

By anticipating change, MegaChips seeks to achieve sustainable growth under a new management structure



Akira Takata

President and Representative Director

Profile

May 1990	Joined the Company
Jan 1994	General Manager, Product Division
Jun	Director, General Manager, Business Division
Apr 1998	Deputy General Manager of Systems Business Division
Jun 2001	Retired as Director
Apr 2003	Officer, Systems Business Unit
May 2005	Officer responsible for Chinese Business President of Shun Yin Investment Ltd. (incumbent)
Jan 2008	Officer, General Manager, Strategic Management Office
Feb 2009	Officer, General Manager, Strategic Alliance Office, Administrative Headquarters
Oct	Officer, Manager, Production Management Department
Jun 2010	Director
Dec	Officer, General Manager, LSI Business Division
Jun 2011	Appointed President and Representative Director (incumbent)

Thank you for the continued support and confidence you have shown for MegaChips.

We wish to convey our deepest condolences for the victims of the Great East Japan Earthquake that took place in March 2011, and offer our prayers for all our shareholders and their families in the afflicted areas.

My name is Akira Takata, and I became President and Representative Director of MegaChips following a resolution at the meeting of the Board of Directors held after the 21st Ordinary General Meeting of Shareholders.

The market is likely to evolve radically with the recent advances in the information society and the rapid expansion of the digital equipment market. In this changing environment, we are determined to take advantage of business opportunities and achieve further growth by developing forward-looking business models.

Yukihiro Ukai, the former President and Representative Director, will be supporting the new management as Senior Advisor.

We hope that we can continue to count on the support and understanding of our shareholders.

Operating results and dividends for the fiscal year ended March 2011

Despite the severe business environment, we achieved higher earnings, reflecting an increase in income from research and development expenses and a decline in losses in the systems business.

During the fiscal year ended March 2011, the electronic machinery and equipment industry in which we operate expanded on a year-on-year basis, albeit modestly. However, the economic recovery was slow, and the outlook remained uncertain.

Under these difficult operating conditions, net sales for the fiscal year under review amounted to ¥36,259 million (down 5.8% from the previous fiscal year ended March 31, 2010). However, the Company achieved higher earnings with operating income of ¥3,055 million (up 0.7%) and net income of ¥2,288 million (up 6.9%).

Looking at results by segment, in the LSI business, demand declined for mainstay LSIs for storing game software (custom memories). Demand also remained weak for image processing LSIs for digital single-lens reflex cameras. However, income from research and development expenses related to image processing technologies contributed to net sales. As a result, sales for the LSI business amounted to ¥33,080 million in the fiscal year under review (down 8.4% from the fiscal year ended March 31, 2010). Segment operating income totaled ¥3,728 million (down 11.5%).

In the systems business, demand remained strong for customer-specific digital image monitoring systems for security and monitoring applications. As a result, consolidated net sales for the systems business rose year on year, to reach ¥3,178 million (up 34.1%). The segment operating loss improved significantly to ¥574 million (compared with an operating loss of ¥1,141 million posted in the previous fiscal year).

With respect to dividend distribution to shareholders, the Company regards the return of profits to its shareholders as an important management policy. Consequently, it determines the amount of dividend distribution based on, in principle, either a dividend payout ratio of about 30% or a consolidated dividend on equity (DOE) of about 2%, whichever is

greater. The Company paid an annual dividend of ¥29 per share as an ordinary dividend (¥27 for the previous period) to shareholders as of March 31, 2011.

Medium-Term Management Plan

With earnings strengthened by a more focused business approach, MegaChips has developed strategies for growth five and ten years from now.

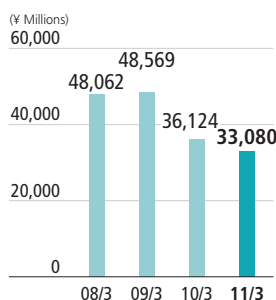
Since the fiscal year ended March 2010, Company has refined its business focus, concentrating on customer-orientated business and providing diverse technological solutions by using its images, audio, and communications technologies, areas in which it has a proven record, to major equipment manufacturers, in addition to system LSIs. As a result, the Company has steadily developed and launched new products in the game consoles and digital home appliances fields, and attracted new customers. Meanwhile, it has taken steps to lay the foundations for its medium-term growth. These initiatives included the joint development of technologies that contribute to household energy saving by focusing on eco-friendly energy as the new growth market.

In addition to the restructuring of its business portfolio, the Company has sought to achieve appropriate cost management, reduce production periods, and bolster operating efficiency. As a result, it achieved an operating margin of 8% for the fiscal year ended March 2011, solidifying its earnings foundation for sustainable future growth.

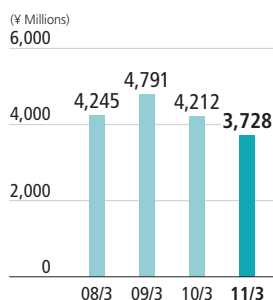
Segment Results

LSI Business

Net Sales

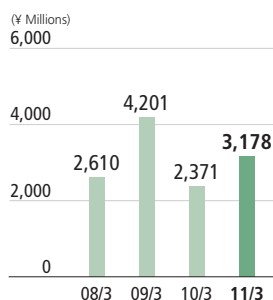


Operating Income

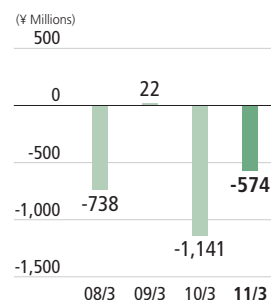


Systems Business

Net Sales



Operating Income



Based on these results, the Company has set the following three targets as the basic policies of the new medium-term management plan for growth five or ten years from now.

(i) In addition to strengthening customer-oriented business, take steps to develop a general-purpose solution business that provides platforms using the Company's unique technologies to a large number of customers, and achieve a sound business portfolio

In customer-oriented business, where it has a proven track record, the Company is determined to continue strengthening its business foundations by bolstering the technological and development capabilities that enable it to manage a wide range of products, including system LSIs and system products, and further improve its abilities to respond to requests of specific customers.

Moreover, the Company is committed to providing highly competitive solutions developed based on its own technologies to a large number of customers in the future. In doing so, it will provide platforms that use the Company's unique technologies as a technological base to customers in creating new high value-added products and services. Through these initiatives, the Company believes that it will be able to contribute to a range of customers in the creation of new businesses.

The Company regards this general-purpose

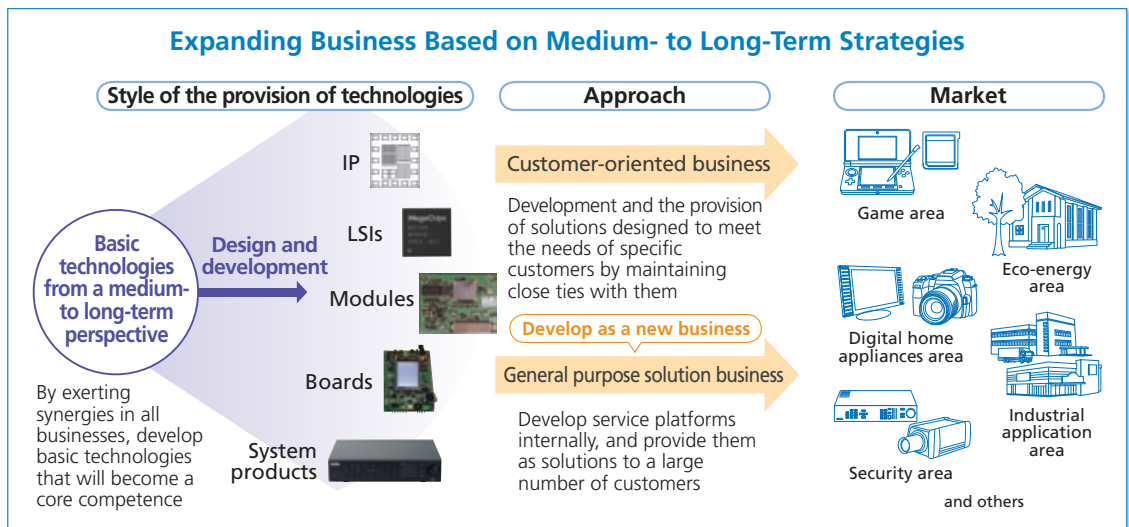
solution business as a critical business portfolio in expanding its operations over the medium and long terms, in addition to strengthening the customer-oriented business, its business foundation.

(ii) Strive to develop basic technologies from a medium-to long-term perspective, becoming a core technology to create new businesses

To create new businesses that become robust business portfolios in the future, the Company needs to possess superior technologies that out-shine its competitors, with basic technologies at the core. To achieve this, over the medium and long terms, the Company will allocate approximately 10% of its resources to basic technologies that will become the core technologies of the future. By achieving synergies in all businesses, the Company will strive to create forward-looking businesses.

(iii) Bolster business efficiency by boosting the profitability of operations

To continue to grow in a severe business environment, the Company needs to transform its businesses into highly profitable operations. To improve operating efficiency, the Company will continue to take steps such as developing global alliances, imposing cost control from the development stage, shortening production periods,



and maintaining appropriate inventory levels. Through these initiatives, it is determined to bolster its profitability.

Outlook of the fiscal year ending March 2012

The Company will achieve growth over the medium to long terms by balancing earnings from existing businesses with R&D investments for the future.

The market environment that the Company will face during the fiscal year ending March 2012 is likely to remain severe. Despite this, the customer-oriented business—an area of focus for the Company—has been progressing as planned and net sales are expected to reach ¥39.5 billion (up 8.9% year on year) on a consolidated basis. Operating income is expected to stand at ¥3.2 billion (rising 4.7%), while net income should be ¥2.2 billion (down 3.9%). The reason for the more modest rises in income compared with growth in net sales is that the Company will step up investments in research and development to ensure that growth is sustainable over the medium and long terms. All employees are united in their pursuit of the goals of the medium-term management plan, and the Company will seek to rapidly establish a business model that is responsive to future market changes, while taking steps to achieve growth five or ten years from now.

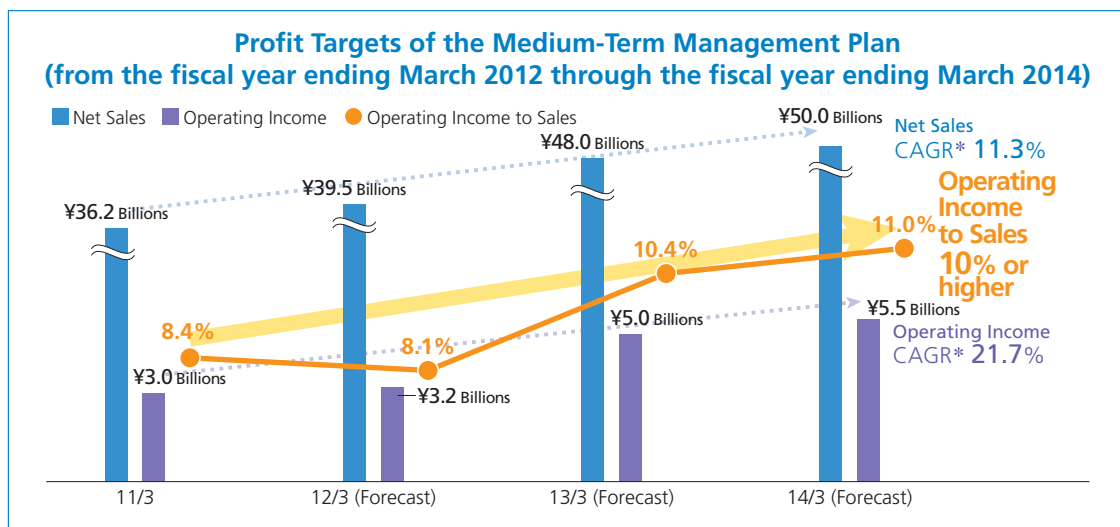


The effects of the Great East Japan Earthquake on the Company's operations are likely to be limited. While the production of mainstay LSI products has been outsourced to overseas semiconductor manufacturers, the impact on the output of certain products that are outsourced to manufacturers in Japan is expected to be limited since restoration of production capacity is making steady progress.

We hope that we can continue to count on the support and understanding of our shareholders.

July 2011

President and
Representative Director



* CAGR: Compound Annual Growth Rate