

# **PALTEK**

**(JASDAQ:7587)**

## **Fiscal Year 2007 Explanatory Meeting**

**(English translation of original presentation)**

**February 13, 2008**

- 1** FY2007 Results
- 2** FY2008 Guidance
- 3** Business Directions of  
PALTEK Group

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# FY2007 Results

## 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>	



## Business Environment

### Semiconductor Markets related to PALTEK Group

- **PLD**  
Down 3% from CY2006
- **Analog Semiconductor**  
Flat from CY2006 world-wide, but down 4% in Japanese market
- **ASSP**  
Up 18% world-wide from CY2006. Japanese market grew by 55% from CY2006 due to big growth in consumer sector.
- **Memory**  
Price of DDR2 512Mbit DRAM fell by one-fifth from the beginning of CY2007 toward the end of 2007. It remains low in early CY2008.



## Business Environment

### Application Market related to PALTEK Group

- **Communication**  
Wireless base station project for oversea markets was strong.  
2 Operators (KDDI and Willcom) have obtained license to operate in 2.5Ghz band
- **Industrial Applications**  
Remain strong led by strong demands from such countries like BRICs
- **Consumer**  
Flat TV demand remains strong. Handheld mobile entertainment device pulled the demand.



## FY2007 Summary

### 1. Financial results

- Record-high revenue: 20,600M yen
- Returned profitable in the 2<sup>nd</sup> half and produced OP of 11M yen in H2

### 2. Three pillars of business

■ PLD Solution	Sales 3,900M yen, up 45.1% from 2006 Sales growth from large accounts
■ Analog Solution	Sales 9,700M, up 30.8% from 2006 Large growth from handheld entertainment device project
■ System Solution	Sales 6,900, up 52.9% from 2006 Growth came from ASSP for communication, and memory business

### 3. Strengthen information security

■ Information Security System	Obtained ISO27001 certification, successfully transferred from ISMS
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## 2007 Results: P/L (Consolidated)

(Million yen)	2006	2007	Change (M Yen)	Change (%)	Main reasons for change
Sales	14,729	20,655	5,925	40.2%	Growth from all business units
Gross Margin	2,445	2,716	271	11.1%	Gross margin point fell due to several large projects with low gross margin
Gross Margin (%)	16.6%	13.2%	-	-	
SGA	2,857	3,017	159	5.6%	Full year expense for NSM in 2007
Operating Income	-412	-300	111	-	Operational loss shrank thanks to sales growth and strict SGA control
Operating Income (%)	-2.8%	-1.5%	-	-	
Ordinary Income	-42	-222	-179	-	In 2006, large supporting fee for transferring PLD business
Net Income	-36	-258	-221	-	

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## 2007 Results: Balance Sheet (Consolidated)

		(Million yen)	2006	2007	Change	Main reason for change
Assets	Cash and Equivalent		2,148	2,295	147	
	Account Receivable		3,966	5,070	1,103	Sales increased
	Inventory		3,246	1,992	-1,254	Disciplined inventory mgmt
	Other Current Assets		338	540	202	
	Fixed Assets		1,373	1,114	-259	
Asset Total			11,074	11,013	-61	
Liabilities & Equity	Account Payable		1,430	1,280	-150	
	Short-term Loans		95	780	684	
	Other Current Liabilities		494	399	-94	
	Fixed Liabilities		373	341	-32	
	Net Equity		8,680	8,211	-468	Decreased due to net loss and dividend payouts
Liabilities & Equity Total			11,074	11,013	-61	

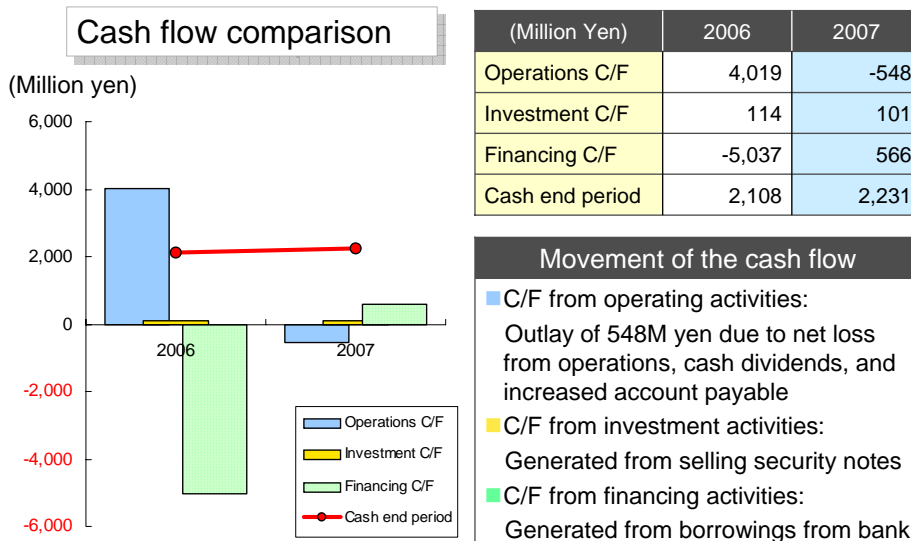
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## Cash Flow (consolidated)



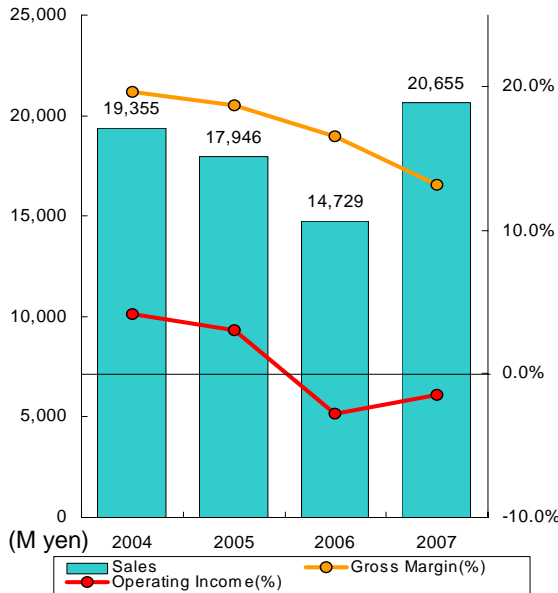
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## Sales and Operating Income History (consolidated)



### Results of FY2007

- Recovering PLD business and a few large projects contributed large increase in revenue
- Gross margin point fell to 13.2% due to some large projects with low gross margin
- Operating loss shrank thanks to increasing sales and tight SGA control

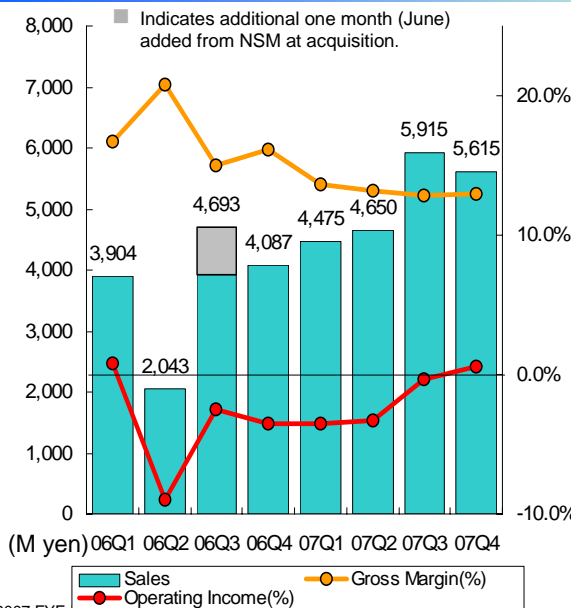
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## Quarterly Sales and Operating Income History (consolidated)



### Results of FY2007

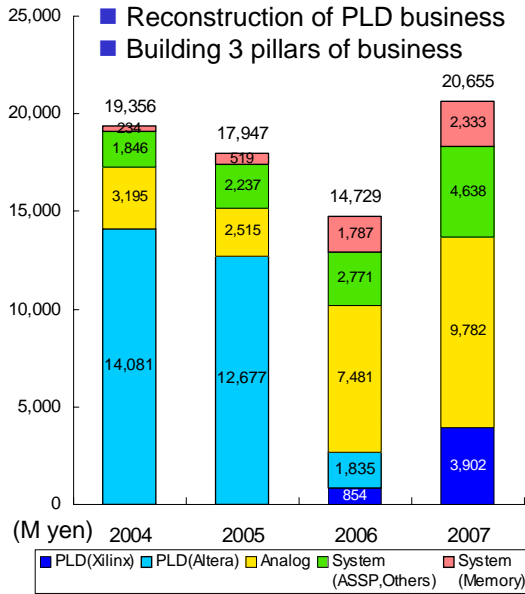
- 07Q4 Sales: PLD and ASSP business increased, but one large analog project decreased in Q4
- Gross margin point improved in 07Q4 due to decrease in one large analog project
- Returned profitable in Q4 due to SGA saving

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## Sales trend by Solution (consolidated)



### Remarks on each Solution

- **PLD**  
Wireless base station project lead revenue
- **Analog**  
Handheld entertainment device project lead revenue
- **System**  
ASSP for broadband communication lead revenue
- **Memory**  
Price dropped, but increased units raised revenue

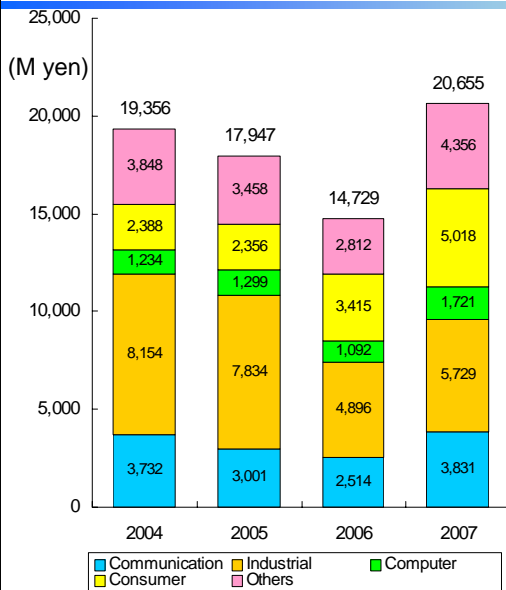
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## Sales trend by application (consolidated)



### Remarks on Application

- **Communication**  
PLD for wireless station was strong
- **Industrial**  
Broadcasting, medical and security projects were strong
- **Consumer**  
Analog for Handheld entertainment device project was strong

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### Achievements

- Evolution of value prepositions
  - Developed PALTEK original evaluation boards (DSP solution, SDI solution)
  - Strengthen design service functions
- Strengthen group management
  - Consolidated NSM's warehouse to PALTEK's logistic center in order to reduce cost and increase operational merits
- Strengthen security management
  - Obtained "ISO27001"
  - Received high scores for security management from some customers who conducted security management survey



## FY2008 Guidance

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>		

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PALTEK Transformation to profitable growth	
<ul style="list-style-type: none"> <li>FY2008 is to achieve “transformation to profitable growth”</li> <li>Strategies           <ul style="list-style-type: none"> <li>Evolution of solutions               <ul style="list-style-type: none"> <li>Strengthen engineering services</li> <li>Created design services business unit to drive revenue</li> </ul> </li> <li>Rebuild and expand customer base               <ul style="list-style-type: none"> <li>Add new line cards</li> <li>Increase market share and new users of current line cards</li> </ul> </li> <li>Strengthen group management               <ul style="list-style-type: none"> <li>More efficiency</li> <li>Create more synergy between business units</li> <li>Build plans for the next IT systems</li> </ul> </li> </ul> </li> </ul>	

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## FY2008 Guidance

(Million yen)	Results of FY2007			Guidance as for FY2008		
	H1	H2	FY2007	H1	H2	FY2008
Sales	9,125	11,529	20,655	11,500	13,500	25,000
Gross Margin	1,226	1,490	2,716	1,600	1,810	3,410
SGA	1,538	1,478	3,017	1,580	1,720	3,300
Operating Income	-311	11	-300	20	90	110
Operating Income (%)	-3.4%	0.1%	-1.5%	0.2%	0.7%	0.4%
Ordinary Income	-264	45	-222	5	70	75
Net Income	-291	33	-258	3	42	45

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## Details of FY2008 Guidance

### Sales

- Up 21% from FY2007. Analog looks soft.
  - PLD : Up 61% from contribution from large accounts
  - Analog : Down 7%. Smaller production volume estimate for large mobile project. Weak demand from one large customer
  - ASSP : Up 34% from communication ASSP
  - Memory : Up 46% from increasing customer numbers

### Gross Margin

- Gross margin will stay flat. The amount will increase from increasing sales

### SGA

- Increase expected from adding engineering resources
- Continue to improve operation competitiveness further

### Operating Income

- Produce operating income throughout FY2008

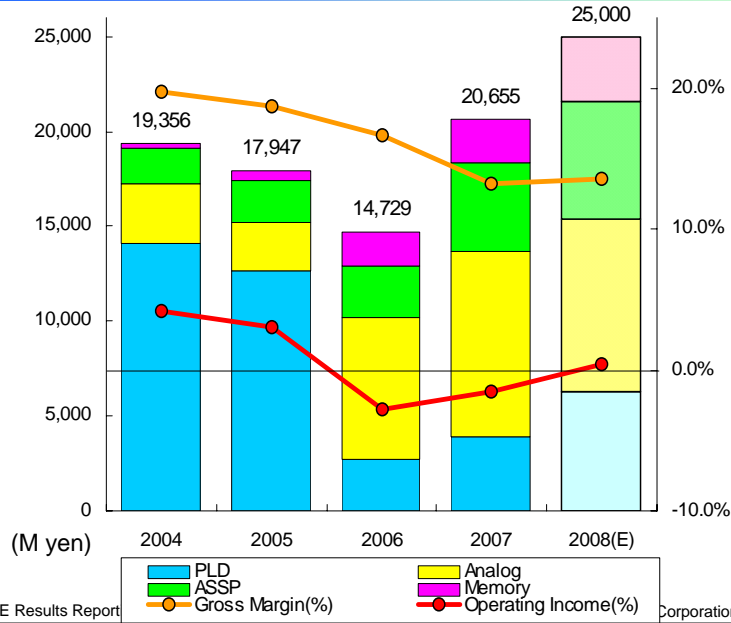
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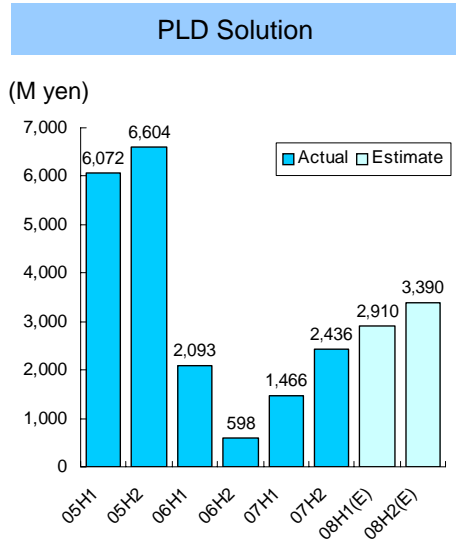
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## Sales guidance by application (consolidated)



## Business Strategy: PLD Solution



### FY2008 Guidance

- Large accounts: Strong growth expected
- Mid-size accounts: Steady growth from many design wins
- Smaller accounts: Growth is relatively slower

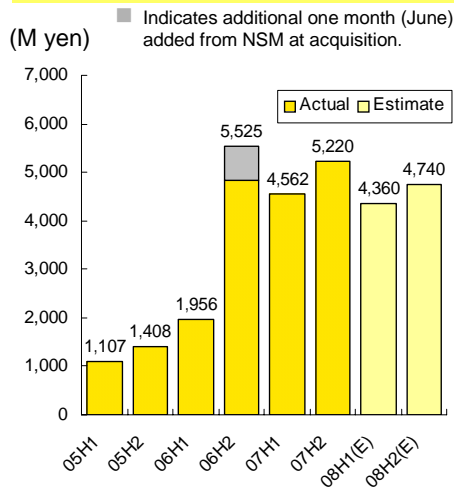
### Business Strategy

- Increase market share by providing high value-added engineering support
- Drive design service business
- Increase new customers



## Business Strategy: Analog Solution

### Analog Solution



### FY2008 Guidance

- Less volume is expected for the large handheld entertainment device project
- Large accounts: flat from FY2007 except one account

### Business Strategy

- Large accounts: Focus on winning large projects
- Expand application coverage
- Further strengthen engineering support and system-based proposal by taking advantage of high FAE skills

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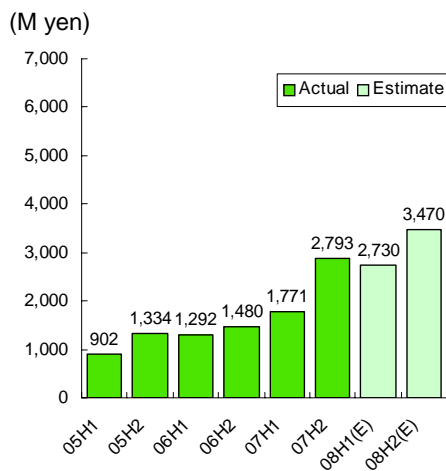
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## Business Strategy: ASSP Solution

### ASSP Solution



### FY2008 Guidance

- ASSP for broadband communication project contributes to sales increase
- Overall ASSP business looks steady
- WiMAX business to commence in H2

### Business Strategy

- More design wins for current line cards
- Add new line cards
- Provide high value-added engineering support

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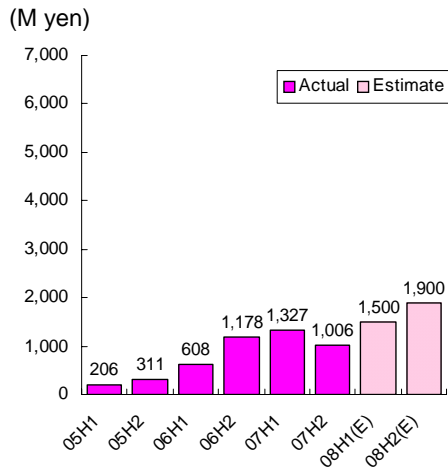
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## Business Strategy: Memory Solution

### Memory Solution



### FY2008 Guidance

- Expanded customer base will contribute to the growth in sales
- Memory price is hard to predict and bear risk

### Business Strategy

- Expand sales among mid- to smaller accounts
- Develop new customers among module vendors



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## Business Directions of PALTEK Group



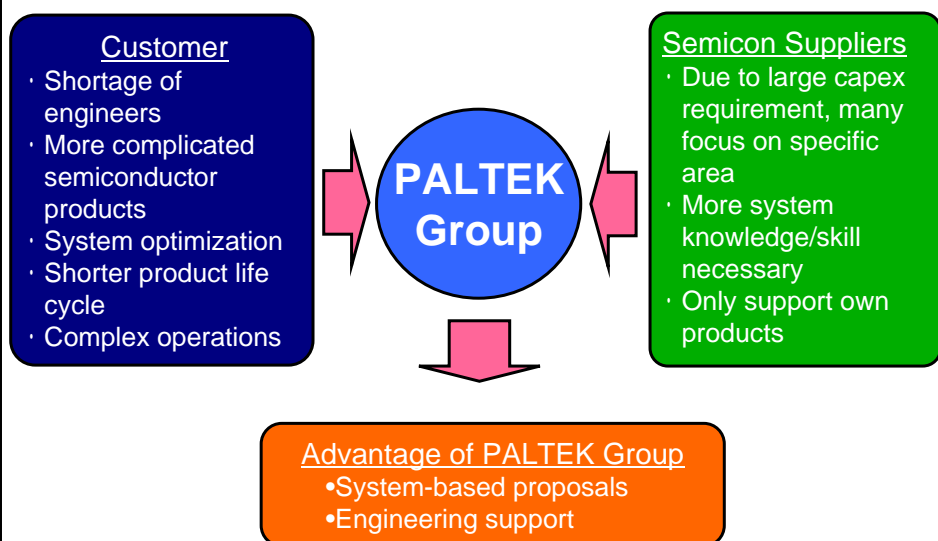
## Looking ahead for mid-term goal: 50B yen sales

### Perspectives of Japanese Electronics Industry

1. Realignment and consolidation of industry
  - From “department store style” to “choosing focus areas”
2. Application markets: more focus where Japan has competitive advantage
  - High-performance digital consumer products
  - Industrial applications (medical, broadcasting, measurement, FA, etc) to take advantage of high manufacturing skills and experiences
  - Automobile applications
3. Market needs
  - Realization of high performance
  - Shorten development cycle



## Value Propositions of PALTEK Group





## Looking ahead: mid-term goal of 50B yen sales

### Practice of corporate philosophy “*kyo-sei*” (cooperative growth)

- Our success is defined by Customer’s success

### Value propositions of PALTEK Group

- Engineering support backed by rich knowledge and skills
- System-based proposals
- High quality assurance and support to meet Japanese customers’ high expectation
- Operational excellence: Cost competitiveness

### Strategies

- Strengthen engineering organization
- Drive design service business
- Focus on strategic application areas
- Pursuit of operational excellence



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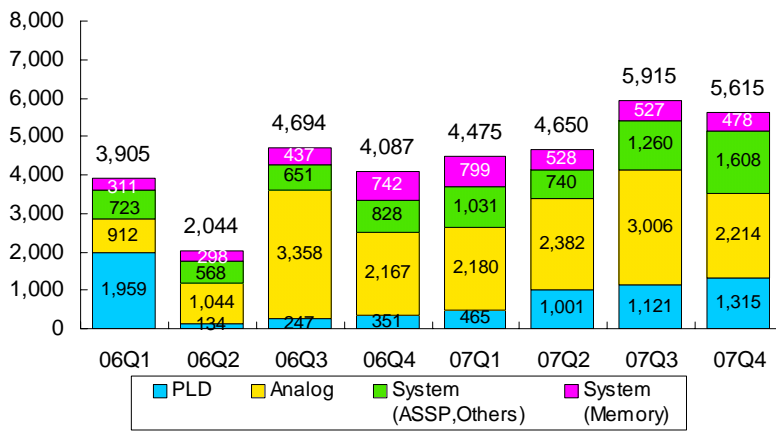
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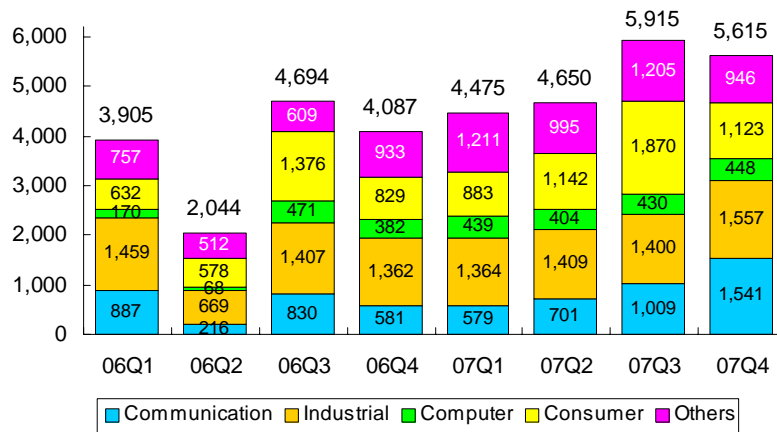
# Reference

**PAL**  
**TEK** Quarterly Sales Trend by Solution (06-07)





### Quarterly Sales Trend by application (06-07)



### FY2008 Sales Guidance by Solution (consolidated)

(Million yen)	FY2007 Actual			Guidance FY2008		
	H1	H2	FY2007	H1	H2	FY2008
PLD	1,466	2,436	3,902	2,910	3,390	6,300
Analog	4,562	5,220	9,782	4,360	4,740	9,100
ASSP	1,771	2,868	4,638	2,730	3,470	6,200
Memory	1,327	1,006	2,333	1,500	1,900	3,400
Sales Total	9,126	11,529	20,655	11,500	13,500	25,000
Operating Income	-311	11	-300	20	90	110