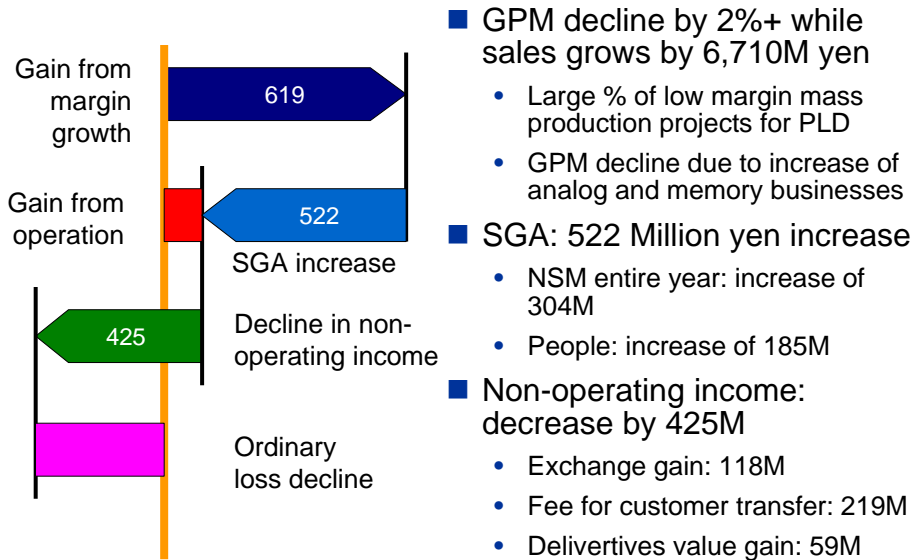
References

Analysis of changes in profits from FY06 (1)





Analysis of changes in profits from FY06 (2)



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Definitions of Applications

Category	Main End Products
Communication	Applications for communication infrastructure and Broadband Switching, Terminal, Gateway, Routing/IP, Wireless Access
Industrial	Digital broadcasting equipments, medical equipments, factory automation equipment , measurement equipments and other professional equipments
Consumer	Mobile phone handsets, DSCs, audios and game consoles, flat TVs, other home entertainment devices
Data Processing/Computer	PC, laptops, servers, printers, computer peripheral devices, storage and imaging devices including printers and projectors.

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