

To Our Stakeholders

PALTEK REPORT

Year Ended December 31, 2004

JASDAQ

Code : 7587

Message to Our Stakeholders



PALTEK CORPORATION
Tadahito Takahashi
 President

in inventories, partially influenced by fiscal restraint in China and other factors. Also, many consumer electronics companies were hurt by large price drops over a very short period of time due to increased global competition. Under these business circumstances, PALTEK has faced various challenges and these developments forced us to respond quickly to overcome these challenges.

Despite these conditions, the PALTEK Group recorded its second year of increases in consolidated net sales to ¥19,355 million, which represents a new record high level of sales and exceeded the previous record set four years ago. With regards to profits, although we were successful in holding down our expenses through various cost reduction efforts, they were not enough to absorb the decline in our gross profitability and our profits fell below the previous year's levels. Consequently, we recorded ordinary and net incomes of ¥935 and ¥483 million respectively during fiscal year 2004. We maintained a dividend payment of ¥10 per share.

I have always expressed my view that "opportunities lie in challenges" to our employees. The business environment surrounding our Group is changing dramatically these days due to internal factors such as the PLDs (programmable logic devices) has evolved and started to capture a much large market presence in Logic market, and from external factors such as the quickening pace of globalization of our customers and suppliers. Amidst this business environment, the issues that our Group must respond to are numerous and none of these issues seems easy. However, we believe that these changes and instability in the business environment offer a unique "opportunity" for our Group to increase our competitive position within the market. Our employees are tackling these numerous issues with their wisdom, courage and good judgment on a daily basis to help resolve these difficult issues facing our Group as we seek to attain higher growth and achieve our medium-term goals. We thank you for their passion and hard work.

Each employee of the PALTEK Group honors the principle of *kyosei* (symbiosis) or "coexistence with diverse partners," which is the foundation of our corporate philosophy.

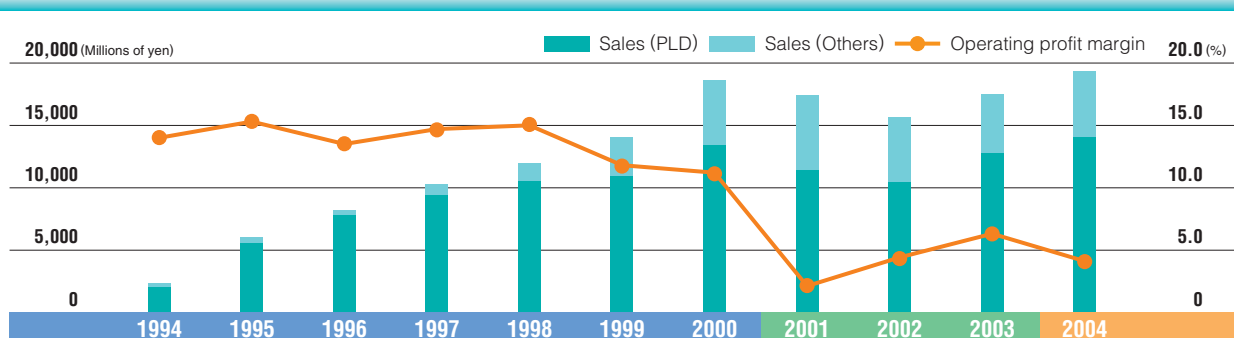
We will continue to work hard to meet the expectations of our shareholders, and we ask for your continued support and assistance in achieving even higher growth going forward.

To Our Stakeholders,

It is our pleasure to present you the results for our 23rd fiscal term (covering the period from January 1, 2004 to December 31, 2004).

During the first half of fiscal year 2004, over all electronics market enjoyed the steady growth by strong demand for consumer electronics products due to factors including brisk domestic and overseas capital investments, unusually hot summer, and the Olympics Games in Athens. However, during the second half of the year, the market became increasingly unstable due to adjustments

PALTEK Group's Sales Trend during the Past 10 Years



Specialized in Communications Infrastructure

- Focused our business resources on PLDs and communications infrastructure market
- Concentrated on highly profitable niche markets

Expanded Sales to Industrial Applications

- In the wake of the post "IT bubble," investments in communications infrastructure have declined → this has led to a shift towards industrial application market
- As the next step, we attempted to develop communications equipment business, but our efforts have encountered difficulties (Cygnet Technologies Inc., liquidated)

Expanding into Digital Consumer Market

- Increased functionality and price competitiveness of PLDs made it possible to penetrate into digital consumer applications
- Sales increased, but operating income declined due to lower gross profit margin

Report of Our Business Activities during Fiscal Year 2004: Achievements and Challenges

During fiscal year 2004 we prioritized activities designed to accelerate our sales growth, and implemented measures to optimize our operations and fortify our financial standing to support our expanding business base. The results we have achieved and the challenges we face are described below.

Achievements in Fiscal Year 2004

1. Expansion of our New Product Line

Our Group views our new product development capability as one of the most important services to our customers, and we identify it as a key activity that will enable us to expand our sales. During fiscal year 2004, we signed distribution agreements with six new suppliers. The followings are some of the major new suppliers we added during the year: We signed with NeoMagic Corporation which develops specialized SoC (System on Chip) for the terrestrial digital mobile broadcast service which is scheduled to begin in 2006. We also signed agreements with memory manufacturer, Micro Technology Corporation, which has high-speed memory solutions for our main PLD products, and Advanced Thermal Technology Corporation, which is developing solutions to deal with heat problems generated by semiconductors. While we have started promotion of these new products and services aggressively during fiscal year 2004, we expect the contribution from these new products to begin during the latter half of 2005 due to the long design and production cycle of electronics products, which usually ranges from 6 to 18 months.

2. Creation of the Digital Consumer Division

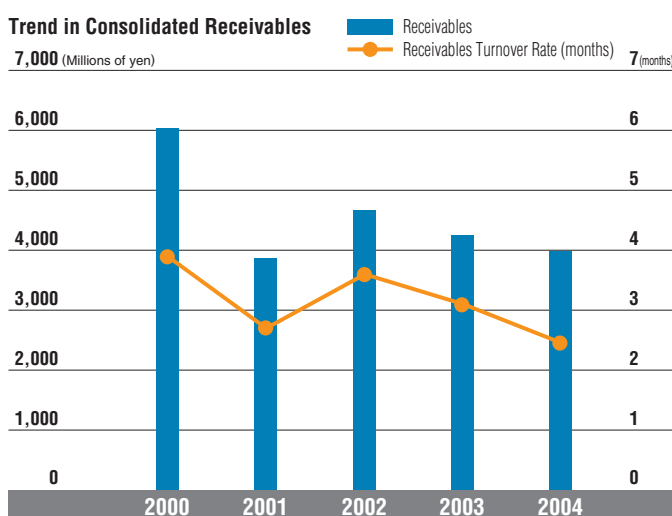
As part of our strategy to expand the market for our solutions and grow our sales, we established the Digital Consumer Division in October 2004. We staffed this division with experienced and knowledgeable personnel in order to ensure a quick growth in its business development.

Historically, our Group has grown earnings primarily by focusing on the development of PLD, ASSP (Application Specific Standard Products), and analog semiconductors used in communication and industrial equipment. Although this strategy was successful in capturing these two markets within the limited resources, we lagged behind in developing digital consumer market which Japanese manufacturers are particularly strong. By strengthening our product lineup with previously mentioned new products, we strive to expand our market coverage into digital

consumer products and increase sales.

3. Efforts to Reduce Receivables

In anticipation of increasing working capital to fund our growing sales base, our Group started a program in the middle of fiscal year 2003 to find ways to liquidate and shorten the recovery time for our receivables. As shown in the graph below, the efforts of this program started to pay off during fiscal year 2004, with the receivables declining below the levels seen in fiscal year 2003 despite the rise in our sales to a new record. Our receivables turnover rate declined by 0.5 months compared with the previous year.



Future Challenges

Improving Our Operating Profit Margin

As PLDs evolved and captured larger market, the customers and electronic equipment applications to which we can provide our solutions are growing rapidly. However, the larger the market becomes, the more fierce the price competition gets and we are facing challenges in maintaining profitability. As a result, in fiscal year 2004, our operating profit margin declined to 4.2% from 6.3% in fiscal year 2003. In order to improve our profitability and achieve our Group's medium-term goals of an operating profit margin of 10%, we will implement the following three strategies.

- 1) We will provide unique and high-value-added solutions.
- 2) We will provide the total solution in which multiple products are offered and sold.
- 3) We will continue to optimize our logistics, marketing and other operations.

By promoting these three strategies and by increasing our sales amount per employee, we seek to raise our operating profit margin.

To Achieve an Operating Profit Margin of 10%

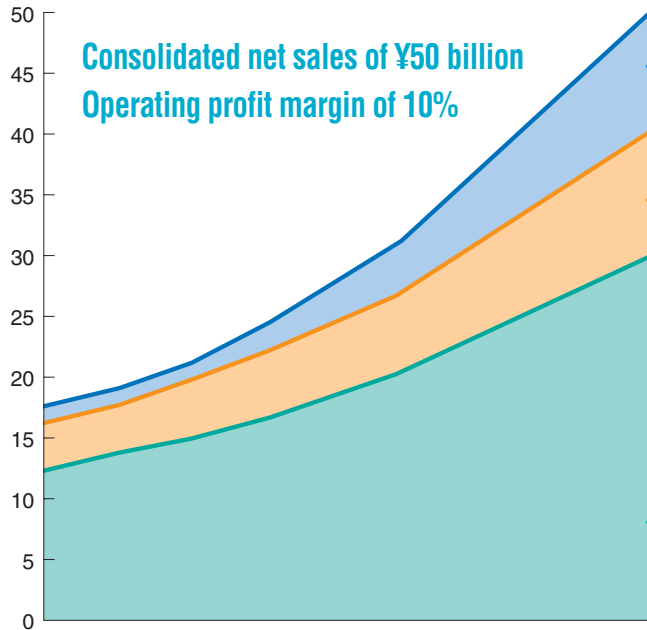
- 1 Provide high-value-added solutions
- 2 Increase sales per employee
- 3 Optimize operations

Medium-Term Vision

Strategies our Group will pursue to achieve its medium-term goals of ¥50 billion in consolidated net sales and 10% operating profit margins.

Image of Sales Composition by Business Line in Medium-Term

(Billions of yen)



System Solutions

Along with the spread of broadband, a new growth market has emerged from the convergence of communications, computers, and consumer products. We will offer the solutions to meet the growing needs of “connectivity” and high-speed requirement to our customers from the system level.

Analog Solutions

We will expand the application and customer coverage for our analog semiconductors, which plays a critical role in controlling complicated power sources as well as enabling clearer image and sound of digital equipment.

PLD Solutions

We will take advantage of PLDs’ advanced functionality and price competitiveness and leverage to sell with other products like power ICs and high-speed memory products. Also, we will aggressively push PLDs to replace ASICs and ASSPs.

System Solutions Business Development : Focusing on Growth Areas

We will focus on growth market based on sound assessment in market trends as well as our customers’ needs and our product lines. One area we will focus on is VoIP (Voice over Internet Protocol) market, where we have been selling products of AudioCodes Ltd., a leading company in the VoIP related product market. Another two product lines we will focus on are PLX Technology Corporation, which specializes interface technologies designed to enable high-speed connectivity, and ATT (Advanced Thermal Technology), which offers thermal related products to help solve the thermal problems generated by semiconductors with most advanced process technology. We will expand our sales by providing system level support for our customers.

Analog Solutions Business Development : Broadening Our Customer Base

Alpha Electronics Incorporated, one of our Group companies based in the Kansai region, has been able expand its business in the fields of the cellular handsets, digital cameras, and other digital consumer products by providing strong technical support and building strong relationship with customers. In October 2003, Alpha Electronics opened its first office in the Kanto region to broaden its customer base in the region. PALTEK will work with Alpha more closely to expand its customer base into PALTEK’s broad customer base particularly in the fields of communication and industrial equipment.

Introduction of Our New Product Line: Micron Technology, Inc.



Micron Technology, Inc. (“Micron” here on), founded in 1978 and now known as one of the leading companies in memory and CMOS image sensor, has its headquarters in Boise, Idaho. Micron, which offers superior circuit design and manufacturing process technologies with plants in Japan and other countries around the world, provides a wide variety of products ranging from DRAM, flash memories, and image sensors. These products can be used in a wide range of applications including computers,

digital consumer products, communication equipment and other products.

Explanation of Technical Terms

- DRAM – Dynamic Random Access Memory
- CMOS Image Sensor – Complementary Metal-Oxide Semiconductor Image Sensor

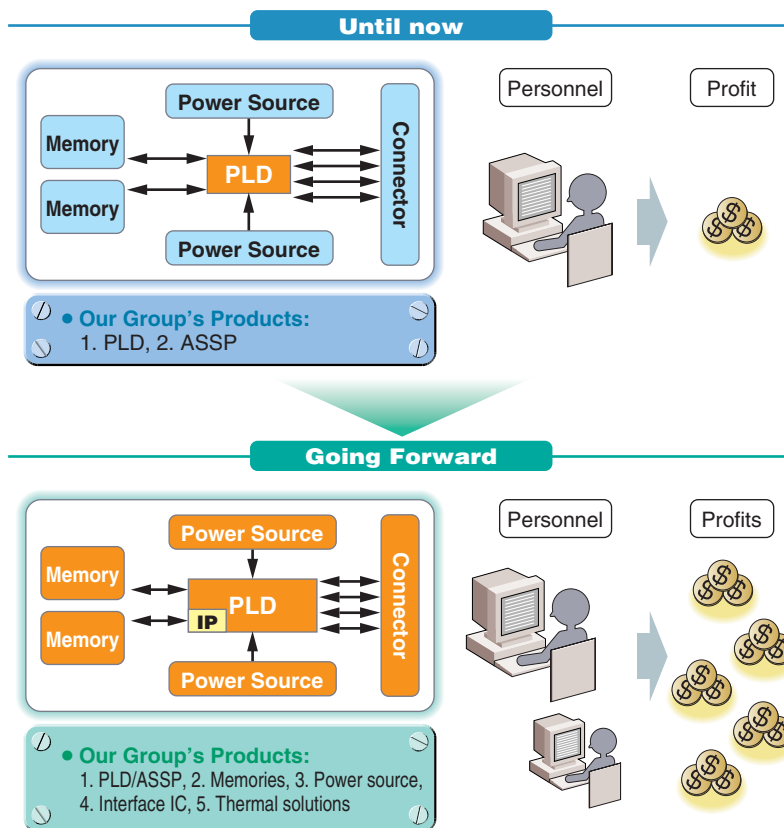


PLD Solutions Business Development : PLD at the Core of Our Business Development

Application coverage of PLDs is expanding rapidly due to their evolution in density and functionality along with its price competitiveness. However, as PLDs evolve, the users are facing new challenges in order to take advantage of more advanced PLDs such as complicated power source control and the high-speed interface. At PALTEK, we take these new challenges as unique business opportunities and we are taking a total solution approach.

For example, we support our customers by providing power source IC products from Bellnix Company and National Semiconductor Corporation in order to answer their needs to control complicated power sources. Furthermore, we have signed a distribution agreement with Micron Technology, Inc. so that we can provide customers with their DDR2 memory to meet their high-speed need. PALTEK seeks to expand its PLD business by providing total solutions based on our vast experience and know-how in long and rich PLDs business.

DDR2: Double Data Rate Second Generation SDRAM



Our Efforts for Corporate Governance

Introduction of a Newly Appointed Director

From fiscal year 2005, Hajime Yamazaki has joined our Company's management team as a director. Yamazaki, through his role as director of several semiconductor trading firms, has many years of experience in the semiconductor business. We expect Yamazaki to help expand our business by not only his vast knowledge and long experience in the industry, but more importantly by the wide range of network and relationships with customers in the electronics manufacturing industry as well as in the semiconductor manufacturing industry in Silicon Valley of the United States he has developed over the years. We look forward to Yamazaki's help in achieving our Group's medium-term targets. We also ask for your support for Yamazaki in the future.



Hajime Yamazaki

Director Retirement Benefit System Abolished

As part of our management reforms, we have reviewed our retirement benefit system for directors and chosen to abolish this system in favor of one which places a greater emphasis on compensation that reflects earnings and performance during each term. We will cease to allocate funds for the current director retirement benefit system effective upon the conclusion of our 23rd Annual General Meeting of Shareholders to be held on March 26, 2005.

With regards to retirement benefits for directors who are currently in office, although the system will be abolished upon the conclusion of General Meeting of Shareholders, the retirement benefits which have been accumulated until March 2005 are going to be paid out to each director at the time of their retirement.

Along with the abolishment of this system, an amount equivalent to their compensation under the previous system will be included in their monthly compensation from April 2005. The directors are encouraged to purchase the common stock with this amount equivalent through the director's stock owning program.

Stock Buy-Back

In accordance with Commercial Law Number 211, Article 3, Items 1 and 2, PALTEK has bought back its own shares.

- Period of buy-back: September 30 to December 27, 2004
- Number of shares acquired: 100,000 shares
- Total value of shares acquired: ¥67,087,500

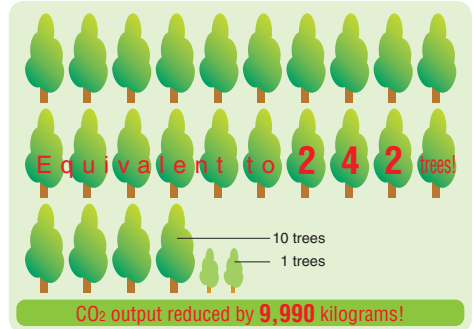
Environmental Activities ■ Our ISO14001 Activities

During 2003, the year we acquired our ISO certification, all of our employees participated in our “eco-life” proclamation activities, including activities to reduce our consumption of paper and electricity as well as to cut the amount of trash. In 2004, we aggressively pursued our goal of reducing trash by separating trash into different categories, and identifying and tackling issues closely associated with each division’s operations. Consequently, we were able to dramatically increase the recycling rate of our trash, which was equivalent to a reduction in CO₂ output of roughly 10 tons. Furthermore, all of the cars used by our sales force are now “eco-cars” or environmentally friendly hybrid cars.

We were able to pass the regularly scheduled assessment performed at the end of 2004 by the assessment board, and all of our employees will continue to promote activities designed to make our Group more environmentally friendly.



All cars used by sales force are now environmentally friendly hybrid cars



Picture of the regularly scheduled assessment by the independent assessment organization

Information Security Activities ■ Information Security Management System – ISMS Activities

In efforts to strengthen our information security management system and to respond to the personal privacy protection law, PALTEK acquired an information security management system (ISMS) certification on December 21, 2004.

We implemented measures to help create a privacy policy and measures to systematically deal with the issue of information security, which we view as a key management issue and an important factor in our risk management. In September 2004, we created a “company wide fundamental security policy,” trained all employees with regards to this issue, and successfully obtained the ISMS certification in December 2004.

In the midst of the rapid diffusion of the Internet, the personal privacy protection law will be enacted from April 1, 2005. However, threats of leakage of trade secret and personal information continue, as computer viruses, unauthorized access, and system disruption are becoming increasingly common phenomenon. The decision to obtain the ISMS certification reflects the first step in our information security measures strategy to deal with increasingly complicated and difficult “multiple threats.” Our efforts will continue to implement various measures to fortify our information security.

■ What is ISMS?

The Information Security Management System (ISMS) was started in April 2002 by the Japan Information Processing Development Corporation as a certification system of information security. As of September 2003 only 147 entities had received certification, but as of November 2004 the number of certified entities rose to 573 including government offices, schools and private enterprises. Industry estimates the number of certified entities to rise to 3,000 by 2007.



With the growing awareness of the need for information security, it is necessary to pursue a dual strategy of developing technological measures while installing organizational management mechanism to establish and maintain information security. The ISMS compatibility evaluation system is a third party evaluation of information security management systems which conform with global standards and are highly trusted both within and outside of Japan.

■ ISMS Concept

The underlying concept of ISMS is to improve the confidentiality, integrity, and the availability of information assets of an organization that need to be protected.

- **Confidentiality** : To permit access to information only to those who are previously identified and approved
- **Integrity** : To protect information from unauthorized alteration
- **Availability** : To make information available to appropriate parties at the appropriate time

Fiscal Year 2005 IR Event Schedule

Date	Event
February 14, Monday	FY2004 Results Announcement Meeting
March 26, Saturday	23 rd Annual General Meeting of Shareholders
May 13, Friday	First Quarter Business Results Meeting
June 11, Saturday	Meeting for Individual Investors
August 11, Thursday	Interim Earnings Announcement Meeting
Early November	Third Quarter Earnings Announcement Meeting

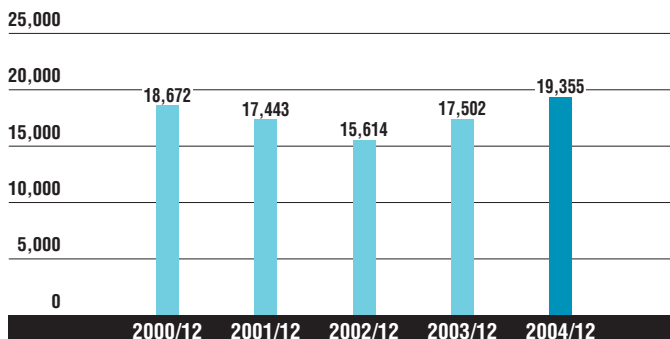
Dates above reflect schedule as of March 28, 2005 and are subject to change.

Invitation to Individual investor meeting We cordially invite you to participate in our individual investor meeting.

The meeting for individual investors is specifically designed to help individual investors better understand our company. We will notify you of the date and time of the meeting once it has been finalized. Please fill out the questionnaire with your contact information and return it to us.

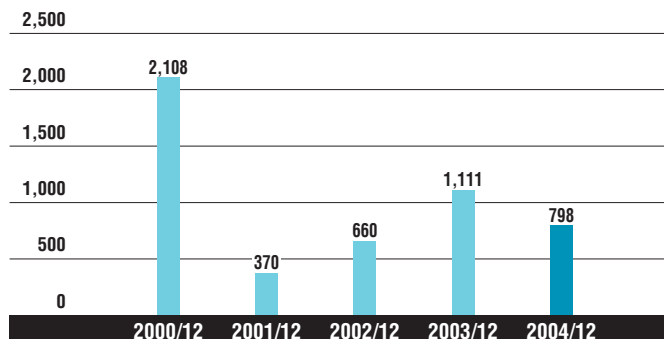
Net sales

(Millions of yen)



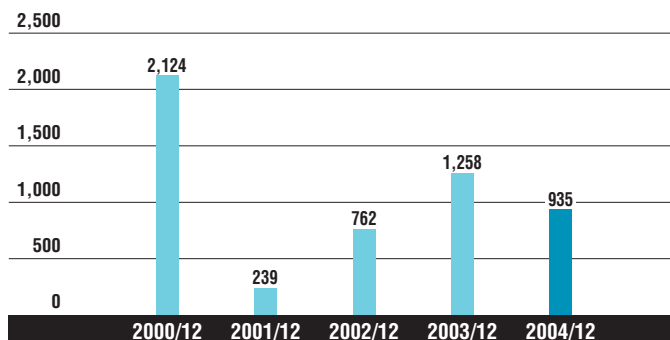
Operating income

(Millions of yen)



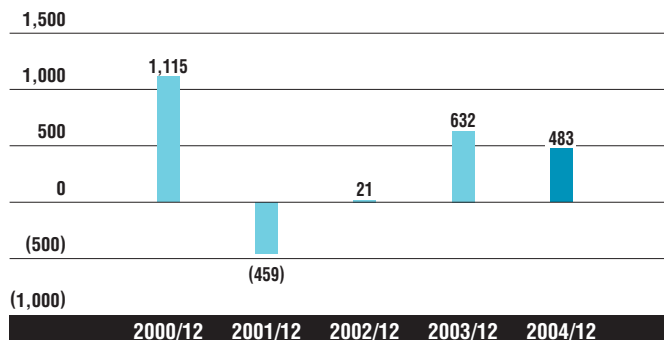
Ordinary income

(Millions of yen)



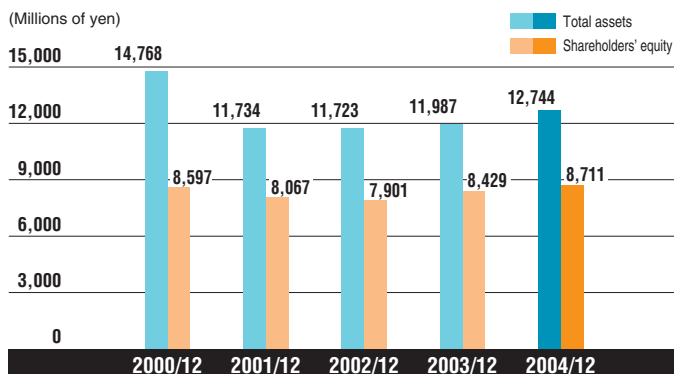
Net income (loss)

(Millions of yen)



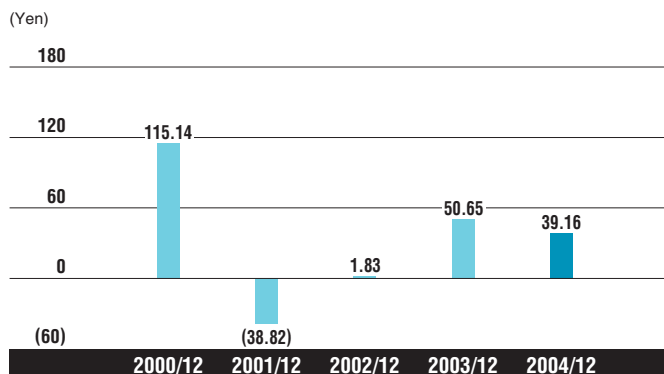
Total assets/Shareholders' equity

(Millions of yen)



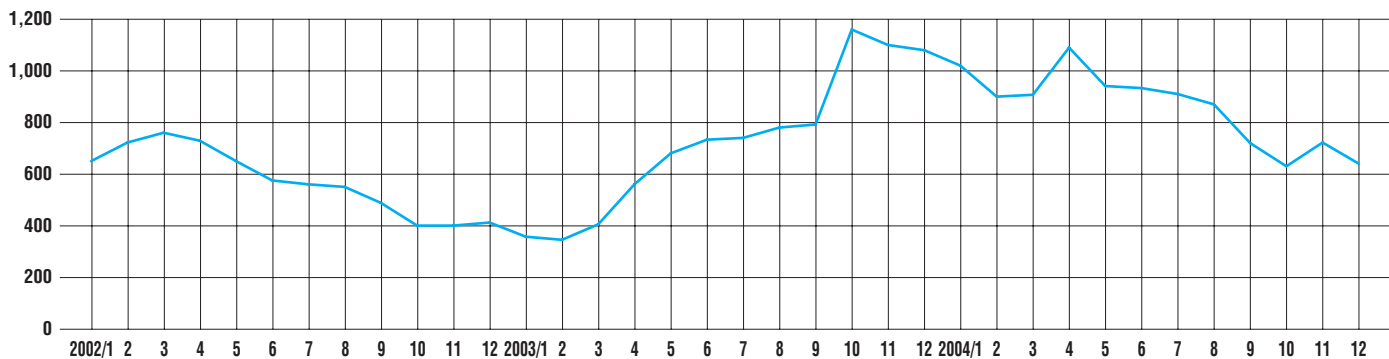
Net income (loss) per share

(Yen)



Stock quotes

(Yen)





Financial Statements

Consolidated balance sheet

(Thousands of yen)

	December 31, 2002	December 31, 2003	December 31, 2004
●Assets			
Current assets	10,215,410	10,793,601	11,607,573
Cash and bank deposits	1,187,549	1,216,737	2,444,243
Notes and accounts receivable	4,670,434	4,251,387	3,983,536
Inventories	3,411,841	4,107,826	4,111,324
Consumption taxes receivable	—	—	837,521
Deferred tax assets	368,490	257,195	64,175
Others	584,477	966,875	173,479
Allowance for doubtful accounts	(7,382)	(6,421)	(6,706)
Fixed assets	1,507,883	1,193,653	1,136,474
Tangible fixed assets	241,028	178,205	150,374
Buildings	161,714	135,462	136,046
Accumulated depreciation	(77,169)	(69,246)	(78,621)
Vehicle equipment	1,884	1,884	920
Accumulated depreciation	(1,719)	(1,777)	(873)
Furniture and fixtures	377,949	388,274	386,814
Accumulated depreciation	(258,860)	(291,127)	(308,647)
Land	37,228	14,736	14,736
Intangible fixed assets	252,496	189,345	117,924
Goodwill	39,509	7,972	—
Others	212,987	181,372	117,924
Investments and other assets	1,014,357	826,102	868,175
Investment securities	142,266	329,251	350,142
Long-term loans receivable	53,365	—	—
Deferred tax assets	524,845	144,767	148,621
Others	359,749	360,429	369,411
Allowance for doubtful accounts	(65,868)	(8,346)	—
Total assets	11,723,294	11,987,254	12,744,048
●Liabilities			
Current liabilities	3,467,221	3,135,137	3,442,125
Notes and accounts payable	1,292,742	929,258	1,071,794
Short-term bank loans	1,524,572	1,716,670	1,763,152
Income taxes payable	201,017	81,939	211,338
Accrued bonuses	43,226	55,751	51,344
Others	405,663	351,519	344,496
Long-term liabilities	323,240	368,350	525,947
Long-term bank loans	16,670	—	114,170
Liability for employees' retirement benefits	10,603	33,712	46,592
Liability for directors' and corporate auditors' retirement benefits	248,492	260,047	276,651
Consolidation translation adjustments	—	—	3,190
Others	47,475	74,590	85,343
Total liabilities	3,790,461	3,503,487	3,968,073
●Minority interests			
Minority interests	31,239	54,370	64,567
●Shareholders' equity			
Capital stock	1,335,487	1,335,487	1,339,634
Capital surplus	2,694,389	2,694,389	2,698,526
Retained earnings	3,891,354	4,391,414	4,723,951
Unrealized gains (losses) on securities - net	(17,570)	12,041	22,173
Treasury stock	(2,067)	(3,935)	(72,877)
Total shareholders' equity	7,901,593	8,429,397	8,711,407
Total liabilities, minority interests and shareholders' equity	11,723,294	11,987,254	12,744,048

Consolidated statement of income

(Thousands of yen)

	Year ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2004
Net sales	15,614,300	17,502,490	19,355,863
Cost of sales	11,530,872	13,331,486	15,551,144
Gross profit	4,083,427	4,171,003	3,804,719
Selling, general and administrative expenses	3,423,031	3,059,616	3,006,260
Provision for doubtful accounts	9,595	—	—
Salary	979,239	888,060	934,578
Provision for bonuses	59,631	45,018	50,258
Provision for directors' and corporate auditors' retirement benefits	18,598	24,786	28,253
Rent expenses	460,886	416,192	410,327
Amortization of goodwill	235,612	31,504	11,163
Others	1,659,468	1,654,055	1,571,677
Operating income	660,395	1,111,387	798,459
Non-operating income	229,526	228,104	208,462
Interest income	1,121	759	857
Dividend income	261	201	235
Foreign exchange gain	179,795	214,418	184,908
Gain on sale of investment securities	4,289	2,940	3,516
Amortization of negative goodwill	79	41	—
Others	43,977	9,743	18,945
Non-operating expenses	127,253	81,481	71,720
Interest expenses	22,176	22,586	19,099
Provision for doubtful accounts	57,522	—	—
Losses on doubtful accounts	—	—	15,025
Equity in losses of associated companies	7,947	—	—
Loss on surrender of insurance policy	14,094	—	—
Commissions paid	14,000	17,771	11,453
Payment for settlement of lawsuit	—	22,500	—
Losses on assignment of receivables	—	9,398	15,748
Others	11,512	9,224	10,393
Ordinary income	762,667	1,258,011	935,201
Extraordinary income	4	41,305	1,012
Gain on sales of fixed assets	4	503	—
Gain on reversal of directors' retirement benefits	—	—	900
Reversal of allowance for doubtful accounts	—	919	112
Gain on reversal of expenses for dissolution of joint venture	—	39,883	—
Extraordinary losses	952,953	66,460	8,038
Loss on sales of fixed assets	—	8,700	—
Loss on devaluation of fixed assets	22,585	—	—
Loss on disposal of fixed assets	10,632	12,033	8,038
Loss on devaluation of investment securities	24,753	38,181	—
Amortization of goodwill	508,674	—	—
Loss on liquidation of subsidiaries and associated companies	386,307	7,545	—
Income (loss) before income taxes and minority interests	(190,281)	1,232,856	928,175
Income taxes - current	474,436	87,176	251,487
Income taxes - deferred	(661,451)	470,216	181,237
Minority interest in income (loss) of consolidated subsidiaries	(24,947)	43,265	11,865
Net income	21,681	632,197	483,584

Consolidated statement of cash flows

(Thousands of yen)

	Year ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2004
Net cash from operating activities			
Income (loss) before taxes and minority interests	(190,281)	1,232,856	928,175
Depreciation	155,365	132,420	117,104
Amortization of goodwill	744,207	31,463	11,163
Equity in net (gains) losses of associated companies	7,947	—	—
Loss on devaluation of fixed assets	22,585	—	—
Loss on devaluation of investment securities	24,753	38,181	—
Decrease in allowance for doubtful accounts	54,177	(960)	(8,060)
Increase (decrease) in accrued bonuses	(408)	12,524	(4,406)
Increase in liability for employees' retirement benefits	(2,930)	23,109	12,880
Increase in liability for directors' and corporate auditors' retirement benefits	18,598	11,555	16,603
Interest and dividend income	(1,382)	(960)	(1,092)
Interest expenses	22,176	22,586	19,099
Foreign exchange gain	(476)	—	—
Foreign exchange loss	—	1,687	351
Gain on sales of investment securities	(4,289)	(2,940)	(3,516)
Loss on sales of investment securities	83	3,417	—
Gain on sales of tangible fixed assets	(4)	(503)	—
Loss on sales of tangible fixed assets	—	8,700	—
Loss on disposal of tangible fixed assets	8,309	6,168	2,373
Loss on disposal of intangible fixed assets	2,322	5,865	5,664
Payment for settlement of lawsuit	—	22,500	—
Gain on reversal of expenses for dissolution of joint venture	—	(39,883)	—
Loss on liquidation of subsidiaries and associated companies	322,614	7,545	—
Decrease (increase) in accounts receivable - trade	(802,605)	419,278	277,223
Decrease (increase) in inventories	(542,784)	(696,762)	(3,498)
Increase (decrease) in payables - trade	212,253	(363,483)	142,536
Increase in consumption tax receivable	(80,085)	(165,268)	(326,320)
Decrease in advance payments	176,519	11,016	56,630
Increase (decrease) in advances	—	(100,582)	(4,914)
Bonus paid to directors and corporate auditors	(2,400)	(14,010)	(33,715)
Others	107,307	73,299	(4,736)
Sub total	251,572	678,819	1,199,547
Interest and dividends received	70	153	398
Interest paid	(22,369)	(20,361)	(18,354)
Payment for settlement of lawsuit	—	(22,500)	—
Proceeds from reversal of previously budgeted for dissolution of joint venture	—	39,883	—
Payments on liquidation of subsidiaries and associated companies	(273,755)	(6,341)	—
Tax refunds	—	—	214,245
Income tax paid	(298,743)	(419,967)	(122,047)
Net cash (used in) provided by operating activities	(343,225)	249,866	1,273,789
Net cash from investing activities			
Increase in time deposits	(43,033)	(21,000)	(44,001)
Decrease in time deposits	20,000	30,033	49,001
Purchases of investment securities	(98)	(171,032)	(376)
Proceeds from sales of investment securities	99,916	6,169	—
Payments for acquisition of affiliate's equity	(11,246)	(20,000)	—
Purchases of tangible fixed assets	(43,534)	(28,609)	(19,400)
Proceeds from sales of tangible fixed assets	9,282	26,257	—
Purchases of intangible fixed assets	(30,717)	(39,687)	(25,464)
Increase in investment in partnership	(10,749)	(13,575)	(9,335)
Proceeds from sale of investment to partnership	8,054	4,423	4,903
Proceeds from collections of loans	5,845	72,748	—
Payments for loans	—	(61,500)	—
Proceeds from surrender of insurance policy	120,435	—	—
Increase in other investments	(46,319)	(21,765)	(21,943)
Decrease in other investments	16,604	7,296	44,244
Net cash provided by (used in) investing activities	94,442	(230,243)	(22,371)
Cash flows from financing activities			
Net increase (decrease) in short term bank loans	(90,402)	211,160	(70,000)
Proceeds from long term bank loans	4,140	—	300,000
Repayment of long term bank loans	(25,490)	(35,732)	(69,348)
Purchases of treasury stock	(1,332)	(1,867)	(68,942)
Proceeds from issuance of common stock	20,000	—	8,284
Cash dividends paid to minority shareholders	(665)	(166)	(665)
Cash dividends paid	(117,610)	(117,291)	(118,024)
Net cash provided by (used in) financing activities	(211,359)	56,102	(18,695)
Effect of exchange rate changes on cash and cash equivalents	(7,138)	(7)	(215)
Net increase (decrease) in cash and cash equivalents	(467,281)	75,538	1,232,506
Cash and cash equivalents, beginning of period	1,652,477	1,141,516	1,179,737
Decrease in cash and cash equivalents due to decrease in consolidated subsidiaries	(43,679)	(37,317)	—
Cash and cash equivalents, end of period	1,141,516	1,179,737	2,412,243

Notes to consolidated financial statements (December 31, 2004)

Material information regarding preparation of consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 2

Names of consolidated subsidiaries:

Alpha Electronics, Inc.
Spinnaker Systems, Inc.

(2) Names of unconsolidated subsidiaries:

Alpha Electron (HK) Co., Ltd.

(Reasons for exclusion from consolidation)

Scale of operations of this unconsolidated subsidiary is small and its total assets, net sales, net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated financial statements.

2. Application of equity method

(1) Number of associated companies to which the equity method is applicable: -

(2) Name of unconsolidated subsidiary to which the equity method is not applicable:

Alpha Electron (HK) Co., Ltd.

(Reasons for exclusion from consolidation)

Unconsolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated net income and consolidated retained earnings. In addition, unconsolidated subsidiaries all combined do not have a significant impact on the consolidated results.

3. Accounting period of consolidated subsidiaries

All subsidiaries have fiscal-year ends that are the same as the day of consolidated closing.

4. Significant accounting policies

(1) Valuation of material assets

(A) Securities:

Available-for-sale securities:

Available-for-sale securities with market values:

Stated at fair market value as of the balance sheet date.

(Unrealized gains and losses are reported in the shareholders' equity section of the consolidated balance sheet. Sales cost is calculated using the moving average method)

Available-for-sale securities without market values:

Stated at moving-average cost

(B) Derivatives:

Stated at fair market value

(C) Inventories:

(a) Merchandise:

Stated by moving-average cost

(Changes in accounting methods)

During the interim period one subsidiary changed their inventory valuation methods from the last-invoice cost to the moving-average cost method.

This change eliminates the impact on valuations of

momentary monthly fluctuations and allows a more appropriate calculation of periodic income. The change had only a very small impact on the period's financial statements.

(b) Supplies:

Stated by last purchased price method

(2) Depreciation of fixed assets

(A) Tangible fixed assets:

Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straightline method)

Useful lives are as follows:

Buildings: 10 – 45 years

Vehicle equipment: 6 years

Furniture and fixtures: 5 – 15 years

(B) Intangible fixed assets:

The straight-line method

Useful life of the software for internal use is 5 years.

(3) Allowances

(A) Allowance for doubtful accounts:

An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company and its domestic consolidated subsidiaries states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.

(B) Accrued bonuses:

Reserves are provided to cover the estimated amount of bonuses payable to employees.

(C) Liability for employees' retirement benefits:

The amount estimated to represent the potential liability, as of the end of this consolidated accounting period, is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.

(D) Liability for directors' and corporate auditors' retirement benefits:

An allowance is provided by the Company and a subsidiary to cover the estimated amount of retirement benefits payable to directors and corporate auditors.

An allowance is provided by the Company to cover the estimated amount of retirement benefits payable to directors and corporate auditors.

(4) Translation of foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the consolidated balance sheet date.

Translation differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.

(5) Lease transactions

Finance leases for which ownership does not transfer to the lessees are not capitalized, and are accounted for in the same

Notes to Consolidated Financial Statements

manner as operating leases.

(6) Hedge accounting

(A) Hedge accounting method:

The Company adopts deferred hedge accounting. Derivatives that meet the criteria for hedging accounting are accounted for using deferral hedge accounting, which requires unrealized gains or losses to be deferred as liabilities or assets. Forward foreign exchange contracts that are effective hedges are accounted for using the allocation method, which requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates.

(B) Hedging instruments and targets:

Hedging instruments:

Forward foreign exchange contract

Hedging targets:

Foreign currency denominated monetary liabilities and transactions scheduled to be denominated in a foreign currency.

(C) Hedging policies:

Derivative transactions are used only by the Company. Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.

(D) Method for assessing effectiveness of hedges:

Accumulated changes in the cash flow of hedged items are compared to the accumulated changes in the cash flow of hedging instruments on a semi-annual basis. The effectiveness of hedging is evaluated by taking the degree of changes in cash flows of the hedged item and hedging transaction into consideration.

(7) Other

(A) Treatment of consumption tax:

Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.

5. Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of the subsidiaries are evaluated using the fair value at the time the respective subsidiaries were initially consolidated.

6. Amortization of goodwill

Goodwill is amortized in equal amounts over a five year period. In the event that the amount is minimal, the amount is expensed in the year in which the adjustment is made.

7. Consolidated statement of retained earnings

The Consolidated statement of retained earnings is based on the officially confirmed appropriation schedules of the consolidated subsidiaries for the year.

8. Cash and cash equivalents

Included in "cash and cash equivalents" in the statements of cash flows are cash in hand, demand deposits, and short-term investments with maturities arriving in three months from the date of acquisition that are readily convertible to cash and are subject to minimum risk of price fluctuations.

Changes in method of presentation

(Consolidated balance sheet)

(Thousands of yen)

Until the previous fiscal year, "consumption taxes receivable" had been included in the "others" category of current assets. Because these consumption taxes receivable exceeded 5 percent of total assets during the fiscal year, they were categorized in a separate account.

For comparison purposes "consumption taxes receivable" amounted to ¥496,312 thousand in the year ended December 31, 2003.

Notes

(Consolidated balance sheet)

(Thousands of yen)

1. Amount of notes receivable discounted	39,255
Amount of accounts receivable-trade offered as collateral	7,017
2. Retroactive liability due to securitization	325,221
3. Investment in unconsolidated subsidiaries	1,796
4. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with four banks. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.	
Overdraft and loan commitment agreements	8,150,000
Amounts drawn down	1,430,000
Unused lines of credit	6,720,000
5. Total number of shares outstanding	
Common stock	11,849,899 shares
6. Number of treasury shares held	
Common stock	107,567 shares

(Consolidated statement of income)

(Thousands of yen)

1. Total research and development expenses	
Research and development expenditures included in selling, general and administrative expenses	21,000
2. Breakdown of loss on disposal of fixed assets	
Buildings	49
Vehicle equipment	33
Furniture and fixtures	2,290
Software	5,664

(Consolidated statement of cash flows)

(Thousands of yen)

"Cash and bank deposits" on the consolidated balance sheet and "cash and cash equivalents" on the consolidated statement of cash flows are reconciled as follows:

Cash and deposit	2,444,243
Time deposits with maturities longer than 3 months	(32,000)
Cash and cash equivalents	2,412,243

Lease transactions

(Thousands of yen)

- Finance lease where ownership does not transfer the lessee
 - Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of this consolidated accounting period.

	Acquisition cost equivalent	Accumulated depreciation equivalent	Book value equivalent
Furniture and fixtures	38,834	24,279	14,555
Vehicle equipment	29,880	1,447	28,433
Software	560,391	490,299	70,091
Total	629,106	516,025	113,081

Notes to Consolidated Financial Statements

(2) Future minimum lease payments	
Within one year	80,060
Over one year	36,300
Total	116,360

(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows

Lease payments	127,116
Depreciation equivalent	121,315
Interest expense equivalent	3,141

(4) Calculation of depreciation equivalent

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

(5) Calculation of interest expense equivalent

The interest expense equivalent is calculated by taking the difference between the total amount of lease payment and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.

2. Operating leases - future minimum lease payments

Within one year	1,055
Over one year	3,309
Total	4,364

Securities

December 2004 term

1. Available-for-sale securities with market values

(Thousands of yen)

	Type of securities	Acquisition cost	Book value	Difference
Fair market value exceeds acquisition cost	Stocks	15,766	50,644	34,877
	Bonds			
	JGB, Local government bonds	—	—	—
	Corporate bonds	—	—	—
	Others	—	—	—
	Others	65,429	79,302	13,873
	Sub-total	81,195	129,946	48,750
Fair market value does not exceed acquisition cost	Stocks	4,695	3,606	(1,089)
	Bonds			
	JGB, Local government bonds	—	—	—
	Corporate bonds	—	—	—
	Others	—	—	—
	Others	15,949	14,005	(1,944)
	Sub-total	20,645	17,611	(3,033)
	Total	101,841	147,558	45,717

Note: None of the listed investments included under "other" investment securities required the application of impairment accounting.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the fiscal year; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the fiscal year and has remained at these levels for the past two years – and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

2. Available-for-sale securities sold during the period

(Thousands of yen)

Amount sold	Total gain on sales	Total loss on sales
4,903	3,516	—

3. Major components of debt and equity securities without market values

(Thousands of yen)

Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	200,788
Total	200,788

Notes to Consolidated Financial Statements

Derivative transactions

1. Matters related to condition of transactions

(1) Types of derivatives used by the Group

Forward foreign exchange contracts are the only derivative instruments used by the Group. Among the Group companies, the Company is the only user of derivative instruments. The following information therefore relates to transactions engaged by the Company.

(2) Transaction policy and purpose of use

Derivative instruments are used by the Company in the normal course of its business in order to effectively manage the risk arising from fluctuations in foreign exchange rates.

Forward foreign exchange contracts are used to hedge the risk of foreign exchange fluctuations with respect to future scheduled transactions denominated in foreign currencies as well as foreign currency denominated obligations. Forward foreign exchange contracts are not used for speculative purposes or for the purpose of realizing short-term trading gains.

Derivative transactions are accounted for using hedge accounting. Details with respect to the method of hedge accounting is provided in "Material information regarding preparation of consolidated financial statements" (Section 4. "Significant accounting policies," Paragraph (6) "Hedge accounting").

(3) Risks associated with derivative transactions

Derivative instruments used by the Company involve credit risk and market risk. Credit risk refers to the risk of default by the counter party of the derivative transaction concerned. Market risk refers to potential loss that may be realized by the fluctuation in foreign exchange rates. The Company believes that credit risk associated with the transactions entered into by the Company is minimal as counter parties are all highly rated domestic financial institutions. The forward foreign exchange contracts entered into by the Company are exposed to future fluctuations in foreign exchange rates.

However, it should be noted that these forward exchange contracts are engaged for the purpose of hedging the foreign currency denominated obligations on the Company's balance sheets, and that changes in the value of derivatives offset the changes in the value of hedged obligations.

(4) Risk management

Hedging policies are determined at the Board of Directors' Meeting at the time of the formulation of the import schedule. Transactions are executed by the Finance Team, Finance/Legal Group, Operational Service Division based on the policies determined by the Board with specific transactional approval by the director in charge of the Division. The Finance Team prepares a position report in order to monitor and analyze outstanding transactions and to report to the director in charge.

2. Matters related to estimated fair value of transactions

No details are provided herein as these transactions are for hedging purpose only.

Retirement benefits

1. The retirement benefit program adopted

The Company has an employees' pension fund and a tax-qualified pension plan, both of which are defined benefit plans. Our domestic consolidated subsidiaries have lump-sum retirement payment plans and mutual funds for retirement allowances for medium and small companies.

The Company has joined the welfare pension fund for the computer industry association, a jointly established contributory plan, which is prescribed in the article 33 of the Accounting Standards for Retirement Benefits.

Total amount of the plan assets for the Company as of December 31, 2003 was 225,017 thousand yen and 262,356 thousand yen as of December 31, 2004.

2. Retirement benefit obligations

(Thousands of yen)

	December 31, 2004
Projected benefit obligations	(174,427)
Fair value of plan assets	127,834
Net amount stated in the consolidated B/S	(46,592)
Prepaid pension cost	—
Liability for employees' retirement benefits	(46,592)

3. Pension and severance costs

(Thousands of yen)

	December 31, 2004
Retirement benefit costs	
Service cost	38,705
Contribution to the jointly established welfare pension fund	22,358
Contribution to the mutual funds for retirement allowances for medium and small companies	1,715
Special retirement benefit	2,111
Retirement benefit costs	64,890

4. Assumptions used in the accounting for retirement benefit obligations

Method of computation of projected benefit obligation

The simplified method is used in calculating the projected benefit obligation.

Tax effect accounting

1. A breakdown of deferred tax assets and liabilities are noted below

	(Thousands of yen)
Deferred tax assets	
Accrued enterprise tax	19,115
Loss on valuation of inventories	13,938
Accrued bonuses in excess of tax limit	20,957
Liability for employees' for retirement benefits	18,526
Liability for retirement benefits to directors' and corporate auditors'	112,867
Loss on devaluation of investment securities	22,009
Loss carry forward	70,327
Others	23,012
<hr/> Subtotal	<hr/> 300,754
Valuation allowance	(75,797)
<hr/> Total deferred tax assets	<hr/> 224,957
Deferred tax liabilities	
Revaluation gain on investment securities	(11,817)
Others	(342)
<hr/> Total deferred tax liabilities	<hr/> (12,159)
<hr/> Net deferred tax assets	<hr/> 212,797

Net amounts of deferred tax assets are included in the following consolidated balance sheet accounts.

Current assets - deferred tax assets	64,175
Fixed assets - deferred tax assets	148,621

2. Reconciliation between the statutory tax rate and the effective tax rate

	(%)
Statutory tax rate	42.00
(Adjustment)	
Entertainment expenses, etc. non deductible portion	1.01
Amortization of goodwill	0.51
Inhabitants tax	0.64
Special corporate tax credit	(1.05)
Effect of changes in tax rates	0.22
Effect of the increase in valuation allowances	3.52
Others	(0.23)
<hr/> Effective income tax rate	<hr/> 46.62

Segment information

December 2004 term

The PALTEK group has operated in only one segment, the semiconductor-related segment (semiconductor-related sales and semiconductor-related design). Consequently, there is no information to report in this section.

Geographic segment information

December 2004 term

The PALTEK group was left with no subsidiaries operating outside of Japan and no significant overseas branches. Consequently, this section is no longer applicable.

Overseas sales

Overseas sales information is omitted as it accounts for less than 10% of the total sales.

Related party transactions

N/A

Per share-related financial information

	(yen)
Net assets per share	740.13
Net income per share	39.16
<hr/> Net income per share, fully diluted	<hr/> 39.06

Note: The basic facts underlying calculations of net income per share and net income per share, fully diluted are as follows.

Net income per share	(Thousands of yen)
Net income	483,584
Amount not attributable to common shareholders	20,500
[Of which, amount paid out as bonuses to directors pursuant to Statement of Appropriation of Net Income]	[20,500]
<hr/> Net income related to common stock	<hr/> 463,084
Average number of shares outstanding during term (shares)	11,825,029

Net income per share, fully diluted	(Thousands of yen)
Adjustment for net income	—
Increase in common stock	29,757
[Warrants]	[17,973]
<hr/> [New share subscription rights]	<hr/> [11,784]

Residual securities which were not included in calculations of net income per share after adjustment for residual securities because they had no dilutive effect.

(Warrants based on Article 280-19 of the Old Commercial Code)

2 types of warrants (number of shares to be issued through exercise of warrants: 246,900 shares)

(Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code)

1 type, 1,200 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 120,000 shares)

Significant subsequent events

December 2004 term

(Freeze on system of retirement benefits for directors and corporate auditors)

At its Board of Directors Meeting held on February 14, 2005, the Company resolved to freeze its system of retirement benefits for directors and corporate auditors as of the end of the Regular General Meeting of Shareholders held on March 26, 2005.

For payments covering periods of service up to the date of the suspension of the system (i.e., up to the conclusion of said Regular General Meeting of Shareholders), the Company shall propose such payments at the General Shareholders Meetings convened for the periods in which each director retires or resigns and shall receive the approval of shareholders for such payments.

(Acquisition of treasury stock)

In accordance with Article 211-3-1-2 of the Commercial Code and with provisions of the Company's Articles of Incorporation, the Board of Directors at its meeting on February 14, 2005 approved the acquisition of treasury stock in the manner detailed below.

1. Type of stock to be acquired: common stock
2. Total number of shares to be acquired: 1,000,000 shares (maximum)
3. Total value of shares to be acquired: ¥100,000,000 (maximum)
4. Period in which purchases will be made: From February 15, 2005 to June 30, 2005
5. Method of purchasing shares
On the market, through the JASDAQ Securities Exchange

Notes to Consolidated Financial Statements



Purchases, Orders Received and Sales

1. Purchases

Purchases made during the term ended December 31, 2004 are as follows:

(Thousands of yen)

	December 31, 2003		December 31, 2004		Change from the previous year (%)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	13,949,652	100.0	15,461,671	100.0	1,512,019	10.8
Total	13,949,652	100.0	15,461,671	100.0	1,215,019	10.8

Note: Consumption tax is not included in the above figures.

2. Orders received

Orders received during the term ended December 31, 2004 as follows:

(Thousands of yen)

	December 31, 2003		December 31, 2004		Change from the previous year (%)	
	Orders received	Backlog	Orders received	Backlog	Orders received	Backlog
Semiconductor business	16,985,092	1,213,575	19,424,481	1,282,193	2,439,389	68,618
Total	16,985,092	1,213,575	19,424,481	1,282,193	2,439,389	68,618

Note: Consumption tax is not included in the above figures.

3. Sales

Sales during the term ended December 31, 2004 as follows:

(Thousands of yen)

	December 31, 2003		December 31, 2004		Change from the previous year (%)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	17,502,490	100.0	19,355,863	100.0	1,853,373	10.6
Total	17,502,490	100.0	19,355,863	100.0	1,853,373	10.6

Note: 1. Consumption tax is not included in the above figures.

2. Sales by major customers and the ratio to total sales for the last two accounting periods are as follows:

	December 31, 2003		December 31, 2004	
	Amount	Ratio (%)	Amount	Ratio (%)
NEC Corporation	1,820,853	10.4	2,523,314	13.0

Note: Consumption tax is not included in the above figures.

Company Profile



(as of March 26, 2005)

- **Company Name** PALTEK Corporation
- **Established** October 1982
- **President** Tadahito Takahashi
- **Employees** Parent basis: 176
Consolidated basis: 215
- **Capital** 1,339,634 thousand yen
- **Subsidiaries** Alpha Electronics, Inc.,
Spinnaker Systems, Inc.,
Alpha Electron (HK), Co., Ltd.
- **Main Banks** Sumitomo Mitsui Banking Corporation,
The Bank of Tokyo-Mitsubishi, Ltd.,
UFJ Bank Limited.,
Mizuho Bank, Ltd.,
UFJ Trust Bank Limited.
- **Main Customers** NEC Corporation,
Sony Corporation,
Anritsu Corporation,
Oki Electric Industry Co., Ltd.,
Olympus Corporation
- **Main Suppliers** Altera Corporation (U.S.A.)
AudioCodes Ltd. (ISRAEL)
GSI Technology, Inc. (U.S.A.)
Micron Technology, Inc.
NetSilicon, Inc. (U.S.A.)
PLX Technology Inc. (U.S.A.)

■ Directors and Corporate Auditors

- | | |
|----------------------------|--------------------|
| President | Tadahito Takahashi |
| Vice President | Hiroyuki Takasaki |
| Director | Masanori Kanamori |
| Director | Tadashi Ito |
| Director | Hajime Yamazaki |
| Director | Masahiko Hirata |
| Standing Corporate Auditor | Yukio Miura |
| Corporate Auditor | Kazutaka Muraguchi |
| Corporate Auditor | Tatsuo Kawasaki |
| Corporate Auditor | Isao Tsubaki |

■ Offices

● Head Office

Shin-Yokohama Square Bldg.,
2-3-12 Shin-Yokohama, Kouhoku-ku, Yokohama
222-0033, Kanagawa, Japan
TEL : 045-477-2000
FAX : 045-477-2010

● Osaka Branch

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Osaka, Japan
TEL : 06-6369-4070
FAX : 06-6369-4071

● Machida Logistics Center

Tenko Bldg. 17,
687-1 Tsuruma, Machida, Tokyo 194-0004, Japan
(Logistics Center)
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(Programming Center)
TEL : 042-788-5561 FAX : 042-788-5562

● PALTEK CORPORATION Shanghai Office

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Stock Information



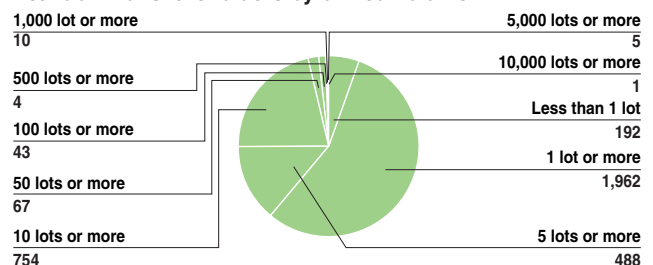
(as of December 31, 2004)

- **Total number of authorized shares** 23,562,000 share
- **Total number of shares issued** 11,839,399 shares
- **Number of shares per lot** 100 shares
- **Number of shareholders** 3,526
- **Principal shareholders**

Name	Number of shares held (thousand)	Equity ownership (%)
Tadahito Takahashi	2,645.7	22.32
Bank of New York Europe Limited Luxembourg 131800	935.0	7.89
Japan Trustee Services Bank, Ltd.	805.2	6.79
Dave Brauer	793.2	6.69
The Master Trust Bank of Japan, Ltd.	639.4	5.39
Endeavor Corporation	593.2	5.00
Bank of New York for Goldman Sachs International Equity	450.0	3.79
Trust and Custody Services Bank, Ltd.	265.2	2.23
Keiko Takahashi	222.8	1.88
Kyoko Takahashi	214.7	1.81

Note: The above list shows actual possession situation.

■ Breakdown of shareholders by owned volume



■ Breakdown of ownership by shareholders type

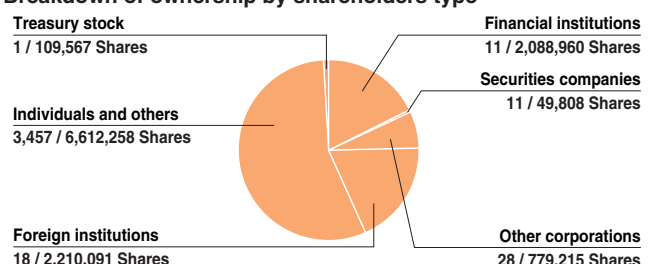


Photo on the Cover: August 2004, Scenes from the Island of Yakushima

<comments from the photographer>

Upon my first visit to the island of Yakushima by the invitation of Mr. Takahashi (president of PALTEK), I was taken by the mysterious yet majestic beauty of the forests of the island. There I learned that even the cedar forests of Yakushima, which have endured thousands of years through self-renewal regeneration since ancient times, are being threatened by deterioration of environment. I would like to convey the beauty of the nature on Yakushima through my role as a photographer, to help raise the awareness of the dangers faced to these forests and to preserve them going on into the next century.

Photographer: Yukihiro Masaura

Yukihiro was born in 1963. At the age of 18, he traveled to France, and in 1987 he received an award in "Le Salon d'Automne." He is currently active as a commercial photographer, but his life work is focused on photographing sculptures. Some of his representative photographic works include his photographic compilation of Rodin's sculptures called "KHAOS," and his compilation of Michelangelo's sculptures called "GENESIS."



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Editor's Postscript

Relations Group, Public Relations Manager Nami Morita

In this issue of our business report we introduced our activities on protecting the environment and in the area of information security. In the process of our ongoing activities related to ISO14001 certification as well as our acquisition of information security management system (ISMS) certification, we have been able to create more pleasant working environment by cleaning both physical offices and cyber spaces while paying more attention to the environment. I believe that, by raising the awareness of our employees with regards to these issues, we are able to work more efficiently and more comfortably. We would be pleased to hear any comments you may have regarding this report. Thank you.

Telephone: 045-477-2000