MegaChips Corporation

Results for the First Half of Fiscal Year ending March 31, 2012 (1H FY3/12)

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

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1H FY3/12 Results

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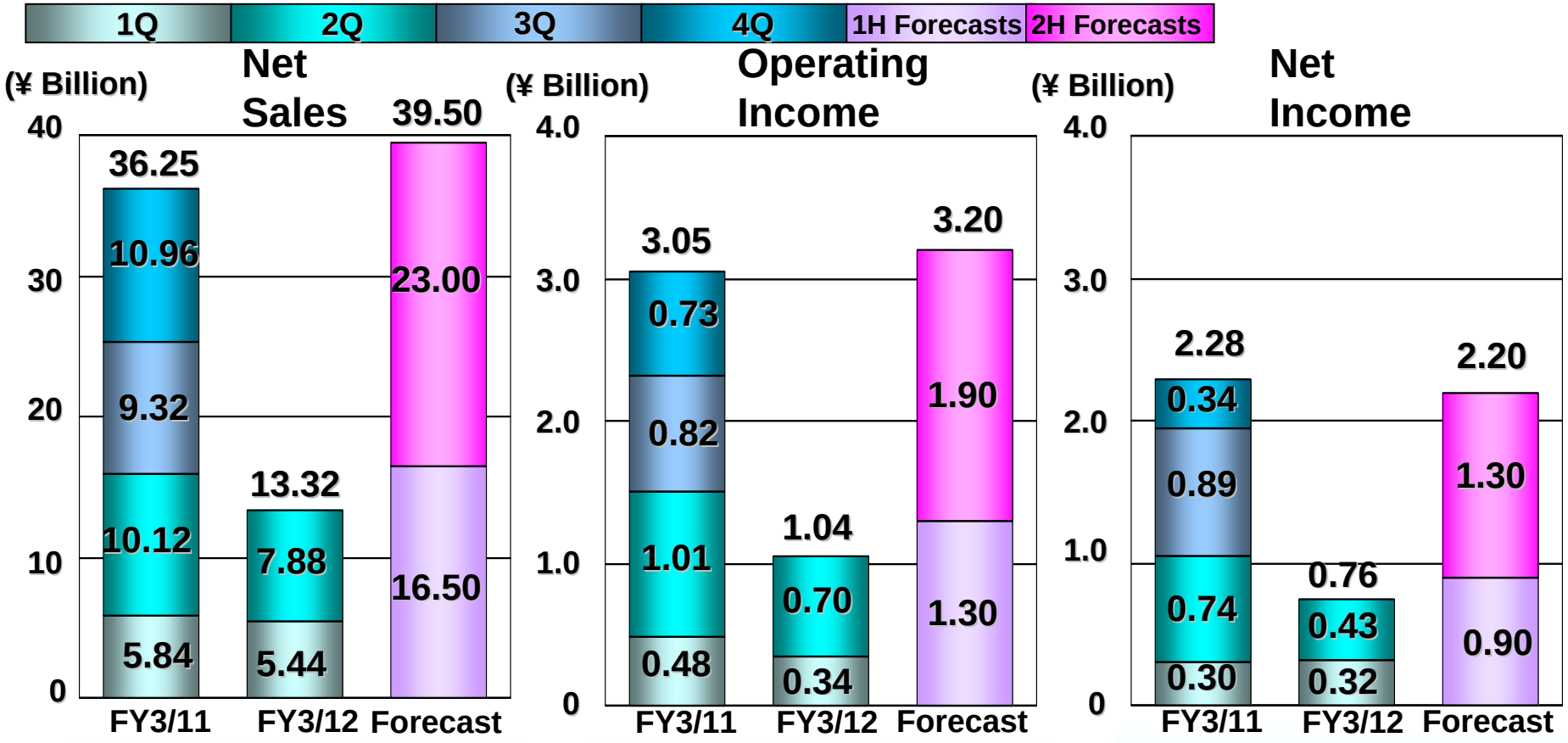
1H FY3/12 Consolidated Performance



Net sales: ¥13.32 billion (-16.6%) <33.7%>

Operating income: ¥1.04 billion (-30.6%) <32.6%>

Net income:¥0.76 billion (-27.2%) <34.6%>

*** 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, 2011.**

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1H FY3/12 Consolidated Statement of Income (Summary)

(¥ Millions)		FY3/12 1H results	FY3/12 1H forecast	Vs. 1H forecast	FY3/11 1H results	YoY change
Consolidated	Net sales	13,325	16,500	- 19.2%	15,970	- 16.6%
	Operating income	1,043	1,300	- 19.8%	1,503	- 30.6%
	Ordinary income	1,052	1,300	- 19.1%	1,466	- 28.3%
	Net income	762	900	- 15.3%	1,046	- 27.2%
	Net income per share (¥)	31.79	37.49	- 15.2%	43.08	- 26.2%

- Demand declined for LSIs for storing game software (custom memories) from the same period of the previous fiscal year.
- Demand remained strong for customer-specific digital image monitoring systems used for security monitoring.
- The Company recorded a gain on sales of investment securities of ¥213 million.

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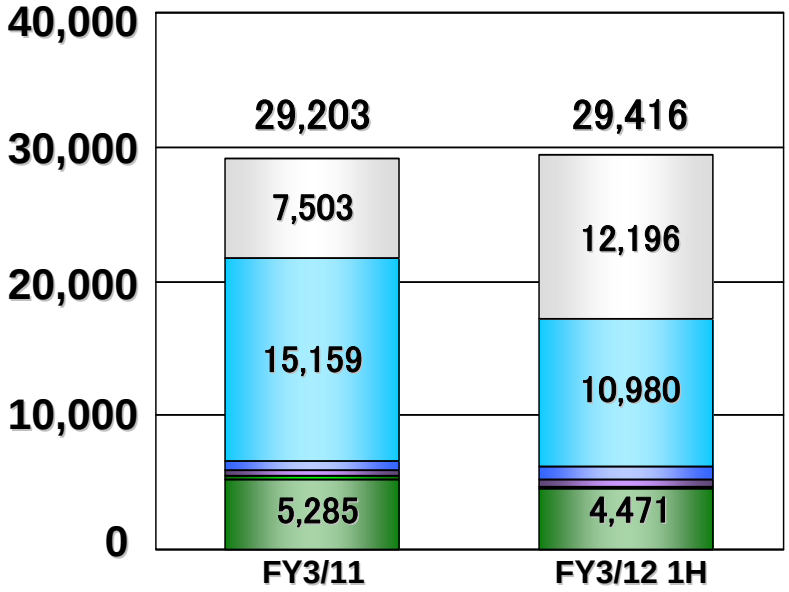
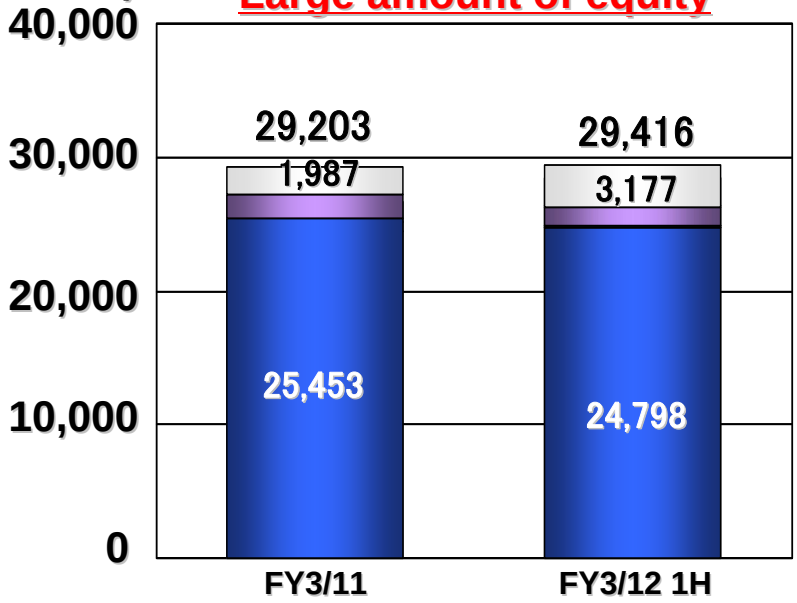
FY3/12 Consolidated Balance Sheets

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



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



	FY3/11	FY3/12 1H
Cash and cash equivalents	7,503	12,196
Accounts receivable	15,159	10,980
Inventories	637	1,071
Other current assets	444	540
Tangible/intangible fixed assets	172	156
Investments and other assets	5,285	4,471

	FY3/11	FY3/12 1H
Accounts payable	1,987	3,177
Interest-bearing debt	0	0
Other current liabilities	1,717	1,401
Other fixed liabilities	44	39
Net assets	25,453	24,798

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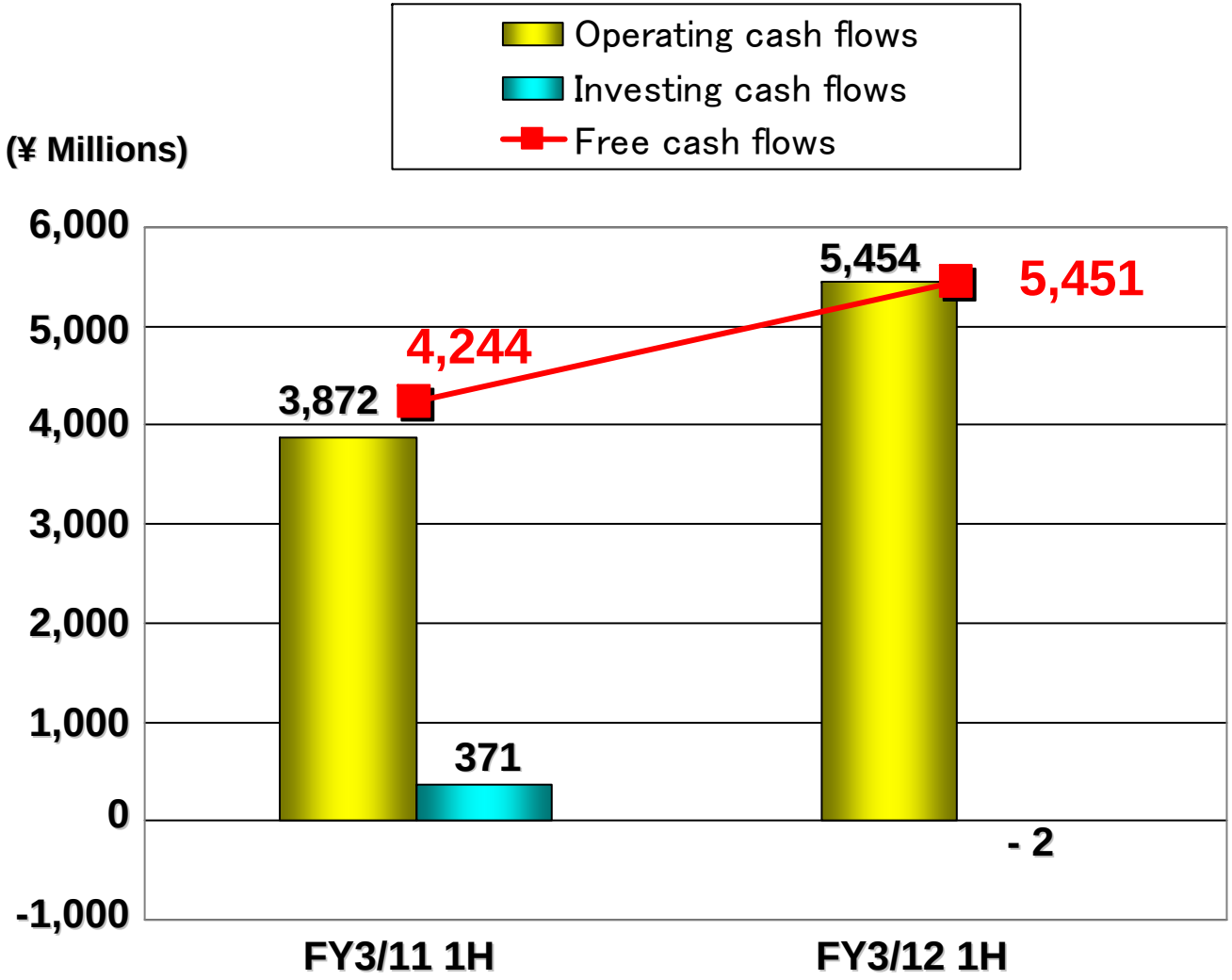
FY3/12 Consolidated Cash Flows



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FY3/12 Earnings Forecast

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Sales and Earnings Forecasts for FY3/12 (vs. previous forecasts)

(¥ Millions)		FY3/12 Full-year forecast		YoY change (Full-year) (1)/(2)	FY3/11 Full-year results (3)	YoY change (Full-year) (1)/(3)
		(revised) (1)	(initial) (2)			
Consolidated	Net sales	33,500	39,500	- 15.2%	36,259	- 7.6%
	Operating income	2,600	3,200	- 18.8%	3,055	- 14.9%
	Ordinary income	2,800	3,300	- 15.2%	3,320	- 15.7%
	Net income	2,000	2,200	- 9.1%	2,288	- 12.6%
	Net income per share (¥)	83.49	91.63	- 8.9%	94.64	- 11.8%

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FY3/12 Medium-Term Management Strategy

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Medium-Term Growth Strategy for FY3/12

Achieve recognition as a company providing service solutions worldwide.

1. Establish an appropriate business portfolio by taking steps to develop a general-purpose solution business that provides a platform using the Company's unique technologies, in addition to the customer-oriented business.

2. Develop basic technologies from a medium- to long-term perspective.

3. Enhance operating efficiency through reforms to boost revenue.

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Medium-Term Growth Strategy_1

1. Establish an appropriate business portfolio by taking steps to develop a general-purpose solution business that provides a platform using the Company's unique technologies, in addition to the customer-oriented business.

Expanding Business Based on Medium- to Long-Term Strategies

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Medium-Term Growth Strategy_2

2) Develop basic strategies from a medium- to long-term perspective.

(i) Develop basic technologies to achieve strong core competencies and to create new businesses.

1: Fields where new markets are imagined
2: Aim to maintain business initiatives.
3: Prepare core competencies,
not for individual hardware but for total solutions.

(ii) Hone core competencies to maintain a sound business over the long term.

1: Unique business model
2: Patented technologies
3: Hardware and software expertise

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Medium-Term Growth Strategy_3

3) Enhance operating efficiency by executing reforms to boost revenue.

(1) Streamline development and mitigate operational risks through global alliances.

(2) Control overall cost from the development stage and reduce prime cost.

(3) Shorten production times.

(4) Control inventory levels properly.

(5) Optimize the allocation and size of the workforce and improve business efficiency.

FY3/12 Medium-Term Business Plan

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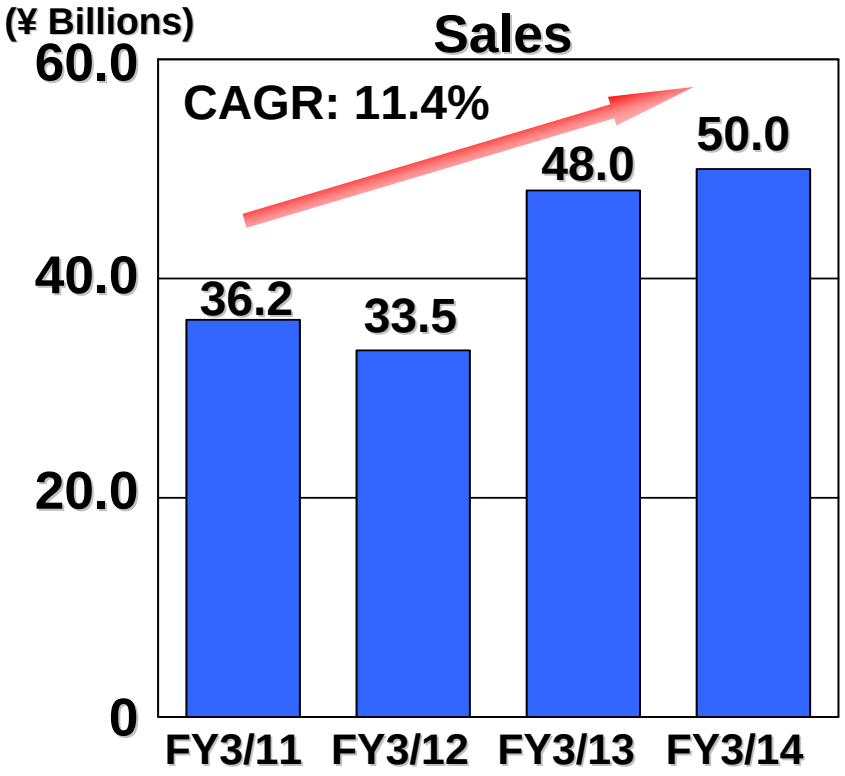
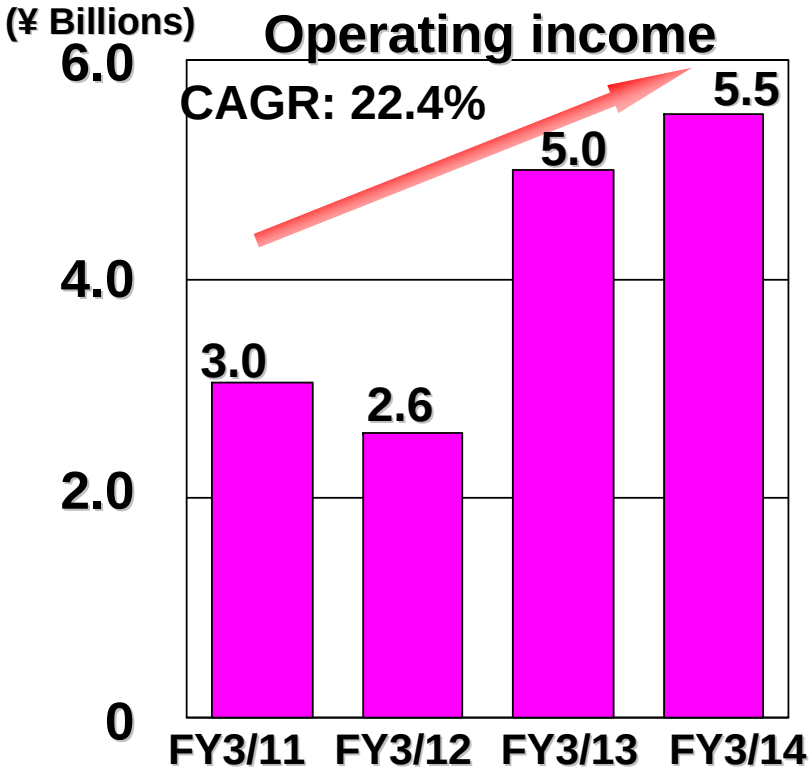
Medium-term Target

Medium-term Target for FY3/14

●CAGR 22.4% from FY3/11 to FY3/14





★To achieve further growth in the medium to long term, we plan to post research and development expenses of 0.5 billion yen as a Company-wide expense each year from the fiscal year ending March 2012.

* CAGR: Compound Annual Growth Rate

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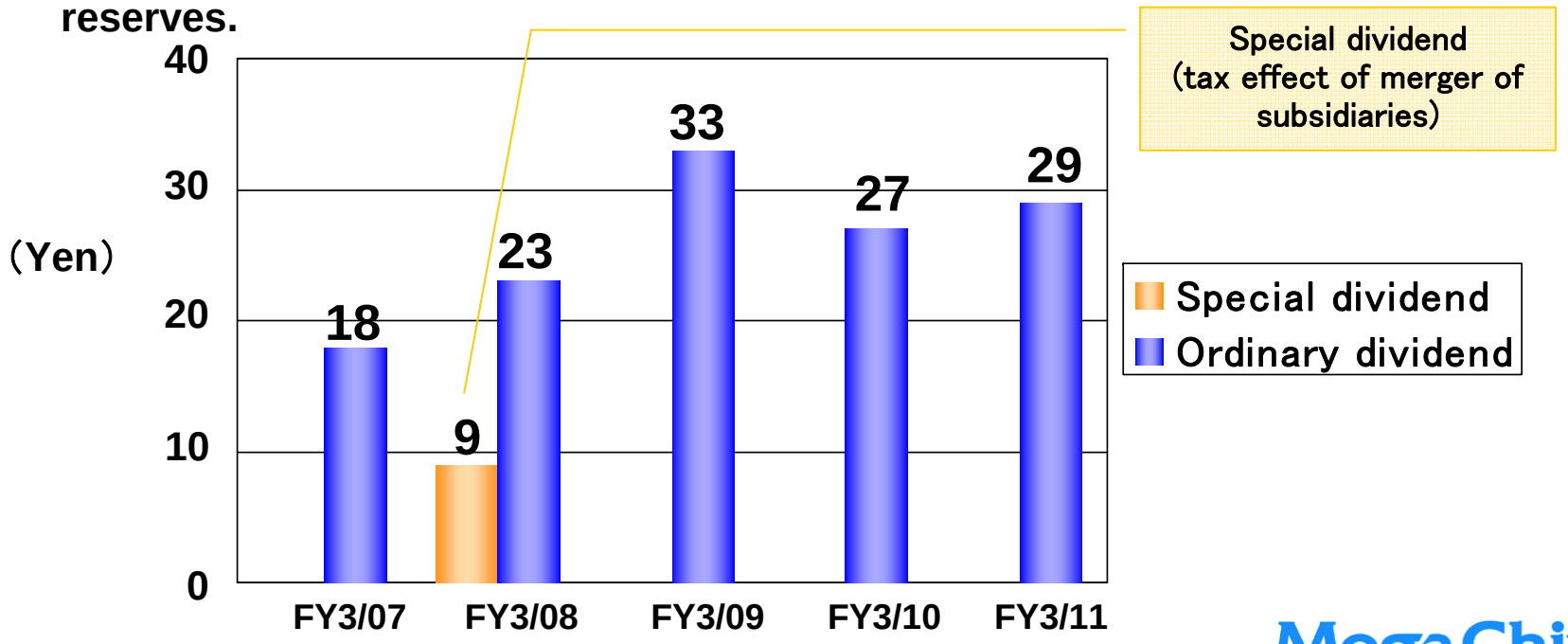
Performance Indicators (Profit Allocation)

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.

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.



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Summary (Key Investment Highlights)

●**Establish an appropriate business portfolio by taking steps to develop a general-purpose solution business that provides a platform using the Company's unique technologies, in addition to the customer-oriented business.**

Expand to provide optimum solutions and lay a stronger foundation for the existing customer-oriented business. To help customers create new, high value-added services, provide a platform that adopts the Company's unique technologies to customers, and establish a balanced business portfolio.

●**Develop basic technologies for the medium to long terms.**

To acquire new businesses that enable the Company to develop a sound business portfolio in the future, in addition to existing businesses, aim to achieve strong core competencies.

●**Boost operating efficiency by executing reforms for higher revenue.**

Increase operating efficiency using global alliances, controlling prime costs from the development stage, shortening production times, and controlling inventory levels. At the same time, help protect the global environment by eliminating waste.

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.

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