

PALTEK

(JASDAQ:7587)

Fiscal Year 2007 First Quarter Explanatory Meeting

(English translation of original presentation)

May 10, 2007

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

- 1 Results of FY2007Q1
- 2 Guidance of FY2007
- 3 Strategies for Growth



- 1 Results of FY2007Q1



Business Environment

Semiconductor market related to PALTEK Group

■ PLD Market

Multiple consolidations among big telecom companies world-wide, which are PLD's major customers, triggered a slow down for PLD market since mid 2006, but will start picking up from the second quarter of CY2007 as consolidations settle down and PLD's application coverage widens.

■ Analog Semiconductor Market

Many large analog semiconductor companies experienced negative growth from Q4 of 2006 to Q1 of 2007 due to seasonable effects after Christmas business and inventory correction.

■ Memory Market

Oversupply of memory products, both DRAM and FLASH memory, caused drastic price falls since the end of CY2006. Some DRAM saw price dropping by 40% since last December. This oversupply situation will be corrected by mid year and expect demand to recover in the latter half of 2007.

FY2007 Q1 Results Reporting

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Business Environment

Application market related to PALTEK Group

■ Network Market

In domestic network market, investment related to introduction of number portability system contributed growth of network equipment companies. Without such large projects, 2007 will be a year of no growth. Next big opportunities for network companies are NGN and WiMAX.

■ Industrial Application Market (Capital Investment)

Another high growth is expected due to capital investment by both domestic companies which have recovered from recession, and by newly developed countries led by BRICs.

■ Mobile Phone Market

Year 2006 enjoyed a high growth thanks to introductions of "one-segment broadcasting on mobile phone" as well as deployment of number portability system. Year 2007 will be a negative growth year in response to such high growth in Year 2006.

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Results of Q1 FY2007 (Consolidated)

(Million yen)	06Q1	07Q1	Change (%)	Reasons for change
Sales	3,904	4,475	14.6%	PLD down, growth from NSM
Gross Margin	653	612	-6.4%	Growth of analog and memory business pushed down GPM
SGA	621	771	24.2%	Increase from NSM
Operating Income	32	-159	-	
Operating Income (%)	0.8%	-3.6%	-	
Ordinary Income	195	-161	-	
Net Income	119	-93	-	

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Balance Sheet Results (Consolidated)

	(Million yen)	06Q1	07Q1	Change	Reasons for change
Assets	Cash & equivalent	4,774	1,335	-3,438	Returned loans
	Account receivable	2,777	4,149	1,371	NSM's A/R contributed growth
	Inventory	1,580	3,165	1,584	Growth from NSM and growing PLD business
	Other current asset	2,074	1,106	-967	Correction of credits
	Fixed assets	863	1,343	480	Increase of deferred tax
	Total Assets	12,070	11,100	-970	
Liabilities/Equity	Account payable	721	1,250	528	Increase of analog and memory
	Short term loan	1,767	600	-1,167	
	Other current liabilities	407	519	112	
	Fixed liabilities	333	332	-1	
	Net Assets	8,840*	8,398	-441	*06Q1 include minority share
	Total liabilities & net assets	12,070	11,100	-970	

FY2007 Q1 Results Reporting

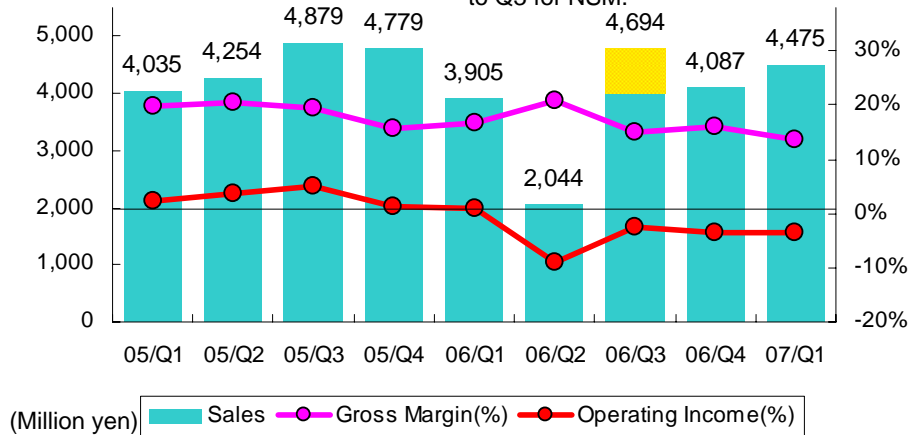
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Quarterly trend of sales and income (consolidated)

- Sales is recovering and SGA is managed well. However, negative profit is recorded for Q1 due to decline of GPM caused by extraordinary and limited-time effects

(*) 4-month-worth sales was added to Q3 for NSM.



(Million yen) FY2007 Q1 Results Reporting

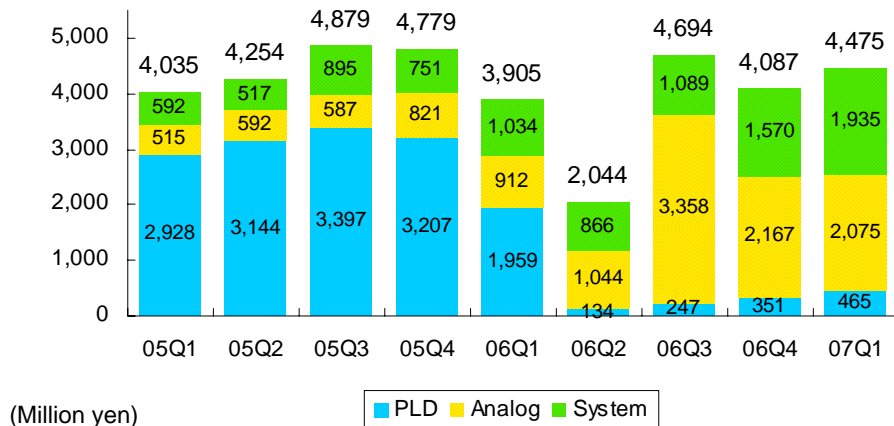
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Sales by solution category (consolidated)

Analysis of 2007Q1

- PLD : Stared fulfillment to a major customer in Q1. Increase expected starting from Q2.
- Analog : Production schedule of a large project delayed to late Q2
- System : Better than expected growth for memory and ASSP



(Million yen) FY2007 Q1 Results Reporting

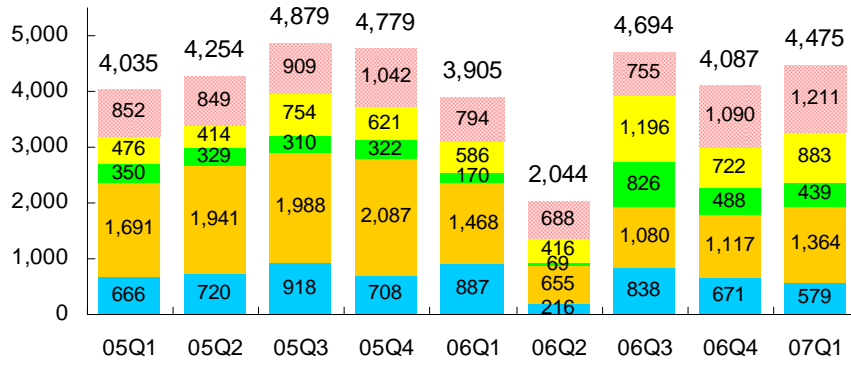
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Sales by application category (consolidated)

Analysis of 2007Q1

- Communications : Large sales from analog for base stations and ASSP for VoIP
- Industrial : Analog for FA and amusement (pachinko) was strong
- Consumer : Analog for cell phone was strong



(Million yen)

■ Communication ■ Industrial ■ Computer ■ Consumer ■ Others

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Guidance for FY2007 (Progress)

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Guidance for FY2007 (consolidated)

Initial guidance announced on February 9, 2007

(¥M)	2006 Actual			2007 Guidance		
	H1	H2	Year	H1	H2	Year
Sales	5,948	8,781	14,729	9,200	12,300	21,500
Gross margin	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	0	-36	-283	53	-230

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Guidance for Sales in H1 of FY2007

No change for total sales but sales mix by solution is modified

(¥M)	H1 Est.	Q1 Act	Q2 Est.	H1 Modified	Change
PLD	1,550	465	760	1,225	-325
Analog	5,000	2,075	2,100	4,175	-825
System	2,650	1,935	1,865	3,800	1,150
Total	9,200	4,475	4,725	9,200	0

Reasons for modification

- **PLD Solution:** Fulfillment for a large customer started in Q1, but real revenue growth will start in Q2
- **Analog Solution:** Production schedule of one large project delayed by 3 months and will start in late May. Weak demand expected from one customer
- **System Solution:** Big growth for memory and strong ASSP business

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Guidance for Sales of FY2007

No change for the total sales amount but sales mix by solution is modified to reflect progress and estimates of current situation

(¥M)	H2 Est.	H2 Modified	Year Est.	Year Modified	Change
PLD	3,150	3,000	4,700	4,225	-475
Analog	5,700	5,200	10,700	9,375	-1,325
System	3,450	4,100	6,100	7,900	1,800
Total	12,300	12,300	21,500	21,500	0

Reasons for modification

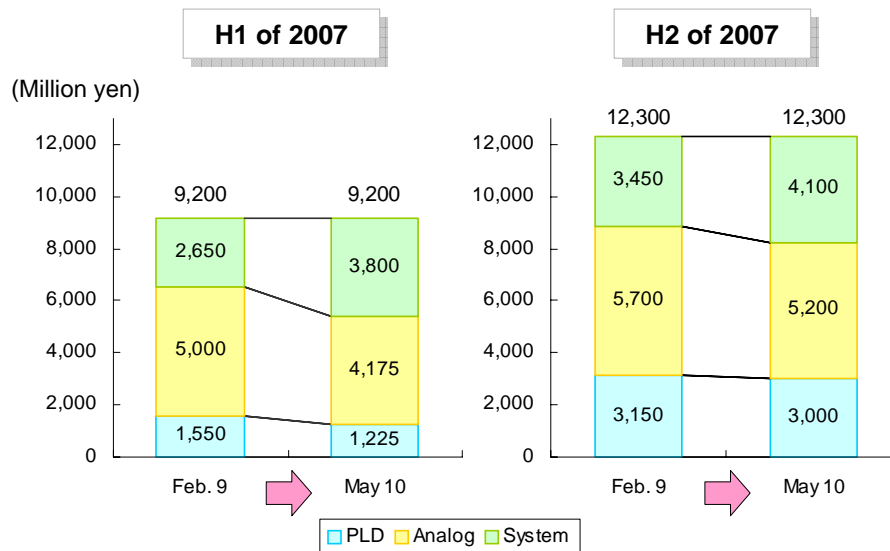
- **PLD Solution:** Some weakness in some communication customers, but mostly in line with the initial estimate
- **Analog Solution:** One big project is within initially estimated level, although production schedule was delayed. Decline in demand from a loss of big project in network and one major customer.
- **System Solution:** Solid growth for memory and main ASSP products

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Modified guidance for sales mix



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Guidance for profits

**FY2007Q1 ended a little better than initial estimate.
PALTEK maintains initial guidance for profits.**

Gross margin

- Change of sales mix by solution has minimal impact on gross margin

Expense

- Q1 finished less than initial plan mainly due to lower HR related expense and promotion expenses.
- SGA is expected to rise due to additional human resources from Q2 on.

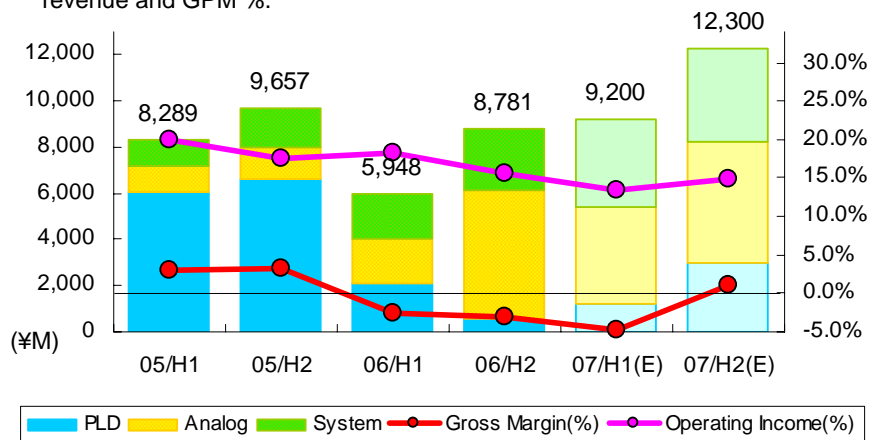
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Business Trend (consolidated)

- Both sales and profits are within initial estimates for H1. A drop in gross margin is due to extraordinary and limited time effects from customer transition.
- Expect to record profits in H2 by going over break-even point with rising revenue and GPM %.



FY2007 Q1 Results Reporting

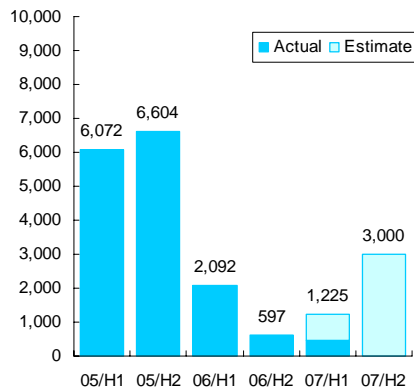
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Business Strategy: PLD Solution (1)

PLD Solution

(Million yen)



Business guidance

- **H1:** Delay in transfer of a major customer resulted in lower sales level than estimates
- **H2:** In addition to contribution from one large transferred customer, revenue will rise greatly by all design win activities of 2006

Strategies

- More design wins and increase PLD market share by bringing system-based proposals for mid to large size customers
- Expand customer base

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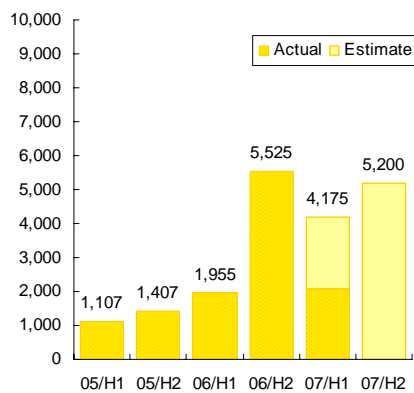
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Business Strategy: Analog Solution (2)

Analog Solution

(Million yen)



Business guidance

- **H1:** Lower than expected sales due to delayed production schedule of one large project and weak demand from one large customer.
- **H2:** One large project contributes to growth in revenue although delayed by 3 months. Weak demand from telecom customer.

Strategies

- More design wins and increase market share at large customers.
- Expand customer base.

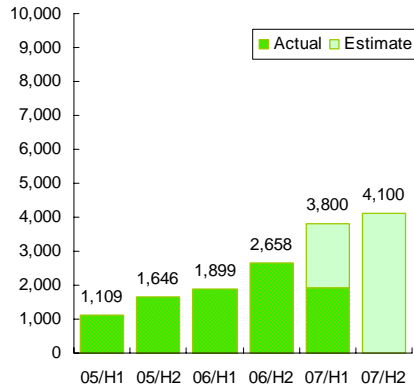
(*)NSM was acquired in May, 2006. 06H2 includes 7-month revenue for NSM.

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System Solution

(Million yen)



Business guidance

- **H1:** Memory and ASSP products recorded better than estimated revenue.
- **H2:** Expect to maintain robust demand for memory and ASSP
- **Risk factors:** market price of memory products, production schedule of communication projects

Strategies

- **Memory:** Expand customer base. Design win activities for NAND FLASH
- **ASSP:** Focus 6 main products and aggressive design win activities

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Business strategies for future growth



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	Retain capable people Return all Altera inventory Reconstruction of PLD business Strengthen other business	Evolution of solutions Expansion of customer base Strengthen group management	

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For the future growth



Consolidation of NSM's logistic center

- Consolidated NSM's outsourced logistic center to PALTEK's in February.
- Some initial cost will be incurred in 2007 by consolidation, however, this consolidation will bring large cost reduction from 2008 on.





For the future growth

Evolution of solutions

PALTEK original evaluation board

- This SDI evaluation board enables evaluation of newly standardized next generation 3Gb/s SDI interface.
- Target application: broadcasting (system-based proposal)
- Exhibited at NAB 2007 show in Las Vegas (April, 2007)



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For the future growth

Evolution of solutions

WiMAX Business

- **The Ministry of Internal Affairs and Communications**
To construct wireless broadband network, the ministry will decide on technology to employ, service contents and others. Will soon announce the scope of licensing and selection of carriers
- **Equipment manufacturers**
Design activities are making progress while doing field testing
- **PALTEK**
Providing design support to equipment manufacturers
Exhibited at
"Next generation mobile technology seminar"
(At Canadian Embassy, April 19, 2007)
=> wide-spread attention

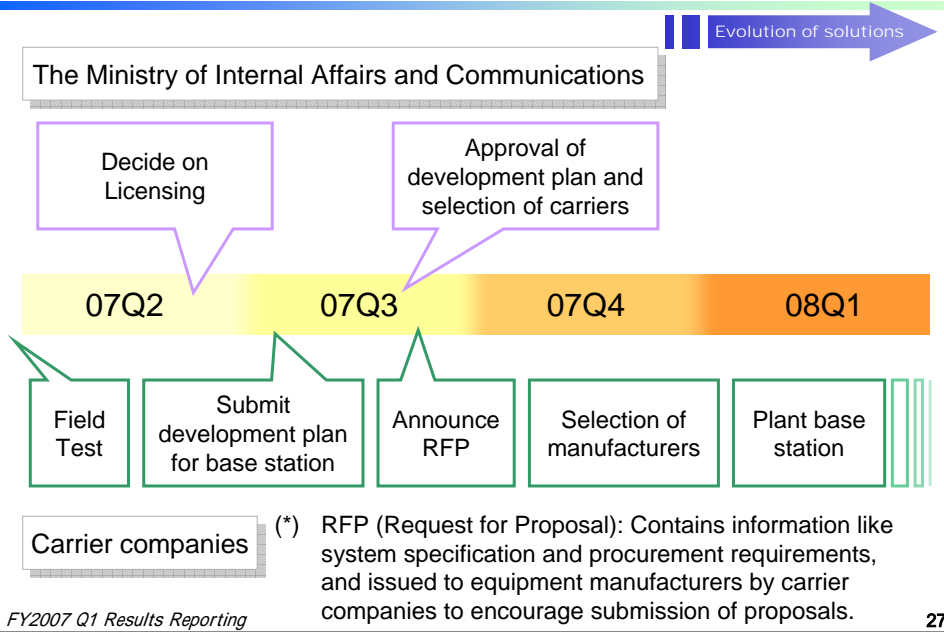


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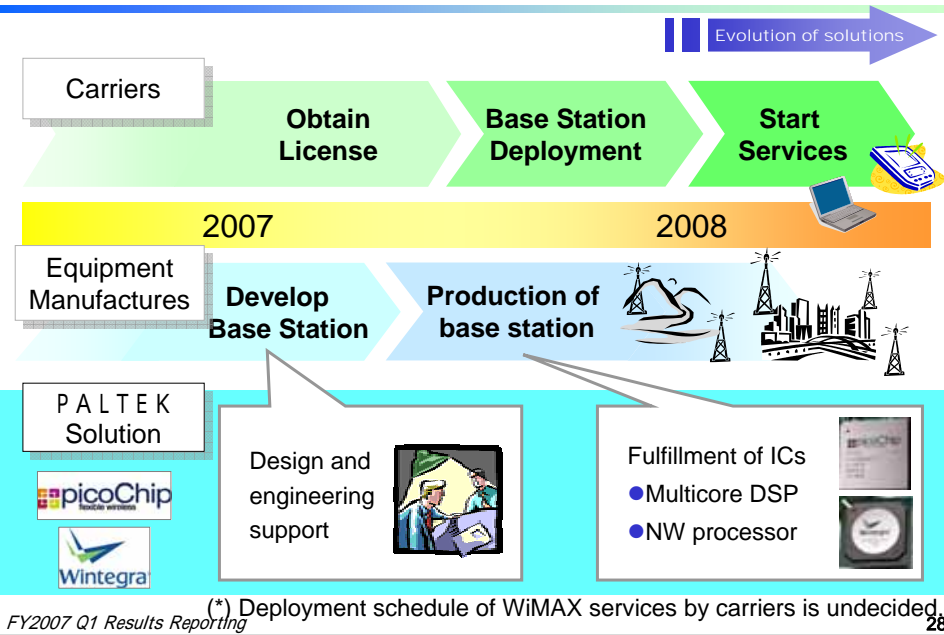
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WiMAX Business - Milestone -



WiMAX Business - PALTEK Solution -





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References



About WiMAX

WiMAX Business

- **Background of constructing wireless broadband network**
 - Constructing ubiquitous network society by YR2010, ahead of the rest of the world (u-Japan Policy)
 - The Ministry sponsored wireless broadband promotion committee and studied possible usage, economic impacts, social issues, etc, in order to decide government policy for promotion from Nov. 2004 through Nov. of 2005.
 - Radio frequency is another national asset like land and has to be allocated and designated for efficient and appropriate use.
 - **As a result, the Ministry decided that 2.5GHz band will be allocated to communication carrier companies which provide best services.**
- **What is “WiMAX” ?** (Worldwide Interoperability for Microwave Access)
 - The range of WiMAX is kilometers and provide max of 70 Mbit/second speed (IEEE802.16e)
 - Greatly enhance wireless capabilities, but technology is complex.



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.