

PEGATRON

Quarterly Management Report - Second Quarter, 2010

DMS Pro Forma

The report is based on DMS Pro Forma compiled from our consolidated financial statements excluding non-core (non-DMS) entities.

Highlights of Revenue and Product Mix

Revenue				NT\$ Bn	
2Q10	1Q10	2Q09	QoQ	YoY	
104	110	94	-5.7%	10.3%	

Product Mix				%	
	2Q10	1Q10	2Q09		
Computing	71%	78%	70%		
Consumer	16%	14%	17%		
Communication	13%	8%	13%		

Highlights of P&L

NT\$Bn; %					
	2Q10	1Q10	2Q09	QoQ	YoY
Gross Profit	4.7	5.0	3.5	-7.4%	31.9%
Gross Margin	4.5%	4.6%	3.8%	-	-
Operating Income	0.9	1.5	0.1	-41%	766%
Operating Margin	0.9%	1.4%	0.1%	-	-
Income Before Tax	1.6	2.6	0.6	-39%	169%
Net Income	1.7	1.8	0.5	-4.3%	242%
Net Margin	1.6%	1.6%	0.5%	-	-
EPS (NT\$)	0.74	0.78	0.22	-5.1%	240%

Highlight of B/S

NT\$Bn; %			
	2Q10	1Q10	2Q09
Cash & Equivalent	15	16	19
AR	44	46	47
Inventory	37	38	34
Current Assets	100	103	108
Investments	32	31	29
Total Assets	166	169	175
AP	39	48	63
Current Liabilities	62	68	77
Total Liabilities	70	76	85
Paid-in Equity	23	23	19
Net Worth	95	93	91
Current Ratio	159%	150%	140%
Debt Ratio (1)	42%	45%	48%
Interest-bearing Debt Ratio(2)	12%	7%	6%

(1) Total Liabilities / Total Assets

(2) Total Interest-bearing Debt / Total Assets

Sales Result

The Company posted revenue of NT\$104Bn for the quarter ended June 30, 2010, a 5.7% decrease from the previous quarter mainly due to seasonality for non-PC products and weaker demand for PC products. However, the Company achieved 10.3% growth in sales from the year-ago quarter, reinforcing our view of a recovering market, while concerns about the uncertain economic development in Europe and U.S. markets remain. Sales weighting of Computing products reduced to 71% from 78% in 1Q10 reflecting the aforementioned weaker demand in PC products. Sales weightings of both Consumer products and Communication products therefore increased to 16% and 13% in 2Q10 from 14% and 8% in 1Q10 respectively.

Operating Performance

The Company's gross margin dropped slightly by a 0.1 percentage point QoQ to 4.5%, while the operating margin in the same quarter was 0.9%, down from 1.5% in 1Q10, mainly due to lower capacity utilization rate and increase of freight cost. Net income remained at a similar level as the previous quarter with slight decline to NT\$1.7 Bn in 2Q10. As a result, EPS for 2Q10 was NT\$0.74, down by 5.1% QoQ (but a 240% increase YoY).

Financial Position

Account receivables and inventory remain at similar level as compared to the prior quarter at NT\$44Bn and NT\$37Bn respectively in 2Q10, while account payable reduced by NT\$9Bn to NT\$39Bn in the second quarter.

Liquidity remained satisfactory in 2Q10 with current ratio at 159%, up by 9%. At the end of June 30, 2010, cash and cash equivalent was down slightly by NT\$1Bn to NT\$15Bn in 2Q10, as a result of a persistent cash inflow, however, offset by cash dividend distribution.

The financial structure as of 2Q10 continued being healthy with debt ratio dropped to 42% while interest-bearing debt ratio up from 7% in 1Q10 to 12% in 2Q10 due to increase of short-term loan.

3Q10 Business Outlook

NB shipment, including net book, is expected to grow between 10%~15% in 3Q10, lower than the traditional peak in 3Q. MB/DT is expected to be even slower and will grow at low single digit. Revenue growth for Consumer electronic is expected to almost double after its seasonality picks up in 3Q while mid single digit growth can be anticipated in Communication segment.

About Pegatron

Pegatron is a leading DMS (Design, Manufacturing Service) company with extensive experience and proven capabilities in design innovations, product development, vertically integrated and after-sale services. We believe that technology can transform imagination into opportunities, challenges into pleasure. With the mission of navigating the future, we are pursuing to serve our customers with innovation and services. For more information about Pegatron, please visit www.pegatroncorp.com and www.pegadesign.com.