

# **PALTEK**

**(JASDAQ:7587)**

## **Fiscal Year 2007 First Half Explanatory Meeting**

**(English translation of original presentation)**

**August 9, 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 FY2007H1
- 2 Guidance of FY2007
- 3 Strategies for Growth



Results of FY2007H1



## Business Environment

### Semiconductor market related to PALTEK Group

#### ■ PLD Market

Down trend since mid 2006 triggered by multiple consolidations among big telecom companies world-wide, which are PLD's major customers, settled down by second quarter of 2007. Industrial applications led recovery for PLD.

#### ■ Analog Semiconductor Market

Inventory correction in early 2007 seems ceased and the industry has returned to growth in Q2. Facing usual slow business season of summer, visibility is weak.

#### ■ 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 has been corrected by mid year and expect demand to recover in the latter half of 2007

#### ■ ASSP Market

ASSPs for communication and consumer applications are strong while ASSP for PC and peripherals seem weak.



## Business Environment

### Application market related to PALTEK Group

#### ■ Network Market

Capital investment by domestic network carriers are weak and next big opportunities are such new projects as NGN and WiMAX. Some communication manufacturers are doing better with some market leading products catered for oversea markets.

#### ■ Industrial Application Market

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.

#### ■ Consumer 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.



## 2007H1 Results (Consolidated)

(Million yen)	06H1	07H1	Change (%)	Change (M Yen)	Main reasons for change
Sales	5,948	9,125	53.4%	3,177	Acquisition of NSM in May, 2006, contributed large increase in analog semiconductor sales
Gross Margin	1,078	1,226	13.7%	147	Large increase in sales from analog semiconductor and memory products contributed lower GPM.
Gross Margin (%)	18.1%	13.4%	-	-	
SGA	1,229	1,538	25.1%	308	Increase in expense is due to acquisition of NSM.
Operating Income	-150	-311	-	-160	
Operating Income (%)	-2.5%	-3.4%	-	-	
Ordinary Income	-43	-267	-	-224	In 2006, 112-million-yen of non-operating income contributed to reduce operating loss
Net Income	-37	-291	-	-254	

FY2007 H1 Results Reporting

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## 2007H1 Results: Balance Sheet (Consolidated)

	(Million yen)	06H1	07H1	Change	Main reason for change
Assets	Cash and Equivalent	1,739	2,186	447	
	Account Receivable	3,661	4,287	625	
	Inventory	2,688	2,591	-96	
	Other Current Assets	2,770	959	-1,810	Credit of 2,644 million yen at the end of 2006H1 has been corrected by July of 2006.
	Fixed Assets	1,233	1,247	14	
Asset Total		12,092	11,273	-819	
Liabilities & Equity	Account Payable	1,163	1,192	28	
	Short-term Loans	508	1,000	491	
	Other Current Liabilities	647	536	-111	
	Fixed Liabilities	1,102	334	-768	Returned long-term borrowings and redeemed security bonds
	Net Equity	8,669	8,210	-459	
Liabilities & Equity Total		12,092	11,273	-819	

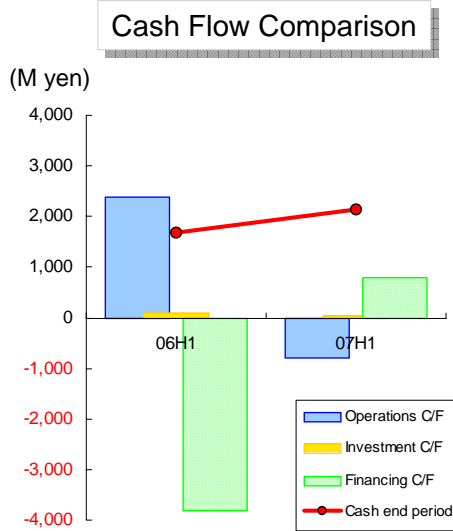
FY2007 H1 Results Reporting

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## Cash Flow (Consolidated)



(Million yen)	06H1	07H1
CF from Operations	2,394	-799
CF from Investment	91	35
CF from Financing	-3,808	787
Cash and Equivalent	1,691	2,134

### Cash Flow Analysis

- CF from Operations: Increase of 274M yen due to loss from operations and increases in account receivables and inventory
- CF from Investment: Increase due to sales of securities
- CF from Financing: Increase due to short-term borrowing

FY2007 H1 Results Reporting

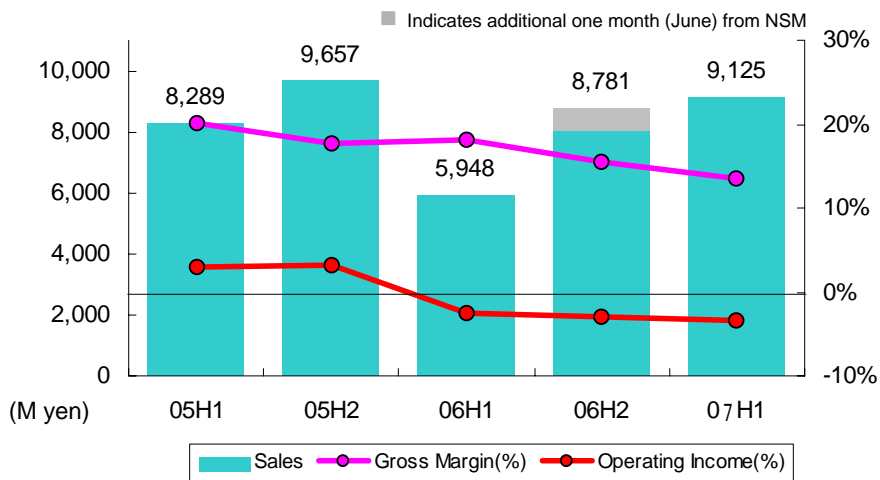
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## Sales and Operating Income History (consolidated)

- Sales is steadily recovering to the previous level
- Gross margin decreased due to change in product mix
- Cost saving efforts contributed to lowering expense level



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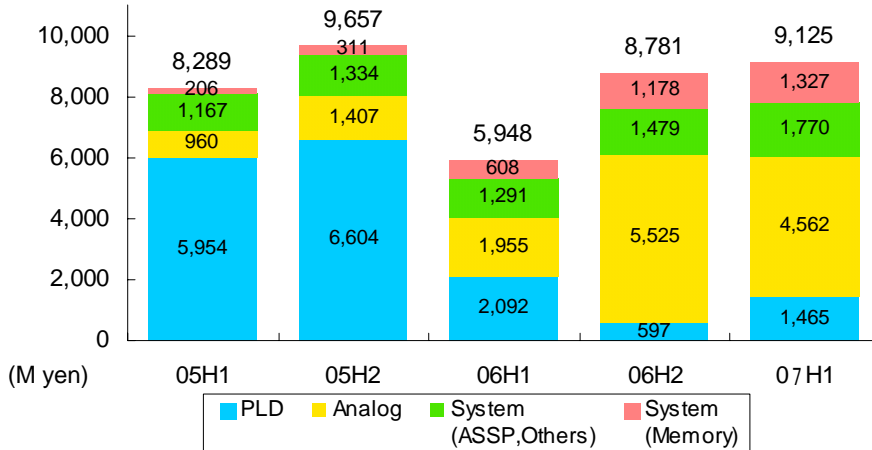
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### Sales History by Solution Category (consolidated)

- PLD :Business with one large OEM customer started in Q1
- Analog :Weak market trend from communication and consumer applications. One large project commenced production in late Q2.
- System :Both ASSP and memory products grew steadily



FY2007 H1 Results Reporting

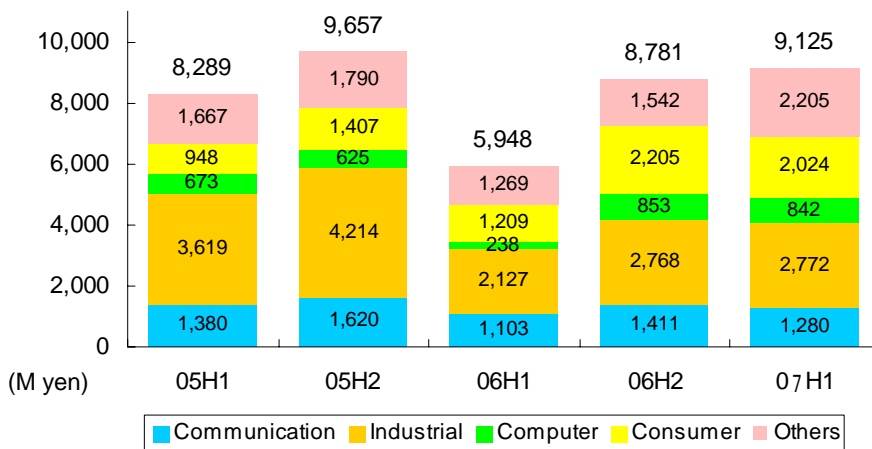
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### Sales History by Application Category (consolidated)

- Communication :PLD for base stations increased while analog decreased
- Industrial :Analog for factory automations are strong
- Consumer :Analog for cell phones are strong



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## FY2007 Guidance

## FY2007 Guidance (consolidated)

### Guidance as of August 9<sup>th</sup>, 2007

(Million yen)	Guidance as of February 9th			First Half Actual and Current Guidance		
	H1	H2	FY2007	H1	H2	FY2007
Sales	9,200	12,300	21,500	9,125	12,274	21,400
Gross Margin	1,227	1,838	3,065	1,226	1,611	2,838
SGA	1,665	1,715	3,380	1,538	1,580	3,118
Operating Income	-438	123	-315	-311	31	-280
Operating Income (%)	-4.8%	1.0%	-1.5%	-3.4%	0.1%	-1.3%
Ordinary Income	-458	88	-370	-267	5	-262
Net Income	-283	53	-230	-291	20	-271



## Guidance for Income

**PALTEK Group will return profitable in 2<sup>nd</sup> Half**

~ Cost reduction will compensate decrease for gross margin ~

### Gross Margin Outlook

- 2<sup>nd</sup> Half gross margin percentage will decrease from the previous guidance of 14.9% to 13.1 %
  - PLD Solution: Within initial estimate
  - Analog Solution: one large project with low gross margin will impact the overall gross margin
  - System Solution: Product groups with lower margin drive revenue

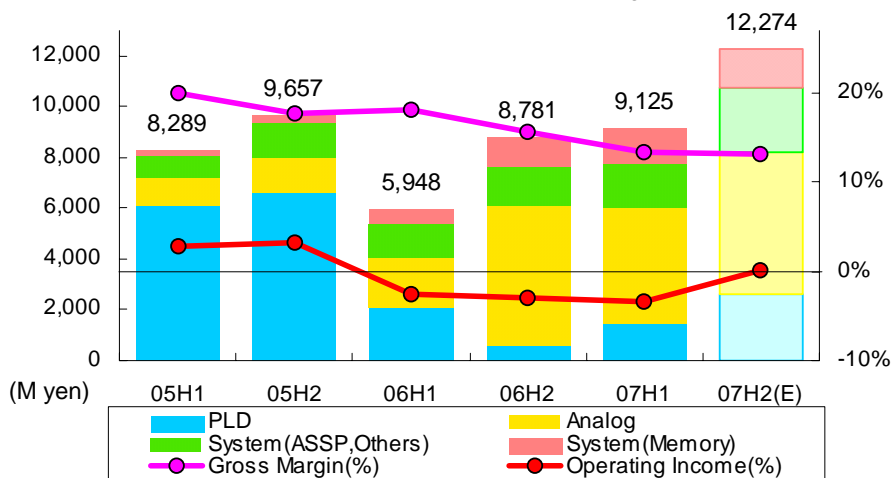
### Operational Cost Outlook

- Will continue to strive for operational excellence at competitive cost structure



## Sales History by Solution Category (consolidated)

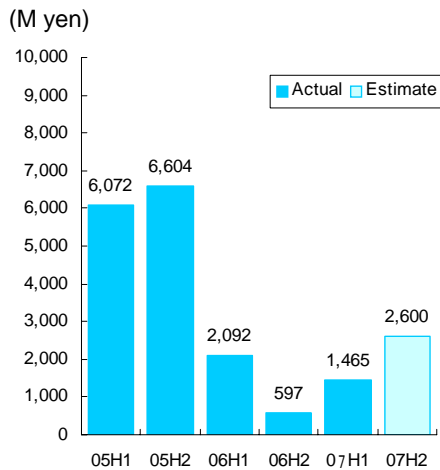
- In the 2<sup>nd</sup> Half, all 3 Solutions expects to make solid growth and go over break-even at the consolidated level
- More balanced business portfolio with 3 Solution Categories





## Business Outlook for PLD Solution

### PLD Solution



### Outlook for the 2<sup>nd</sup> Half

- Strategic customer: large Comm. project drives revenue
- Mid-size customer: slow but steady revenue growth from design-wins since 2006
- Broad-base: find more new projects and start from proto-typing

### Business Strategy

- Expand market share at larger strategic accounts by deploying system-based solutions
- Mass marketing promotions for broad-base customers via newsletter, seminars, etc

FY2007 H1 Results Reporting

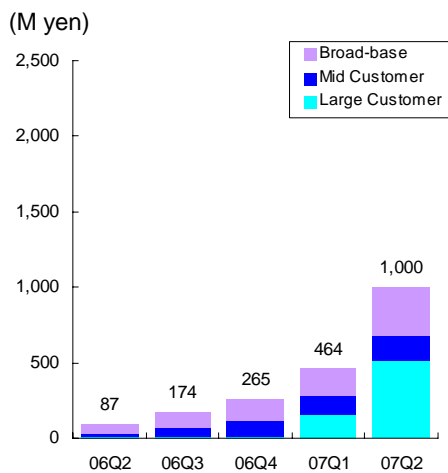
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## Business Outlook for PLD Solution

### PLD Solution



### Outlook by Customer Category

- **Large Customer:** Business started with one large customer in Q1 and the revenue has started to contribute.
- **Mid-size Customer:** Nice growth in design win projects, but due to longer design and product life-cycle, the revenue will start to increase in mid 2008.
- **Broad-base:** Customer base is growing nicely. The number of customers have exceeded 500.

FY2007 H1 Results Reporting

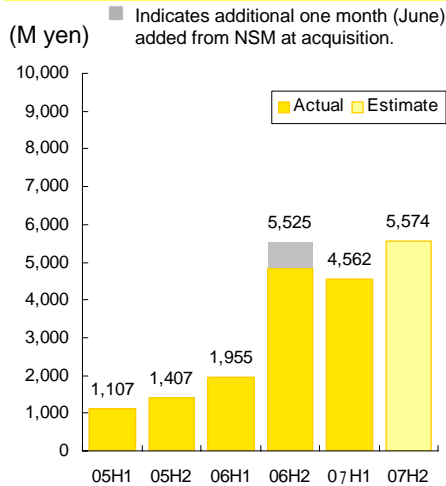
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## Business Outlook for Analog Solution

### Analog Solution



### Outlook for the 2<sup>nd</sup> Half

- One large mobile terminal project will have large impact on overall performance of 2<sup>nd</sup> half
- Broad-base customers are growing nicely

### Business Strategy

- System-based solutions for large OEMs and selected industrial customers
- Expand customer base to PALTEK's broad-base customers

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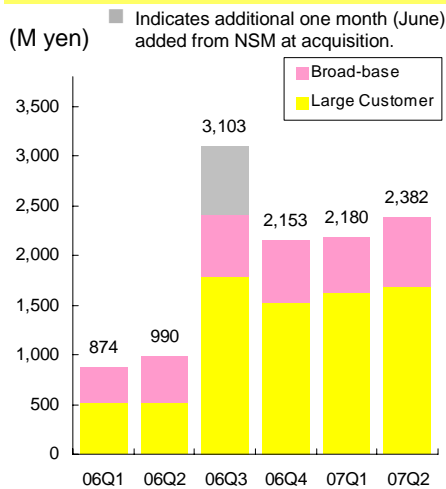
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## Business Outlook for Analog Solution

### Analog Solution



### Outlook by Customer Category

- **Large customer:** Returned to growth phase with large projects, off-setting weak demand from one large customer
- **Broad-base:** Steady revenue growth for broad-base customers

FY2007 H1 Results Reporting

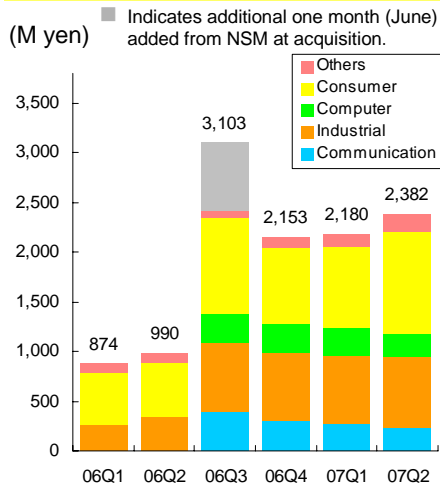
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## Business Outlook for Analog Solution

### Analog Solution



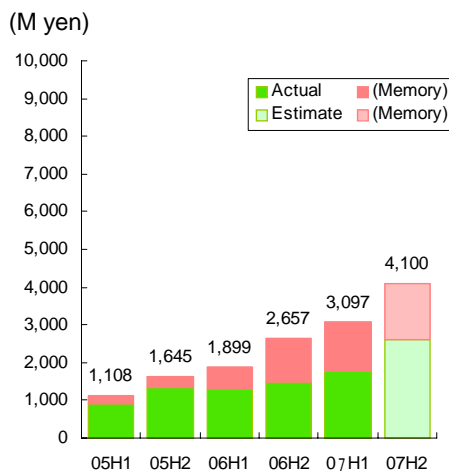
### Outlook by Application

- **Communication**  
 Capital investment is weak after large investment for number portability system
- **Industrial**  
 Solid growth for factory automation and other applications
- **Consumer**  
 One mobile terminal project is driving overall revenue



## Business Outlook for System Solution

### System Solution



### Outlook for the 2<sup>nd</sup> Half

- **ASSP:**  
 Changes in revenue mix among 6 main products, but overall revenue is within initial estimation
- **Memory:**  
 Continue to grow steadily

### Business Strategy

- **ASSP:**  
 More design wins for targeted projects for focused 6 products
- **Memory:**  
 Expand customer base

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For the Future Growth

**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"> <li>Retain capable people</li> <li>Return all Altera inventory</li> <li>Reconstruction of PLD business</li> <li>Strengthen other business</li> </ul>	<p><b>Evolution of solutions</b></p> <p><b>Expansion of customer base</b></p> <p><b>Strengthen group management</b></p>	



## For the future growth



### Update: Consolidation of Logistic Center

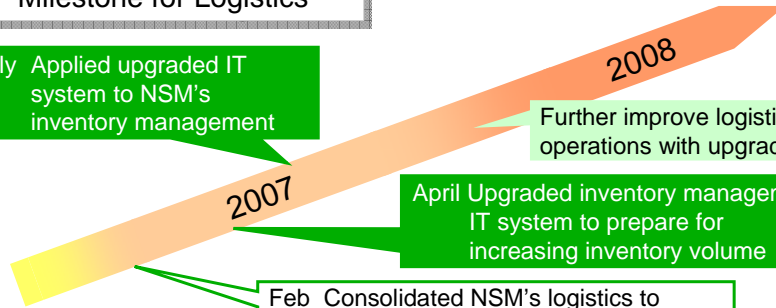
#### Milestone for Logistics

July Applied upgraded IT system to NSM's inventory management

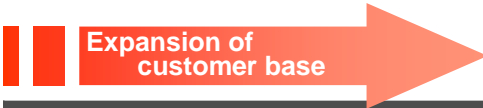
Further improve logistic operations with upgraded IT

April Upgraded inventory management IT system to prepare for increasing inventory volume

Feb Consolidated NSM's logistics to PALTEK's

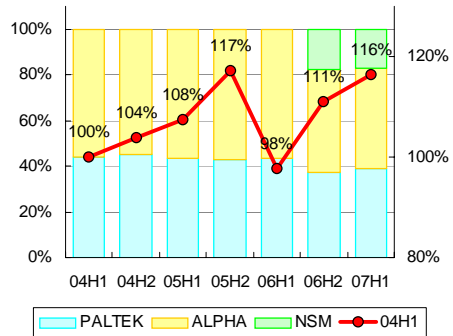


## For the future growth



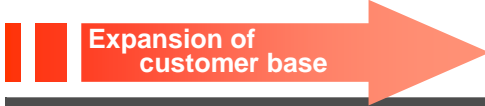
### Customer Base

- The number of customers have recovered to the level of the first half of 2005, mainly thanks to the addition of NSM
- Revenue will increase as current design wins move to production stage



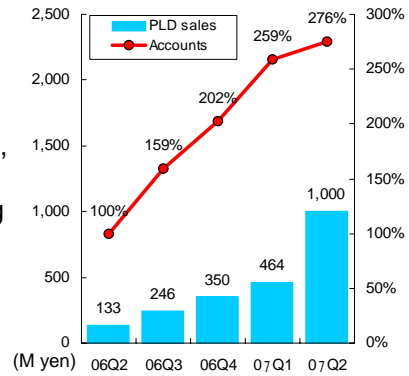


## For the future growth

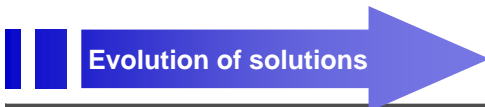


### PLD Solution: Revenue and customer number trend

- Since the start of Xilinx business in April, 2006, the number of customers almost tripled in one year
- As the number of customer increases, the number of design wins by system-based proposals is increasing



## For the future growth



### PALTEK Original Evaluation Board

- System-based Solution with PLD as core solution
- Developed fully-tested and screened evaluation boards for focused growth application areas by taking advantage of rich support experiences
- Examples: PCI-Express, SDI



PCI-Express Evaluation Board



SDI Interface Evaluation Board



## For the future growth

### Evolution of solutions

#### WiMAX Business Update

##### ■ Ministry of Internal Affairs and Communication

May 16 : Licensing policy announced and asked for public comments

Jun 15 : Public comment period ended

July 11 : Licensing policy has been determined

Aug 17 : General outlines for application of base station deployment plan was announced

Sep 19 : Start accepting applications. Due October 12th

##### ■ Carriers

All carrier companies submitted their opinions

Much activities going on in order to qualify for the licensing policy

##### ■ OEM / PALTEK

Many are already in the final phase of design and development and PALTEK is providing technical support to customers



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# Reference

**PAL** Definitions of Applications  
**TEK**

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