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*Innovation & Rebuild*

# MegaChips Corporation

**Financial results for the fiscal  
first-quarter ending March 2011  
(1Q FY3/11)**

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

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# 1Q FY3/11 Business Report

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# 1Q FY3/11 Consolidated Performance

1Q Results

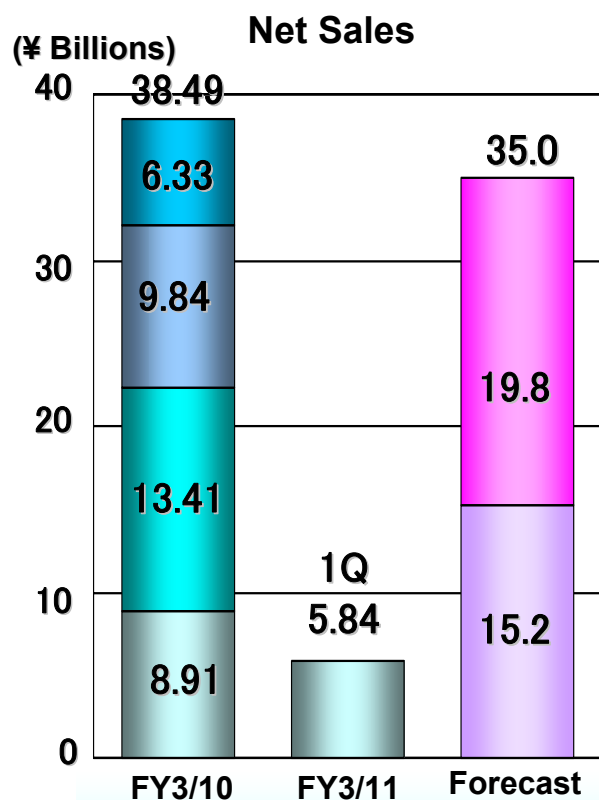
2Q Results

3Q Results

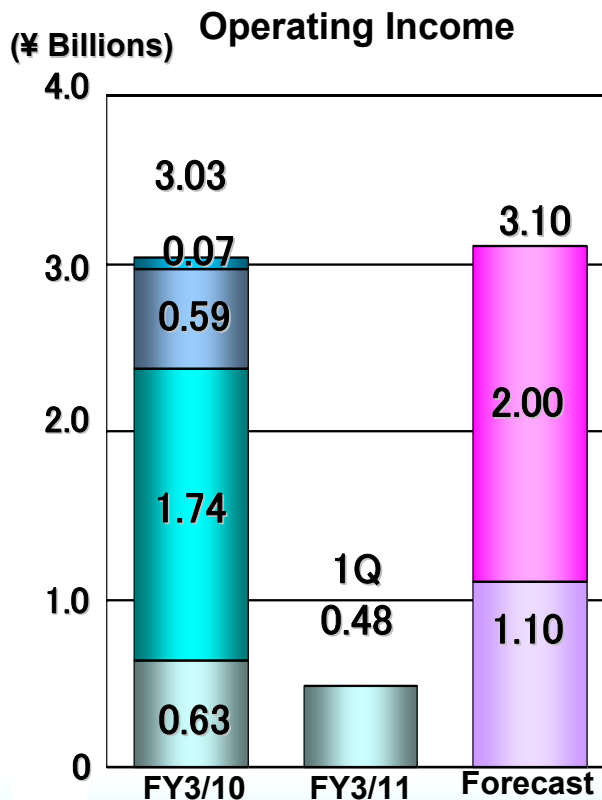
4Q Results

1H Forecasts

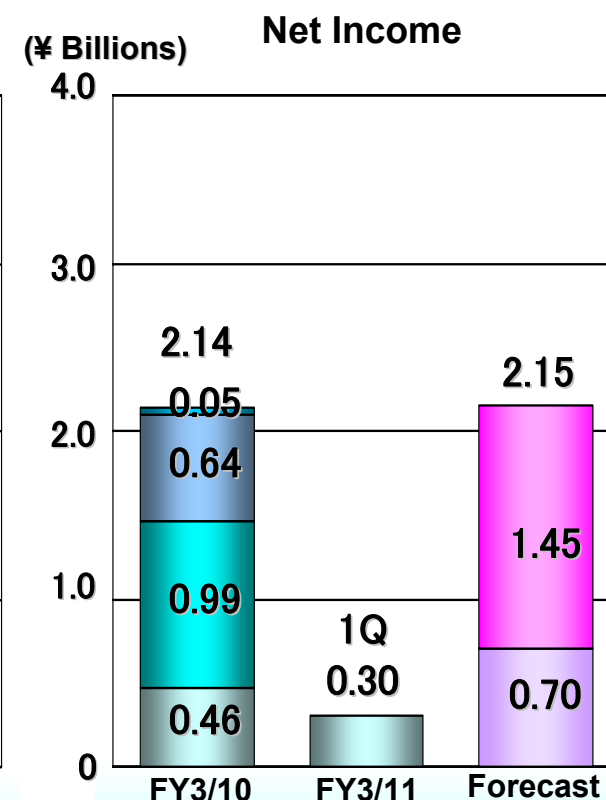
2H Forecasts



Net sales: ¥5.84 billion  
(- 34.4%) <16.7%>



Operating income: ¥0.48 billion  
(- 23.6%) <15.6%>

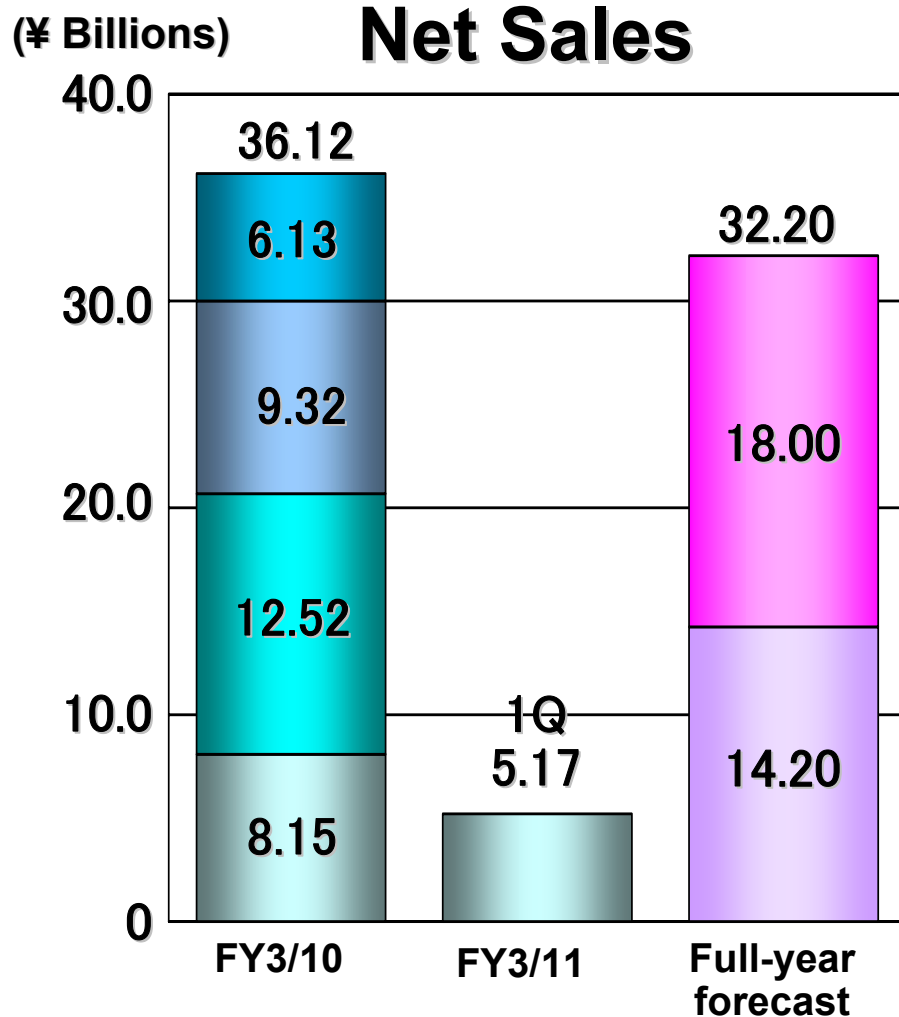


Net income: ¥0.30 billion  
(- 34.5%) <14.2%>

※ Figures in ( ) indicate changes from the same period in the previous fiscal year (%). Figures in < > indicate progress forecasts for the full fiscal year (%). The figures for the full-year forecast were released on May 11, 2010.

★ Net income for the previous fiscal year (FY3/10) includes a reimbursement of 110 million yen in corporate tax due to a review of the scope of application of tax credits for R&D costs.

# Operating Results for LSI Business



**Net sales : ¥5.17billion**

YoY basis: - 36.4%

Achievement rate against  
full-year forecast (initial): 16.1%

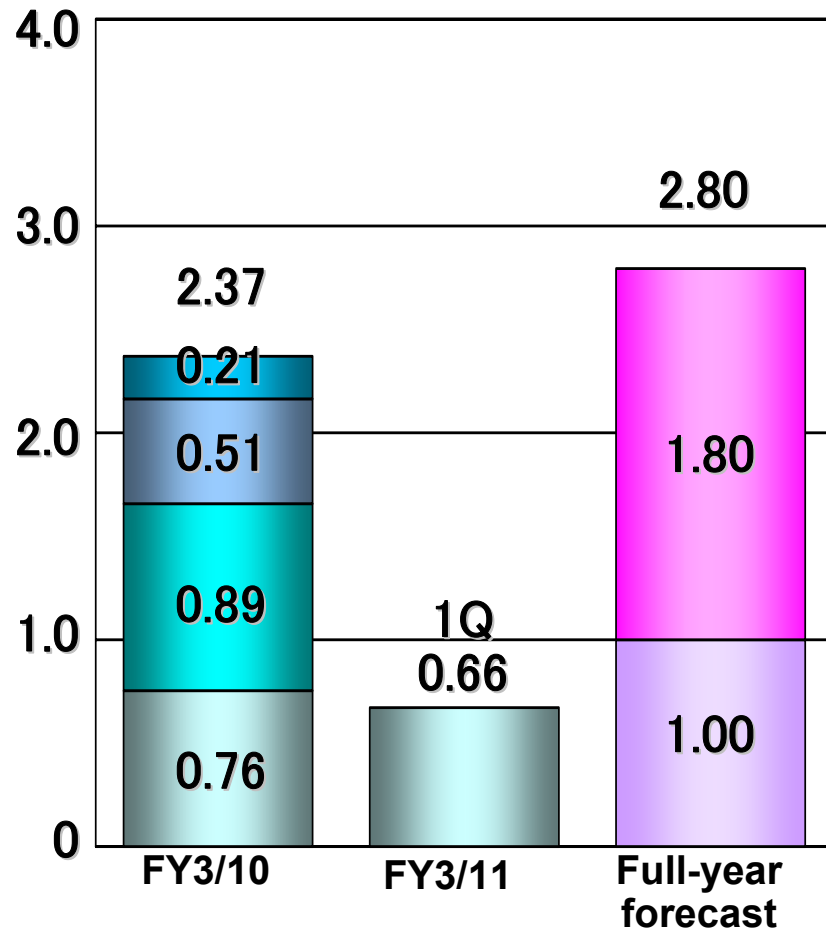
- Sales have decreased compared to the same period in the previous fiscal year due to a drop in the demand for our mainstay product: for storing software for hand-held games.
- Sales are proceeding as planned.

※The figures for the full-year forecast were released on May 11, 2010.

# Operating Results for Systems Business

(¥ Billions)

## Net Sales



**Net sales : ¥0.66billion**

YoY basis: - 12.3%

Achievement rate against  
full-year forecast (initial): 23.8%

- **Because of a decrease in demand for customer-specific video surveillance systems, sales are down compared to the same period in the previous fiscal year.**
- **Sales are proceeding as planned.**

※The figures for the full-year forecast were released on May 11, 2010.

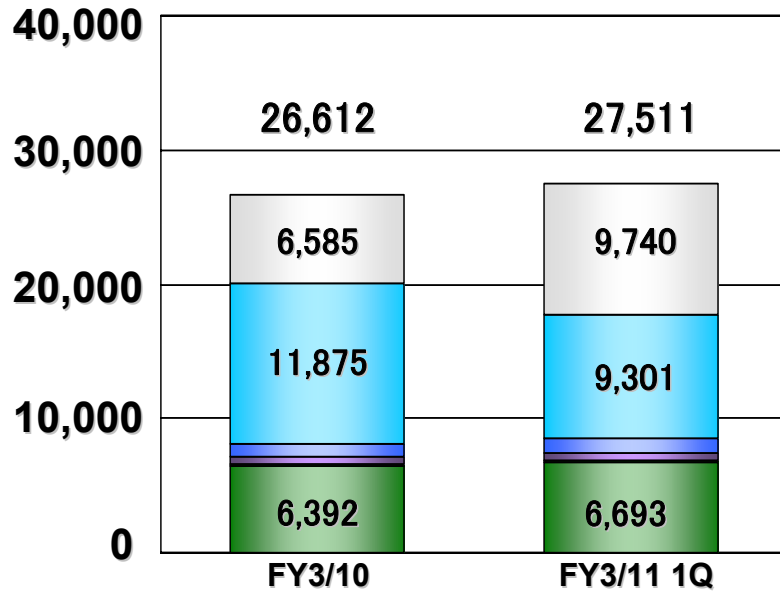
# 1Q FY3/11 Consolidated Statement of Income (Summary)

(¥ Millions)		FY3/11 1Q results (1)	FY3/10 1Q results (2)	FY3/11 Full-year forecast (3)	YoY change (1)/(2)	Vs. forecast (1)/(3)
LSI Business	Net sales	5,178	8,148	32,200	- 36.4%	16.1%
	Operating income	557	755	3,600	- 26.2%	15.5%
Systems Business	Net sales	665	758	2,800	- 12.3%	23.8%
	Operating income	- 73	- 116	-500	—	—
Consolidated	Net sales	5,844	8,907	35,000	- 34.4%	16.7%
	Operating income	483	632	3,100	- 23.6%	15.6%
	Ordinary income	473	615	3,100	- 23.1%	15.3%
	Net income	305	466	2,150	- 34.5%	14.2%
	Net income per share (¥)	12.57	19.24	88.51	- 34.7%	14.2%

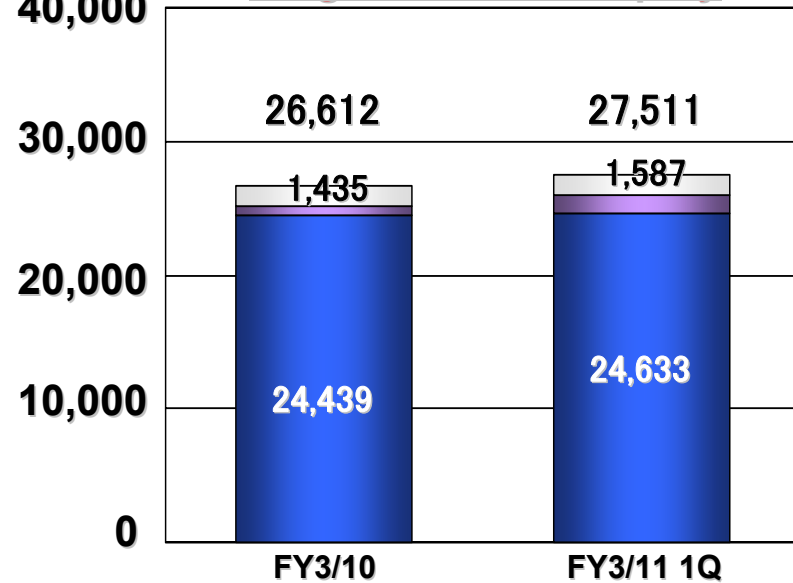
★ Net income for the previous fiscal year (FY3/10) includes a reimbursement of 110 million yen in corporate tax due to a review of the scope of application of tax credits for R&D costs.

# FY3/10 Consolidated Balance Sheets

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



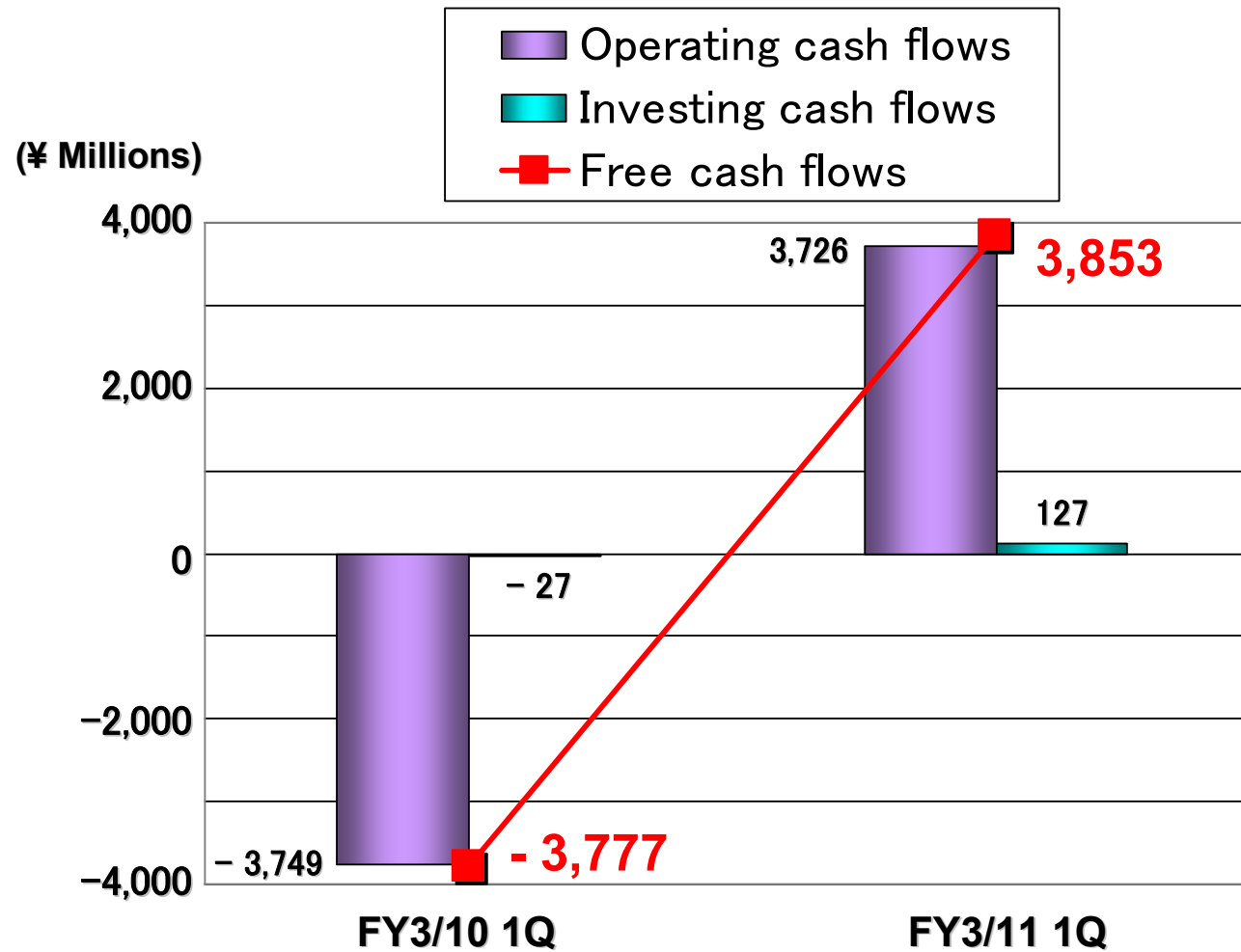
(¥ Millions) **Liabilities/Net Assets: Large amount of equity**



	FY3/10	FY3/11 1Q
Cash and cash equivalents	6,585	9,740
Accounts receivable	11,875	9,301
Inventories	946	1,012
Other current assets	596	562
Tangible/intangible fixed assets	215	200
Investments and other assets	6,392	6,693

	FY3/10	FY3/11 1Q
Accounts payable	1,435	1,587
Interest-bearing debt	0	0
Other current liabilities	698	1,252
Other fixed liabilities	38	38
Net assets	24,439	24,633

# FY3/10 Consolidated Cash Flows



# FY3/11 Medium-term Management Strategy

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# Medium-Term Growth Strategy for FY3/11

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**As Japan's leading fabless venture company  
specializing in the development of LSI!**

**For securing stable growth less susceptible to swings in the economy**

**1. Focus on customer-based business and work with customers to nurture a business capable of long-term growth and development**

**2. Seek stable management and build up an appropriate business portfolio**

**3. Improve operational efficiency by enacting reforms of the business framework and upgrading the business structure to attain higher income**

# Reforming the Structure of the Business: Focusing on Customer-based Business

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## **1) Focus on customer-based business and drive the building of long-term, win-win relationships with customers**

**(1) Build up the optimum business model to forge a long-term, win-win relationship with customers**

**In addition, proceed with optimizing the sharing of business risks with customers**

**(2) Hone core competencies to maintain a sound business in the long term**

**1: Characteristic business model**

**2: Patented technologies**

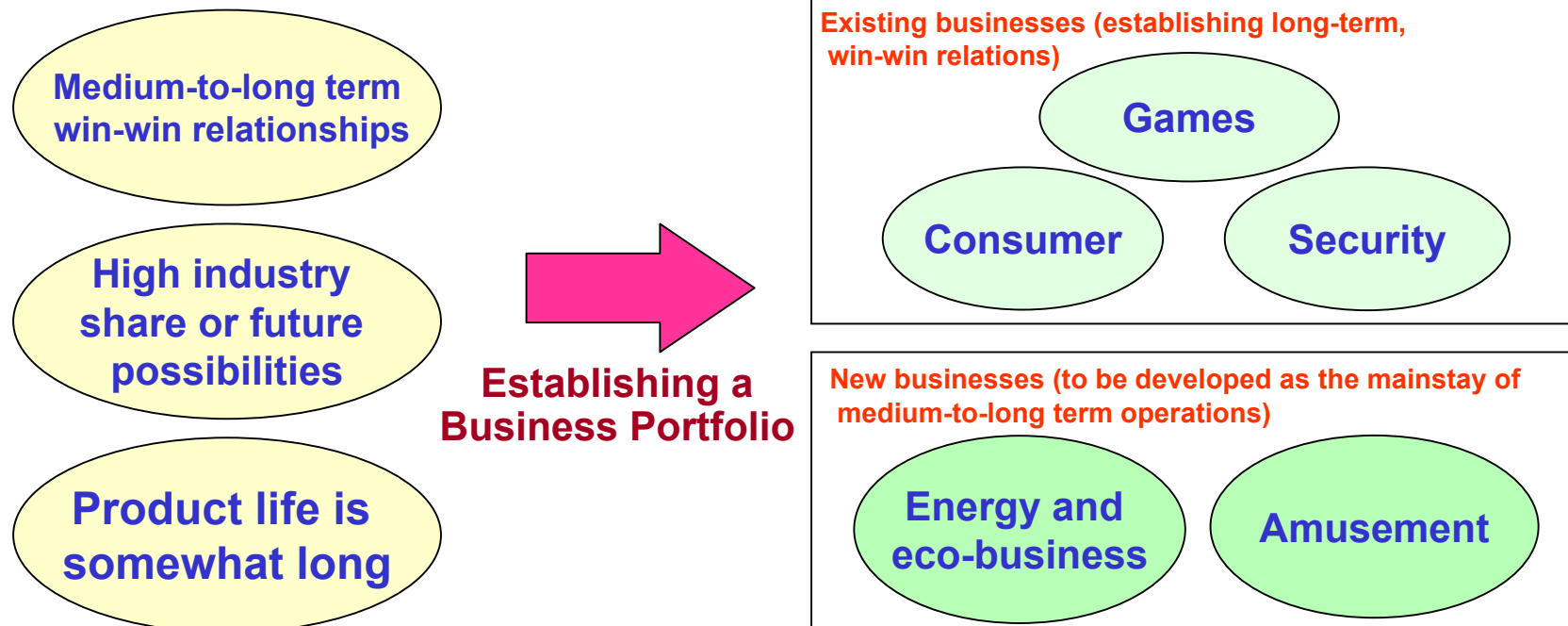
**3: Hardware and software expertise**

# Business Structural Reform: Establishing an Appropriate Business Portfolio

## 2) Establish a business portfolio by tapping new markets and expanding existing businesses

Build the customer base in new markets with a high industry share in which long-term, win-win relations can be established

With respect to existing customers, establish a business portfolio by coming up with ways to ensure the establishment of long-term, win-win relations, at the same time seeking to expand the scope of operations



# Business Structural Reform: Reforming the Business Framework

## 3) Seek optimization of the business framework, including with respect to customers and alliances

Work to streamline operations and try to mitigate business risks such as the ballooning of resources by reviewing the framework for business with customers and alliances

Conduct a review of the business framework

- 1: Seek optimization by considering a cross-section of business with customers in terms of ROI and the customer support system required
- 2: Discover alliances likely to turn into long-term complementary relationships
- 3: Seek to accelerate development by having a portion of development shared with alliance partners, at the same time reducing development investment risk

However, product differentiation points are to be finalized in-house.

# Upgrading the Business Structure to Attain Higher Income

## Upgrading the business structure to attain higher income

Seek higher income through the adoption of measures such as utilizing alliances, controlling prime cost, shortening production times, tightening inventories and improving business efficiency

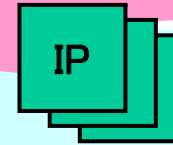
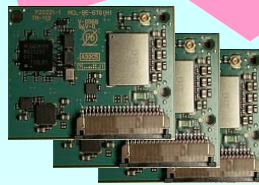
- (1) Streamline development and mitigate operational risks by utilizing alliances**
- (2) Control overall cost from the development stage and reduce prime cost**
- (3) Shorten production times and tighten inventories**
- (4) Optimize the allocation and size of the workforce and improve business efficiency**

# Target Markets and Measures

- Expand product lineup.
- Maintain close contact with customers to build strong complementary relationships.
- Attract new customers.

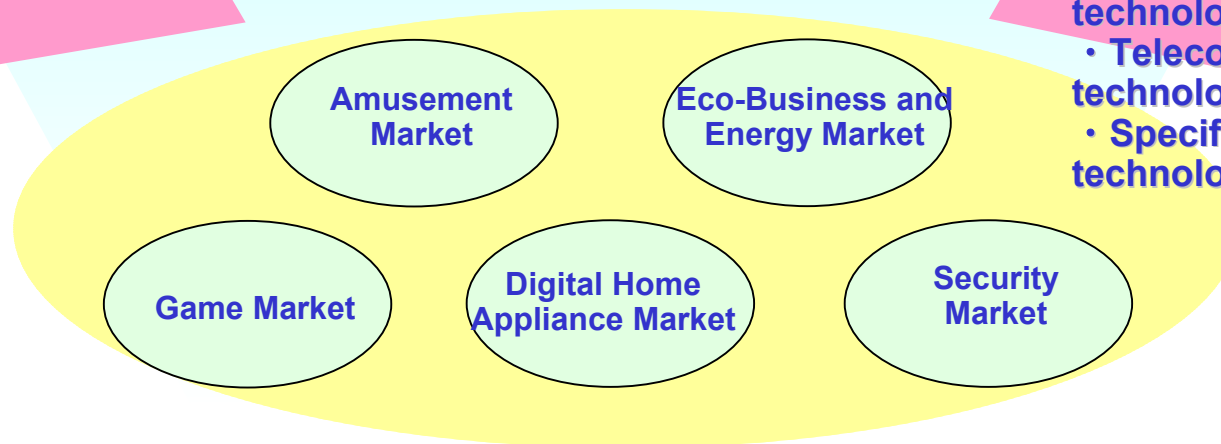
## Solutions Growth

- System LSI
- Modules & boards
- System products
- IP licenses etc.




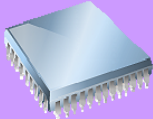


## Intellectual Property

- Image processing technology
- Sound processing technology
- Telecommunications technology
- Specific memory technology



# Our Core Intellectual Property

	Technology	Applications
 <b>Image processing technology</b>	MPEG4,H.264,H.263	Cell phones, TV sets, DVD recorder
	JPEG,JPEG2k,JPEG-XR	Digital camera, security
	Image sensor signal processing	Digital camera, Camcorder
 <b>Audio processing technology</b>	G.723.1 compression anddecompression	Cell phones
	AAC, MP3 compression and decompression	Cell phones, Digital TV sets
 <b>Communications technology</b>	Orthogonal Frequency Division Multiplexing (OFDM)	Digital terrestrial TV broadcasting
	Spread Spectrum Communication (SSC)	Wireless communication, wireless local area network (WLAN)
	Power Line Communication (PLC), ZigBee	Home sensor network
	Cryptography	Secure communication
 <b>Others</b>	Error correction	Memory control
	Analog signal processing	Acoustic emission (AE) sensors and other sensors

# FY3/11 Medium-term Business Plan

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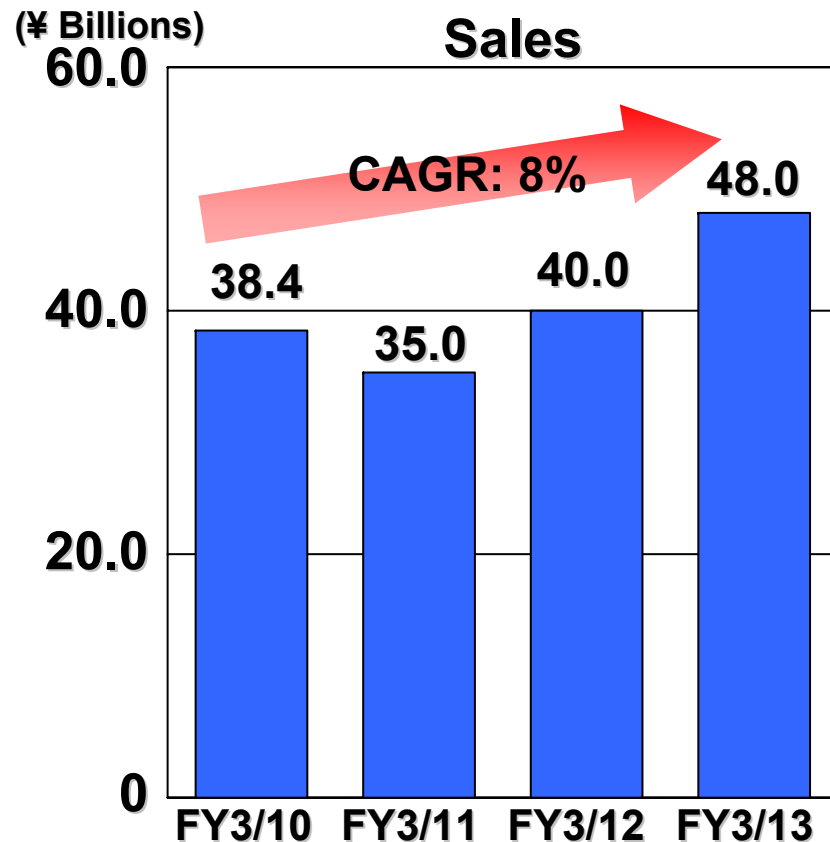
# Sales and Earnings Plan for FY3/11

(¥ Millions)		FY3/11 First-half forecast	FY3/11 Full-year forecast	FY3/10 First-half results	FY3/10 Full-year results	YoY change (First-half)	YoY change (Full-year)
LSI Business	Net sales	14,200	32,200	20,672	36,124	- 31.3%	- 10.9%
	Operating income	1,450	3,600	2,578	4,212	- 43.8%	- 14.5%
Systems Business	Net sales	1,000	2,800	1,651	2,371	- 39.4%	+ 18.1%
	Operating income	-350	- 500	-184	- 1,141	—	—
Consolida ted	Net sales	15,200	35,000	22,323	38,495	- 31.9%	- 9.1%
	Operating income	1,100	3,100	2,370	3,034	- 53.6%	+ 2.1%
	Ordinary income	1,100	3,100	2,300	3,101	- 52.2%	- 0.1%
	Net income	700	2,150	1,457	2,140	- 52.0%	+ 0.4%
	Net income per share (¥)	28.82	88.51	60.09	88.19	- 52.0%	+ 0.4%

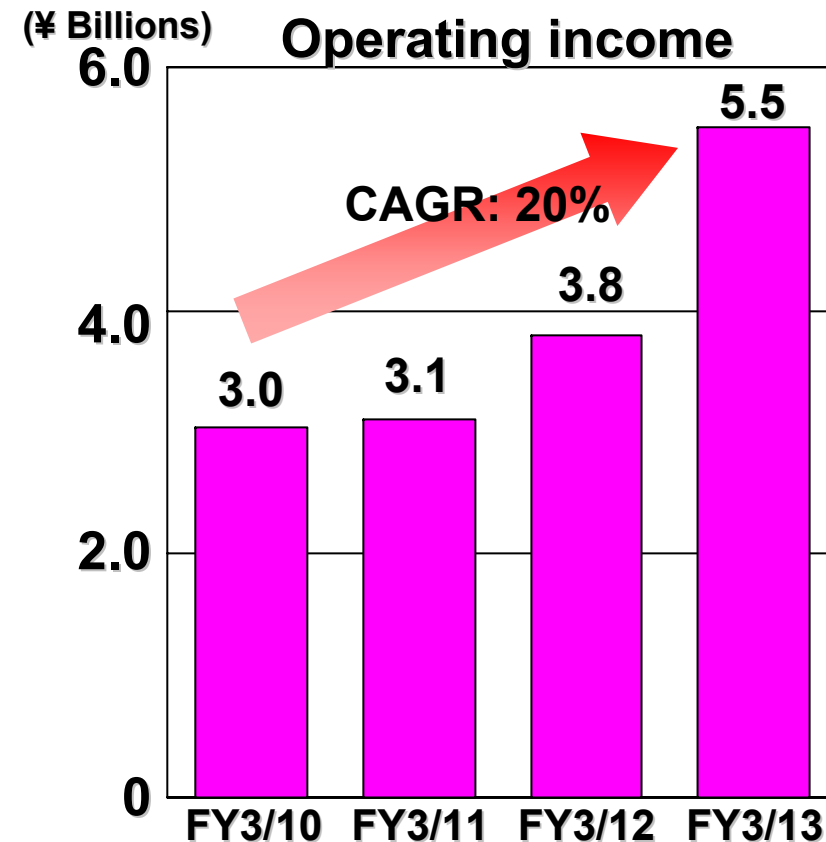
# Medium-term Target

## Medium-term Target for FY3/13

- Consolidated operating income: ¥5.5 billion
- CAGR 20% from FY3/10 to FY3/13



※ CAGR: Compound Annual Growth Rate



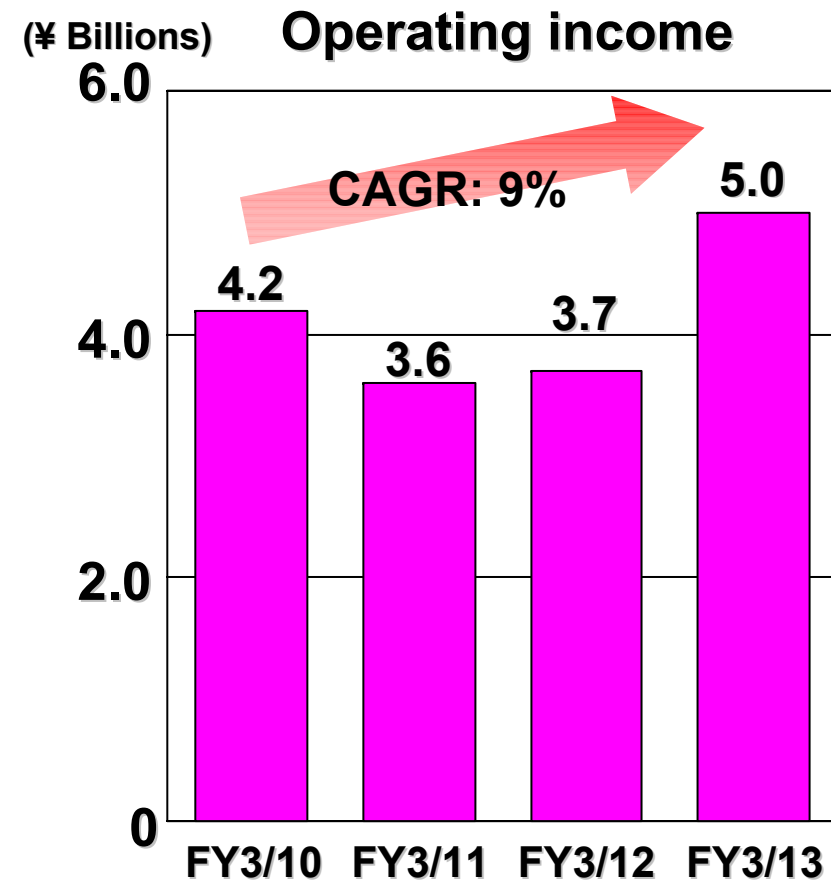
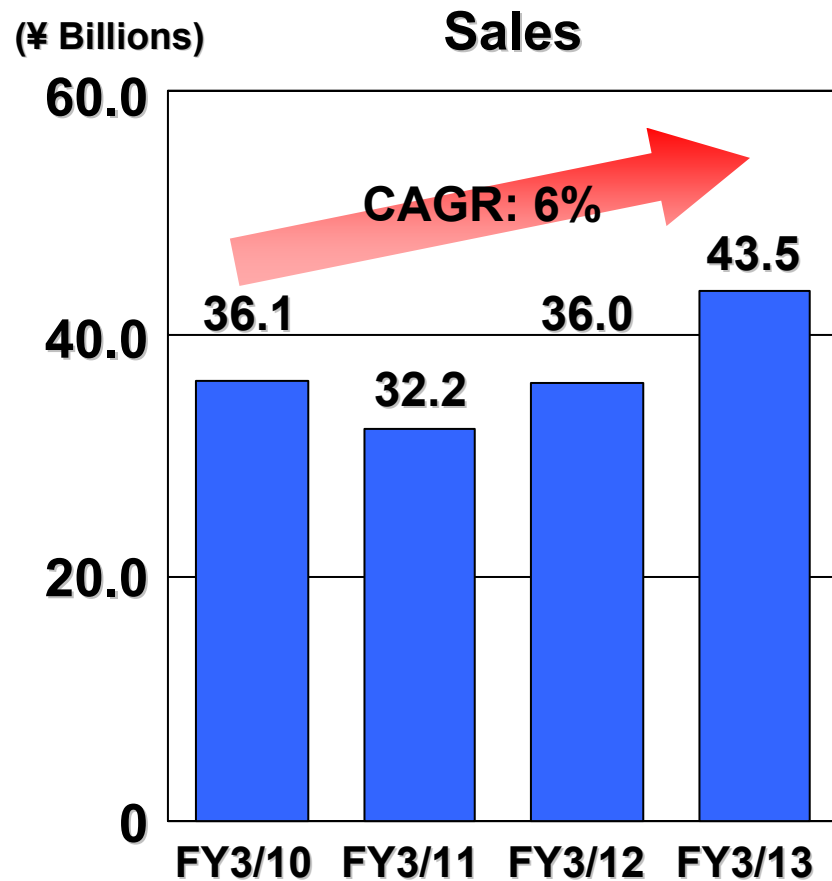
# Medium-Term Target

## Medium-Term Target for FY3/13

● Operating Margin of at least 10%

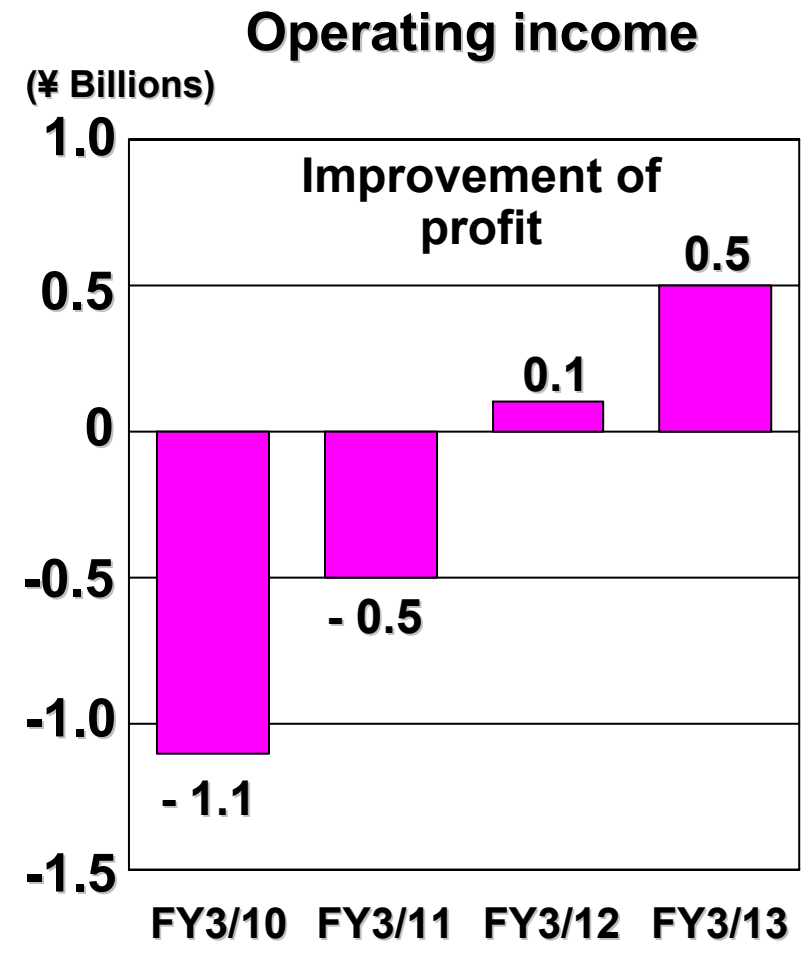
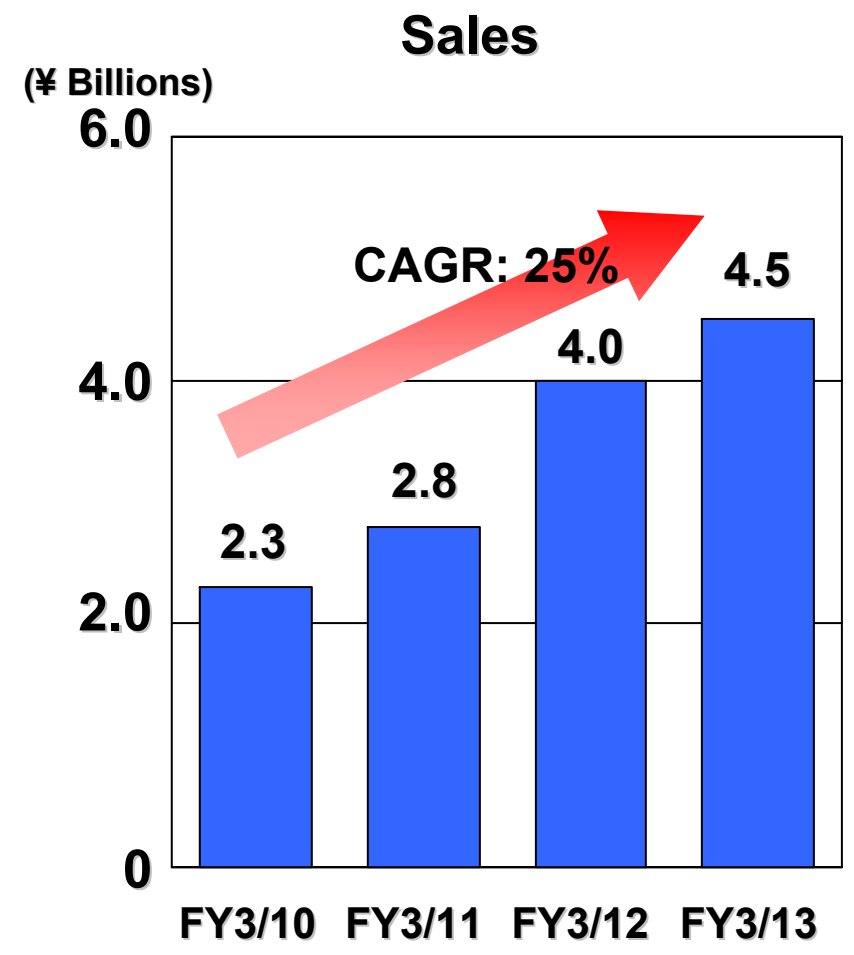
	FY3/10 Results	FY3/11 Forecast	FY3/12 Forecast	FY3/13 Forecast
Consolidated sales	38.4 billion yen	35.0 billion yen	40.0 billion yen	48.0 billion yen
Consolidated operating income	3.0 billion yen	3.1 billion yen	3.8 billion yen	5.5 billion yen
Operating margin	7.9%	8.9%	9.5%	11.5%

# LSI Business Segment - Medium-term Target



※ CAGR: Compound Annual Growth Rate

# Systems Business Segment - Medium-term Target

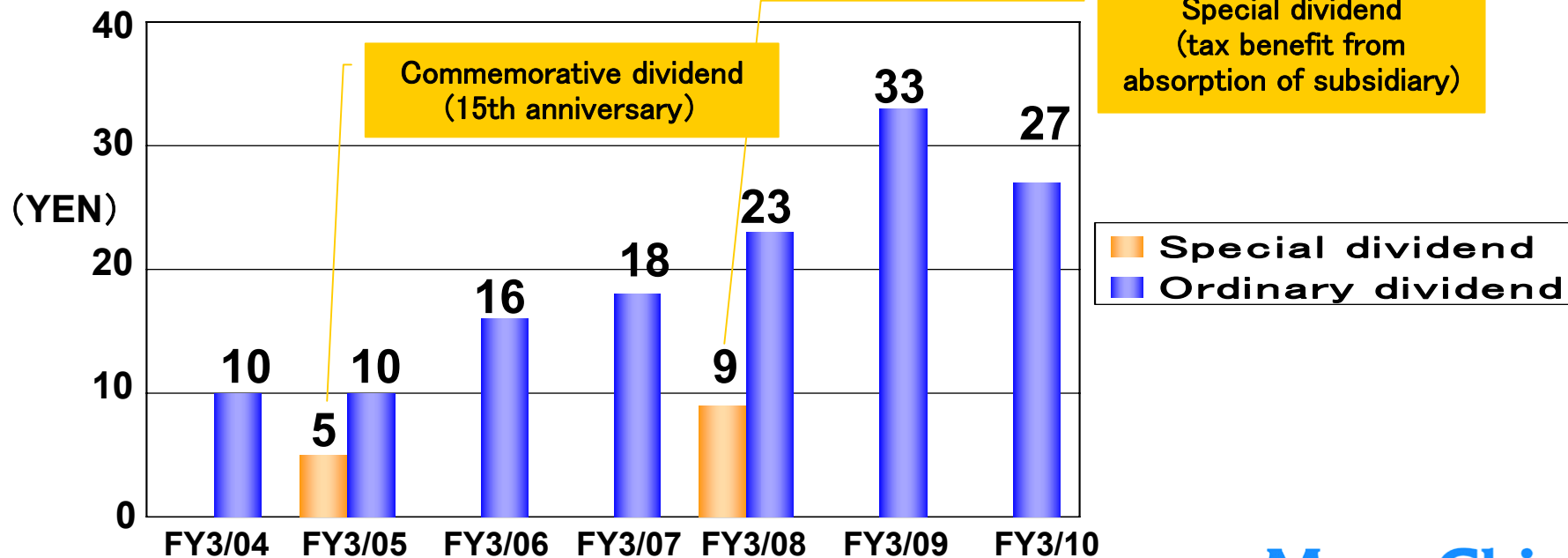


※ CAGR: Compound Annual Growth Rate

# 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 We will also acquire the Company's shares in a flexible manner to improve its capital efficiency, taking into account factors such as market conditions, share price behavior, and financial position, as well as the level of necessary internal reserves.



# Summary (Key Investment Highlights)

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- **Focus on customer-based business and work with customers to nurture a business capable of long-term growth and development**

Through the provision of optimum solutions that meet customer needs, seek business expansion by maintaining close contact with customers to build strong complementary relationships, and by working with customers to nurture a business capable of long-term growth and development

- **Seek stable management and build up an appropriate business portfolio**

Launch new businesses in the eco-energy and amusement fields  
Also, review the details of business with existing customers and establish a business portfolio by broadening the scope of businesses

- **Increase operational efficiency by upgrading the business structure to attain higher income**

Increase operational efficiency through business improvements such as reducing the cost of finished goods, tightening inventories and speeding up development, and at the same time contribute to the preservation of the global environment by eliminating wastage

# IR Policy

## >> 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.

# IR Policy

## >> 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 and 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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