

## **CEO's Newsletter**

**December 2006**

Dear Shareholder,

First of all I hope you all had a great Christmas, a relaxing break and I wish you all a very happy and prosperous New Year. My apologies for the late arrival of this December newsletter which is entirely due to the Christmas break. Also I had an important customer visit last Friday and wanted to wait and see if there was any news of interest to you, our shareholders. I am pleased to say that there was.

You will notice that our volume projections below have increased. The design wins as a result of our "Tier 1" opportunity moving to a design win plus others and a significant increase in potential volumes for opportunities as a result of our Cyan Asia office which has found some very large opportunities in well known consumer brand names. Again a word of warning when interpreting the potential volumes associated with opportunities. We have added some large opportunities and it must be borne in mind that each opportunity will have a different probability. The bigger the opportunity is the more likely we are to have stiffer competition and therefore a lower probability of turning the opportunity into a design win. So the message as before is that this number in particular can vary widely from month to month. What it does show however is that we are being considered seriously.

### **eCOG1X**

The eCOG1X chip arrived early December and within 20 minutes of being signed for from the courier, it was up and running on the bench. We have a considerable number of tests that had been designed and waiting for the chips and I am pleased to say that the chip has passed everything we have thrown at it so far. In particular the analogue to digital converters (electronic circuits that convert real world signals into digital signals for computers to understand) are performing beautifully, we couldn't have wished for more. At the end of January we should have production test facilities running on the 68 QFN versions of the eCOG1X and will be able to send parts to the design wins we currently have that are using the 68 pin parts. We are also in a position to ship other versions to certain other design wins. All of these design wins can now move forward as our customers can use real chips in their prototypes.

### **Tier 1 Global Brand Name**

I visited our "Tier 1 Global Brand Name" last Friday with our UK technology partner. We delivered a fully working, production prototype using the eCOG1X chip with working software on both the 1X chip and the host computer that it connects to. The customer was very impressed and we have proved beyond doubt that the 1X solution to their product is significantly cheaper than their current version and it works very well indeed and better than they expected. This can now be regarded as a design win rather than an opportunity as we rose to the challenge ("prove it!") and passed the test. This has contributed to the increase in projected volumes of our design wins as can be seen below. We met staff from development, marketing, production and purchasing and answered their questions. Engineering staff thought the CyanIDE tools were outstanding. I would like to remind everyone that this is now a design win and will not go into production straight away. There is a reasonably lengthy process by the customer of further design improvements in hardware, software and reliability testing of their design. Production is unlikely to start until sometime in 2008.

### **CyanIDE V1.4**

We have now released a beta version of our CyanIDE V1.4 toolset to select customers. Feedback from these customers and our FAEs is then used to fix problems and then formally release to the industry. This is how every software company releases new product, even Microsoft who allowed the public to download a pre-release version of Vista. This release of CyanIDE will be our 5th since we started trading in January 2004 and will be the most

significant release to date as it includes many new features and a complete new product range (1X) with the ability to switch between the current eCOG1 range and the new eCOG1X range.

### Sales Metrics

We chart the number of people registering and downloading our tools as this bears a resemblance to the number of design wins we have or can expect. You will notice that in August we broke through 3,000 registrations and registrations are still steadily rising. We have had to estimate registrations for October and November as our web hosting provider had a disk crash and it took sometime to fix the registration process. Visitors to our site were able to download our CyanIDE tools and we knew how many, but we had no information on them. I have roughly estimated what proportion of those could be regarded as from the industry based on historical experience.

Currently the design wins we have would represent almost 3 million units per annum if they were all in full production at the same time. If we converted all opportunities to design wins and then production they would represent an additional 36 million units per annum.

**Cumulative Website Registrations - Jan 04 to Dec 06**

