

Building the Future of Communications Technology Together



Quality Products, Good Faith Cooperation

Preliminary Matters

- Implementation of a Coordination and Communications Committee
 - Monitor and implement joint initiatives for further cooperation
 - Ongoing consultation

Agenda

1. Sale of Integrated Circuits Division (ICD)
2. Long-Term Agreement
3. Joint Venture Company

Red Company, Inc.



- World leader in electronic component manufacture
- Strong Balance Sheet
- Steady Growth
- Visionary R&D Department
- Consistent record of innovation in product development
- Long business relations with Blue

Negoland



- GDP Growth of 3% to 6% for the past 5 years
- Pool of Human Resources
- Economic and Trade Relationship
- FTA Negotiations between Negoland and Arbitria

Sale of Integrated Circuits Division

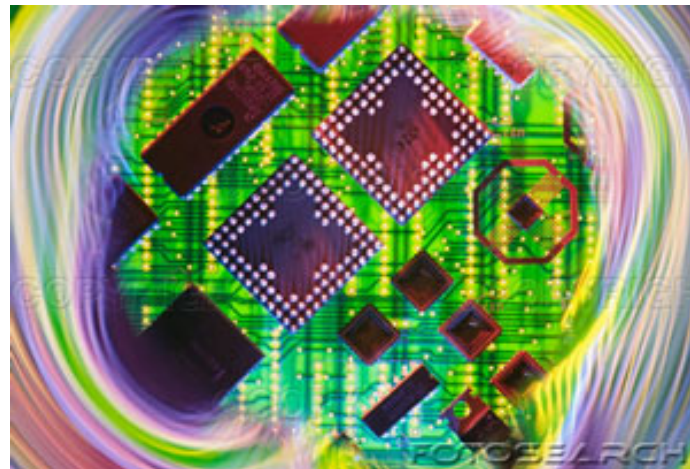
- Internationally renowned, world's most advanced Integrated Circuits for mobile phones and audio equipment
- High-Tech and Modern Facility
- Efficient Research and Development Team
- Established product sales market
- Established supply lines

Facility



Integrated Circuits Department

- Global Leaders in the Development of Circuits



Research and Development Team

- Development of IC's since 1970
- Leader in IC Technology
- LSI Specialization
 - Customized for Blue's Mobile Phones
 - Dominant Market Share for Audio Equipment
- 50 Highly Skilled and Innovative Researchers

Value of Integrated Circuit Division

Based on Investment Bank Formula,
if growth continues at 6%, the
value of the ICD totals:

US\$ 1.05 Billion

Investment Bank Formula

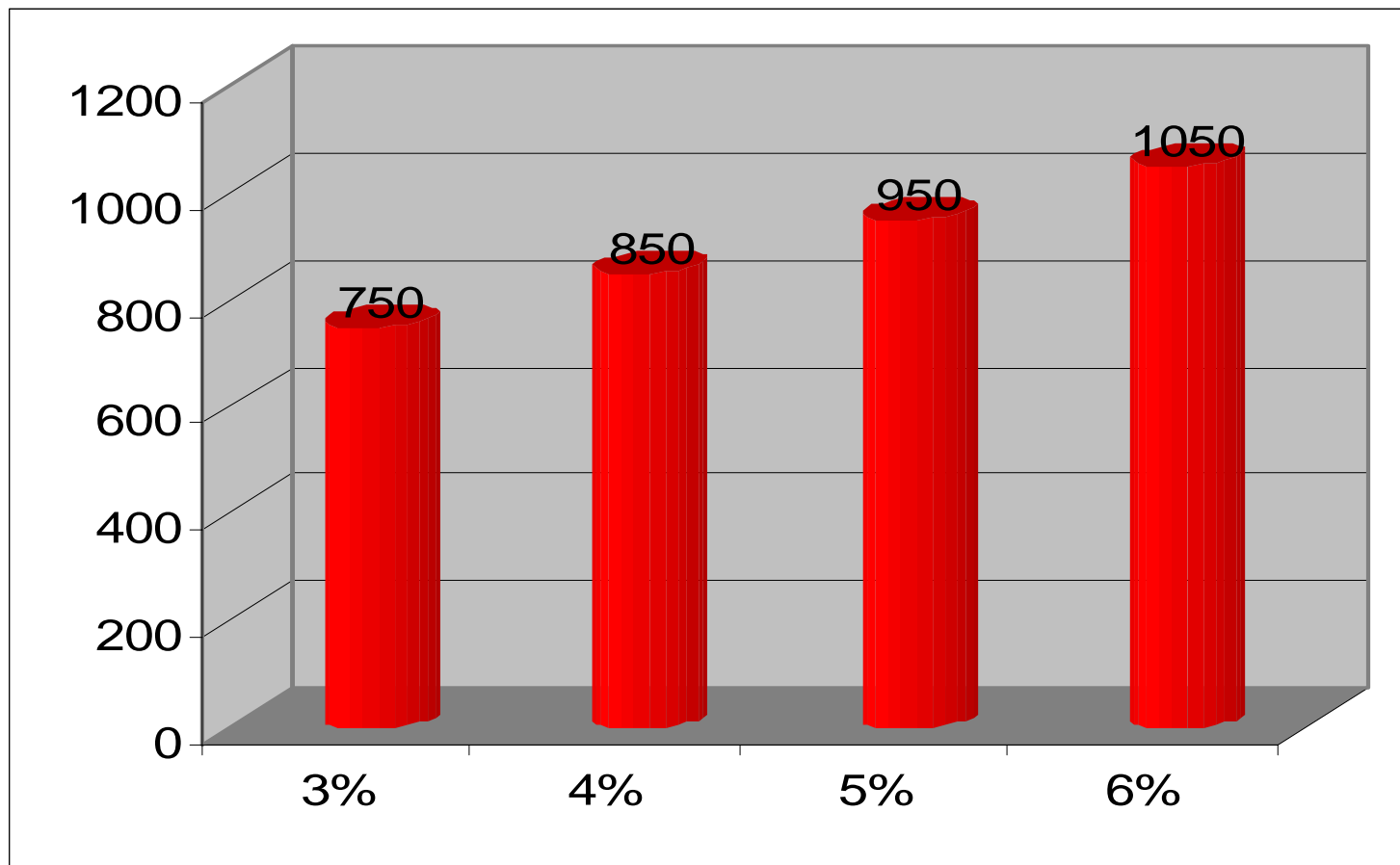
$$\text{Evaluation} = 4.5 \times 10^8 + \text{Growth Rate} \times 10^{10}$$

*Measurement: Nego Dollars

Negoland GDP

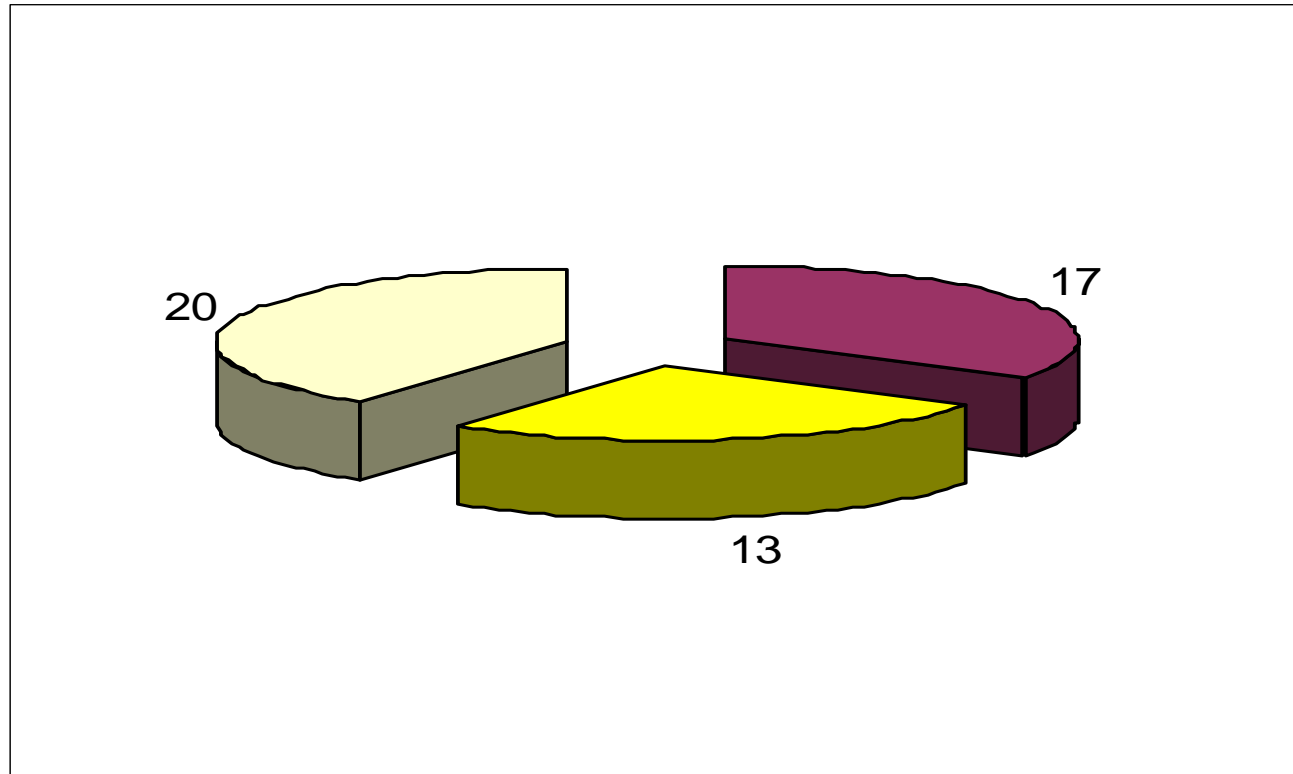
- GDP growth rate at 3% to 6% in the past 5 years;
- Increase of 1% after signing Free Trade Agreement (FTA)

Valuation based on GDP Growth Rate



*Measurement in million US Dollars

Saturation of Arbitria Market



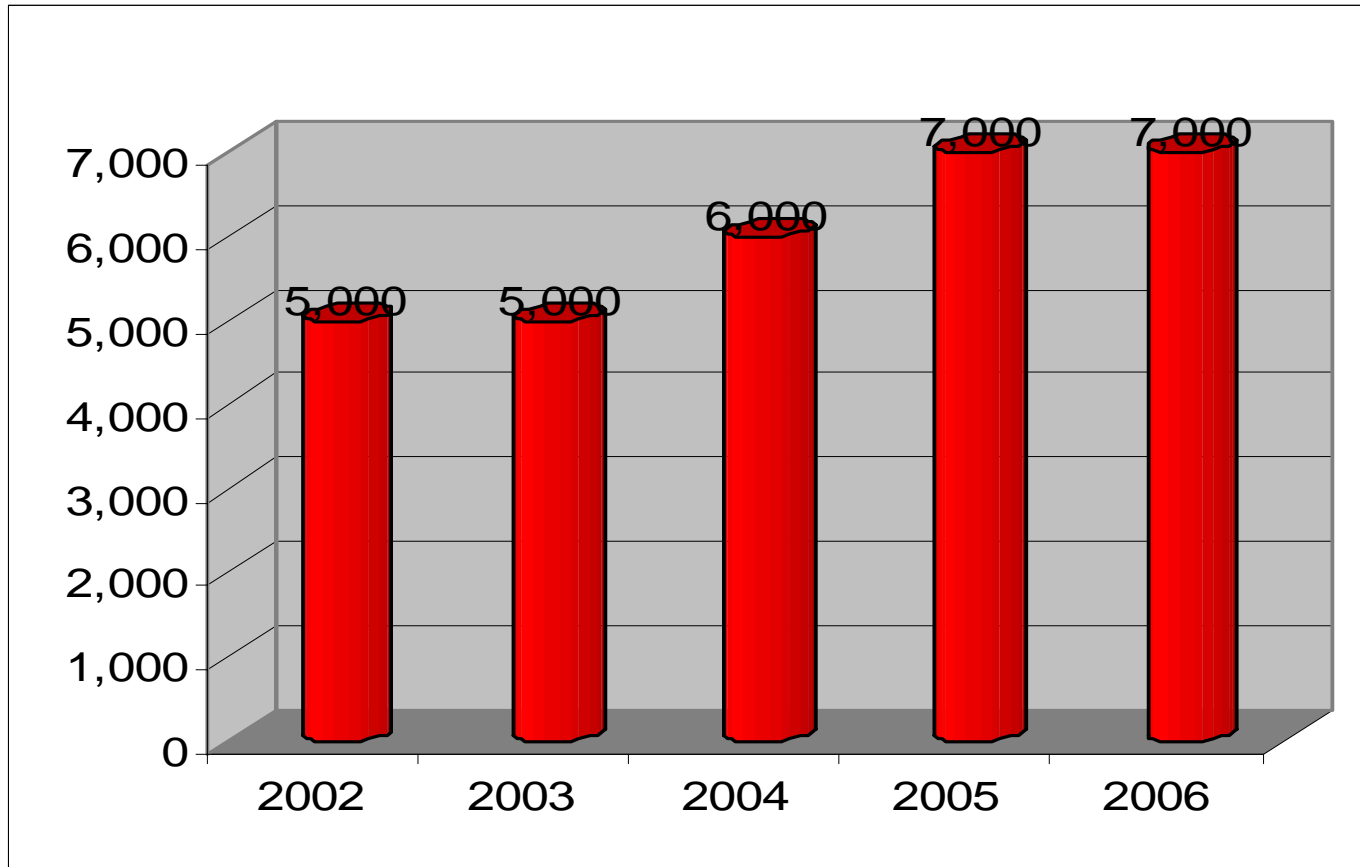
*measurement in Millions

Untapped Global Market

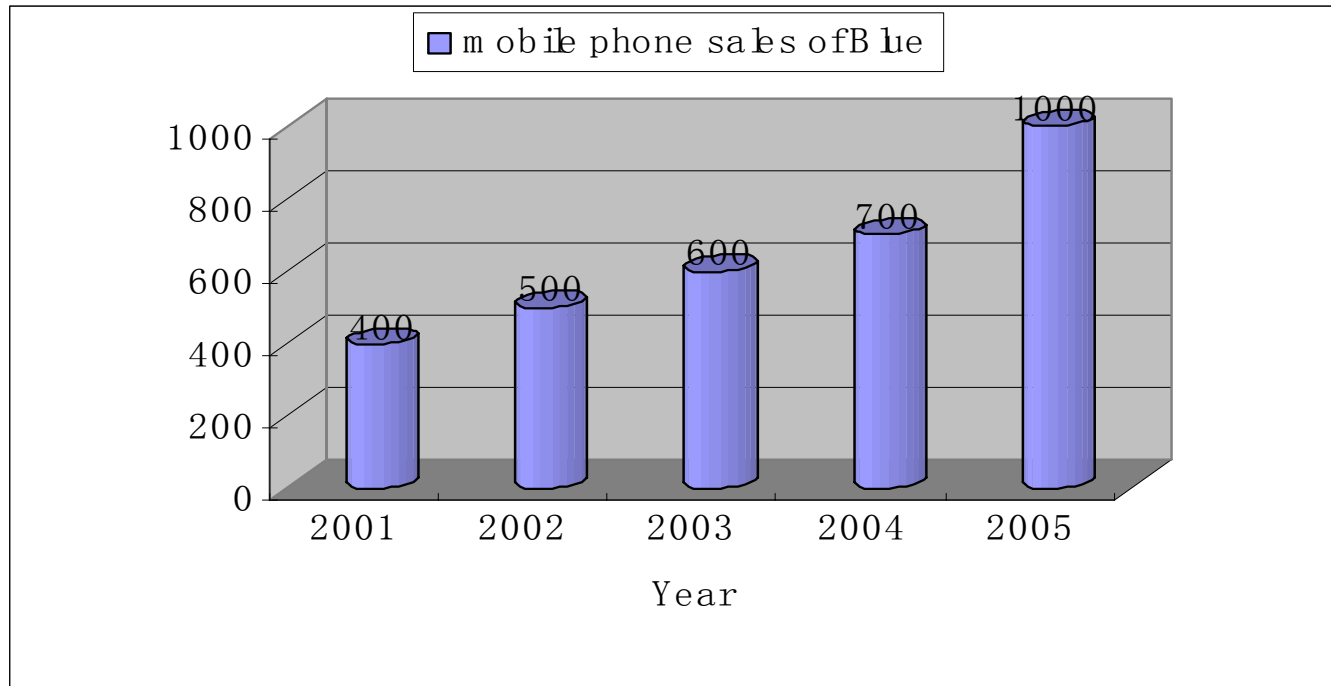
- The fast-growing global market passed 800 million sales by the end of 2005. [\[1\]](#)
- Purchase would thus lead to a more competitive Blue with an optimistic outlook as to future profits.

[\[1\] http://news.com.com/Mobile+phone+sales+pass+800+million/2100-1039_3-6037984.html](http://news.com.com/Mobile+phone+sales+pass+800+million/2100-1039_3-6037984.html). last retrieved, 11/29/2006.

Red's Continuous Sales Growth



Current Mobile Phone Sales



*measures in ten thousand cases

Great Potential to Gain Larger Portion of Global Market Share

- IDC (a subsidiary of IDG) Report on the 2005 mobile phone market
 - –specific semiconductor market grew 4%, to **\$18.5 billion**
 - Texas Instruments and QUALCOMM remain in the number 1 and 2 positions. [\[1\]](#)
 - Blue can build on the power of the integrated circuit department to increase revenues.

[\[1\] http://www.electronics.ca/reports/ic/phone_semiconductors.html](http://www.electronics.ca/reports/ic/phone_semiconductors.html), last retrieved, 11/29/2006.

Liability of Red After Sale



- Limited Scope
 - Consequential Losses Excluded
 - Limited to Cost for Exchange and Repair of Defected Assets

Period for Claiming Damages



- Limited to Period of Three Months
 - Once sale complete, Red has no control over operations, facility standards, and adherence to manufacturing protocols
 - Due Diligence Period

Job Security



- **Job Security of 2 Years for Red Employees After Sale**
 - HOW: Blue to operate out of existing facility in Negoland for the two year period.
 - would “ease the transition” for Blue.
 - No severance issues
 - once purchase is complete they’re subject to Nego law which is arguably more employee-friendly than Arbitria
 - Employees are an asset:
 - difficult to replace a skilled workforce
 - avoids delays inherent in re-training
 - staff is knowledgeable with our developed technology and processes

Maintenance of Existing Employment Conditions



- **Same Level of Benefits Maintained for Existing Employees During 2 year Job-Security Period**
 - If utilize Red's facility, Negoland social safety-net will generally make up for any differences between Red/Negoland and Blue/Arbitria benefit packages
- Difference in Negoland (40%) and Arbitria (35%) corporate income tax negated by savings in employee benefits, facility start-up, etc.

Long Term Cooperative Agreement



Duration of Agreement



- 3 Years Subject to Extension
 - Cooperation with an Eye to Eventual Formation of Joint Venture Company
 - More Flexible for **BOTH** Parties

R & D Facility



QuickTime™ and a
TIFF (Uncompressed) decompressor
are needed to see this picture.



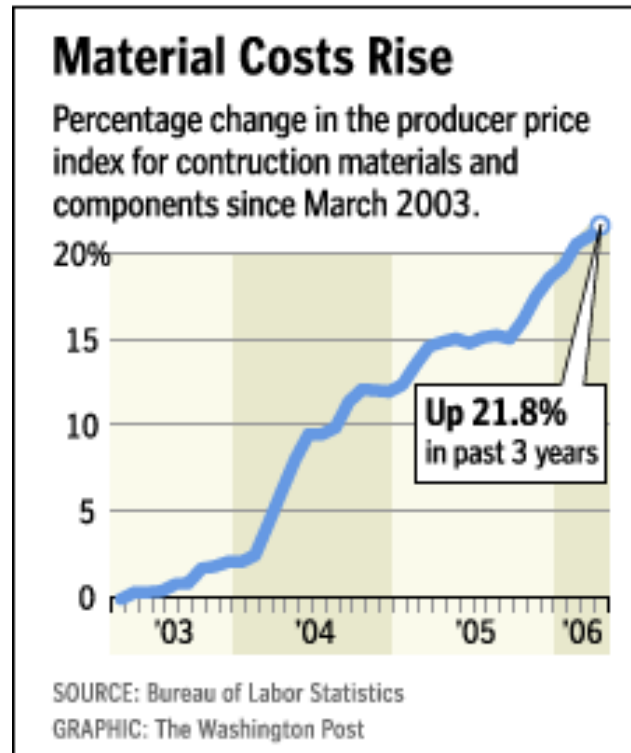
QuickTime™ and a
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are needed to see this picture.

Benefits of Red's Facility



- There are too many unknowns in constructing a new facility
 - Oil, Steel, and Copper prices are on the rise
 - World-wide labour shortage
 - Construction costs are usually underestimated, and tend to go over budget
 - Further delays can result from permit, engineering, and inspection issues
- Delays and unforeseeable costs hamper R&D which in turn hampers our ability to take a share of the communications market.

The Rising Cost of Commodities



<www.washingtonpost.com>: Bill Torque, Rising Costs Throw Wrench Into Counties' Building (April 28, 2006)

The Rising Cost of Commodities

"As the worldwide demand for steel increased, shortages in the U.S. market drove cost hikes. ... shortage affected not only structural steel but also miscellaneous specialty products such as those used in the mechanical and electrical trades. Indeed, throughout most of last year, steel suppliers wouldn't hold prices for longer than a week ..."

"It's extremely difficult to predict a project's cost if the price of a universal material such as steel can't be accurately forecast well in advance of the contract award."

<<http://f1.grp.yahooofs.com/v1/QLRrRWEdfG0cCsSIFYIE8FW8PntgKSXoVLGs9RKTqh4UK3Nf8srf7SJEhbF2kgYtFqMmOv-JBlouPY0KYcJPZQ/CONSTRUCTION%20COSTS.htm>>: Curt Miller, Managers need to buff crystal ball to forecast construction costs.

The Rising Cost of Commodities



UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

- **Zinc:** Average prices are 62% higher than in 2005. Consumption projections for 2006 could lead to an unprecedented record deficit on the market (567 000 tons).
- **Copper:** Average prices are 34% higher than in 2005. But consumption fell in the first two months of this year, potentially signalling a trend break.
- **Lead:** prices have fallen slightly since the beginning of the year, but are still at historically high levels.
- **Nickel:** by far the most striking rise. Prices reached fifteen-year highs already in 2003. Since then, they have remained very high and new price increases occurred at the beginning of 2006.
- **Gold:** prices reached \$676.25 per ounce in early May - the highest price since October 1980. The World Gold Council (WGC) sees the price of gold reaching \$850 an ounce over the next 18 months.

<http://www.unctad.org/TEMPLATES/Page.asp?intItemID=3824&lang=1>: 23 May 06 - Metal prices reach record levels



**DELAYS HARM THE
INTERESTS OF
BOTH
RED AND BLUE**

Benefits of Red's Facility



- If Red's pre-existing building is used, R&D can start almost immediately
- If any re-fitting is required to accommodate the research plan, it will almost certainly be cheaper and faster than constructing an entirely new building
- It's unavoidable that starting up joint R&D will take time:
 - Personnel training, establishment of research protocol, etc.
 - **WHY ADD TO THIS TIME BY CONSTRUCTING A NEW FACILITY?**

Benefits of Red's Facility



THE BOTTOM LINE:

Red is adopting significant risk in offering this facility

Our integrated circuits department is rapidly growing

We could use the research space, but are willing to offer the facility in order that both Red AND Blue may quickly realize on the benefits of a strong joint R&D program.

Value of Red's Facility

- Cost of New Facility is 20 Million
 - Unlikely to be constructed to budget:
 - Thus fair to value Red's existing facility at 20 Million.

Calculation of Red's Contribution



	Total	1 st Year	2 nd Year	3 rd Year
Facility	20	6.7	6.7	6.7
Cash	25	8.3	8.3	8.3
Total	45	15	15	15
% of Yearly R&D	50%	50%	50%	50%

Depreciated Value of Red's Facility

- Cost of New Facility estimated at 20 Million
 - Value of Red's existing facility can be depreciated to account for age.

Calculation of Red's Contribution: 5% Depreciation



	Total	1 st Year	2 nd Year	3 rd Year
Facility	19	6.33	6.33	6.33
Cash	26	8.67	8.67	8.67
Total	45	15	15	15
% of Yearly R&D	50%	50%	50%	50%

Calculation of Red's Contribution: 10% Depreciation



	Total	1 st Year	2 nd Year	3 rd Year
Facility	18	6	6	6
Cash	30	9	9	9
Total	45	15	15	15
% of Yearly R&D	50%	50%	50%	50%

Calculation of Red's Contribution: 15% Depreciation



	Total	1 st Year	2 nd Year	3 rd Year
Facility	17	5.67	5.67	5.67
Cash	28	9.33	9.33	9.33
Total	45	15	15	15
% of Yearly R&D	50%	50%	50%	50%

Calculation of Red's Contribution: 25% Depreciation



	Total	1 st Year	2 nd Year	3 rd Year
Facility	15	5	5	5
Cash	30	10	10	10
Total	45	15	15	15
% of Yearly R&D	50%	50%	50%	50%

Joint Venture Company



President



- Mr. A
 - Head of Integrated Circuits Department
 - Proving Leader in IC Development
 - Extensive Technical and Administrative Skills

Company Name



- Red & Blue
 - Our name is synonymous with top of the line ICs.
 - International Distribution

Target Market



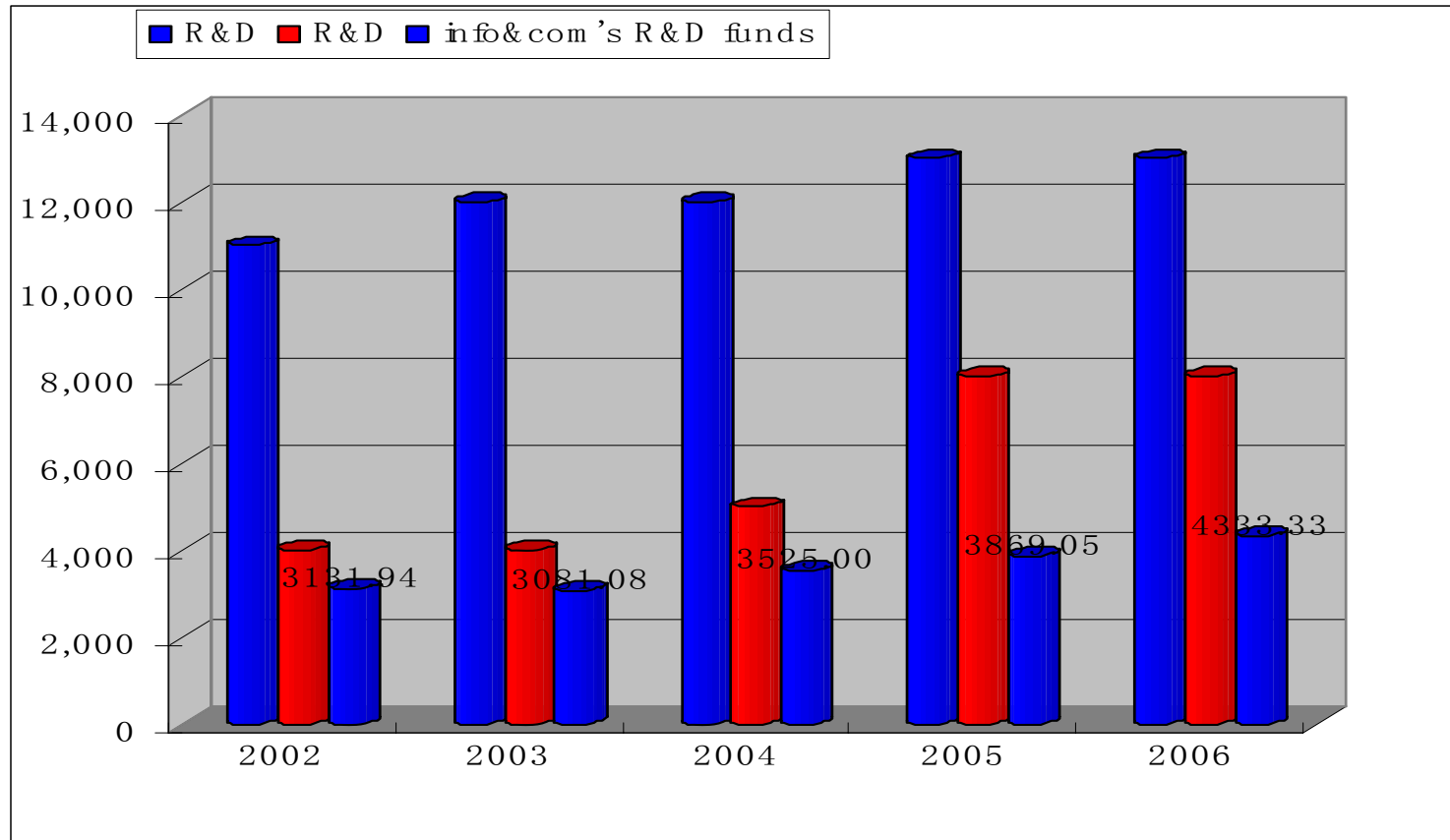
- Go global!
 - Maintain market share in Arbitria
 - Expanding in International Market

Gender Equality



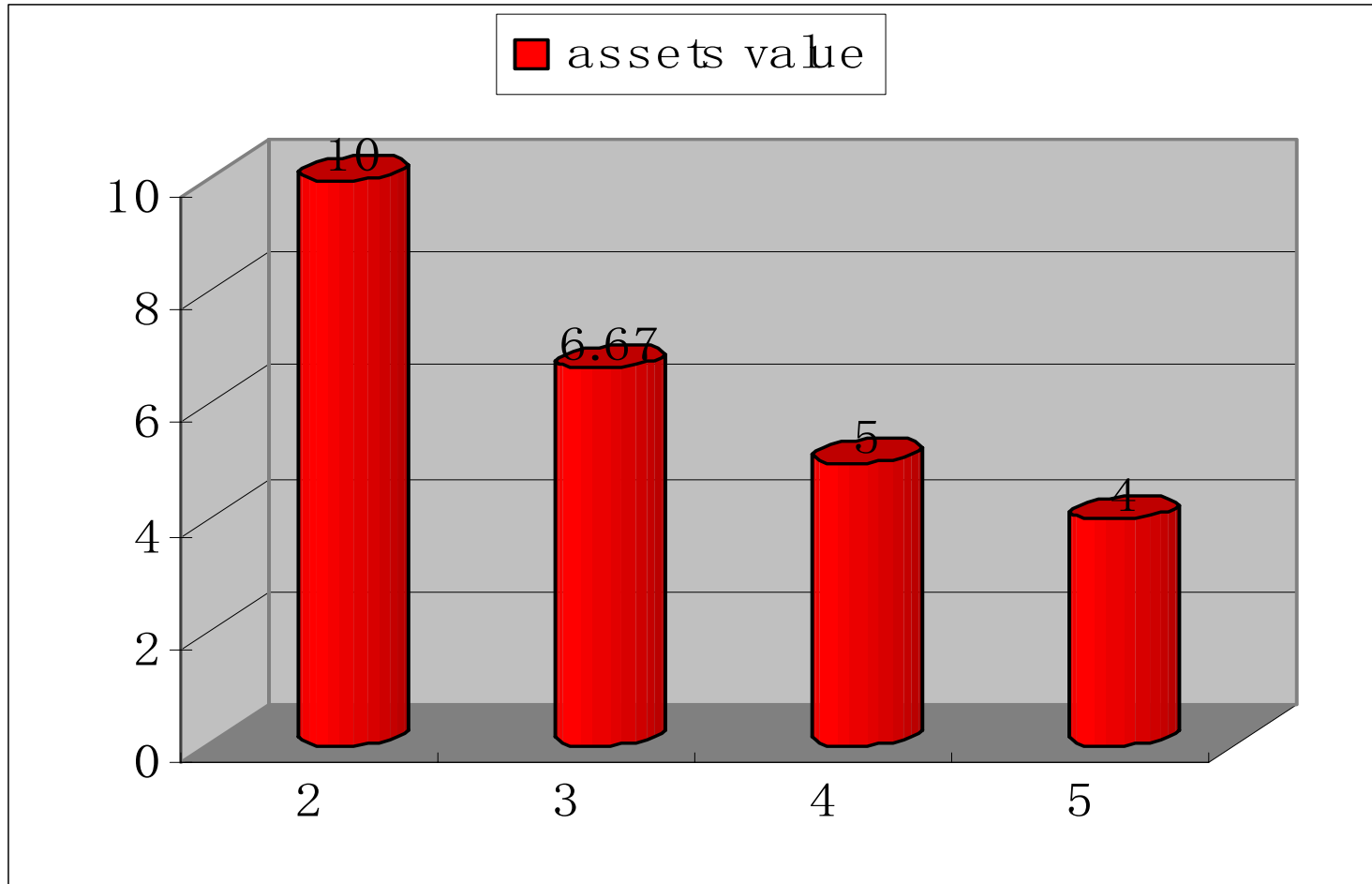
- Must ensure that the workplace environment adheres to the standards found in Negoland, and those set by Arbitrian legislation

Advantage of Investing More Cash



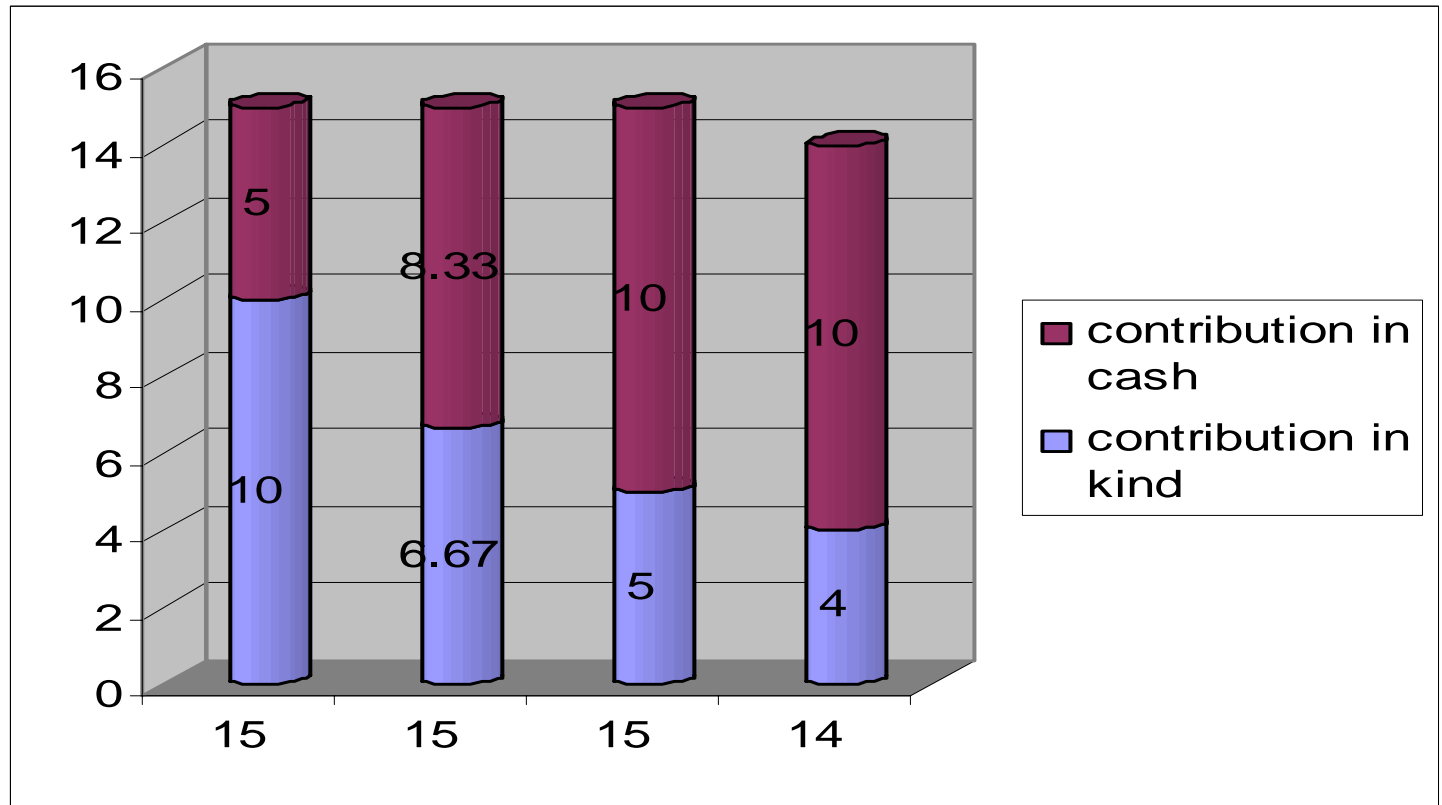
Measurement: Arbs or Nego

Annual Contribution per Year



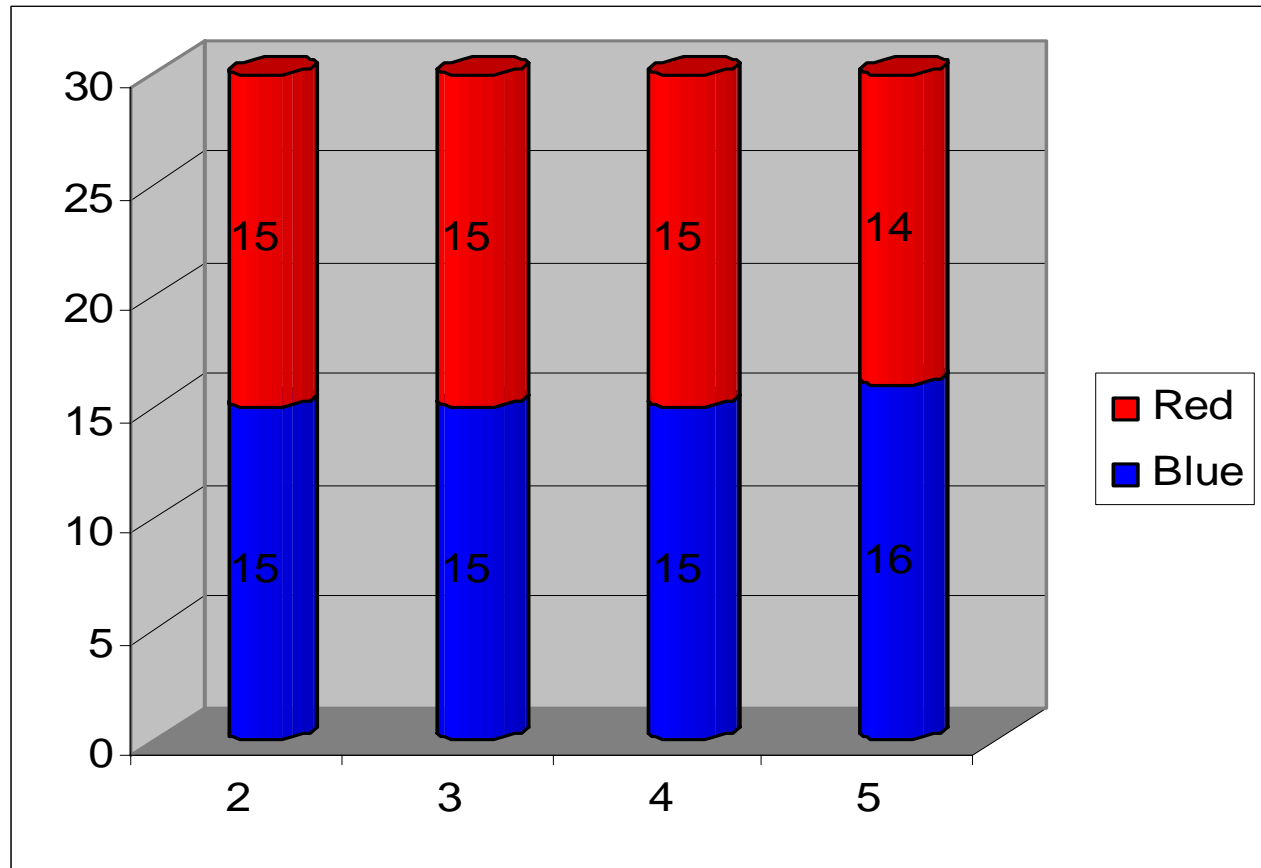
Measurement: million US Dollar

Composition of Red's Contribution



Measurement: million US Dollar

Composition of Contributions



Measurement: Million Dollar