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# MegaChips Corporation

## Results for the Fiscal Year ended March 31, 2008 (FY3/08)

(Securities Code No: 6875)

**Shigeki Matsuoka**  
President and Representative Director

**Yukihiro Ukai**  
Vice President and Representative Director

*<http://www.megachips.co.jp/>*

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# **FY3/08 Business Results**

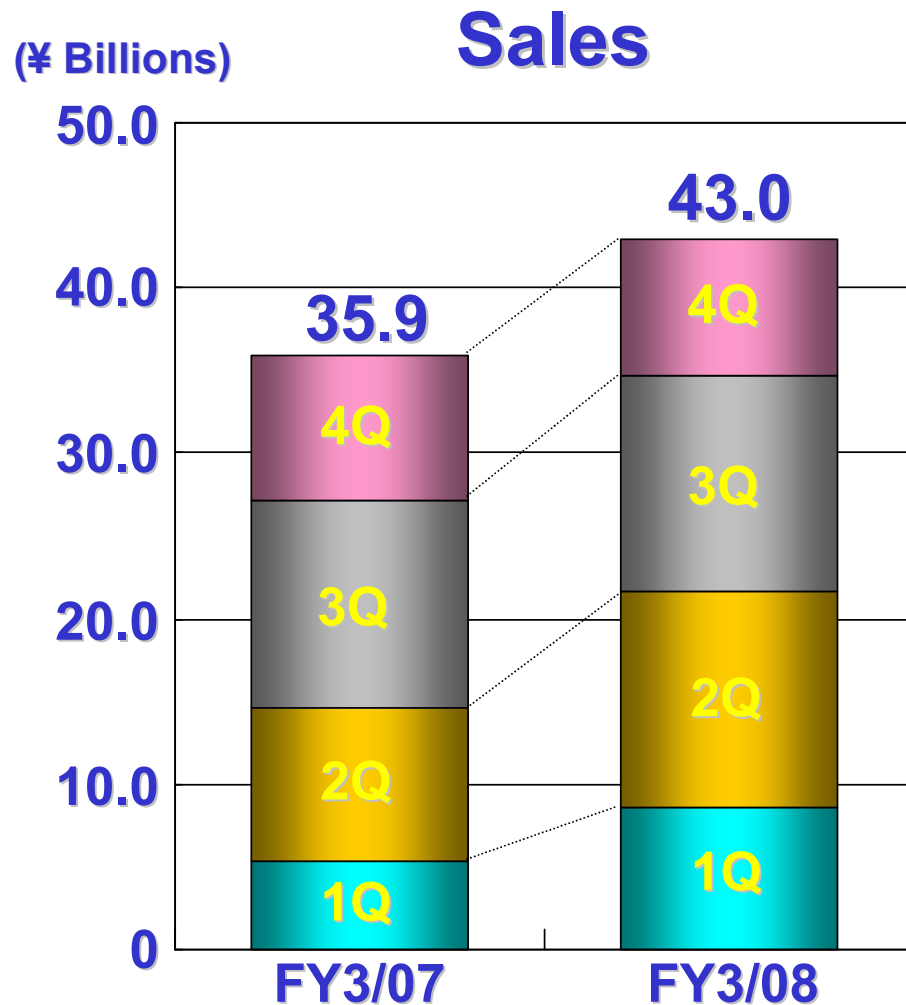
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# Consolidated Statement of Income

(¥ Millions)		FY3/08 Results (1)	FY3/07 Results (2)	FY3/08 Forecast (3)	YoY change (1)/(2)	Vs. forecast (1)/(3)
LSI Business	Net sales	48,062	42,020	50,000	+ 14.4%	- 3.9%
	Operating income	4,245	3,173	3,700	+ 33.8%	+ 14.7%
Systems Business	Net sales	2,609	2,675	5,800	- 2.5%	- 55.0%
	Operating income	- 737	- 187	- 100	-	-
Consolidated	Net sales	50,671	44,696	55,800	+ 13.4%	- 9.2%
	Operating income	3,444	2,920	3,600	+ 17.9%	- 4.3%
	Ordinary income	3,304	2,869	3,600	+ 15.2%	- 8.2%
	Net income	2,612	1,519	2,650	+ 72.0%	- 1.4%
	Net income per share (¥)	105.60	61.34	106.91	+ 72.2%	- 1.2%

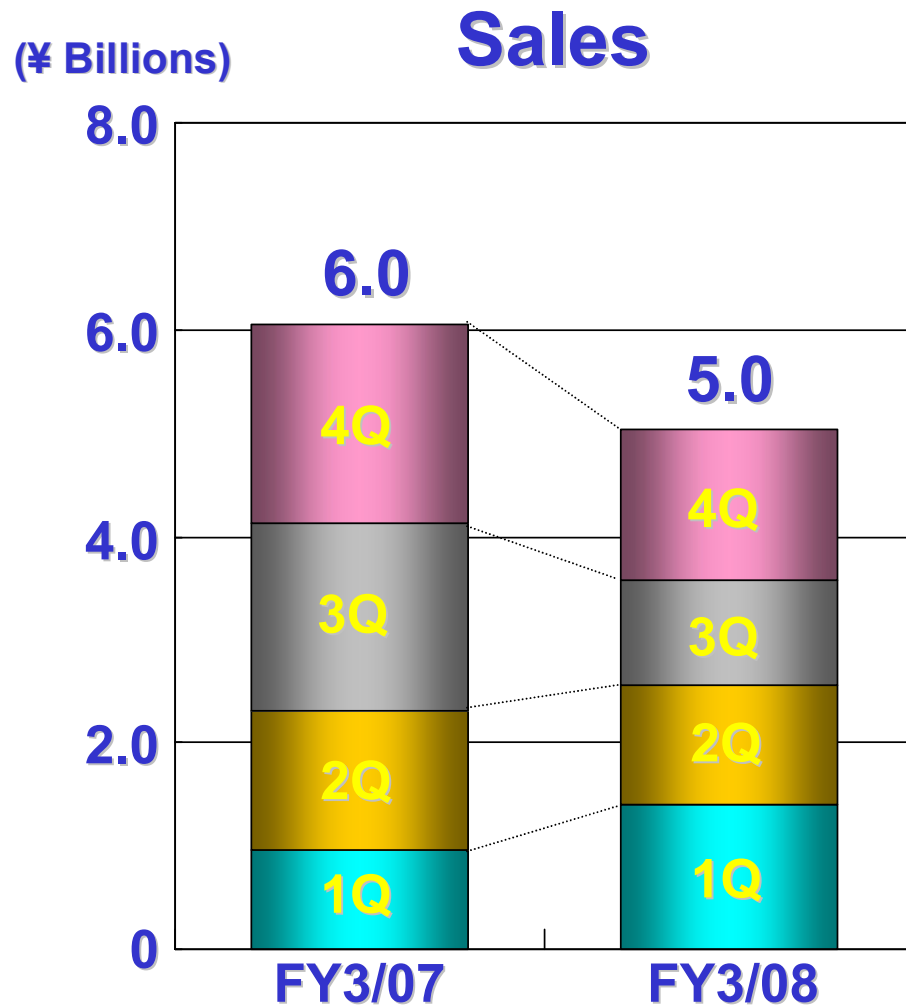
**Note:** The merger with two subsidiaries at the beginning of FY3/08 resulted in a tax adjustment that had the effect of increasing FY3/08 net income by about 770 million yen.

# Operating Results for ASIC Business



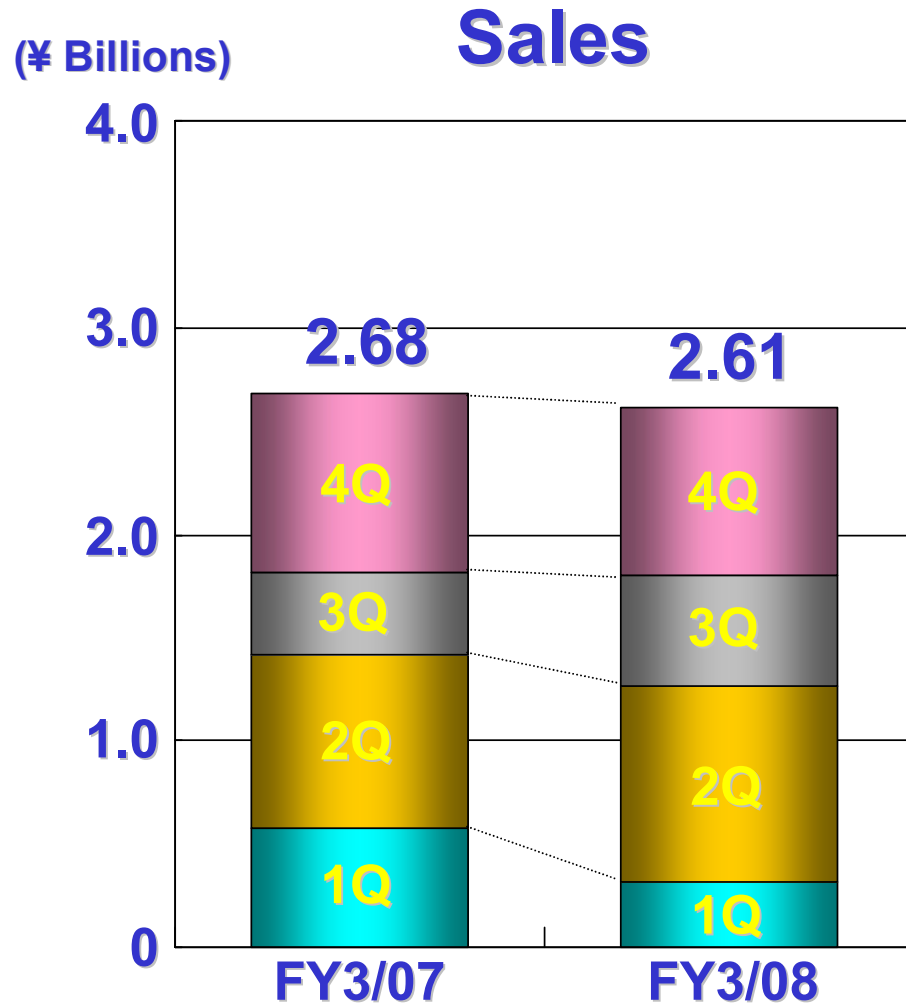
- Sales were higher than in FY3/07 and exceeded the plan.
- Strong demand for software-storage LSIs used in hand-held games was a major reason for the sales growth.

# Operating Results for ASSP Business



- Sales were down year on year and fell short of the plan.
- Demand increased for core products like OFDM demodulation LSI for One Seg (one-segment) digital terrestrial broadcasting and high-performance image-processing LSI for digital cameras. But sales were down because of the decision to reduce sales of low-margin memory products.

# Operating Results for Systems Business



- Sales were about the same as one year earlier and fell short of the plan.
- Sales of customer-specific video monitoring equipment increased following the 2Q launch of a new product. But there was a small sales decline because of lower sales of MegaChips-brand video monitoring products.
- The introduction of new self-security products was delayed due to the need to improve the performance of new products.

# Consolidated Balance Sheet

(¥ Millions)	FY3/08	FY3/07	Change	(¥ Millions)	FY3/08	FY3/07	Change
<b>Assets</b>				<b>Liabilities</b>			
<b>Current assets</b>	<b>26,856</b>	<b>26,040</b>	<b>816</b>	<b>Current liabilities</b>	<b>11,668</b>	<b>10,446</b>	<b>1,222</b>
Cash and cash equivalents	6,530	4,737	1,793	Payables	4,020	4,640	- 620
Receivables	17,653	18,316	- 663	Short-term debt	6,000	4,000	2,000
Inventories	2,259	2,357	- 98	Income taxes payable	558	968	- 410
<b>Fixed assets</b>	<b>8,472</b>	<b>6,301</b>	<b>2,171</b>	<b>Fixed liabilities</b>	<b>2,224</b>	<b>2,202</b>	<b>22</b>
Tangible fixed assets	220	160	60	<b>Total liabilities</b>	<b>13,892</b>	<b>12,648</b>	<b>1,244</b>
Intangible fixed assets	177	154	23	<b>Total net assets</b>	<b>21,436</b>	<b>19,693</b>	<b>1,743</b>
Investment & other assets	8,074	5,986	2,088				
<b>Total assets</b>	<b>35,329</b>	<b>32,342</b>	<b>2,987</b>	<b>Total liabilities &amp; Net asset</b>	<b>35,329</b>	<b>32,342</b>	<b>2,987</b>

- *Assets were 2,987 million yen higher than at the end of FY3/07. Current assets increased 816 million yen and fixed assets increased 2,171 million yen. Major changes in current assets were a 1,793 million yen increase in cash and cash equivalents and a 663 million yen decrease in notes and accounts receivables. Growth in investment and other assets was mainly responsible for the increase in fixed assets. There were increases in unrealized gains on investment securities and long-term prepaid expenses. Previously, the portion of the cost of sales associated with mass production preparations included in consigned development was recorded as inventories. However, due to growth in the volume of consigned projects, this portion of the cost of sales has been reclassified as long-term prepaid expenses in order to present earnings in each fiscal year more accurately.*
- *Liabilities increased 1,244 million yen mainly because of a 2,000 million yen increase in short-term debts.*
- *Net assets increased 1,743 million yen. This was mainly attributable to the contribution from net income, a reduction from stock repurchases, and an increase in capital from the retirement of treasury stock.*

# Consolidated Cash Flows

(¥ Millions)	FY3/08	FY3/07	Change
<b>Cash flows from operating activities</b>	<b>2,340</b>	<b>- 1,919</b>	<b>4,259</b>
Income before income taxes and minority interests (+)	3,136	2,855	281
Decrease (+) / increase (-) in receivables	643	- 4,527	5,171
Decrease (+) / increase (-) in inventories	- 743	- 1,387	644
Increase (+) / decrease (-) in payables	- 604	1,597	- 2,201
Income taxes refunded (+) / paid (-)	- 946	- 1,111	164
<b>Cash flows from investing activities</b>	<b>- 1,558</b>	<b>- 660</b>	<b>- 898</b>
<b>Cash flows from financial activities</b>	<b>1,071</b>	<b>2,633</b>	<b>- 1,561</b>
<b>Cash and cash equivalents</b>	<b>6,530</b>	<b>4,737</b>	<b>1,792</b>
<b>Free cash flows (operating CF + investing CF)</b>	<b>781</b>	<b>- 2,579</b>	<b>3,361</b>

- *Net cash provided by operating activities was 2,340 million yen. Major components were income before income taxes and minority interests of 3,136 million yen, decreases of 643 million yen in receivables and 604 million yen in payables, a 743 million yen increase in inventories, and 946 million yen in income taxes paid.*
- *Net cash used in investing activities was 1,558 million yen, mainly for long-term prepaid expenses.*
- *Net cash provided by financing activities was 1,071 million yen. Cash was provided by an increase in short-term debts but used for stock repurchases and dividend payments.*
- *The result was a net increase of 1,792 million yen in cash and cash equivalents to 6,530 million yen.*

# **FY3/09 / Medium-term Management Strategy**

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# Medium-term Growth Strategy

## Execute medium-term growth strategy through structural business reforms

### Strengthen and expand customer-specific businesses

Reinforce the foundation and expand operations involving businesses for specific customers to provide customized solutions, a core strength of MegaChips.

- For current ASIC and system customers, take full advantage of MegaChips' skill in LSI and system technologies and development to offer optimized solutions extending from LSIs to boards/modules and finished products.
- Conduct sales activities to build ties with new customers that can become the next large-scale customers.

### Increase opportunities to earn profits from application-specific businesses

Increase sales of LSIs for specific applications, a field where MegaChips is highly competitive. Use these system LSIs to drive MegaChips' growth by increasing opportunities to earn profits through the provision of solutions that match customers' demands for LSIs, boards/modules, IP, etc.

- Expand system LSI business by leveraging competitive technologies involving imaging and communications
- Make investments to develop a board/module business centered on system LSI expertise

In the systems business, concentrate on customer-specific operations while shifting resources to launch the new electronic components business.

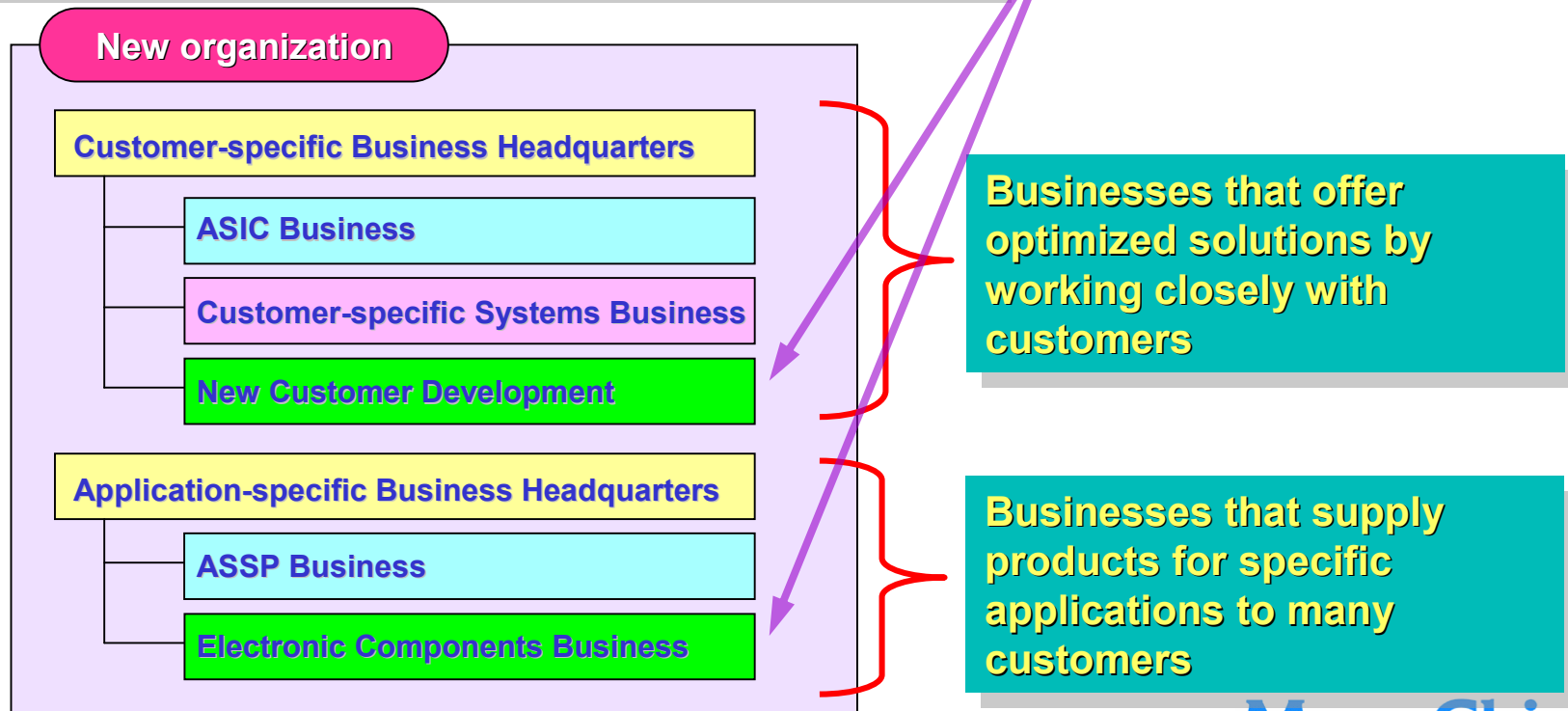
Use alliances to reduce business risk while speeding the growth of businesses.



# Organization

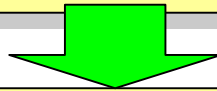
- End internal company system = Capture the greatest possible LSI/systems business synergies
- Clearly identify MegaChips' strengths and problems for each business model, then make strengths even stronger and quickly solve problems
- Reinforce management and administrative systems in order to create and execute strategies spanning the entire company

**Aim for new growth by adding new customers and launching the electronic components.**



# Responsibilities of Senior Management

Record earnings in FY3/08 because of growth of ASIC, ASSP and systems businesses



Starting reforms aimed at sustaining medium- to long-term growth

- Reinforce the operating base and serve more customers in the ASIC and customer-specific systems businesses, two core strengths of MegaChips
- Expand the ASSP business, the nucleus of our competitive edge, and the new electronic components business (boards/modules, etc.) by leveraging ASSP business skills
- Improve the quality of management by strengthening management and administrative systems (upgrade oversight of operations for individual businesses and at the corporate level)

## Responsibilities for representative directors

Yukihiro Ukai	Pursue growth strategies as the company president
Shigeki Matsuoka	Pursue long-term management strategies, strengthening of management base and business management as the executive vice president and general manager of Administration Division

# **FY3/09 / Medium-term Business Plan**

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# Sales and Earnings Plan for FY3/09

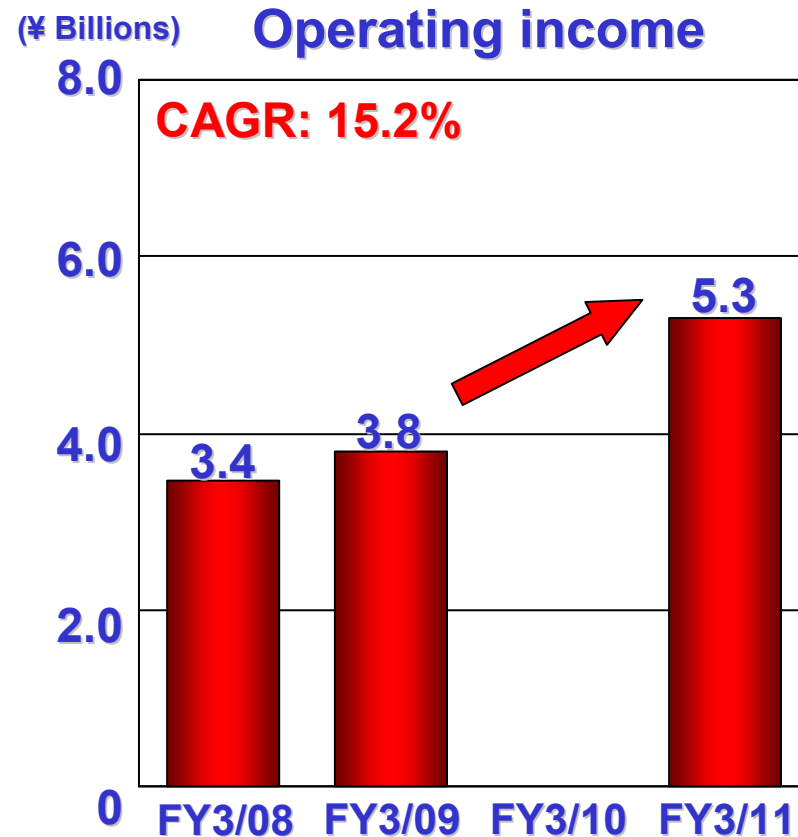
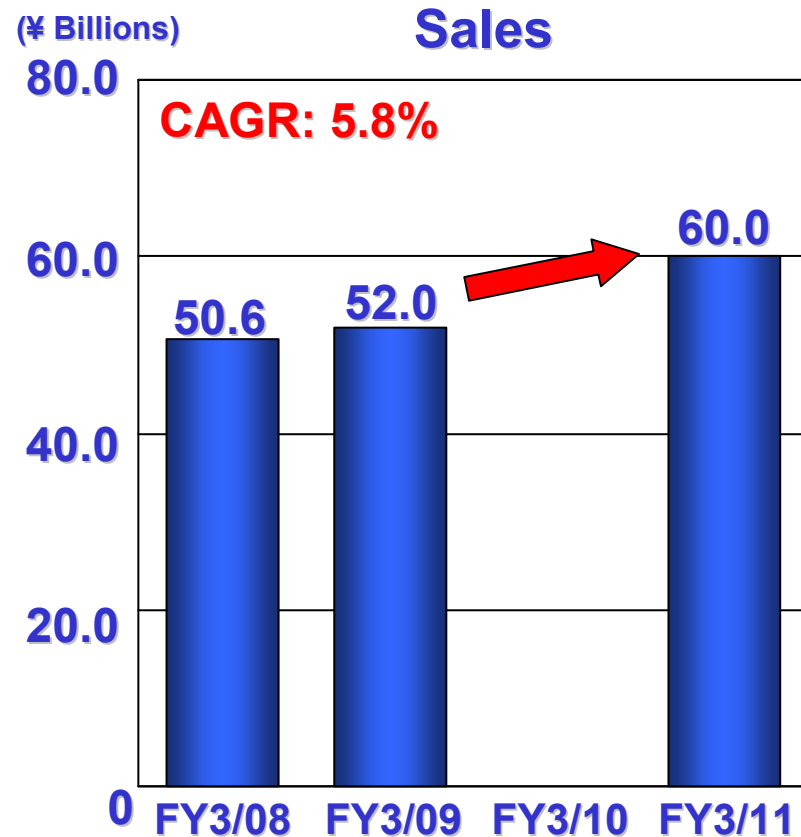
(¥ Millions)		FY3/09 First-half forecast	FY3/09 Full-year forecast	FY3/08 First-half results	FY3/08 Full-year results	YoY change (First-half)	YoY change (Full-year)
LSI Business	ASIC	20,000	42,000	21,624	43,041	- 7.5%	- 2.4%
	ASSP and electronic components	2,200	6,000	2,562	5,020	- 14.1%	+ 19.5%
	Net sales	22,200	48,000	24,186	48,061	- 8.2%	- 0.1%
	Operating income	1,800	4,300	1,942	4,245	- 7.3%	+ 1.3%
Systems Business	Net sales	1,800	4,000	1,269	2,609	+ 41.8%	+ 53.3%
	Operating income	-100	0	-294	- 737	-	-
Corporate	Strategic expenses	0	500	-	-	-	-
Consolidated	Net sales	24,000	52,000	25,456	50,671	- 5.7%	+ 2.6%
	Operating income	1,700	3,800	1,600	3,444	+ 6.3%	+ 10.3%
	Ordinary income	1,650	3,700	1,534	3,304	+ 7.6%	+ 12.0%
	Net income	940	2,100	1,627	2,612	- 42.2%	- 19.6%
	Net income per share (¥)	38.44	85.88	65.67	105.60	- 41.5%	- 18.7%

Note: The planned FY3/09 net income is lower than in FY3/08 because net income in FY3/08 includes a gain of about 770 million yen from a tax adjustment associated with the merger with two subsidiaries.

# Medium-term Target

## Medium-term Target for FY3/11

- Consolidated operating income: ¥5.3 billion  
(Target CAGR 15% from FY3/08 to FY3/11)

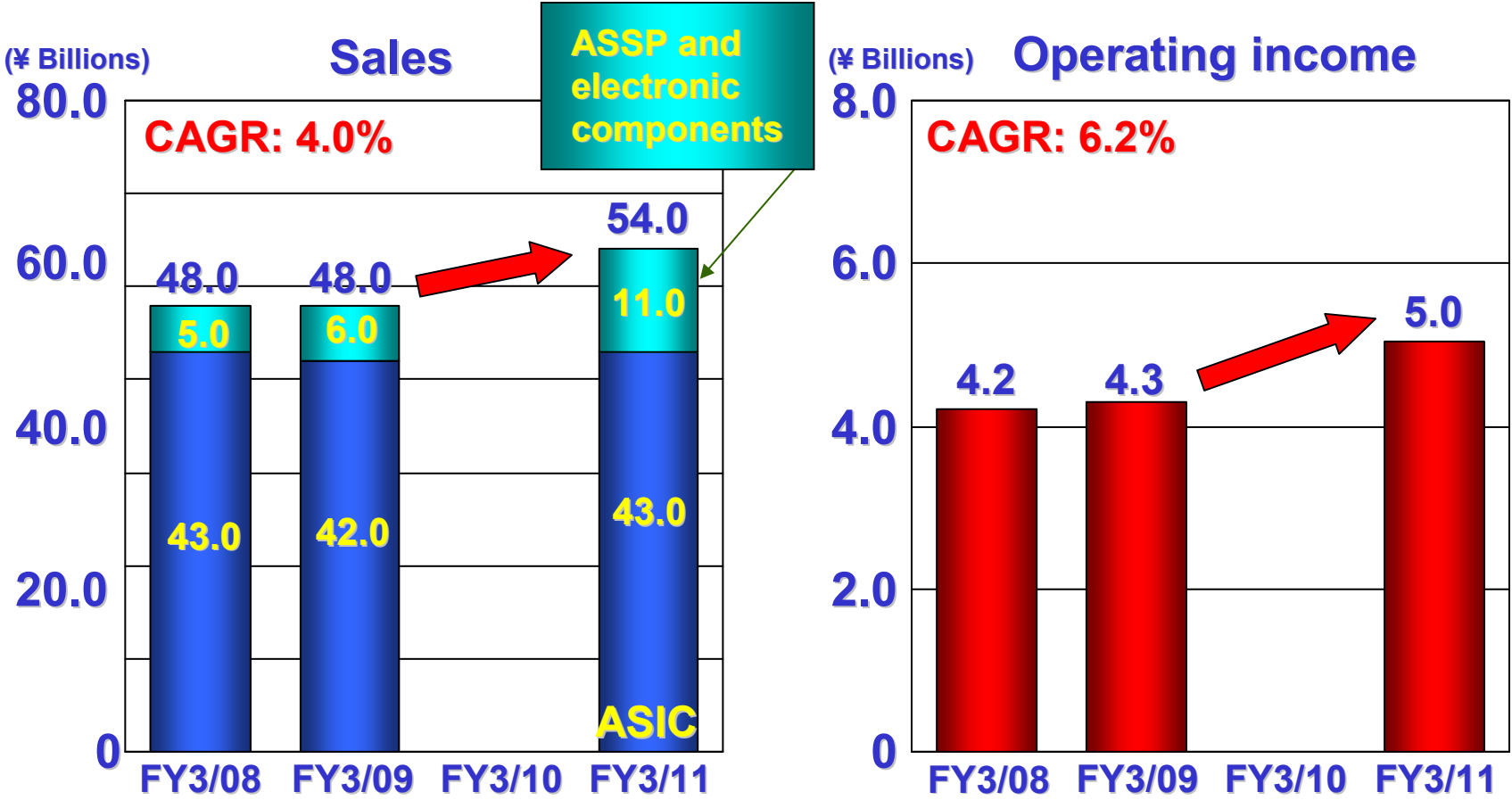


**MegaChips**

# Business Segments

<b>LSI Business</b>	<b>Customer-specific LSIs (ASIC)</b>	<b>Order-made LSIs for the products of specific customers</b>
	<b>Application-specific LSIs (ASSP) and electronic components</b>	<b>MegaChips-branded LSIs and boards/modules with specs and functions for specific applications</b>
<b>Systems Business</b>	<b>Customer-specific systems</b>	<b>Customized system products for the applications of specific customers</b>

# LSI Business Segment - Medium-term Target



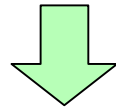
# LSI Business Segment - Business Domains

## ASIC Business

- Bolster the operating base by selling a more diverse range of products to current customers
- Establish relationships with new customers that can place large orders

### ◆ Broaden the range of products sold to current customers

- LSIs for game cassettes used for hand-held games
- LSIs for video game



- Products for memories with large capacity, quick deliveries and outstanding security
- Solutions for hand-held game units and stationary TV game units



### ◆ Establish relationships with new customers

- Acquire customer in new application areas (with focus on the amusement sector) (proposals for products for memories, products involving image and audio processing, etc.)

\* Wii, NINTENDO DS, GAMEBOY ADVANCE and DS are registered trademarks and trademarks of Nintendo.

# LSI Business Segment - Business Domains

## ASSP and Electronic Components Business

- Expand the ASSP business, mainly for high-performance system LSIs in our targeted applications
  - Increase business opportunities by offering optimized solutions that respond to customers' demands
    - Add boards/modules business centered on system LSIs
    - Start an IP business
  - Use alliances to target more product categories and speed-up the growth of business operations
- 
- ◆ In current market sectors, expand the ASSP business by focusing on high-performance system LSIs for digital cameras, mobile multimedia and high-definition AV.
  - ◆ Add a board/module business centered on system LSIs
    - One Seg Tuner modules reception modules, Full Seg tuners, communication modules, etc.
  - ◆ Start an IP business
  - ◆ Use alliances and other forms of cooperation
    - Collaborate with other companies in the compact digital camera field

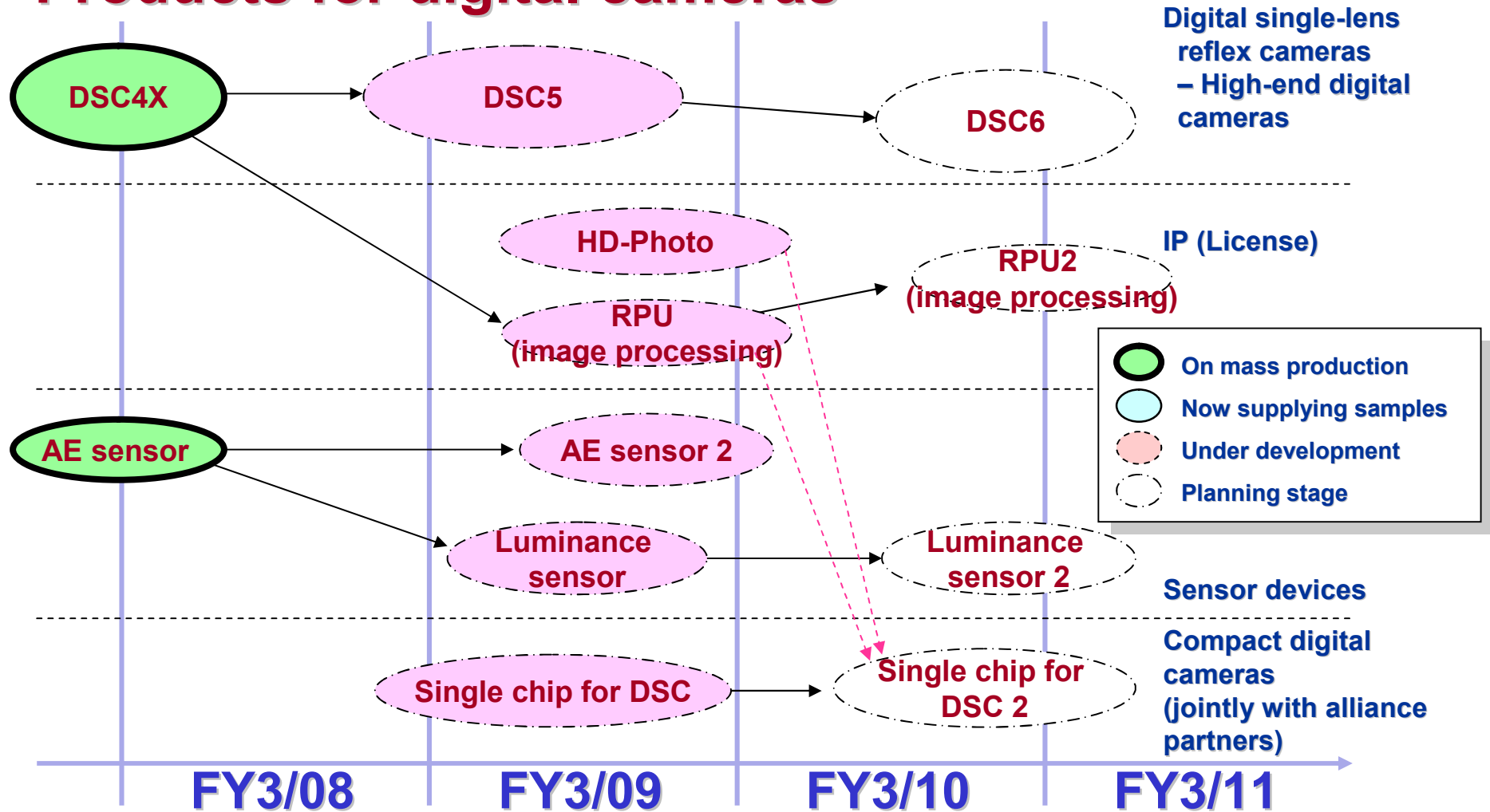


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**MegaChips**

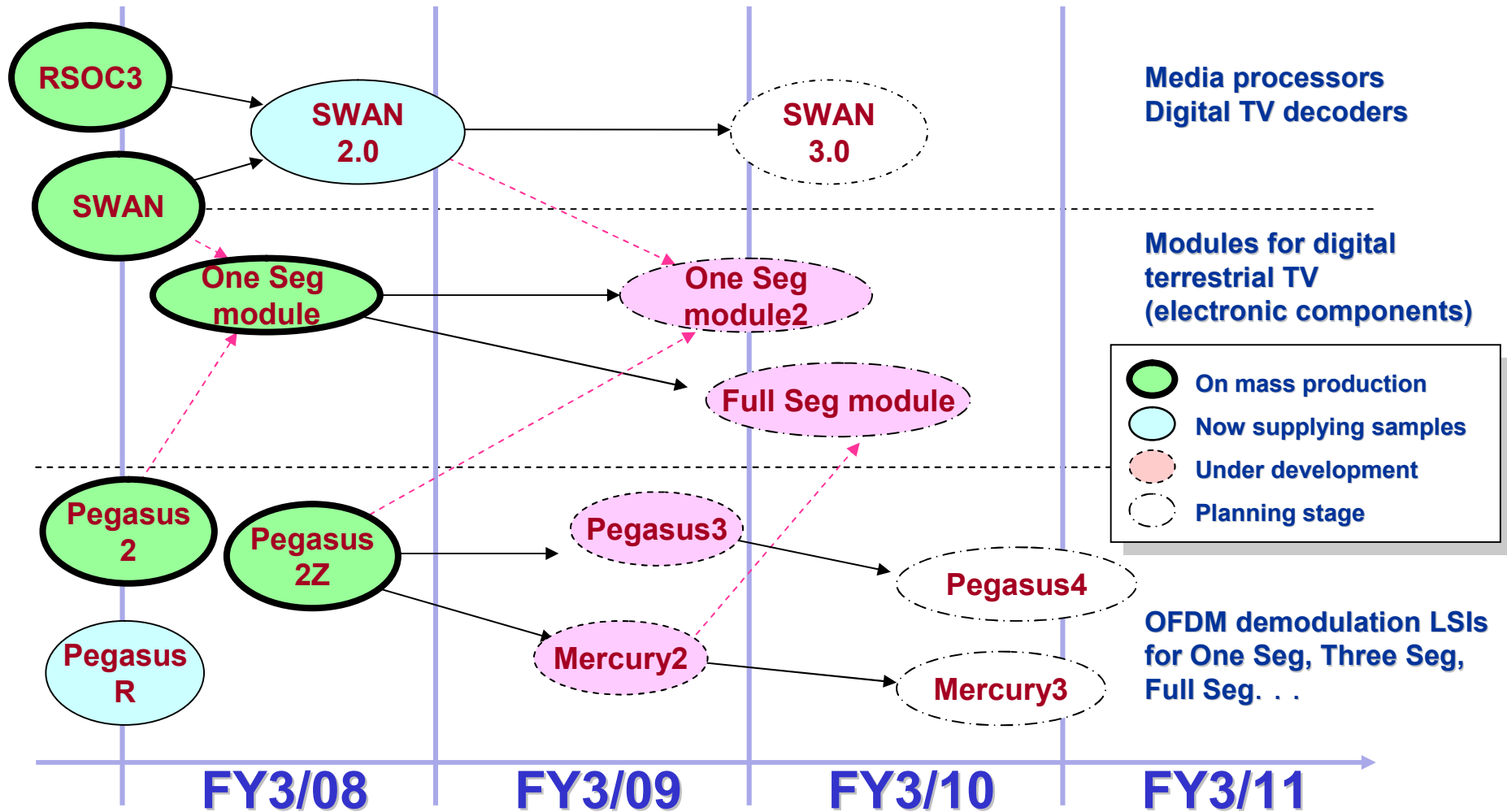
# ASSP and Electronic Components Products Roadmap

## Products for digital cameras



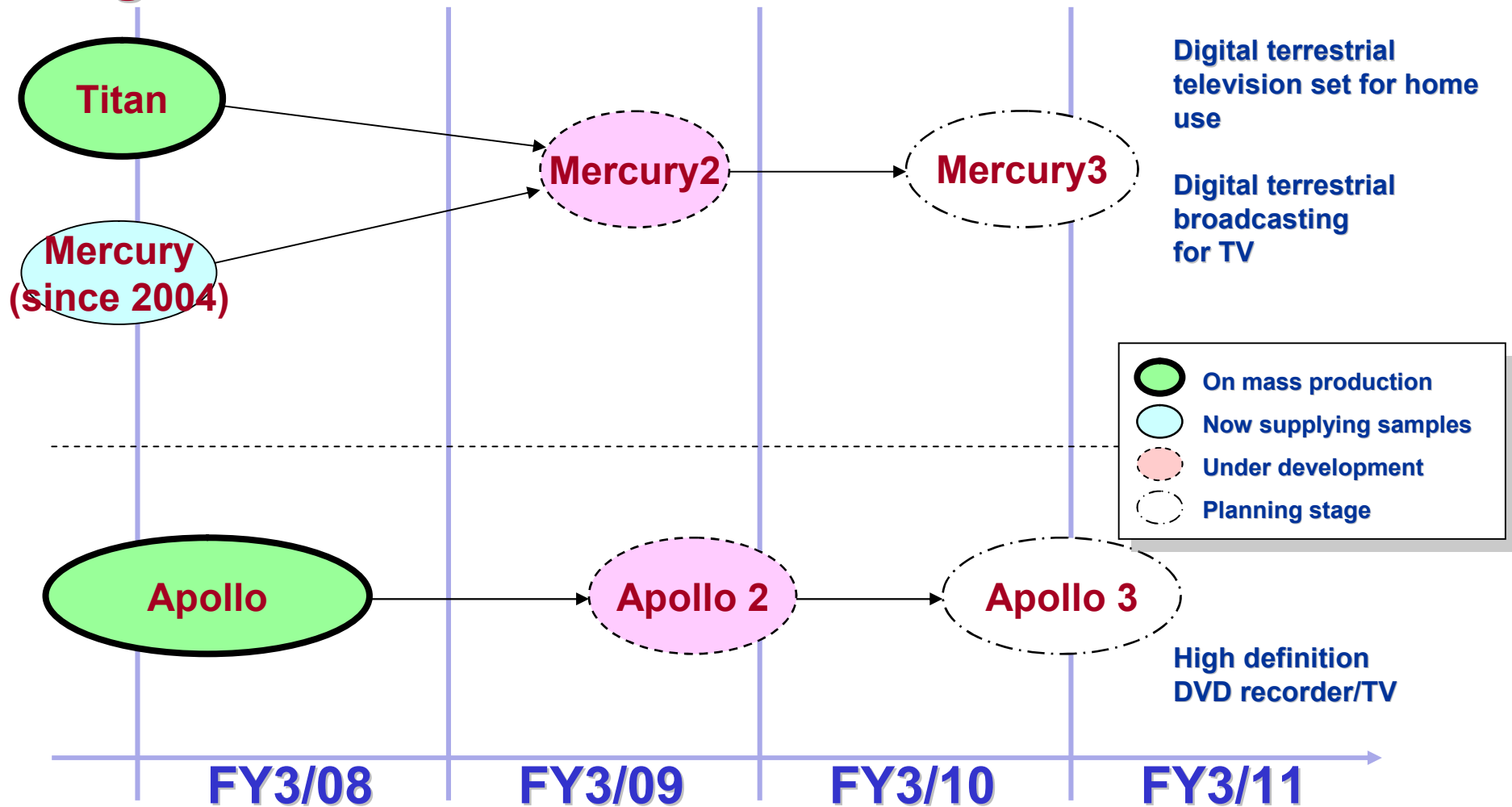
# ASSP and Electronic Components Products Roadmap

## Products for mobile multimedia

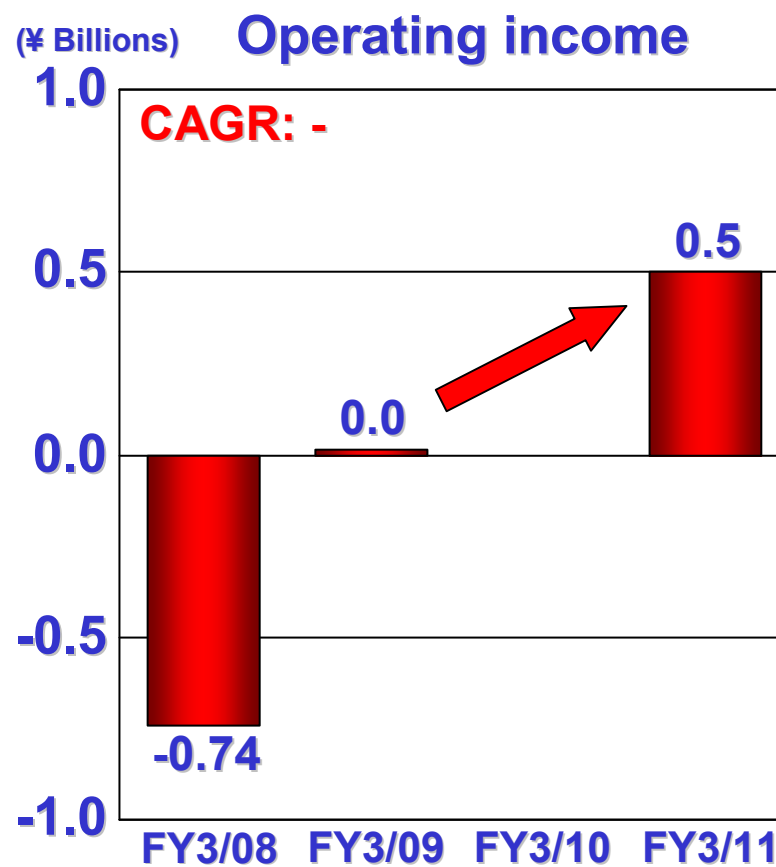
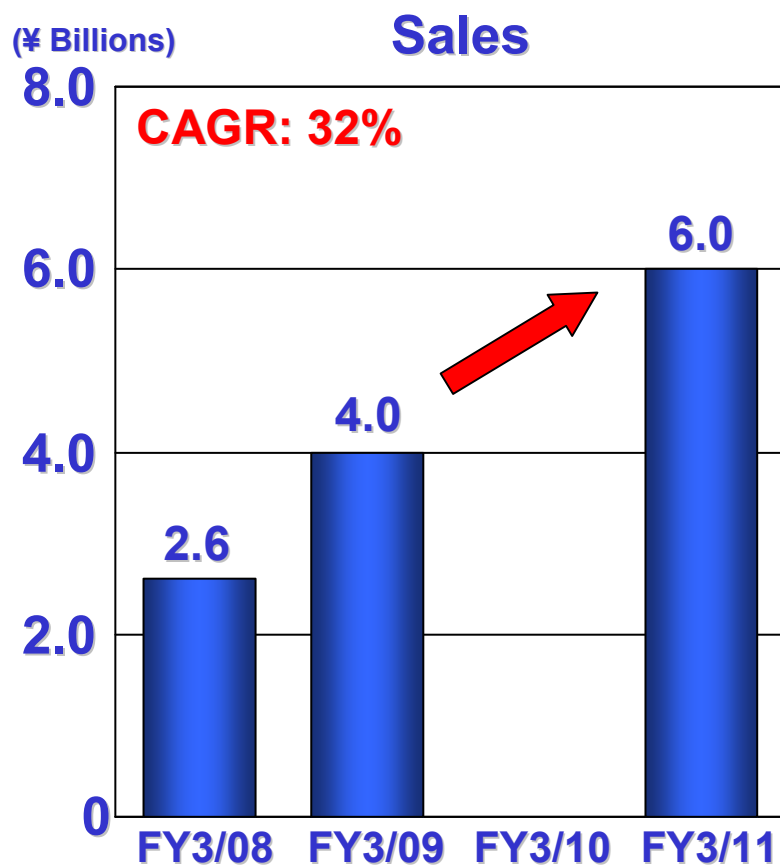


# ASSP and Electronic Components Products Roadmap

## High definition AVs



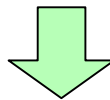
# Systems Business Segment - Medium-term Target



# Systems Business Segment – Business Domains

- Aim to develop System Businesses into a consistently profitable business by concentrating on customer-specific systems for security monitoring applications
- Grow by supplying current customers with a more diverse line of products
- Establish relationships with new customers

- ◆ Broaden the range of products supplied to current customers
  - Analog/digital video surveillance system



- Fully digital video surveillance monitoring system

Increased product lines to the customer

Target application expand from small to large scale surveillance systems

- System products for home security applications

- System products for room access control applications



# Plan for Allocation of Resources

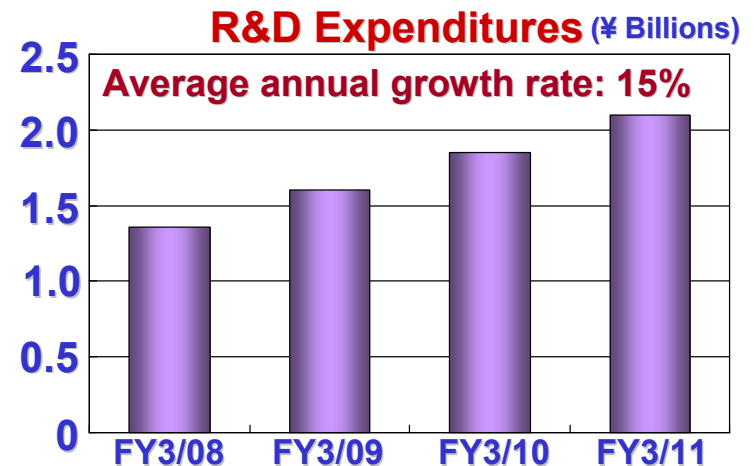
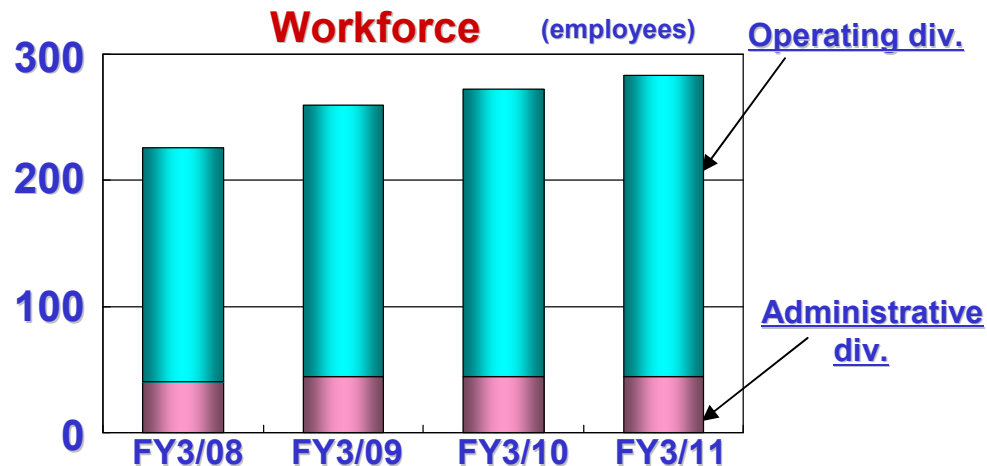
## Workforce plan

	FY3/08 Results	FY3/09 Estimate	FY3/10 Estimate	FY3/11 Estimate
Operating divisions	186	216	228	239
Administrative divisions	40	44	44	44
<b>Total</b>	<b>226</b>	<b>260</b>	<b>272</b>	<b>283</b>

Note: Figures are average headcount for each FY.

## Plan for R&D expenditures plan

(¥ Billions)	FY3/08 Results	FY3/09 Estimate	FY3/10 Estimate	FY3/11 Estimate
<b>R&amp;D expenditures</b>	<b>1.36</b>	<b>1.60</b>	<b>1.85</b>	<b>2.10</b>



# Key Investment Highlights

Aim for more growth by reinforcing and expanding the customer-specific business, MegaChips' greatest strength, enlarging the ASSP business and starting an electronic components business that uses these LSIs in boards/modules and other products.

## Customer-specific business

- Continue to position ASICs as the core profit center
- In the systems business, develop profitable operations by concentrating in the customer-specific field
- Expand the range of products offered to existing customers and establish ties with prominent new customers in order to expand the customer-specific business

## Application-specific business

- For ASSP, in addition to cellular phones and high-end digital cameras, which are extensions of established businesses, extend operations to include products like compact digital cameras, cellular phones that can receive digital terrestrial TV broadcasts, automotive TVs and high-definition AV products. Enlarge activities to cover everything from high-end to low-end products.
- In the electronic components business, we will operate a boards/module business centered on ASSP. The objective is to grow through the diversification of business opportunities.

# IR Policy

## » Purposes of investor relations and basic policy

MegaChips is committed to active investor relations based on transparent, fair and timely disclosure. Our goal is to receive fair, appropriate share pricing that is relevant to corporate value and to gain trust and a solid reputation among shareholders, investors, analysts, and other stakeholders.

## » Disclosure rules

MegaChips provides information fully in compliance with the regulations of the Tokyo Stock Exchange on timely disclosure. We also disclose information deemed necessary or useful to shareholders, investors, and analysts to satisfy their interests in our company.

## » Disclosure method

All information defined by the regulations of the Tokyo Stock Exchange is first reported to the Exchange, and registered with their TDnet (Timely Disclosure Network) database. We also publish press releases on the information.

## » Forward-looking statements

The information MegaChips discloses may contain forward-looking statements that reflect management's current views with regard to certain future events and financial performance. These statements are based on the current assumptions and beliefs of the MegaChips Group in light of the data and information currently available, and actual results may differ materially from those projected or implied in the statements. Accordingly, we wish to caution readers to refrain from placing undue reliance on them in making investing and other decisions.

## » IR "Quiet Period"

MegaChips observes a "Quiet Period" from 10 business days immediately before the end of each quarter until the announcement of its financial results, in order to prevent information leaks that may affect stock prices during the preparation of financial results announcement. During this period, the management refrains from giving press interviews, participating in meetings, and responding to questions and inquiries about financial results and forecasts. However, drastic forecast revision and other crucial information, as defined in the "timely disclosure rules" of the Tokyo Stock Exchange, shall be readily available during the period.

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