

Innovation & Rebuild

MegaChips Corporation

**Results for the First Half of
Fiscal Year ending March 31, 2010
(1H FY3/10)**

<http://www.megachips.co.jp/english/index.html>

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1H FY3/10 Business Results

1H FY3/10 Consolidated Financial Results

1Q Results

2Q Results

3Q Results

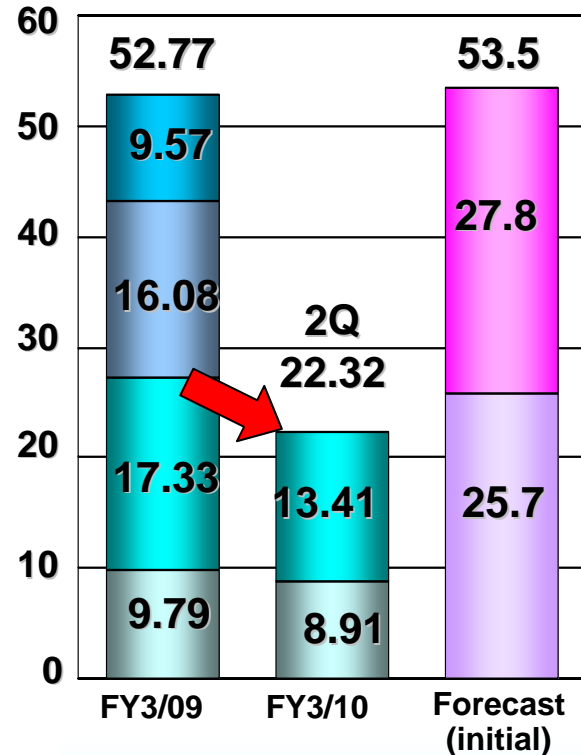
4Q Results

1H Forecasts

2H Forecasts

Net Sales

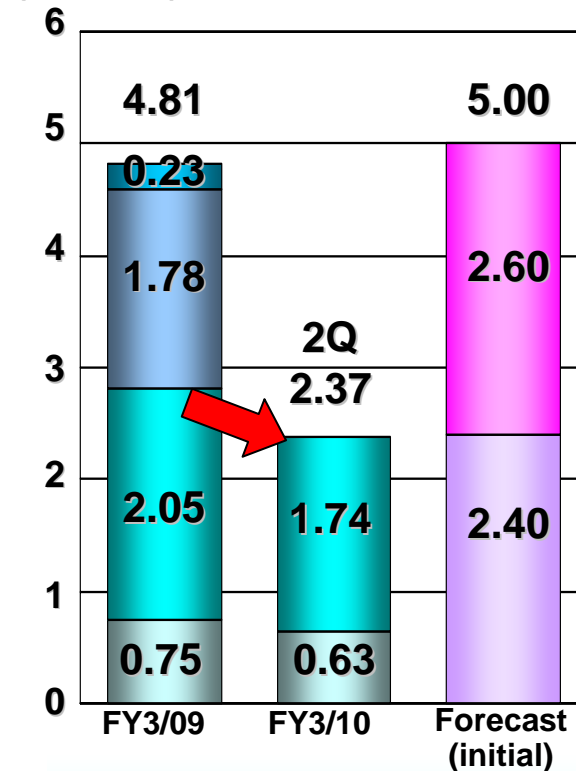
(¥ Billions)



Net sales: ¥22.32 billion
(- 17.7%) <41.7%>

Operating Income

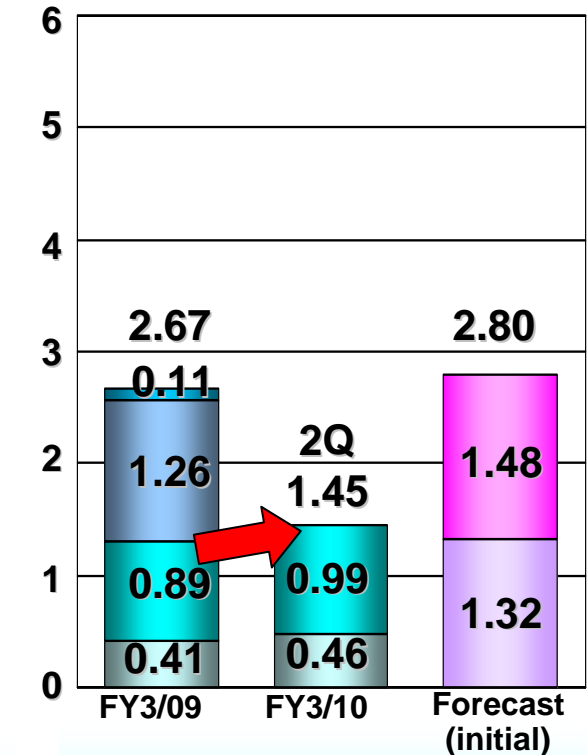
(¥ Billions)



Operating income: ¥2.37 billion
(- 15.4%) <47.4%>

Net Income

(¥ Billions)



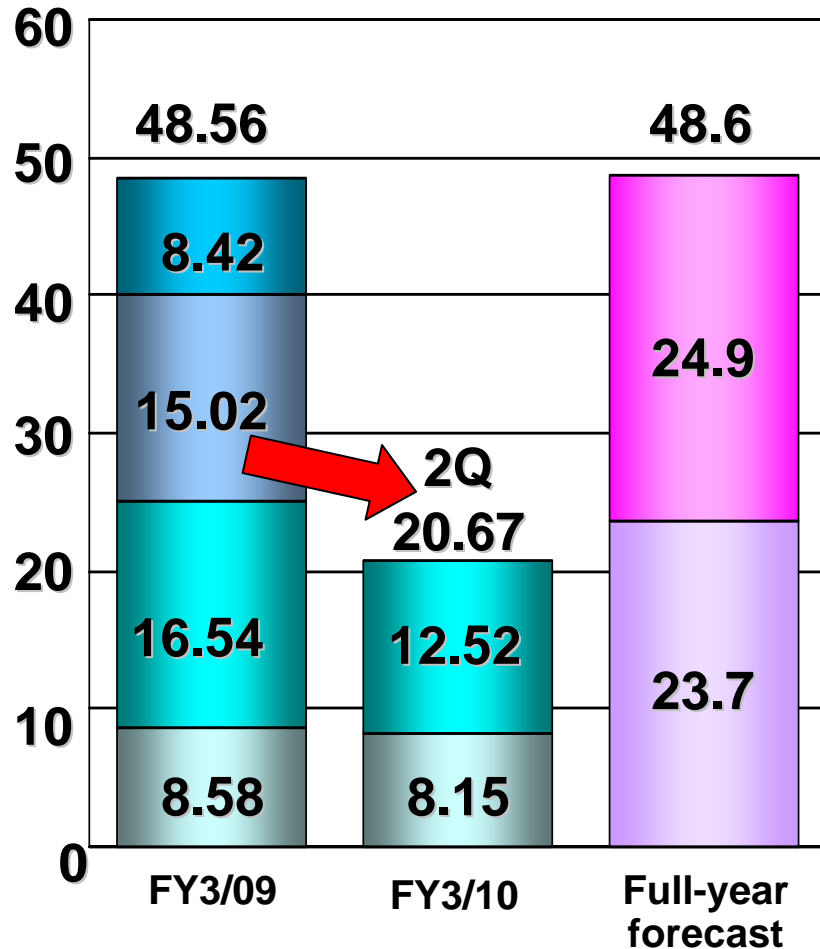
Net income: ¥1.45 billion
(+ 11.8%) <52.1%>

(): changes from the same period previous fiscal year (%); < >: achievement rate vs. previous full-year forecasts (%)

Operating Results for LSI Business

(¥ Billions)

Net Sales



Net sales : ¥20.67 billion

YoY basis: - 17.7%

Achievement rate against
full-year forecast (initial): **42.5%**

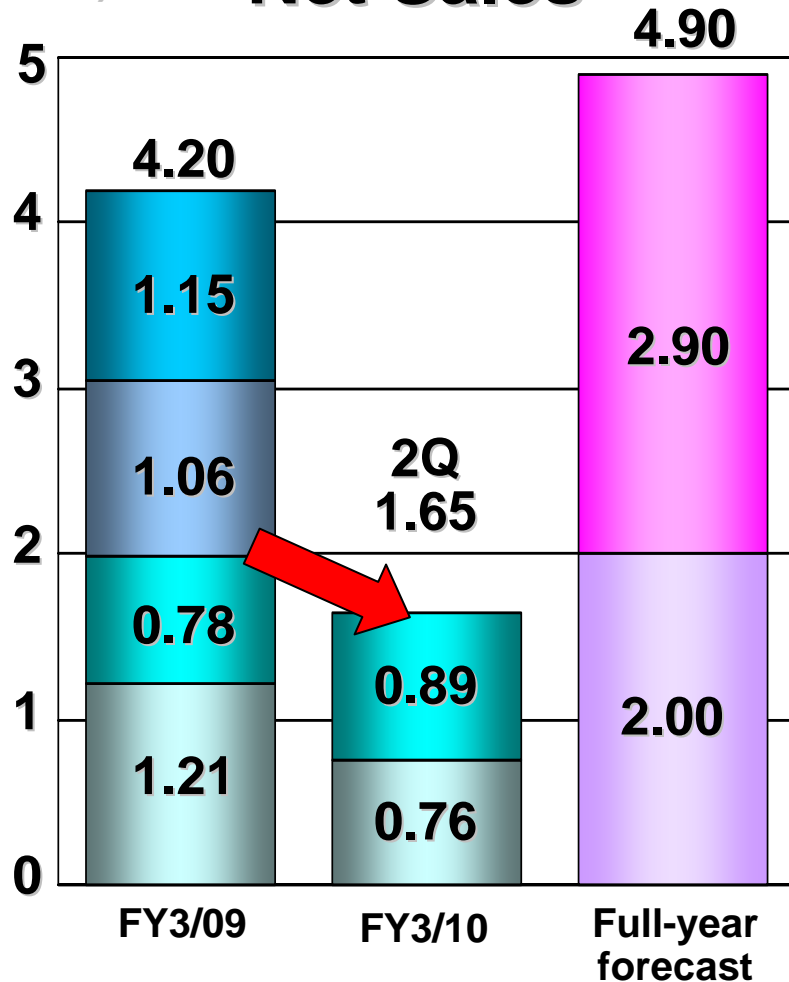
The sales was down from the same term last year because the demand of our main product, LSI for the hand-held games, has been decreased.

The demand of the 1-seg tuner module has also been declined in spite of launching of new LSI for the TV.

Operating Results for Systems Business

(¥ Billions)

Net Sales



Net sales : ¥1.65 billion

YoY basis: **- 17.2%**

Achievement rate against
full-year forecast (initial): **33.7%**

The sales decreased on a year-over-year basis due to falloff in demand of the customer-specific digital video surveillance systems.

1H FY3/10 Consolidated Statement of Income (Summary)

(¥ Millions)		FY3/10 1H results (1)	FY3/10 1H forecast (initial) (2)	Vs. forecast (1)/(2)	FY3/09 1H results (3)	YoY change (1)/(3)
LSI Business	Net sales	20,672	23,700	- 12.8%	25,129	- 17.7%
	Operating income	2,578	2,400	+ 7.4%	2,745	- 6.1%
Systems Business	Net sales	1,651	2,000	- 17.5%	1,993	- 17.2%
	Operating income	-184	0	—	56	—
Consolidated	Net sales	22,323	25,700	- 13.1%	27,123	- 17.7%
	Operating income	2,370	2,400	- 1.2%	2,801	- 15.4%
	Ordinary income	2,300	2,300	+ 0.0%	2,770	- 17.0%
	Net income	1,457	1,320	+ 10.4%	1,303	+ 11.8%
	Net income per share (¥)	60.09	54.50	+ 10.3%	53.70	+ 11.9%

vs. Pre-term prediction for the first half year

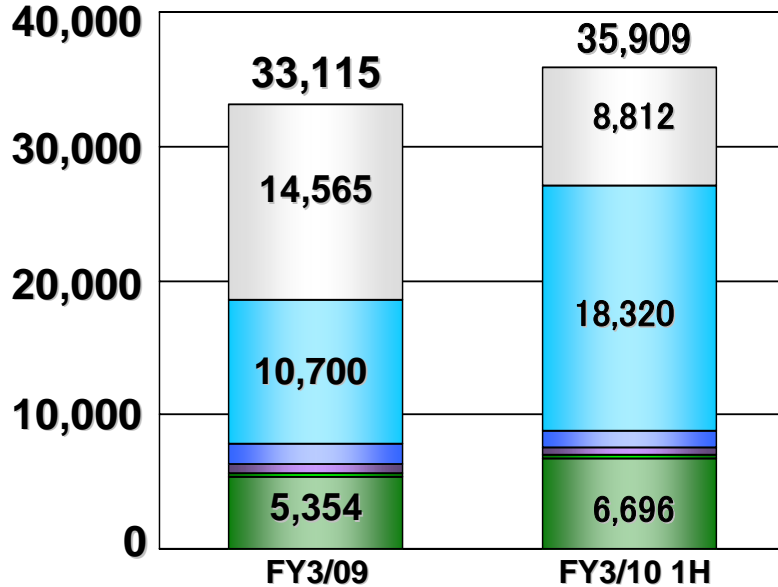
<Sales> Failed to reach the level initially forecast, reflecting a fall in demand for existing products.

*<Operating income * Ordinary income> Approached the forecast, thanks to high-margin products and development fee revenues in the LSI Business.*

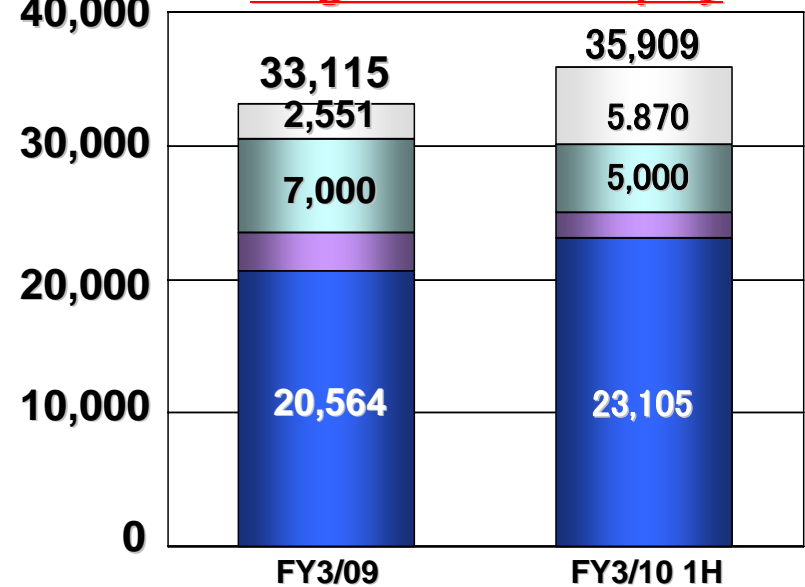
<Net income> Exceeded the forecast level, given a refund incorporate income tax, among other factors, following a revision to the scope of tax deductions on R&D expenses.

FY3/10 Consolidated Balance Sheets

(¥ Millions) **Assets: High current ratio**



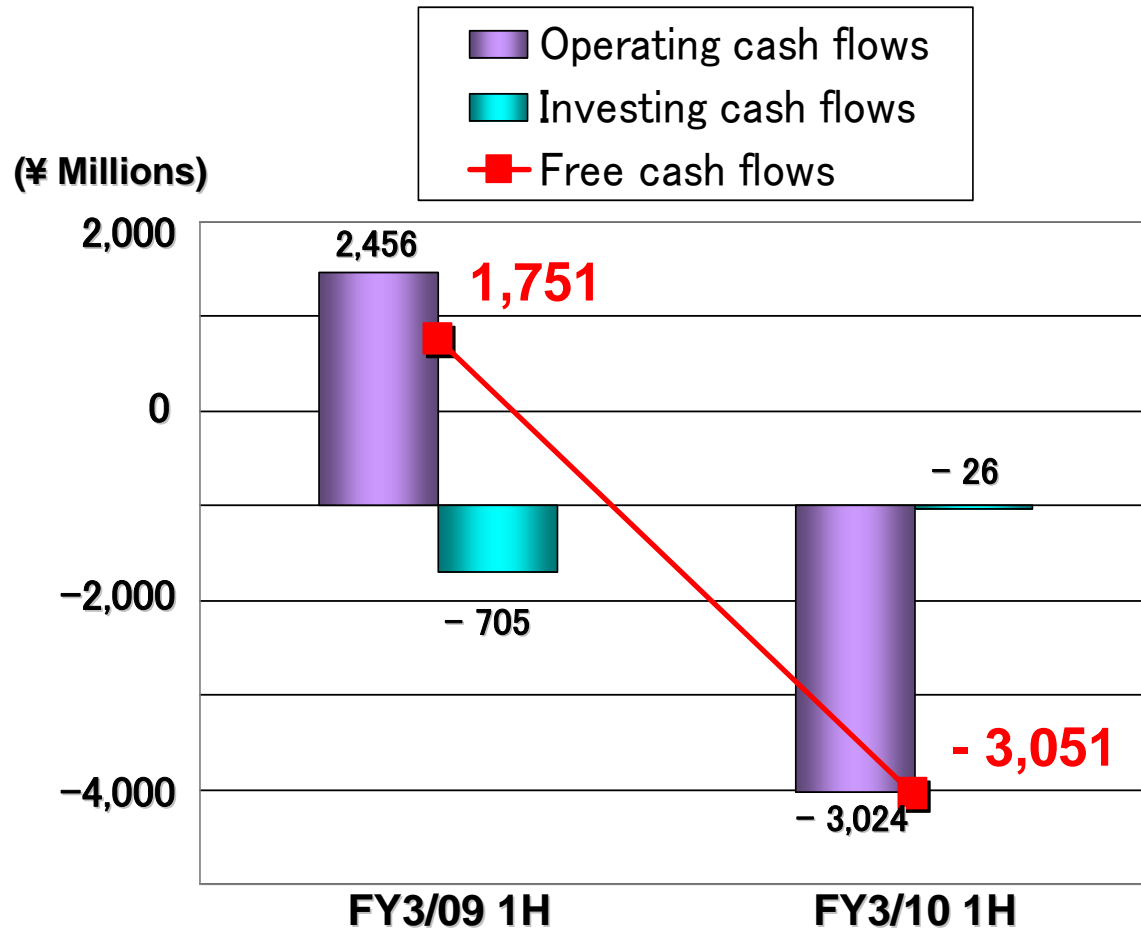
(¥ Millions) **Liabilities/Net Assets: Large amount of equity**



	FY3/09	FY3/10 1H
Cash and cash equivalents	14,565	8,812
Accounts receivable	10,700	18,320
Inventories	1,558	1,252
Other current assets	638	557
Tangible/intangible fixed assets	296	269
Investments and other assets	5,354	6,696

	FY3/09	FY3/10 1H
Accounts payable	2,551	5,870
Interest-bearing debt	7,000	5,000
Other current liabilities	2,953	1,886
Other fixed liabilities	45	47
Net assets	20,564	23,105

FY3/10 Consolidated Cash Flows



⌘ Increase in accounts receivable and payments for income taxes

FY3/10 Earnings Forecast

Sales and Earnings Forecasts for FY3/10 (vs. previous forecasts)

(¥ Millions)		FY3/10 Full-year forecast		YoY change (Full-year) (1)/(2)	FY3/09 Full-year results (3)	YoY change (Full-year) (1)/(4)
		(revised) (1)	(initial) (2)			
LSI Business	Net sales	40,000	48,600	- 17.7%	48,569	- 17.6%
	Operating income	4,700	4,900	- 4.1%	4,791	- 1.9%
Systems Business	Net sales	3,000	4,900	- 38.8%	4,201	- 28.6%
	Operating income	- 600	100	—	22	—
Consolidated	Net sales	43,000	53,500	- 19.6%	52,771	- 18.5%
	Operating income	4,100	5,000	- 18.0%	4,812	- 14.8%
	Ordinary income	4,100	5,000	- 18.0%	4,892	- 16.2%
	Net income	2,650	2,800	- 5.4%	2,672	- 0.8%
	Net income per share (¥)	109.09	115.60	- 5.6%	110.21	- 1.0%

Forecast for full business year

<LSI Business> Although the demand of existing products have been decreased, but the decrease ratio of the operating income will be slighter than the one of the sales due to the increased profit margins.

<Security Business> Income is likely to shrink given a fall in demand for existing products.

FY3/10 Medium-term Management Strategy

Medium-Term Growth Strategy

As Japan's leading fabless venture company...

For securing stable growth less susceptible to swings in the economy

● Focus on customer-based business

Provide a broad array of solutions in view of diversifying business models and focus on customer-based business that brings extra value to major customers.

● Launch new businesses to build a business portfolio

Enter the energy and eco-business markets, which are not susceptible to economic conditions. Adopt a narrower focus on growth businesses to build a business portfolio.

● Upgrade business structure to attain higher income

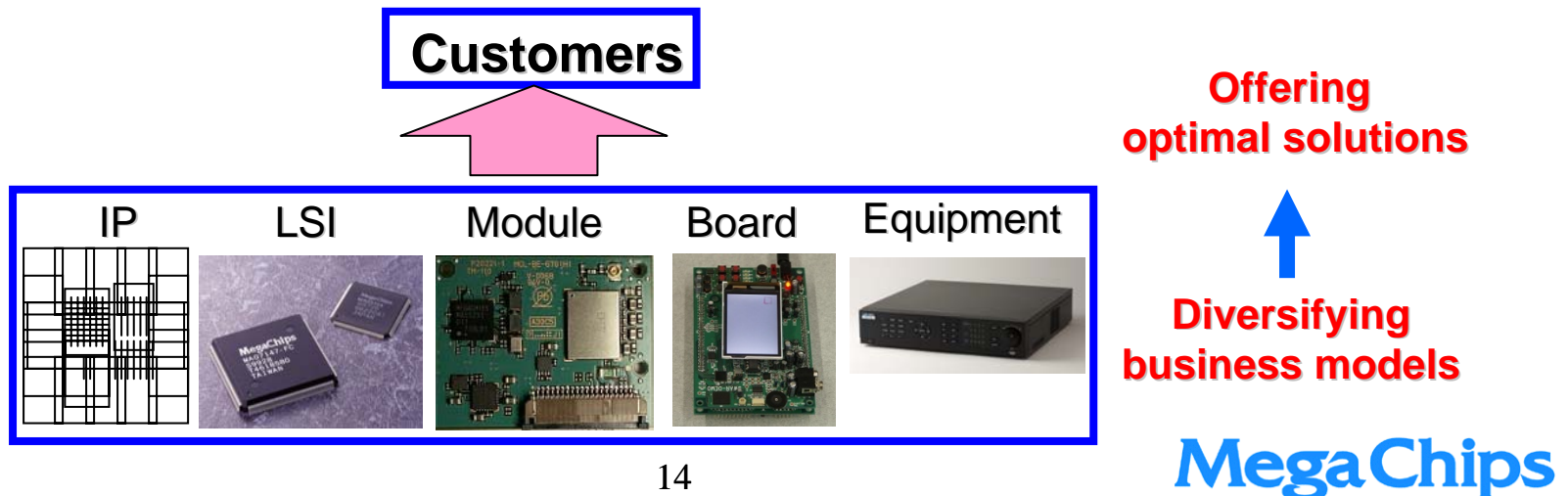
Speed up the development process, increase operational efficiency and reduce inventory to cut waste and contribute to stronger operational efficiency and protect the environment.

Future Policy 1

● Shift to customer-based business

Shift our focus from standard products that compete solely on cost effectiveness to a customer-based business that brings extra value to major customers

- **Build long-term relations of mutual trust:** Continue to win contracts
 - **Stable demand:** Hedge inventory risk by built-to-order production
 - **Competition in extra value:** Avert excessive price wars
- *Create a business structure that is more resistant to economic slowdown

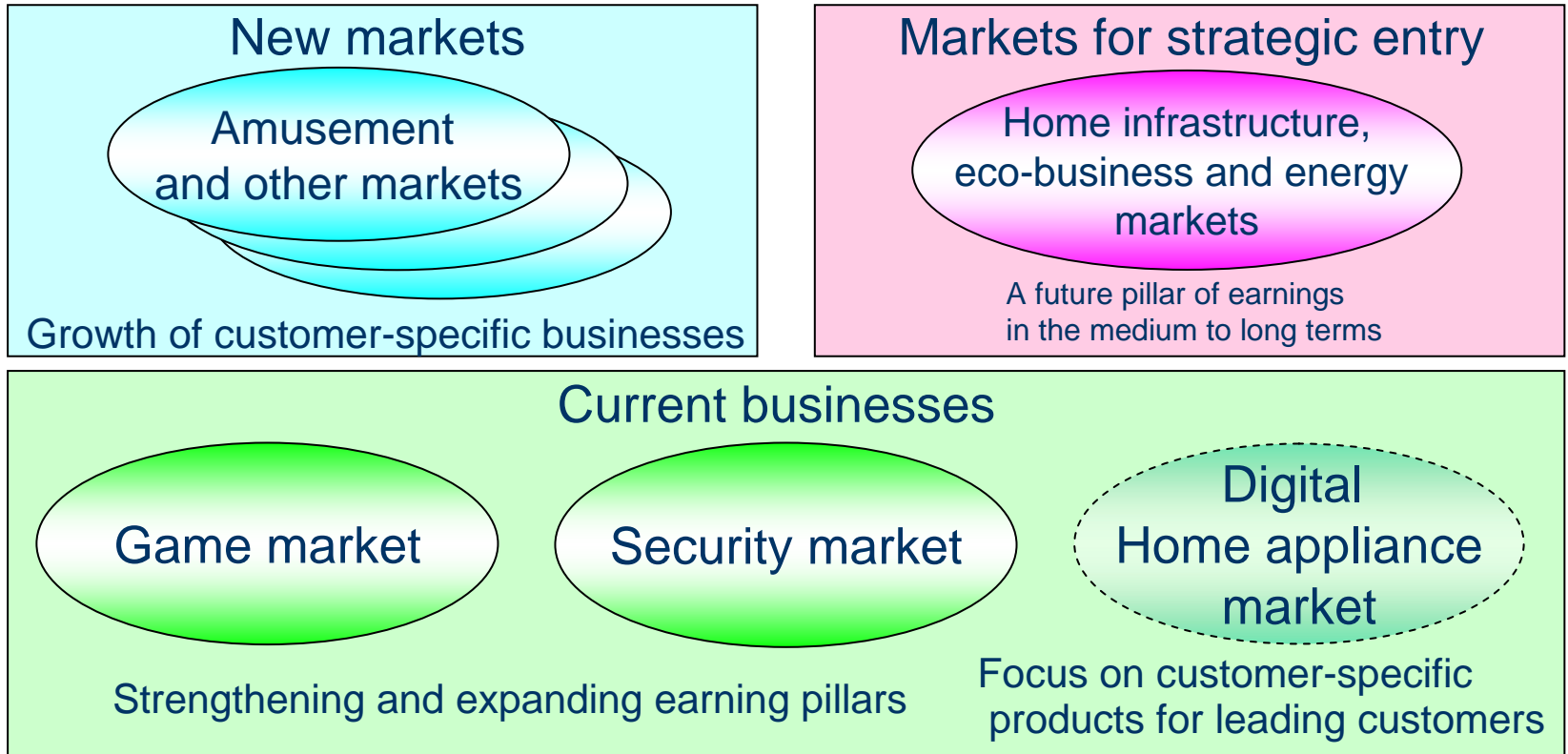


Future Policy 2

● Launch new businesses to build a sound business portfolio

Develop the home infrastructure, eco-business and energy fields, which are not susceptible to market conditions and which are expected to continue growing given mounting social needs

Refine the focus on growth businesses to build a business portfolio



Future Policy 3

● Bolster business structure to achieve higher income

Attain higher income by taking advantage of alliances, performing cost control, shortening the production period, reducing inventory, increasing operating efficiency and other steps

- 1) Take advantage of alliances for development investment and reduce business risks
- 2) Total cost control from the development phase
- 3) Shorten production period and slash inventory
- 4) Optimize staff assignment and size and increase operational efficiency

LSI Business Segment – Business Domains

- Strengthen and diversify the products for the existing customers (Expand into the various solutions)
- Cultivate potential customers in the customer-specific business (Application-specific memory for the amusement devices)

Amusement applications

- Develop potential customers (Products for application-specific memory and image processing, etc.)

Entertainment applications

- Application-specific memory products with high-capacity, quick-delivery and advanced security
- Solutions for optional devices
- Solutions for portable game players and video game devices



LSI for game cartridges used for portable player



LSI for video game

Current main products

※ Nintendo DS and Wii are trademarks of Nintendo.

LSI Business Segment – Business Domains

- Expand the LSI business for the dominant customers, supply modules and IP business (R&D assets)
- Work around to the new fields of home area networking, eco-business and energy fields

Home infrastructure,
Eco-business and
Energy field

- Telecommunications, Sensor application and Control Module and energy-saving/environment-responsive products that are combination of sensor and telecommunications

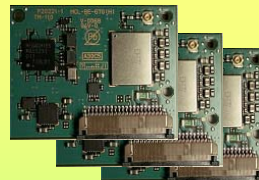
Digital camera
applications,
AV(Audio Visual)
applications

- Expand the LSI business for the dominant customers, supply modules and IP

System LSIs



Modules



IPs



Current main products



For Digital camera



For Audio-Visual equipment



Systems Business Segment – Business Domain

- Expand the business by diversifying product portfolio to current customers
- ‘Focus’ and ‘specialize’ in customer-specific system business for security monitoring applications to maintain and increase profit.

Home security applications

- Expand the range of products for home security systems

Business security applications

- Strengthen digital surveillance camera

- Expand the product category of fully digital video surveillance systems (From small-scale security monitoring system to the large-scale system)

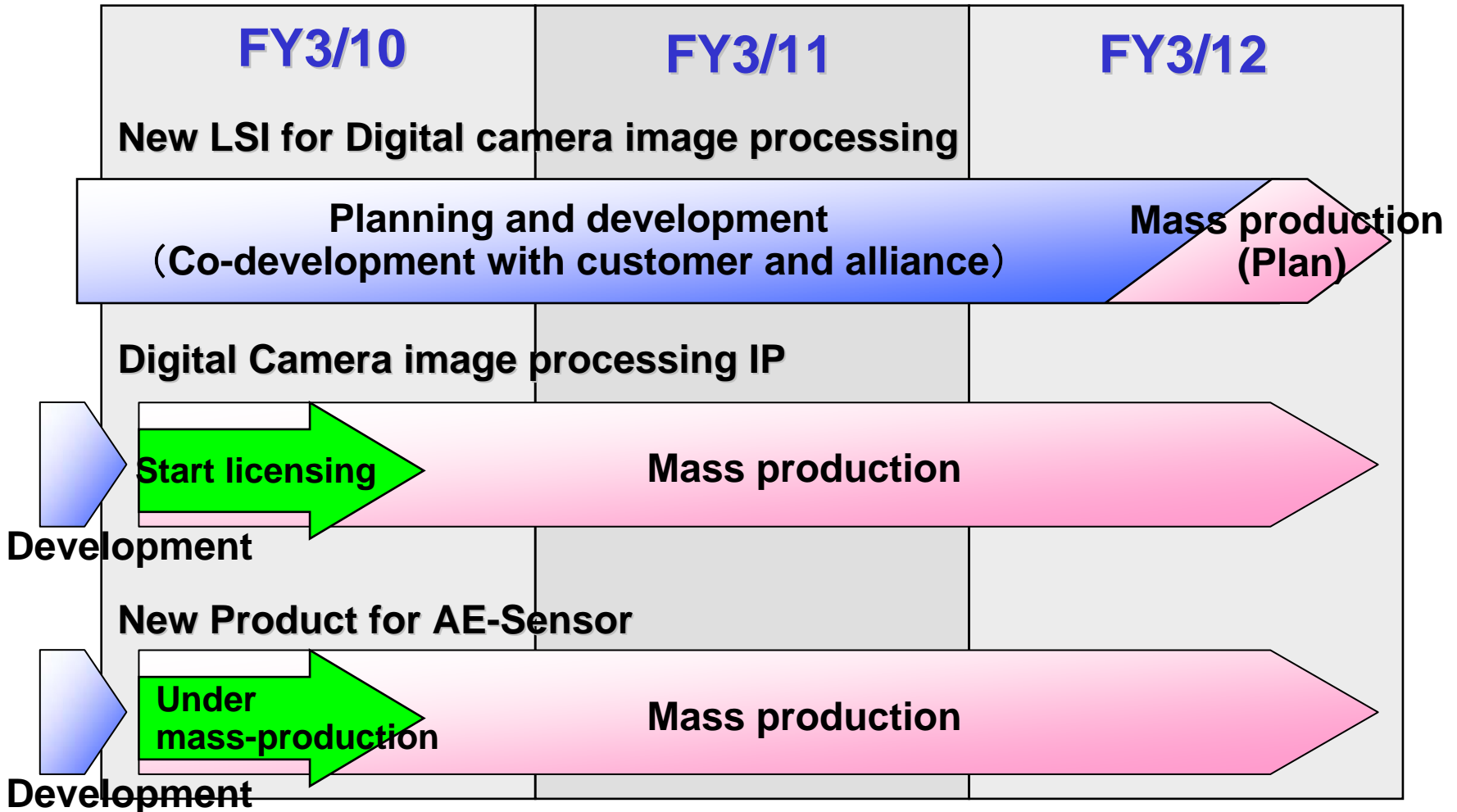
Current main products

- Image transmission server
- Digital video recorder
- Video monitoring & security system
- Controller terminal for security system
- Network camera, etc.



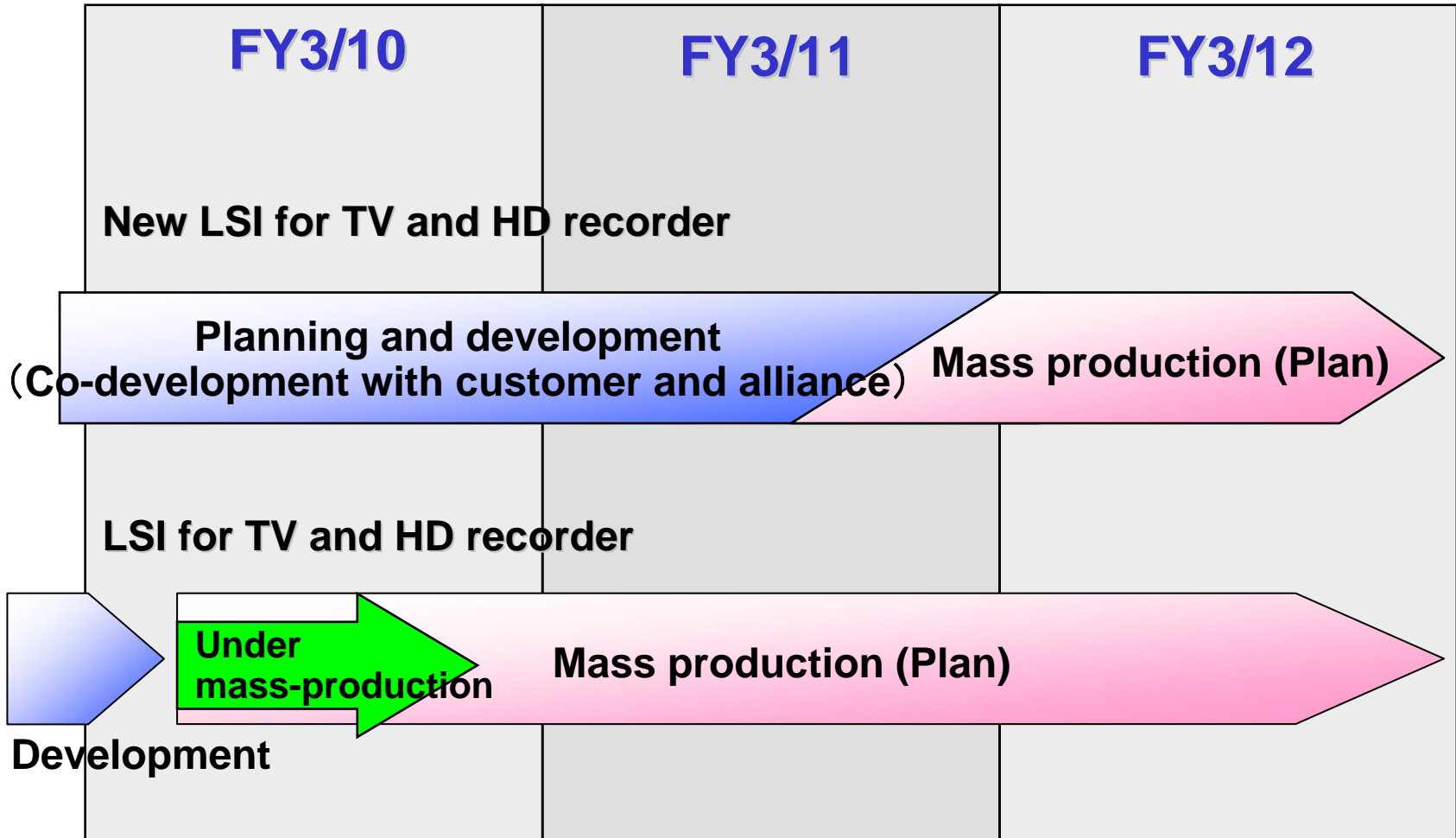
Road Map to FY3/12

Digital camera applications



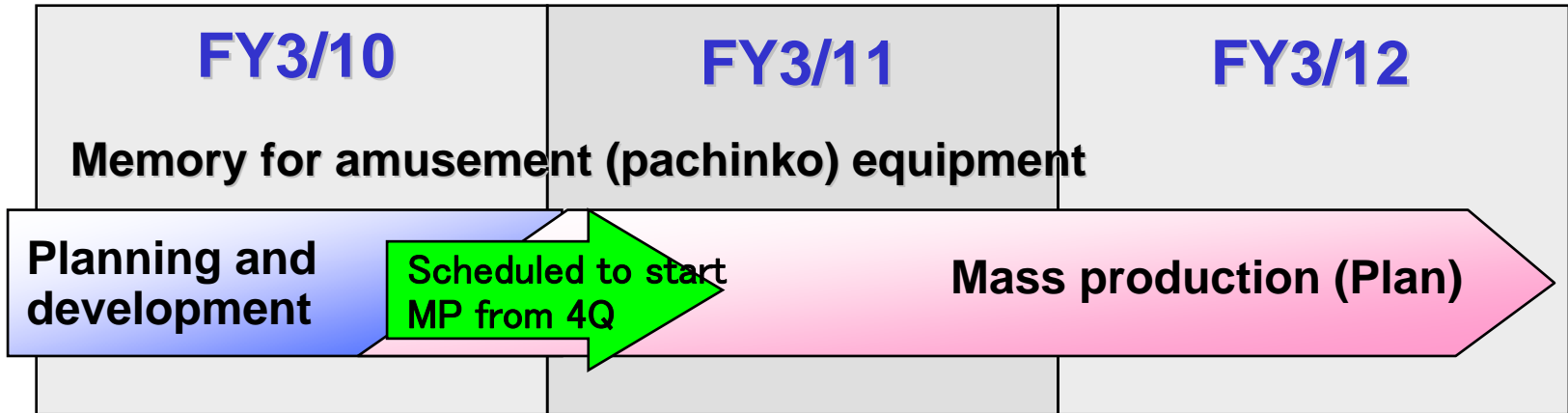
Road Map to FY3/12

High-definition AV applications

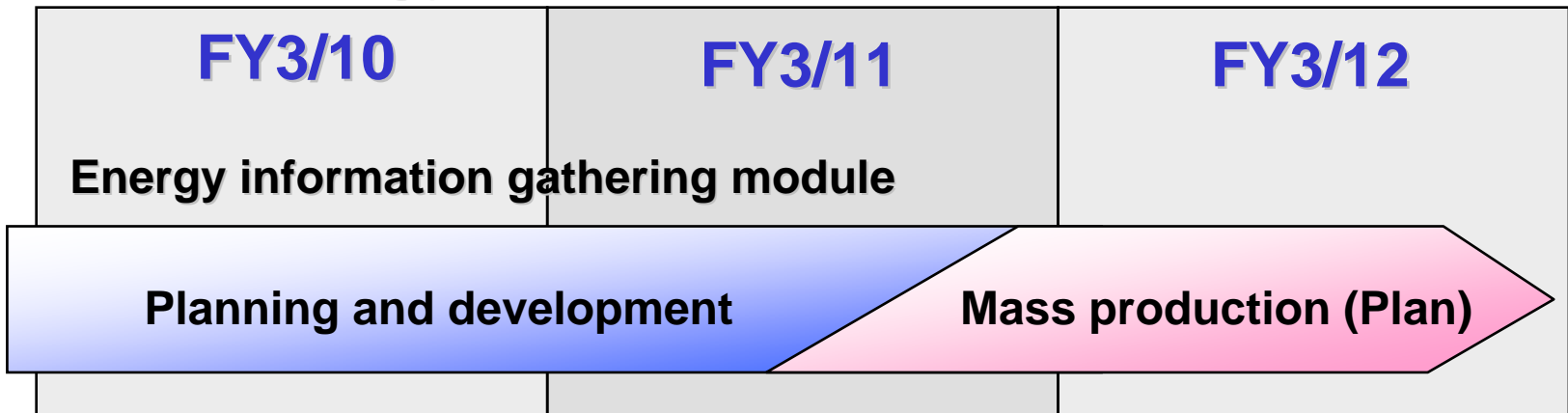


Road Map to FY3/12

Amusement applications



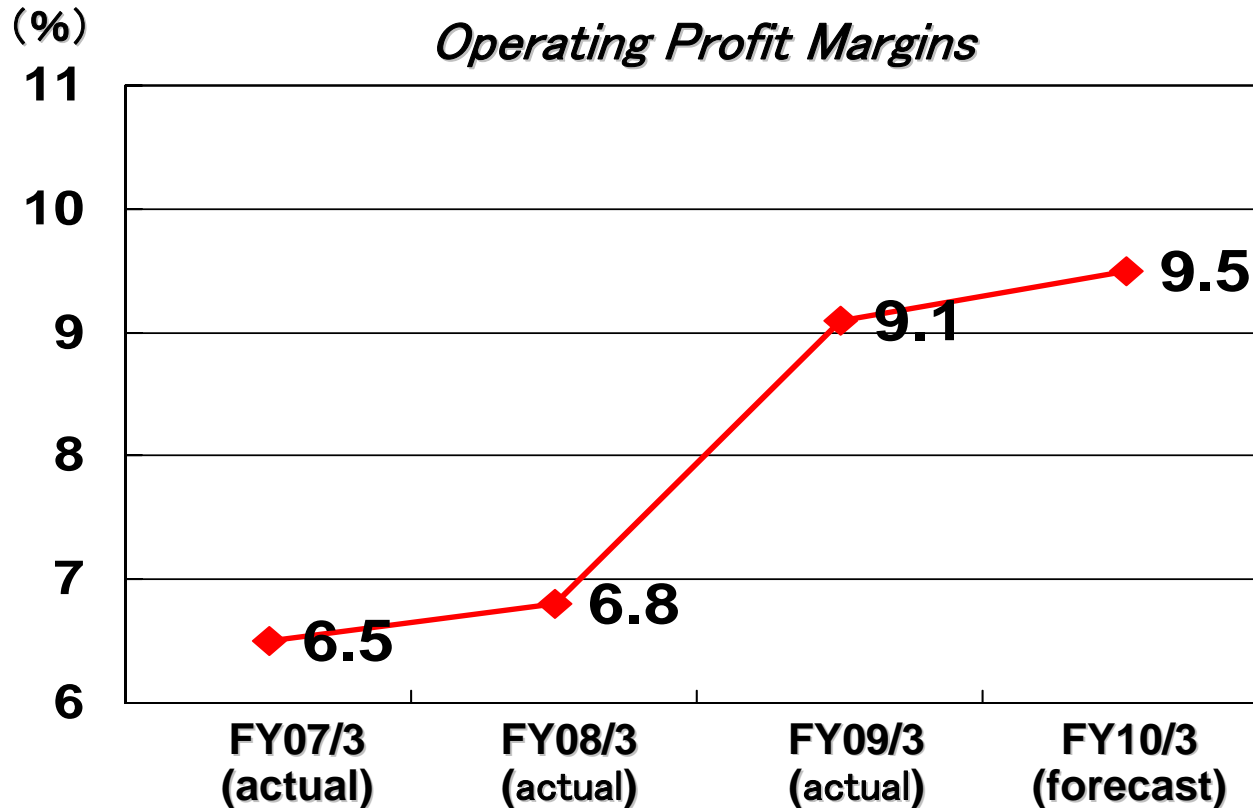
Eco and Energy field



Status of Medium-Term Strategy (Improvement in profit margins)

Our approach

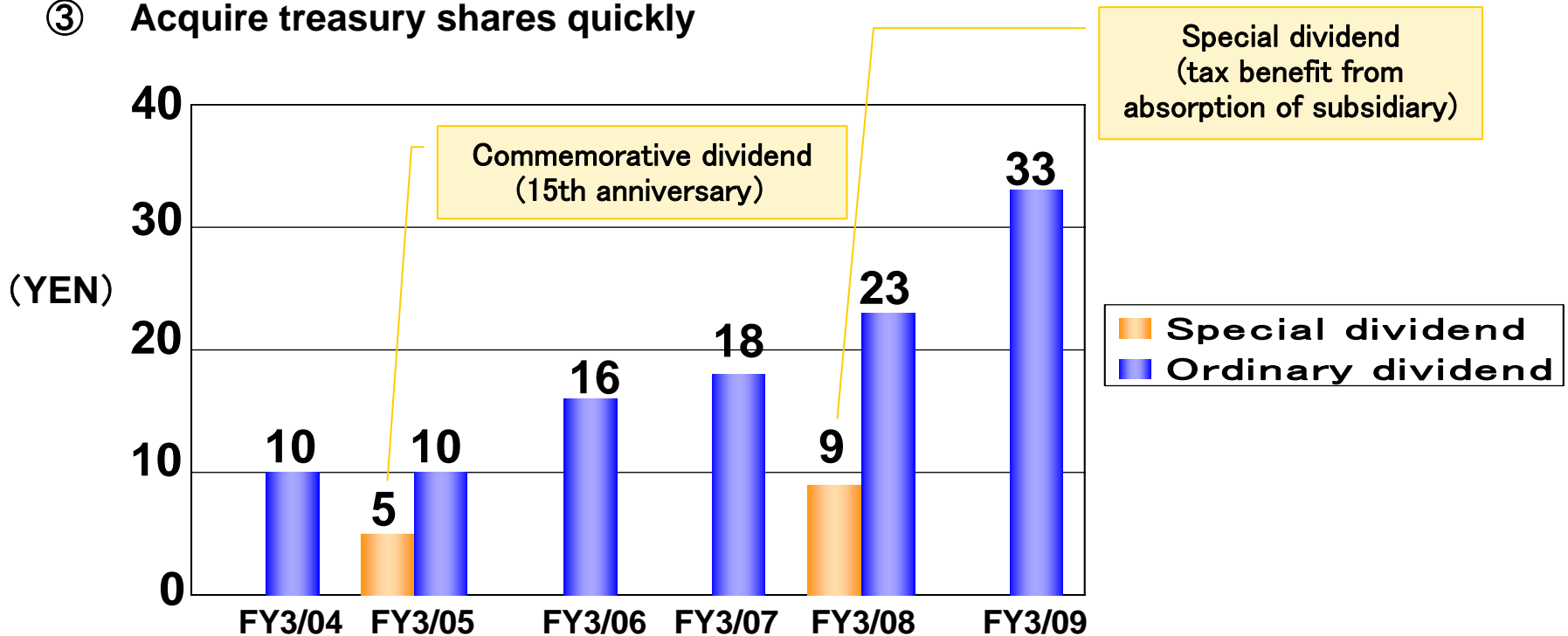
- Increase the income of development and IP by expanding intensively the customer-oriented businesses
- Start the mass-production of new products in the amusement market (scheduled for 4Q)
- Streamline development process and cut down sales cost and expenses



Performance Indicators (Profit Allocation)

Dividend policy

- ① Secure the retained earnings needed to maintain a financial strength that can withstand changes in the management environment and that can enable investment in medium- and long-term growth (unchanged)
- ② Dividends will represent either a dividend payout ratio of approx.30% or a consolidated dividend on equity (DOE) ratio of approx. 2%, whichever is higher
- ③ Acquire treasury shares quickly



Key Investment Highlights

To further expand the business, we will reinforce and extend the customer-specific business at which we excel, and provide broad range of solutions ranging from LSI to system as well as increasing business opportunities and customer base.

- Maximize our technical capabilities in LSI and systems and concentrate on the customer-based business to diversify the products offered to existing accounts and develop new leading customers.
- Nurture board/module business centered on our system LSI as well as IP, analog products, and small-scale LSI, and aim to expand business opportunities and new customers.
- Launch new business in industry and social infrastructure.

>> Purposes of investor relations and basic policy

MegaChips bases investor relations activities on the principles of fairness, timeliness, accuracy and continuity. We provide information about strategies, finances and other items in order to increase the transparency of our operations. To earn the trust of shareholders, investors and securities analysts and receive a proper evaluation, senior management frequently participates in investor relations activities.

>> Disclosure rules

MegaChips discloses information in accordance with the Financial Instruments and Exchange Law, Company Law and other laws and regulations (“laws and regulations” hereafter) and the Rules for Timely Disclosure of Corporate Information by Issuers of Listed Securities of the Tokyo Stock Exchange, where MegaChips shares are listed. Furthermore, even when not required by laws and regulations or disclosure standards in timely disclosure rules, we aggressively provide information that we believe has an effect on investment decisions by shareholders, investors and securities analysts and other information that we believe is useful to gain a better understanding of MegaChips.

>> Disclosure method

MegaChips distributes information using the Timely Disclosure network (TDnet) operated by the Tokyo Stock Exchange in accordance with timely disclosure rules. This includes information covered by the disclosure standards of the timely disclosure rules as well as information that we believe has an effect on investment decisions by shareholders, investors and securities analysts. In addition, we quickly post this information on the company Website.

We also provide other information that we believe is useful to gain a better understanding of MegaChips by issuing IR publications or news releases and posting this information on the company Website.

>> Forward-looking statements

The information MegaChips discloses may contain forward-looking statements. These statements are based on the judgments of management based on information available when the information was disclosed and thus embody uncertainties and risks (“risks” hereafter). Readers are cautioned to remember that actual results and other developments may differ from these forecasts for a number of reasons. Please refer to the “Cautionary Statement on Risks” section for more information.

>> Investment decisions

MegaChips discloses information for the purpose of giving people a better understanding of the company and not for the purpose of soliciting investments in securities issued by the company. Investors are asked to reach investment decisions on their own.

>> Provision of third-party information about MegaChips

Parties other than MegaChips, including securities analysts, the media and a variety of Internet information sites, announce information and forecasts about MegaChips. MegaChips is not in a position to comment on this information or express its support. However, if there is an obvious mistake in this third-party information that could cause a loss of trust in the company or prevent the company from receiving an appropriate evaluation, a correction will be announced and the proper information released.

>> IR “Quiet Period”

To prevent leaks of information about earnings releases that could affect its stock price as well as to ensure fairness, MegaChips observes a “quiet period” during the five business days prior to the earnings announcement for each quarter. During this period, the company will not make any comments involving financial performance. However, information covered by laws and regulations and timely disclosure rules will be disclosed even during this “quiet period” and management will respond to inquiries about this information.

>> Other items

Timely Disclosure Declaration (see Tokyo Stock Exchange Website)
Summary of Timely Disclosure Framework (see Tokyo Stock Exchange Website)
Standards for Information Disclosure (MegaChips internal regulations)

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