MegaChips

## MegaChips Corporation

# Annual Report 2016

Year Ended March 31, 2016

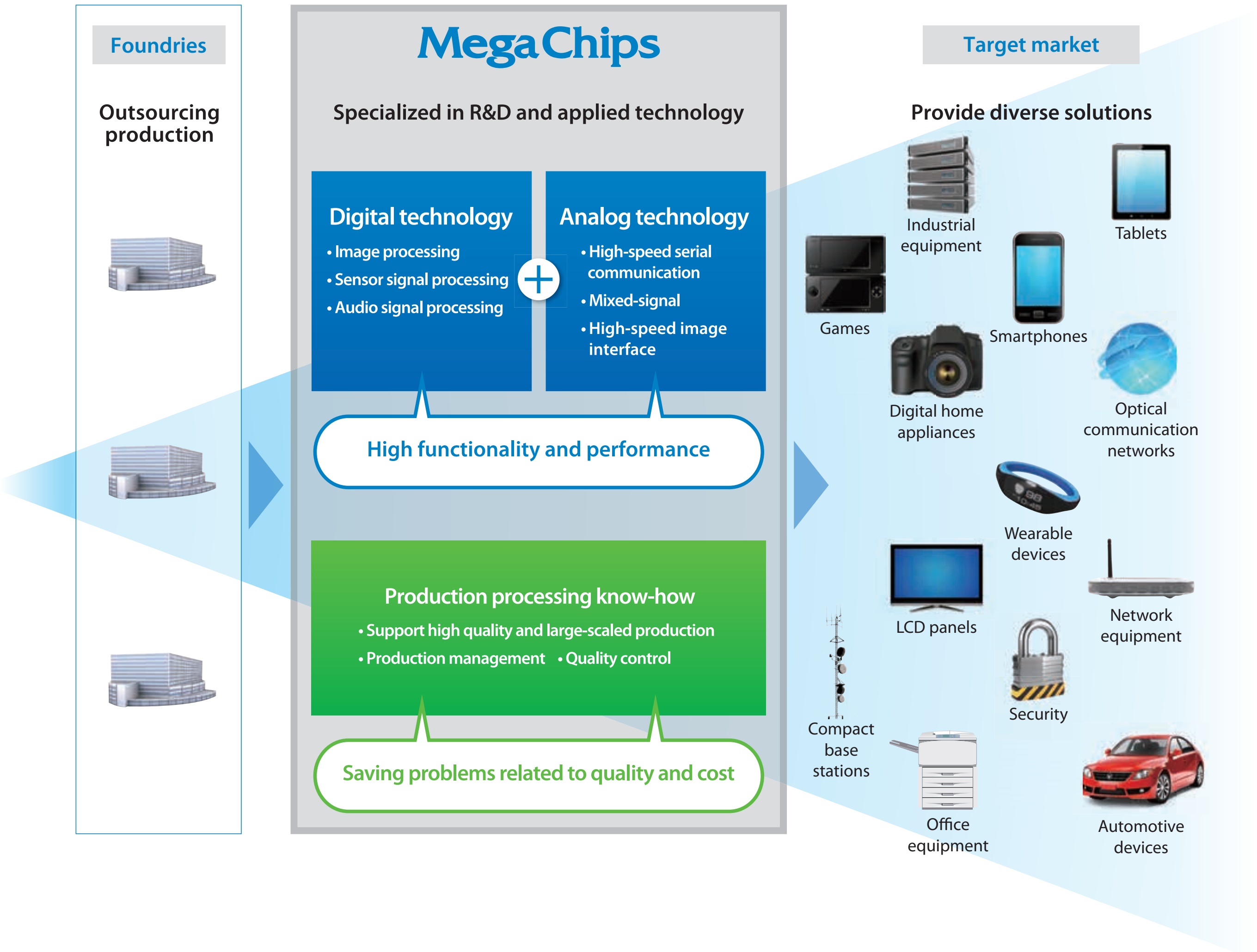
# A Global Fabless Company Providing System Solutions Using Core Technologies in Images, Voice, and Telecommunications

Since its start as Japan's first fabless company in 1990, MegaChips has been developing numerous world-first technologies. We focus on cutting-edge algorithm research and LSI solution development. Working closely with customers in the imaging, audio and communications fields, we introduce timely, original solutions designed to give clients a competitive edge. We also hold a number of patents in both digital and analog technologies.

The time will soon come when everything including PC, smartphone, wearable and automotive devices, medical and industrial equipment are connected to the network.

MegaChips accelerates the LSI development, vital for IoT era where everything connected to the network, utilizing our innovative core technologies of low power design, image and signal processing and communications. We continue to provide highly unique solutions to the world's leading customers.

## Our business Model



# Financial Highlight

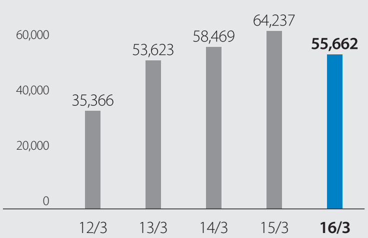
MegaChips Corporation and Consolidated Subsidiaries
For the five years ended March 31

| | Millions of yen except for per share information, and number of shares issued at year end | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2012/3 | 2013/3 | 2014/3 | 2015/3 | **2016/3** | **2016/3** |
| **For the Year:** | | | | | | |
| Net sales | ¥ 35,366 | ¥ 53,623 | ¥ 58,469 | ¥ 64,237 | **¥ 55,662** | **$ 493,990** |
| Cost of sales | 28,687 | 40,568 | 43,348 | 45,263 | **39,233** | **348,188** |
| Operating income (before amortization of goodwill) | 3,033 | 3,962 | 4,173 | 4,895 | **3,513** | **31,176** |
| Operating income (after amortization of goodwill) | 3,033 | 3,962 | 4,173 | 4,895 | **(335)** | **(2,973)** |
| Profit attributable to owners of parent | 2,127 | 4,044 [*2] | 4,725 [*3] | 1,251 | **(782)** | **(6,947)** |
| **At Year-End:** | | | Yen | | | U.S. dollars |
| Total assets | 29,247 | 44,075 | 44,867 | 77,830 | **69,921** | **620,533** |
| Net assets | 24,977 | 27,595 | 31,816 | 32,355 | **28,846** | **256,007** |
| **Per Share Information:** | | | Shares | | | Shares |
| Net income | 88.80 | 170.23 | 202.40 | 55.64 | **(35.24)** | **(0.31)** |
| Net assets | 1,042.70 | 1,181.89 | 1,362.64 | 1,438.09 | **1,341.86** | **11.91** |
| **Number of Shares Issued at Year End:** | 24,038,400 | 24,038,400 | 24,038,400 | 24,038,400 | **23,038,400** | **23,038,400** |

*1 The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥112.68 US$1, the rate prevailing on March 31, 2016.
*2 The extraordinary income of ¥1,406 million was recognized in FY2013 as "negative goodwill," because the market net book value exceeded the acquisition value at the time of MegaChips' purchase of all shares owned by Kawasaki Microelectronics, Inc. (hereinafter "Kawasaki Micro").
*3 In FY2014, the Company posted deferred tax assets for a recoverable tax loss carried forward etc. that it succeeded to in association with the merger of Kawasaki Micro and posted in income taxes-deferred a tax adjustment (profit) of ¥2,374 million associated with the deferred tax assets.

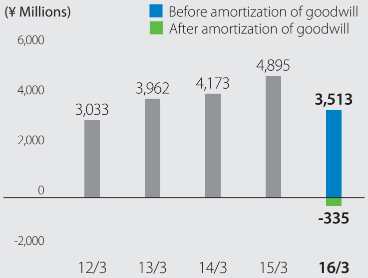
### Net Sales

(¥ Millions)




### Operating Income

(¥ Millions)

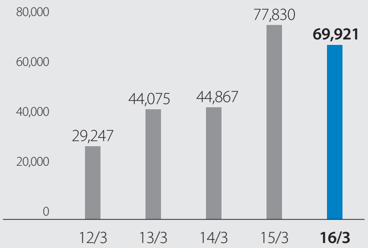



### Profit attributable to owners of parent

(¥ Millions)

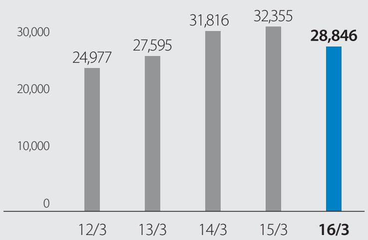

### Total Assets

(¥ Millions)



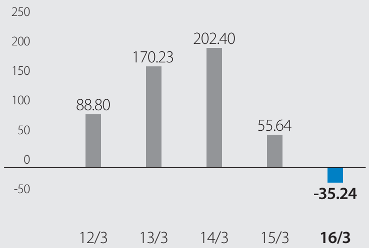

### Net Assets

(¥ Millions)




### Net Income Per Share

(¥)




## Contents



**Note:**
This annual report includes forward-looking statements, with the exception of historical data that is noted as such. These statements are based on management's assumptions and projections in light of information currently available to the Company. These assumptions involve risks and uncertainties that may cause actual results, performance or achievements to be materially different from those expressed or implied in the forward-looking statements.

## President Takata Talks about Results and Strategies


### Business Results

### We made fairly good progress in transforming the business structure for medium-term growth, which mitigated the impact of the temporary deterioration of existing businesses.

During FY2016, we strengthened our ASIC (customer-specific LSI) business, which includes game consoles, digital cameras, and office machines, and focused on the start-up of the ASSP (LSI for specific purposes) business, which plays a key role in medium to long-term growth.

In particular, we enhanced businesses for leading global companies in the machinery and equipment market with the potential for medium to long-term growth, and worked to rebuild an appropriate business portfolio in preparation for the arrival of the Internet of Things (IoT) society in which everything is connected to a network. As a result, the sales ratio of the ASSP business grew to about 40% and the overseas sales ratio rose to just under 50%, both of which were nearly zero five years ago.

In FY2016, net sales stood at ¥55,662 million, operating income before amortization came to ¥3,513 million, and operating loss after amortization was ¥335 million. The factors behind these results include the amortization of goodwill associated with the acquisition of overseas company for medium-term growth and intangible assets and the foreign exchange losses due to the changes in the exchange rates between the beginning and the end of the year in line with a stronger yen. Ordinary income corrected for the fluctuation of foreign exchange for accounting purposes reached ¥313 million, and loss attributable to owners of parent was ¥782 million.

Compared with our full-year results forecasts (net sales of ¥56,000 million, an operating loss of ¥500 million, ordinary income of ¥100 million, a loss attributable to owners of parent of ¥900 million) announced on January 29, 2016, sales fell slightly below the forecast due to the effect of the stronger yen, but income improved at all levels, reflecting an improvement in the profit margin as a result of greater efficiency of expenses.

Looking at the details of our businesses, the sales of the ASSP products including the Smart Connectivity LSI (DisplayPort) and the MEMS timing device we approach on as medium-term growth areas, steadily increased to more than twice the level of the previous fiscal year, thanks to the development of new customers through the launch of new products and the expansion of applied areas. The core factor driving this growth was transactions with leading IT companies in the United States. As a result, the negative impact on sales of the temporary decline in demand for game consoles and products for liquid crystal panels were reduced.

As described above, we believe that our efforts for new growth areas over the medium term made steady progress in FY2016.

## Medium-Term Management Policy for FY2017

# We will carry forward the business structural transformation for medium-term growth, and strengthen the ASIC business by expanding the application fields.

We aim to significantly strengthen the globally competitive ASSP business in tandem with the ASIC business. In order to achieve this mission, we will build up the customer base by developing the application fields of the ASIC business.

In the ASSP business, we will continue to promote five businesses, namely Smart Connectivity LSI (DisplayPort), MEMS timing devices, telecommunications LSIs where we will launch new access network products in addition to home networks, panel controller LSIs for mobile panels in addition to TV panels, and sensor hub LSIs for the IoT.

The Smart Connectivity LSI (DisplayPort) is a video interface standard that provides versatility, scalability, and a broadband audio-video data transmission function. DisplayPort technology is vital for users who connect displays to computers and mobile equipment that require advanced audio-video functions. Sales are increasing, driven mainly by transactions with leading IT companies in the United States. We also intend to enhance products for USB Type-C connections, for which the market is expected to expand in the future as they become established as the standard specification.

MEMS timing devices are components that generate a reference signal (clock) to operate telecommunications function of electric equipment at the right time and speed and used in all electronic equipment. The timing devices are made of silicon and exhibit performance that exceeds that of conventional crystal products. They are rapidly spreading among mobile and wearable applications.

We aim to further expand the MEMS timing device business, and we will actively launch new products suitable for not only consumer use, but also for industrial use, communications infrastructure, and in-vehicle equipment because they are expected to be adopted for a wide range of products in the areas of IoT, in-vehicle equipment, and industrial equipment.

At the same time, we will continue to strengthen the ASIC business. To this end, we will provide leading customers in Japan and other countries in various fields, including game consoles, digital cameras, office machines, and telecommunications equipment, with more competitive customer-specific LSIs best suited for individual applications, and by building up the customer base through the expansion of the applied areas.

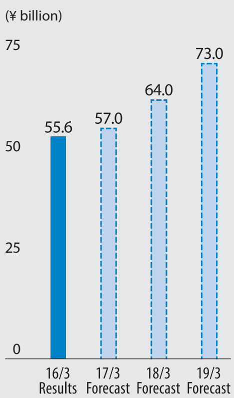
Our medium-term management policy aims to expand and strengthen the ASSP business in the overseas market and enhance the ASIC business in the domestic market. In addition, we will also reinforce our global bases and develop human resources.

## Mid-Term Management Policies and Earnings Forecast for FY 2017

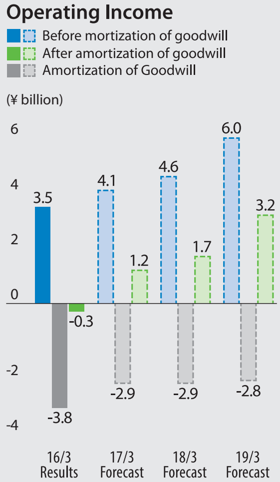
### Basic Policy

1. The Group will expand its business relationships with major global companies by strengthening applications and marketing and seeking enhancement of customer services.
2. The Group will develop products that constitute platforms, focusing on (ASSP) products for specific applications in the IoT sector, including mobile and wearable devices.
3. In customer-specific LSIs (ASICs), for which we provide integrated support that covers all aspects from development to manufacturing and quality assurance to address the diverse issues of customers, the Group will seek expansion in applications and the customer base.
4. The Group will promote the globalization of human resources.
5. The Group will seek transformation into a high growth, high profit enterprise, and strengthen its financial position.

### Net Sales




### Operating Income



## Forecast for FY2017

### We will aim for higher sales and profits by steadily carrying out activities based on medium-term management strategies.

As networking makes further progress, we predict the arrival of an advanced information society in the future. The demand for semiconductors will also increase worldwide along with the development of the IoT society. As I stated earlier, in this environment we will actively promote businesses aimed at the leading global customers in the IoT areas of mobile and wearable devices in the ASSP business. In particular, we expect the MEMS timing device business which we have acquired to grow steadily and significantly and help improve our business performance.

In the ASIC business, we plan to launch large-scale new products in the second half of FY2016 in the major fields, and it is expected that sales will continue to increase after FY2016.

In FY2017, we expect to post consolidated net sales of ¥57,000 million (up 2.4% from the previous fiscal year). We forecast higher sales and profits, with consolidated operating income before amortization of ¥4,100 million (up 16.7%) and consolidated operating income after amortization of ¥1,200 million (compared with an operating loss of ¥335 million in the previous fiscal year), despite ¥2,900 million in the amortization of goodwill and intangible assets associated with the acquisition of an overseas company. We expect consolidated ordinary income of ¥1,000 million (up 219.4%) and profit attributable to owners of parent of ¥200 million (compared with a loss of ¥782 million).

### Full – Year Forecast for FY2017

(¥ Millions)

| | 17/3 (Forecast) | 16/3 (Results) |
|---|---|---|
| Sales | 57,000 | 55,662 |
| Operating Income Before Amortization | 4,100 | 3,513 |
| Amortization of Goodwill* | 2,900 | 3,848 |
| Operating Income After Amortization | 1,200 | (335) |
| Ordinary Income | 1,000 | 313 |
| Profit Attributable to Owners of Parent | 200 | (782) |
| Net Income per Share (¥) | 9.33 | (35.24) |

* Amortization of goodwill and associated with aggressive acquisitions of an overseas company and intangible fixed assets.

## Policy on Dividend

### We will strive to distribute profits to shareholders, while we seek to increase shareholder value and improve capital efficiency by conducting a share buyback when appropriate in a mobilized manner.

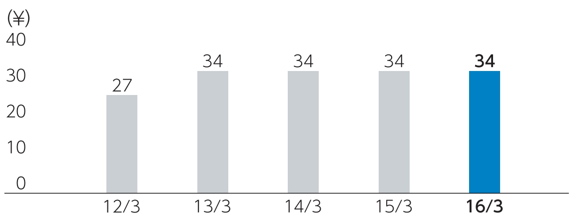
We regard the appropriate distribution of profits to shareholders as an important management issue. To sustain the distribution of profits and the Company's growth, we will work on the active distribution of profits, taking into account the future business conditions of the Company. We will distribute 30% or more of profit attributable to owners of parent to shareholders as dividends, taking the outlook for management in the medium term into consideration (dividends may be adjusted in consideration of special factors related to accounting, the settlement of accounts, and tax). The dividend is calculated by dividing profit attributable to owners of parent by the number of outstanding shares (excluding the number of treasury stock) as of the closing of the fiscal year, and will be distributed once a year. Under this policy, we have decided an annual dividend per share to be ¥34 for FY2016 following the previous fiscal year.

The annual dividend per share for FY2017 has yet to be determined but we plan to pay it based on our policy. We will publish a news release on a dividend on our website when it is determined.

We also acquired our own shares in the capital market (based on the resolution by the Board of Directors) in February 2016. The total number of shares we acquired was 920,000, and the total amount of acquisition was ¥972 million. We cancelled 1,000,000 of the treasury shares that we held.

We will continue to actively distribute profits to our shareholders, while enhancing our stock value and capital efficiency.

### Cash Dividends



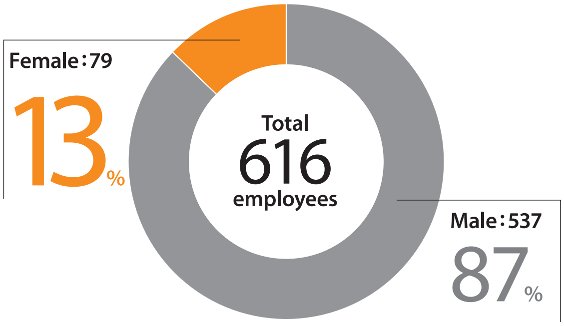
## Column | Our Approach to Promote Diversity

# "Women's empowerment was the theme for the first year of the project"

Since December 2014, MegaChips Corporation has been running in-house training and education to promote diversity in cooperation with ewoman, Inc., a marketing and consulting company headed by Kaori Sasaki.

The project is a three to five-year-plan, and fiscal 2015 is the first year of the project. We set the "active participation of women" as the theme and implemented various programs, including training for female leaders and management training for middle managers. We also participated in the International Conference for Women in Business as the diversity partner.

**Percentage of female employees (MegaChips on a non-consolidated basis)**




### Approach to promote diversity within MegaChips

| | |
|---|---|
| June 2014 - | Proposal from the internal Diversity Promotion Committee (project name "FIORE") |
| | Advisory contract with ewoman, Inc. |
| December 2014 | President Takata declared the company-level mission to promote diversity |
| January 2015 | First employee survey on diversity |
| May | Lecture "Diversity is the key word to growth" by Kaori Sasaki |
| July | Participated in the International Conference for Women in Business as a diversity partner company (President and employees participated in the Conference).<br>*On August 28, 2015, the act on promotion of women's participation and advancement in the workplace was enacted. |
| September | Panel discussion "Learning the promotion of diversity from case examples" by Kaori Sasaki and diversity personnel at three companies |
| November | Two-day female leader training session |
| December | Diversity management training |
| February 2016 | Second employee survey on diversity |

### Pick Up — Female leader training session

A two-day training session was held to develop female leaders. Fifteen employees from different departments gathered together and learned about leadership, logical thinking, time management, communication, and means for using posture/ facial expressions/voice.

**Comments of participants**

- I learned the significance of expressing opinions by saying "I" (I statement) and a method for managing time by myself, enabling me to work without feeling restricted by time.
- I learned logic for exercising leadership and know-how about speaking methods. I would like to practice these abilities and polish them up.

### The President spoke with Kaori Sasaki.

## Importance of diversity as a global company

After reviewing the results and issues in the first year of the project, the President spoke with Ms. Sasaki. They reaffirmed the change in the consciousness of both male and female employees, and discussed the need to promote diversity beyond nationality and further change the way people think in preparation for future global development.

# MegaChips Uses Proprietary Technologies to Create Unique Products in Images, Audio and Communications

MegaChips satisfies customers' needs on the basis of its proprietary technologies, researching and developing applied technologies to differentiate its products from competitors' products.

To ensure our superiority and uniqueness through research and development, we are promoting to secure our own intellectual property rights.

**R&D Policy:**

**Provide the system LSI in images, audio, and communications, and products for specific purposes in the IoT field, as well as solutions using the applicable products.**

## Major Achievements in R&D for FY2016

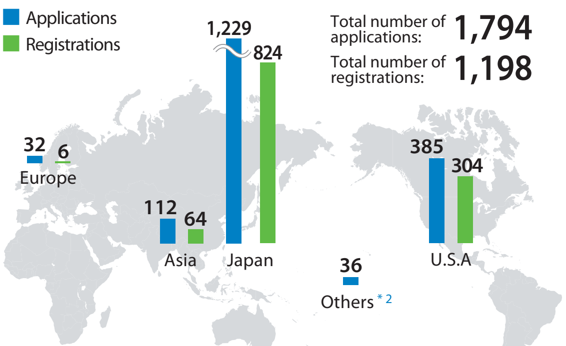
| | | | |
|---|---|---|---|
| **Development of LSI products** | ● LSI for storing game software for portable game consoles<br>● LSI for digital cameras<br>● Timing controller LSI for liquid crystal panels | ● Analog front-end LSI<br>● Intelligent sensor hub LSI<br>● Intellectual property core and LSI for optical communications<br>● Smart Connectivity LSI (DisplayPort) | ● MEMS timing devices<br>● LSI for wired (coaxial and power line) multi-hop communications |
| **Development of other products** | ● Expansion of the functionality of and custom development of full digital video recording and transmission systems | ● Development of an additional product lineup for surveillance camera systems | |

## Intellectual Property Strategy

Since MegaChips is a fabless manufacturer, our ideas, expertise, and other intellectual property derived from R&D activities constitute the foundation of our competitive advantage. Protecting our intellectual property rights will, therefore, lead to greater competitiveness and growth potential.

In FY2016, we filed patent applications such as image processing/data transfer for a liquid crystal panel controller, security for game consoles, wearable device/sensor technologies, and image recognition. Applications were also submitted for the patents for the basic and applied technologies for status estimation and deep learning/machine learning.

**Patent Applications and Registrations by Region**[*1]



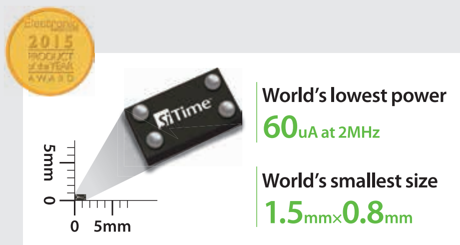

*1 The number of cases shown are the cumulative total as of the end of March 2016.

*2 "Others" denotes the number of applications for patents that are valid under international patent treaties in multiple countries where MegaChips may begin operations in the future.

## TOPICS

### SiTime's µPower MEMS Oscillator Named Product of the Year by Electronic Products Magazine

SiTime's SiT8021 µPower MEMS oscillator has won the Product of the Year award from Electronic Products, a leading trade publication for electronic design engineers. The winning products were selected from among the thousands that were launched in 2015 on the basis of innovative design, significant advancement in technology or application, and substantial achievement of competitive pricing and performance.



# We Contribute to Society by Utilizing Our Advanced Technological Capabilities to Create Products and Services that the World Needs

## Environmental Management System

MegaChips has established an environmental management system based on ISO14001 to achieve "Management in harmony with Environment".

We are involved in preservation activities under the environmental policies of "eco-friendly and high circulation product manufacturing" that contributes to power consumption reduction and downsizing of products, "reduction of environmental load substances and green procurement" based on our original green procurement guideline, "eco-office promotion" that focuses on conserving energy and resources in our offices. We also working on "observance of laws and other requirements" according to the compliance.

**Environmental Load Reduction Effects with the Development of Eco Products**

MegaChips

Development and design of eco product

- Power consumption reduction
- Downsizing
- Reducing the number of components
- Enhancing the efficiency of development and design

Reducing the environmental burden over the product lifecycle

| Production (Outsourcing) | Transportation | Use | Waste materials |
| --- | --- | --- | --- |
| • Reduce volume of materials (direct materials) for the products<br>• Reduce volume of materials (indirect materials) during manufacture<br>• Reduce energy consumed for manufacturing | • Reduce energy consumed during transportation | • Reduce energy consumed when using products Waste materials | • Reduce volume of waste materials |

## Quality Management System

To deliver high quality products and services to customers, we have constructed a quality management system that complies with the international standard ISO9001. We have established a quality policy and thoroughly informed it to all employees. We have set quality goals company-wide as well as by each business division and promoting activities to achieve these goals. We have continually improved our quality management system based on an assessment of its effectiveness. For comprehensive quality management and assurance, we also conduct trials, tests, audits and other checks at every stage, from design to production. We have built a system centered on the Quality Assurance Division in order to provide appropriate guidance and supervision to internal design sections and to contracted production plants.

## TOPICS

### Supporting Entrepreneurial Education for Students

Students at universities in the Kansai area are invited every year to take part in a new business idea contest called the Campus Venture Grand Prix Osaka. Based on our belief that young entrepreneurs are vital to the growth of Japan's economy, we have been supporting this contest since startup. The member of MegaChips judged the new technology category of the 17th Campus Venture Grand Prix Osaka.

We intend to continue to support the contest in future years.


Awards ceremony
at the 17th Campus Venture Grand Prix Osaka

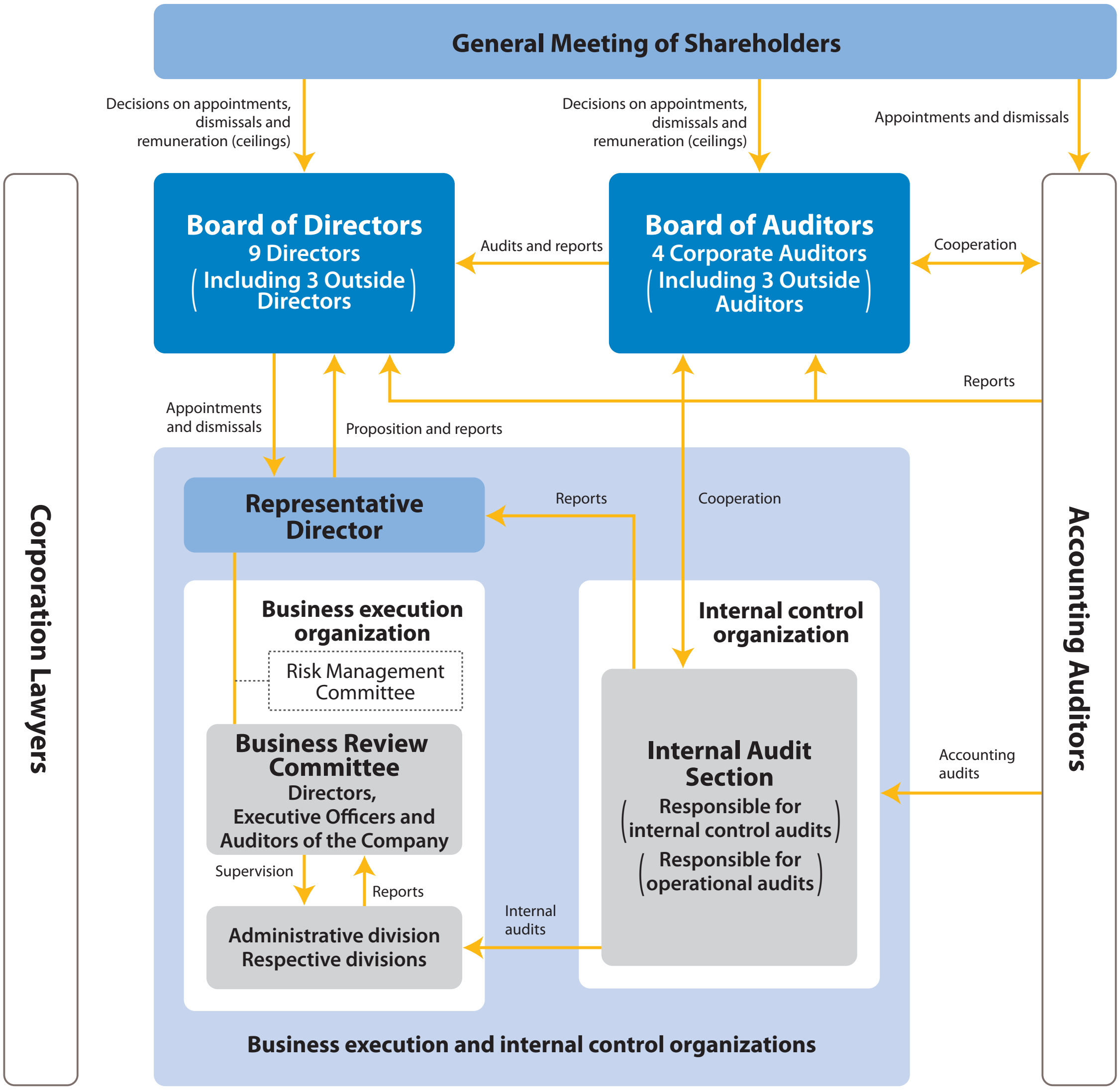
# Raising Corporate Value and Practicing Sound Corporate Management

## Our Basic View

We define our corporate social responsibilities as encompassing maintaining compliance, committing to the timely disclosure of important information, developing and supplying high-quality products that take full advantage of our own technologies, practicing comprehensive quality control and protecting the environment. In our view, consistently fulfilling these responsibilities is essential if we are to increase corporate value and if our directors and employees are to continually recognize that only by faithfully meeting the expectations of society with sophisticated and unique technologies and earning public trust will the Company achieve sustained growth.

Based on this attitude, we seek to continuously improve our corporate governance to ensure that we make appropriate decisions, that our management is transparent and efficient, and that we convincingly demonstrate accountability.

### Corporate Governance Structure



## Governance Structure

### Board of Directors

The Board of Directors, which consists of Nine Directors appointed at General Meetings of Shareholders, discusses strategies, makes decisions, and provides overall supervision of the operations of the Company. The Board of Directors, which meets once each month, has established a scheme that permits the Directors to examine management from diverse perspectives and to make the necessary decisions as the Company's ultimate business decision-making body, with a small number of directors enabling fast action.

Among the Directors, three* Outside Directors act to ensure management objectivity and transparency by asking questions, stating opinions and offering advices as may be necessary from external viewpoints.

### Auditors and the Board of Auditors

The Company has established a Board of Auditors. Three* of the Company's four Auditors appointed at General Meetings of Shareholders are Outside Auditors. The Company emphasizes the independence of its Auditors from Directors.

Each of the Auditors conducts audits to determine whether or not the Board of Directors is making decisions on basic management policies and important matters for the Company, and is executing operations appropriately.

The Board of Auditors monitors the compliance of executed tasks with laws, the Articles of Incorporation and internal regulations and determines their legality.

*No Outside Directors or Outside Auditors have been employed by the Company prior to their current appointments. The Company has no personnel, financial, technical, trade or any other relationship with any company for which any Outside Directors or Outside Auditors, or any of their close relatives has served as an officer or an employee over the last ten years, with the exception of manufacturing agreement contracts with Macronix International Co., Ltd. for which one of the Outside Directors acts as senior vice president and an advisory contract with a law firm to which one of the Outside Auditors belongs.

## Internal Control System

To achieve the objective of (1) increasing management effectiveness and efficiency, (2) ensuring the reliability of financial reports, (3) ensuring full compliance and (4) protecting assets, as required by law, the Board of Directors of the Company has established a basic policy on the Company's internal control system that reflects the provisions of the Company Law. Based on this policy, the Company strives to build and operate an internal control system in compliance with the rules set out in the Company Law and the Financial Instruments and Exchange Law.

The Company's Representative Director is responsible for establishing, executing and supervising internal control in accordance with the basic policy on the internal control system. The Representative Director supplies the Company's stakeholders with financial reports that are highly reliable and transparent, as required by law. In addition, the Representative Director puts mechanisms in place and makes arrangements to ensure that important internal tasks associated with financial reporting comply with laws and regulations and that those tasks are efficiently performed by "establishing" an internal control system and monitoring and evaluating the appropriate "application" of the system.

Specifically, the Internal Audit Section, which reports directly to the Representative Director, performs internal audits in cooperation with Auditors and examines whether or not the internal check system is functioning properly among the Company's divisions on a day-to-day basis.

The Internal Audit Section reports its audit findings to the Representative Director. The Section issues improvement orders based on the Representative Director's instructions and checks the state of improvement when there are items in need of improvement.

In addition, the Internal Audit Section undertakes internal control audits in accordance with the Financial Instruments and Exchange Law. The Section submits reports to the Representative Director after evaluating the status of establishment and application with respect to internal control. The Internal Audit Section also makes recommendations concerning improvements to managers as it sees fit.

The Company's internal control system covers the companies whose results are consolidated to ensure proper operations at Group companies. Each subsidiary reports the status of its execution of operations and its financial condition regularly to the Company, and the Company's business review meeting and Board of Directors check the appropriateness of their operations.

Using the procedures described above, the Company examines and evaluates its internal control system.

No "serious flaw" or "inadequacy" was identified in the internal control report for FY2016. The Company has also received from its Accounting Auditors an internal control audit report with an unqualified opinion for the same fiscal year.

(As of June 30, 2016)

# Directors and Auditors

## Directors

**Akira Takata**
President and CEO

**Shigeki Matsuoka**
Executive Vice President

**Masayuki Fujii**
Senior Managing Director

**Kyoichi Kissei**
Senior Managing Director

**Tetsuo Hikawa**
Director

**Yoshimasa Hayashi**
Director

**Keiichiro Akahoshi**
Outside Director

**Dang-Hsing Yiu**
Outside Director

**Chisato Tominaga**
Outside Director

## Auditors

**Tadashi Sumi**
Standing Statutory Auditor

**Nozomu Ohara**
Outside Auditor

**Keiichi Kitano**
Outside Auditor

**Katsuhiko Asada**
Outside Auditor

# Financial Section

**CONTENTS**



# Five-Year Summary

MegaChips Corporation and Consolidated Subsidiaries
For the five years ended March 31

| | Millions of yen except for employees | | | | | Thousands of U.S. dollars* |
|---|---|---|---|---|---|---|
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| **For the Year** | | | | | | |
| **Operating Results:** | | | | | | |
| Net sales | ¥ 35,366 | ¥ 53,623 | ¥ 58,469 | ¥ 64,237 | **¥ 55,662** | **$ 493,990** |
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| Operating income (after amortization of goodwill) | 3,033 | 3,962 | 4,173 | 4,895 | **(335)** | **(2,973)** |
| Profit attributable to owners of parent | 2,127 | 4,044 | 4,725 | 1,251 | **(782)** | **(6,947)** |
| R&D expenses | 1,452 | 2,879 | 5,574 | 7,320 | **5,956** | **52,861** |
| **At Year-End** | | | | | | |
| **Financial Position:** | | | | | | |
| Total assets | ¥ 29,247 | ¥ 44,075 | ¥ 44,867 | ¥ 77,830 | **¥ 69,921** | **$ 620,533** |
| Net assets | 24,977 | 27,595 | 31,816 | 32,355 | **28,846** | **256,007** |
| **Other Information:** | | | | | | |
| Employees | 277 | 703 | 739 | 942 | **925** | **925** |

| | Yen except for PER and market capitalization | | | | | U.S. dollars* |
|---|---|---|---|---|---|---|
| **Per Share Information** | | | | | | |
| Net income | ¥ 88.80 | ¥ 170.23 | ¥ 202.40 | ¥ 55.64 | **¥ (35.24)** | **$ (0.31)** |
| Net assets | 1,042.70 | 1,181.89 | 1,362.64 | 1,438.09 | **1,341.86** | **11.91** |
| Cash dividends | 27 | 34 | 34 | 34 | **34** | **0.30** |
| **Stock Information** (March 31) | | | | | | |
| Stock price | ¥ 1,638 | ¥ 1,458 | ¥ 1,210 | ¥ 1,392 | **¥ 1,265** | **$ 11** |
| PER (Times) | 18.45 | 8.56 | 5.98 | 25.02 | **(35.90)** | **(35.90)** |
| Market capitalization (Millions of yen, Thousands of U.S. dollars) | ¥ 39,374 | ¥ 35,047 | ¥ 29,086 | ¥ 33,461 | **¥ 29,143** | **$ 258,640** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Indicators** | | | | | | |
| Operating income to sales (%) (after amortization of goodwill) | 8.6 | 7.4 | 7.1 | 7.6 | **(0.6)** | |
| ROE (%) | 8.4 | 15.4 | 15.9 | 3.9 | **(2.6)** | |
| ROA (%) | 7.3 | 11.0 | 10.6 | 2.0 | **(1.1)** | |
| Shareholders' equity ratio (%) | 85.4 | 62.6 | 70.9 | 41.3 | **41.1** | |
| Sales to total assets ratio (Times) | 1.21 | 1.46 | 1.31 | 1.05 | **0.75** | |
| Operating income per employee (Millions of yen) | ¥ 11 | ¥ 8 | ¥ 6 | ¥ 6 | **¥ (0)** | |
| EBITDA (Millions of yen) | ¥ 3,149 | ¥ 4,664 | ¥ 4,955 | ¥ 4,460 | **¥ 5,234** | **$ 46,450** |

* The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥112.68 US$1, the rate prevailing on March 31, 2016.

# Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

## Analysis of Business Results

### ● Net Sales

The MegaChips Group (the "Group") recorded net sales of ¥55,662 million (down 13.3% year on year), chiefly reflecting the steady performance of both the Smart Connectivity LSI (DisplayPort) and the MEMS timing device businesses, the ASSP products that the Group is working on as medium-term growth areas, although there was a decline in demand in its existing businesses such as products for game consoles and liquid crystal panels.

### ● Cost of Sales, SG&A Expenses and Operating Income

The cost of sales for the current consolidated fiscal year was ¥39,233 million. The cost of sales ratio was 70.5%, the same as in the previous fiscal year, and the consolidated gross profit declined by 13.4% over last year, totaling ¥16,428 million.

Consolidated selling, general and administrative (SG&A) expenses finished at ¥16,763 million, an increase of ¥2,685 million from the previous fiscal year, reflecting active prior investments for business expansion in the medium to long term. SG&A expenses consisted mainly of personnel expenses of ¥4,727 million (up 30.9% from the previous fiscal year), including salaries, provision for bonuses and other items, R&D expenses of ¥5,956 million (down 18.6%), and the amortization of goodwill of ¥1,977 million associated with the acquisition of overseas company.

As a result, the consolidated operating loss for the current fiscal year came to ¥335 million (¥4,895 million for the previous fiscal year).

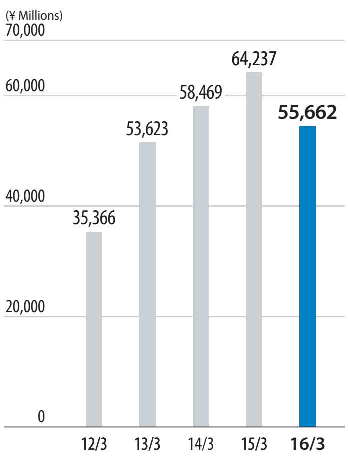
### ● Net Income before Income Taxes

Non-operating income exceeded non-operating expenses by ¥648 million. Foreign exchange gains of ¥801 million caused mainly by the elimination of intercompany transactions with subsidiaries were recorded as non-operating income, while interest expenses of ¥167 million for loans from financial institutions were posted as non-operating expenses.

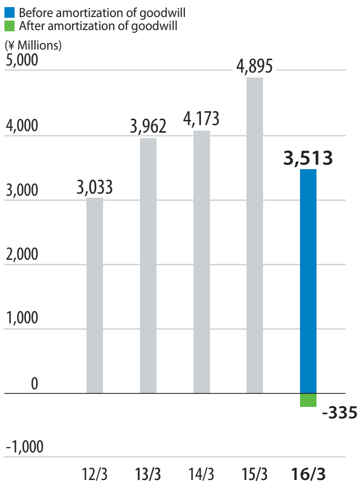
Extraordinary losses exceeded extraordinary income by ¥29 million. The main factors were the posting of a gain on the sales of investment securities of ¥59 million associated with the sales of shares in Acrodea, Inc. as extraordinary income, and a loss on retirement of non-current assets of ¥48 million and special retirement expenses of ¥39 million posted as extraordinary losses at Modiotek Co., Ltd., a subsidiary.

As a result, net income before taxes was ¥284 million (down 91.2% from the previous fiscal year).

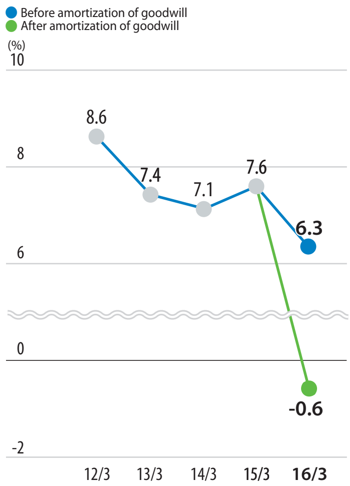
### Net Sales




### Operating Income




### Operating Income to Sales



# Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

### ● Profit (loss) attributable to owners of parent

The loss attributable to owners of parent came to ¥782 million (compared with profit attributable to owners of parent of ¥1,251 million in the previous fiscal year) as a result of income taxes-current totaling ¥781 million (an increase of 60.7% from the previous fiscal year), income taxes-deferred amounting to a positive ¥404 million (compared with positive ¥1,564 million in the previous fiscal year), and a loss attributable to non-controlling interests coming to ¥118 million.

### ● Dividends

The Company regards the appropriate distribution of profits to its shareholders as an important management issue, and seeks to actively distribute profits, aiming to achieve both the sustainable distribution of profits and the Company's growth while taking into account the Company's financial condition. The basic policy is as follows:

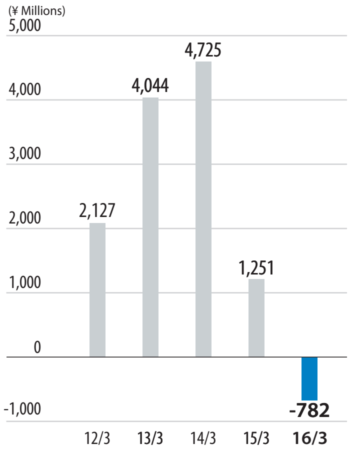
(1) The Company will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income attributable to owners of parent (with special factors relating to accounting, financial settlement or taxation added or subtracted upon due consideration) as the aggregate amount of dividends, while taking the medium-term business outlook into consideration, and dividing this amount by the number of shares that have been issued at the end of the period, minus the number of shares held by the Company at the end of the period.

(2) Aiming at sustainable improvements in its corporate value, the Company will allocate funds to fundamental research to create innovative new technologies, the development of unique products, the achievement of a suitable business portfolio, and the securing of competent human resources to achieve medium- to long-term growth. It will also give consideration to maintaining a sound financial position that can withstand variations in the business environment.

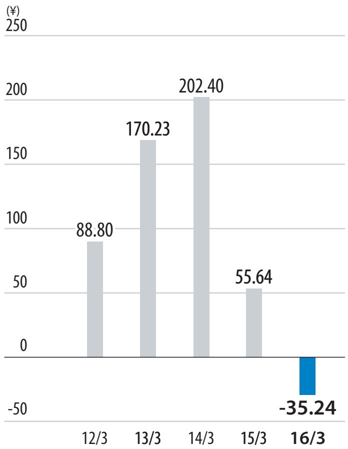
(3) The Company shall endeavor to return profits to shareholders by acquiring its own shares expeditiously, taking into consideration such factors as market conditions, movements of stock prices, and the Company's financial circumstances in order to improve the efficiency of capital.

With respect to the distribution of retained earnings for the fiscal year under review, the Company has decided to pay an annual dividend of ¥34 per share as an ordinary dividend (¥34 for the previous period) to shareholders as of March 31, 2016 under the aforementioned basic policy on the distribution of profits.

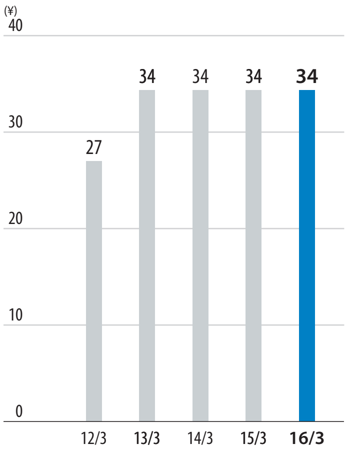
**Net Income**




**Net Income Per Share**




**Dividends**



## High Liquidity and Outstanding Reserves

### Cash Flow

Net cash provided by operating activities was ¥4,272 million (compared with net cash of ¥5,752 million provided by such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to net income before taxes of ¥284 million (down 91.2% year on year), depreciation and amortization of ¥2,047 million yen, the amortization of goodwill of ¥1,977 million, a ¥3,401 million decrease in notes and accounts receivable-trade, and a ¥3,131 million decrease in other liabilities.

Net cash used in investing activities was ¥5,955 million (compared with net cash of ¥24,700 million used in such activities in the same period of the previous fiscal year). This was chiefly attributable to the purchase of plant, property and equipment of ¥1,385 million, the purchase of intangible non-current assets of ¥1,911 million, and the purchase of long-term prepaid expenses of ¥1,544 million.

As a result, free cash flow, which is the sum of net cash provided by or used in operating activities and net cash provided by or used in investing activities, resulted in net cash used of ¥1,683 million (compared to net cash used of ¥18,947 million in the same period of the previous fiscal year).

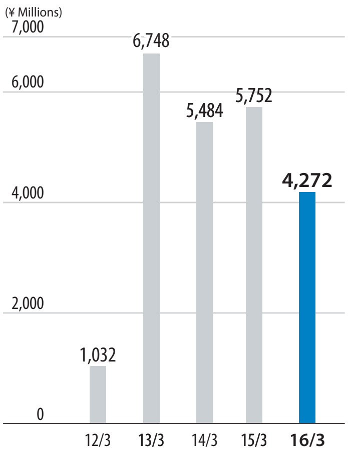
Net cash used in financing activities was ¥379 million (compared with net cash of ¥20,814 million provided by such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to a net increase in short-term loans payable of ¥1,767 million and proceeds from long-term loans payable of ¥3,000 million, which was more than offset by the repayment of long-term loans payable of ¥3,416 million and the purchase of treasury shares of ¥972 million.

As a result, cash and cash equivalents at the end of FY2016 reached ¥10,732 million, down ¥2,295 million from the end of FY2015.

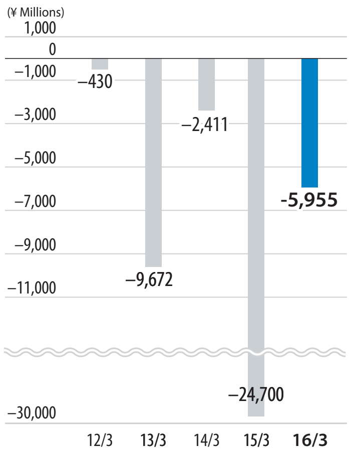
### Capital Requirements

MegaChips' working capital requirements are based on operating expenses such as research and development expenses for its new technologies and new products, the cost of sales, and selling, general and administrative expenses. A major component of the operating expenses is manufacturing outsourcing expenses for LSI products.

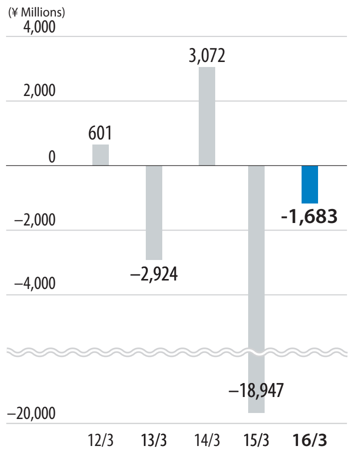
### Cash Flows from Operating Activities




### Cash Flows from Investing Activities




### Free Cash Flow



# Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

### Financial Policy

MegaChips borrows funds from financial institutions to raise working capital when necessary.

In the fiscal year under review, there were no particular financing arrangements warranting special mention. The outstanding balance of borrowings from financial institutions as of the end of the consolidated fiscal year under review was ¥ 28,394 million.

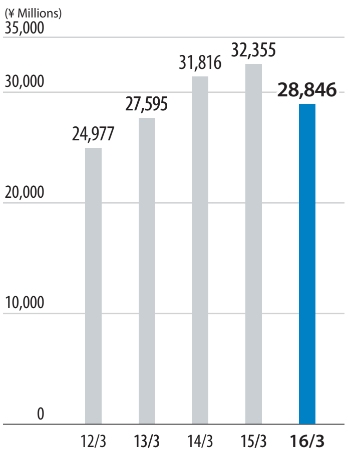
MegaChips believes it can raise the funds it needs for growth as required by selling accounts receivable on hand, borrowing from banks, or increasing capital, given its sound asset composition, financial position, and ability to generate cash flows through operating activities.

## Financial Position

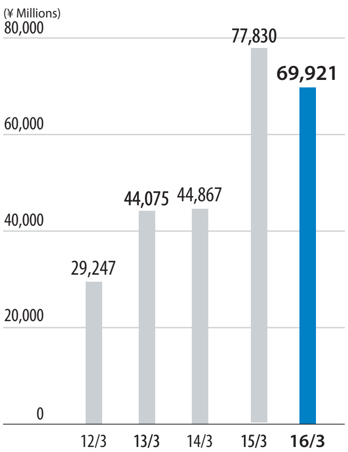
Total assets at the end of the fiscal year amounted to ¥69,921 million (a decrease of ¥7,909 million from the end of the previous fiscal year). By asset item, current assets, centered on cash and deposits, notes and accounts receivable - trade and inventories, declined ¥6,889 million from the previous fiscal year to ¥32,009 million. The main contributing factors to this change included decreases in cash and deposits of ¥2,232 million and notes and accounts receivable - trade of ¥3,688 million. In non-current assets, goodwill declined ¥2,020 million.

High liquidity characterizes the MegaChips Group's balance sheet, as shown in the asset breakdown. Although intangible assets make up a certain percentage of non-current assets, chiefly due to the acquisitions of businesses, current assets accounted for 45.8% of total assets. The current ratio is 132.6%. Quick assets, obtained by deducting an inventory of ¥ 5,118 million from these current assets, were ¥26,890 million. They accounted for 38.5% of consolidated total assets. This asset structure is a result of the MegaChips Group operating as a fabless manufacturer, which does not have assets such as production facilities, in which the Company makes long-term capital investments. MegaChips will continue striving to maintain a sound and highly liquid asset structure in the future.

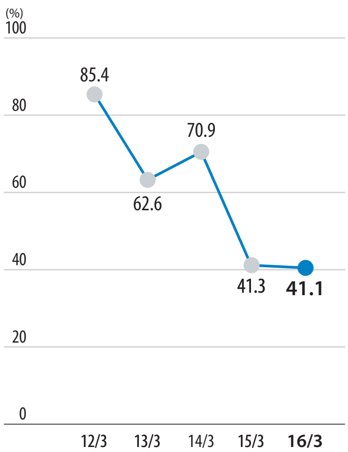
### Net Assets




### Total Assets



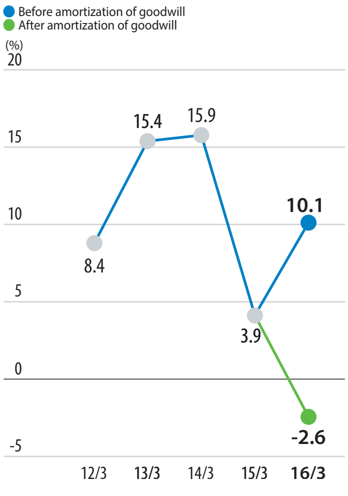

### Shareholders' Equity Ratio



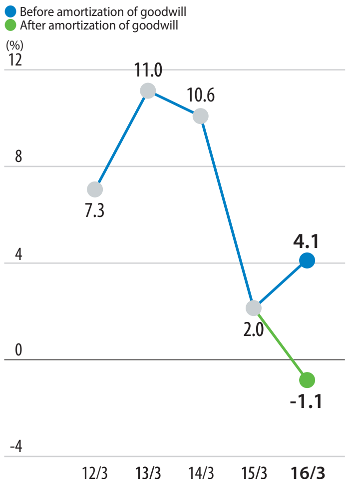
Total liabilities at the end of the fiscal year under review amounted to ¥41,074 million (a decrease of ¥4,400 million year on year). The main contributing factors for this change were a decrease in notes and accounts payable – trade of ¥959 million and a fall in accounts payable - other of ¥4,029 million, as well as an increase in short-term loans payable of ¥1,693 million mainly for working capital. Liabilities consisted mainly of short-term loans payable of ¥13,394 million, long-term loans payable (including the current portion of long-term loans payable) of ¥15,000 million, and trade payables of ¥4,242 million, which were primarily outstanding payments to companies that manufacture LSIs for the MegaChips Group as its contractors.

Net assets amounted to ¥28,846 million, down ¥3,508 million year on year. The main contributing factors for this change were a loss attributable to owners of parent of ¥782 million and a ¥2,515 million decline in shareholders' equity due to dividends of surplus of ¥759 million and the purchase of treasury shares of ¥972 million. The resulting shareholders' equity ratio for the end of the fiscal year under review was 41.1%.

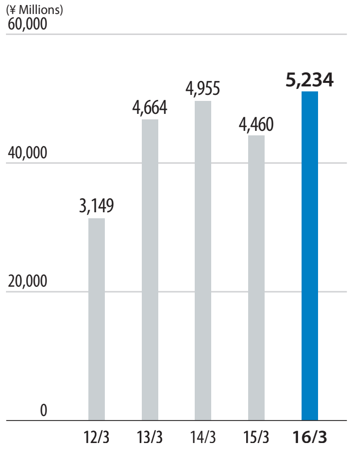
## ROE




## ROA




## EBITDA



## Research and Development, Patents and Other Intellectual Property Rights

The MegaChips Group invested a consolidated total of ¥5,956 million in R&D expenses for the fiscal year under review.

The Company is allocating its resources to research and development in the fields of images, audio, communications, and the IoT. For many products, including entertainment equipment, such as game consoles, digital cameras, LCD panels, and mobile and wearable devices, the Company is developing LSI products, including system LSIs that resolve issues identified in those products, intellectual property for the system LSIs, and customized products in accordance with customers' specifications and the Company's own standard products based on high-speed, high-precision mixed-signal circuit technology.

The Company also emphasizes the protection of intellectual property rights in the form of patents and other industrial property rights as part of its management strategies. As of the end of the fiscal year under review, the details of the industrial property rights the Company holds and the details of patents among the industrial property rights the Company holds by country are as follows:

**Industrial Property Rights** (As of March 31, 2016)

| | Patents | Trademarks | IC Design Rights | Total |
|---|---|---|---|---|
| Acquired | 1,198 | 42 | 2 | 1,242 |
| Applied for | 596 | — | — | 596 |
| Total | 1,794 | 42 | 2 | 1,838 |

**Patents by Country** (As of March 31, 2016)

| | Japan | North America | Asia (excluding Japan) | EU | Other | Total |
|---|---|---|---|---|---|---|
| Acquired | 824 | 304 | 64 | 6 | — | 1,198 |
| Applied for | 405 | 81 | 48 | 26 | 36 | 596 |
| Total | 1,229 | 385 | 112 | 32 | 36 | 1,794 |

## Business and Other Risks

The MegaChips Group has identified the following risks pertaining to our operations and other matters that may seriously affect investors' judgment.

Forward-looking statements in this section represent the judgment of the MegaChips Group as of June 23, 2016.

### ● Dependence on Specific Customers

**(1) Purchasers**

The MegaChips Group principally sells LSIs for storing game software (custom memories) for use in game consoles; LSIs for game consoles and our peripherals; LSIs for digital cameras image processing; LSIs for LCD panels; and digital video monitoring systems for security and monitoring applications. The proportion of net sales that involves providing LSIs for storing game software (custom memories) to Nintendo Co., Ltd. ("Nintendo") is particularly high.

Accordingly, our operating results may be impacted by sales trends for game software and the game consoles that use these LSI products, and may also be influenced by the extent to which Nintendo adopts our products, among other factors.

**(2) Contract Manufacturers (Suppliers)**

Since its foundation, We have adopted a business model in which we operate as an R&D-oriented fabless enterprise, concentrating our management resources on research and development and contracting the manufacturing of products to third parties. Consequently, we have been able to develop products that best meet customer needs based on our unique technological capabilities and expand business without the need to invest in plant and equipment that require substantial investments. We work with a number of different foundries and manufacturers in Japan and overseas, although a very significant percentage of purchases are made from Macronix International Co., Ltd. ("Macronix"), which manufactures LSIs for storing game software (custom memories) supplied to our major customer Nintendo and LSIs for game consoles and their peripherals.

Hence, should Macronix cease manufacturing for whatever reason, our operating results may be impacted.

We have entered into manufacturing agreement contracts with Nintendo and Macronix, respectively. We intend to build solid and close ties with these companies to ensure a constant supply of products.

### ● Business

**(1) Risks Associated with LSI Products**

We have adopted a fabless model in which we own neither a manufacturing plant nor equipment of our own, and instead outsource manufacturing to third parties. We outsource the manufacturing of LSI products to major foundries both in Japan and overseas.

Hence, demand and supply in the semiconductor market may affect the quantities and prices of products that we procure, and we may not be able to procure products in the quantities and at the prices that we have anticipated.

Our LSIs are used in state-of-the-art digital devices, and the pace of technological innovation in this field is rapid, so there is no guarantee that these products will continue to be used. Moreover, demand may fluctuate due to the effect of the intense completion that the end products using our LSIs are exposed to.

**(2) Risks in Strategic Investment**

In the event that we engage in strategic tie-ups, including equity participation, to accelerate the growth of our businesses, there is a possibility that the benefits that we anticipate, such as the creation of business synergies or increased earnings, may not materialize.

**(3) Research and Development**

Under the philosophy of seeking to build our business through "Innovation", coexisting with customers over the long term through "Trust", and making an ongoing contribution to society through "Creation", we have operated based on our technological development capabilities. Our competitiveness derives from "Specialization" in products for specific customers and for specific areas of application in the growing image, audio, and communication-related markets, a "Concentration" of our resources on research and development activities to provide the most advanced technologies and products to our customers, and the showing of our "Uniqueness".

We believe that we can continue to develop and introduce to the market innovative and attractive products. However, in our industry, advances in technology occur at a remarkable pace and the market may change rapidly, with technologies that were considered new suddenly becoming obsolete and new technologies and services surging in popularity. There is no assurance that we can always respond quickly to these changes and we may be required to invest a large sum in research and development. This will, in turn, likely affect our operating results.

The MegaChips Group makes every effort to develop cutting-edge technologies and to maintain competitive advantages in technologies and products. However, if other companies claim the top spot in this technological competition, it will have an impact on MegaChips' share and performance.

**(4) Recruitment**

The MegaChips Group operates based on its technological development capabilities in the areas of images, audio, and communication, and business growth depends heavily on human resources. It is, therefore, an extremely important business challenge to secure and retain excellent engineers, as well as to determine how to develop competent personnel.

The Group made several acquisitions and investments in the growing equipment market including mobile and wearable devices, and increased the pace of global development. It is vital for MegaChips to ensure and develop executives and front-line managers across all divisions in overseas subsidiaries.

We will re-establish the HR system necessary for the global human resources policy, and formulate and put into practice the development plan. However, if the number of retiring engineers increases in the future in Japan and overseas, or if the human resources globalization plan does not progress as planned, these factors might have a great impact on MegaChips' corporate value and competitiveness.

**(5) Exchange Rate Fluctuations**

A portion of our business transactions are denominated in currencies other than Japanese yen, notably US dollars. Consequently, exchange rate fluctuations, especially fluctuations in the yen/dollar rate, may affect our operating results.

The MegaChips Group uses forward currency contracts where necessary, to hedge the foreign exchange risk.

### ● Management

**(1) Defending against Acquisitions**

MegaChips believes that anti-takeover measures and the protection of shareholder interests against abusive acquirers are important management issues, although it has not set out a basic policy on control of the company. For this reason, we have been collecting information on recent acquisitions.

**(2) Accounting Auditors**

For any reason on the part of the Company, in the event that the accounting auditors violate or contravene laws or ordinances, or in the event the Company believes that the accounting auditors offended public order or morals, the Board of Statutory Auditors of the Company shall then deliberate the dismissal or non-reappointment of the account auditors, and if reappointment is not considered reasonable, shall place "no reappointment of accounting auditors" on the agenda for discussion at the General Meeting of Shareholders on the regulations of the Audit Committee.

**(3) Risk Concerning the Establishment of Internal Control Systems**

The MegaChips Group has recognized the emphasis on legal compliance and the establishment of a corporate governance system as important managerial issues. We have consequently taken steps to strengthen such corporate governance system and enhance risk management.

We also instituted fundamental policies at the meeting of the Board of Directors on internal control pursuant to the provisions of the Companies Act. Based on these policies, we have been improving our internal control systems, including those associated with financial statements, pursuant to the Financial Instruments and Exchange Act, carrying out our operations in accordance with the rules, and evaluating the results. In this way, we ensure that we manage our businesses properly and lawfully.

However, if any extraordinary event not assumed under the internal control systems that we have established were to occur, the credibility and comprehensiveness of financial reporting and information disclosure by us may not be assured. In this case, we may lose the trust of our stakeholders and we may experience a material adverse effect on our financial position and operating results.

Note, however, that no such events have occurred thus far.

**(4) Intellectual Property Rights**

As an R&D-oriented fabless enterprise, the MegaChips Group recognizes that the protection of its intellectual property rights is material to its business development.

Consequently, we have strengthened our internal system for the protection of intellectual property rights and our cooperation with patent law offices to actively file applications to register patents and trademarks and protect the products and services we offer. We simultaneously investigate the rights of other companies thoroughly, to prevent any infringements.

However, there exists no assurance that all patents or trademarks for which we file applications will be registered. Additionally, it is impossible to fully investigate the technologies and rights of other companies prior to publication thereof. If lawsuits are filed against us about infringements of the intellectual property rights of other companies, our operating results may be affected.

Original technologies independently developed by the MegaChips Group may not be fully protected by intellectual property legislation in specific countries and regions. Under such conditions, we may be unable to effectively prevent other companies from using our intellectual property without our permission and from introducing similar products into the market.

As of the date of submission of the securities report (June 23 2016), no litigation had been filed against us in respect to any intellectual property right.

# Consolidated Balance Sheets

MegaChips Corporation and its Consolidated Subsidiaries
March 31, 2015 and 2016

| ASSETS | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| **Current assets:** | | | |
| Cash and time deposits (Note 6 and 7) | ¥ 10,949,946 | ¥ 13,182,156 | $ 97,177 |
| Receivables | | | |
| Trade (Note 7) | | | |
| Notes | 15,500 | 2,196 | 137 |
| Accounts | 13,343,167 | 17,044,629 | 118,416 |
| Others | 548,065 | 639,452 | 4,863 |
| Allowance for doubtful receivables | (4,145) | (132,297) | (36) |
| Inventories (Note 11 and 12) | 5,118,308 | 5,466,318 | 45,423 |
| Deferred tax assets (Note 17) | 1,146,507 | 2,054,508 | 10,174 |
| Other current assets | 891,947 | 641,835 | 7,915 |
| Total current assets | 32,009,297 | 38,898,799 | 284,072 |
| **Property and equipment:** | | | |
| Buildings | 3,932,407 | 3,942,161 | 34,898 |
| Land | 289,638 | 289,638 | 2,570 |
| Construction in progress | 858,822 | 12,811 | 7,621 |
| Others | 7,789,348 | 7,491,925 | 69,128 |
| | 12,870,216 | 11,736,536 | 114,219 |
| Less accumulated depreciation | (9,778,361) | (9,528,224) | (86,779) |
| Total property and equipment | 3,091,855 | 2,208,311 | 27,439 |
| **Intangible assets:** | | | |
| Goodwill | 17,478,244 | 19,498,248 | 155,113 |
| Technical assets | 6,106,168 | 6,979,823 | 54,190 |
| Others (Note 13) | 2,957,620 | 1,784,269 | 26,247 |
| Total Intangible assets | 26,542,032 | 28,262,342 | 235,552 |
| **Investments and other assets:** | | | |
| Investments in securities (Note 7 and 8) | 1,173,226 | 1,808,949 | 10,412 |
| Long-term prepaid expenses | 3,086,797 | 3,516,785 | 27,394 |
| Deferred tax assets (Note 17) | 1,461,001 | 1,608,390 | 12,965 |
| Other investments | 2,569,001 | 1,527,201 | 22,799 |
| Allowance for doubtful receivables | (11,508) | — | (102) |
| Total investments and other assets | 8,278,517 | 8,461,326 | 73,469 |
| Total assets | ¥ 69,921,704 | ¥ 77,830,780 | $ 620,533 |

The accompanying Notes to the Consolidated Financial Statements are integral parts of these statements.

| LIABILITIES AND NET ASSETS | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| **Current liabilities:** | | | |
| Short-term loans payable (Note 7 and 14) | ¥ 13,394,730 | ¥ 11,701,700 | $ 118,874 |
| Current portion of long-term loans payable (Note 7) | 2,000,000 | 3,416,670 | 17,749 |
| Payables: | | | |
| Trade (Note 7) | 4,242,223 | 5,201,778 | 37,648 |
| Others (Note 7) | 2,204,063 | 6,234,046 | 19,560 |
| Accrued expenses | 1,643,012 | 1,405,827 | 14,581 |
| Income taxes payable | 337,595 | 253,972 | 2,996 |
| Provision for losses on construction contracts (Note 12) | 4,689 | 291,442 | 41 |
| Deferred tax liabilities (Note 17) | — | 304,465 | — |
| Other current liabilities | 320,416 | 373,009 | 2,843 |
| Total current liabilities | 24,146,731 | 29,182,912 | 214,294 |
| **Long-term liabilities:** | | | |
| Long-term loans payable (Note 7) | 13,000,000 | 12,000,000 | 115,370 |
| Deferred tax liabilities (Note 17) | 2,507,079 | 2,873,912 | 22,249 |
| Other long-term liabilities | 1,421,011 | 1,418,615 | 12,611 |
| Total long-term liabilities | 16,928,091 | 16,292,527 | 150,231 |
| Total liabilities | 41,074,823 | 45,475,440 | 364,526 |
| **Net assets (Note 19):** | | | |
| Shareholders' equity | | | |
| Common stock | | | |
| Authorized - 100,000,000 shares | | | |
| Issued | | | |
| 24,038,400 shares in 2015 | | | |
| 23,038,400 shares in 2016 | 4,840,313 | 4,840,313 | 42,956 |
| Capital surplus | 6,181,300 | 6,181,300 | 54,857 |
| Retained earnings | 18,950,506 | 21,754,605 | 168,179 |
| Treasury stock, at cost | | | |
| 1,689,450 shares in 2015 | | | |
| 1,609,450 shares in 2016 | (2,030,200) | (2,318,962) | (18,017) |
| Total shareholders' equity | 27,941,919 | 30,457,256 | 247,975 |
| Accumulated other comprehensive income | | | |
| Valuation difference on available-for-sale securities | (599,967) | (75,807) | (5,324) |
| Foreign currency translation adjustments | 1,412,620 | 1,758,447 | 12,536 |
| Total accumulated other comprehensive income | 812,653 | 1,682,640 | 7,212 |
| Non-controlling interests | | | |
| Non-controlling interests | 92,308 | 215,442 | 819 |
| Total net assets | 28,846,881 | 32,355,339 | 256,007 |
| Total liabilities and net assets | ¥ 69,921,704 | ¥ 77,830,780 | $ 620,533 |

The accompanying Notes to the Consolidated Financial Statements are integral parts of these statements.

# Consolidated Statements of Income and Comprehensive Income

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

| | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Net sales** | **¥ 55,662,811** | ¥ 64,237,738 | **$ 493,990** |
| **Cost of sales (Note 11 and 12)** | **39,233,920** | 45,263,445 | **348,188** |
| Gross profit | **16,428,890** | 18,974,293 | **145,801** |
| **Selling, general and administrative expenses (Note 10 and 16)** | **16,763,968** | 14,078,608 | **148,775** |
| Operating income (loss) | **(335,078)** | 4,895,684 | **(2,973)** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **7,823** | 12,091 | **69** |
| Interest expense | **(167,919)** | (95,465) | **(1,490)** |
| Borrowing fee | **(500)** | (120,500) | **(4)** |
| Provision of allowance for doubtful accounts | **—** | (120,170) | **—** |
| Foreign exchange gains | **801,191** | — | **7,110** |
| Foreign exchange losses | **—** | (1,172,620) | **—** |
| Gain on sale of investment securities | **59,647** | — | **529** |
| Loss on valuation of investment securities (Note 8) | **(161)** | (20,372) | **(1)** |
| Special retirement expenses | **(39,996)** | (130,277) | **(354)** |
| Others, net (Note 21) | **(40,974)** | (16,788) | **(363)** |
| | **619,109** | (1,664,103) | **5,494** |
| **Income before income taxes** | **284,030** | 3,231,581 | **2,520** |
| **Income taxes (Note 17):** | | | |
| Current | **781,211** | 486,220 | **6,933** |
| Deferred | **404,328** | 1,564,228 | **3,588** |
| Total income taxes | **1,185,540** | 2,050,448 | **10,521** |
| **Net income (loss)** | **(901,509)** | 1,181,132 | **(8,000)** |
| Net income (loss) attributable to: | | | |
| owners of parent | **(782,810)** | 1,251,546 | **(6,947)** |
| non-controlling interests | **(118,699)** | (70,413) | **(1,053)** |
| Other comprehensive income (Note 18) | | | |
| Valuation difference on available-for-sale securities | **(524,160)** | 69,909 | **(4,651)** |
| Foreign currency translation adjustments | **(350,261)** | 1,084,897 | **(3,108)** |
| Total other comprehensive income | **(874,421)** | 1,154,806 | **(7,760)** |
| **Comprehensive income** | **¥ (1,775,931)** | ¥ 2,335,939 | **$ (15,760)** |
| Comprehensive income attributable to: | | | |
| owners of parent | **(1,652,797)** | 2,380,639 | **(14,668)** |
| non-controlling interests | **(123,134)** | (44,700) | **(1,092)** |

| | (Yen) | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Amounts per share** | | | |
| Net income (loss) - basic | **¥ (35.24)** | ¥ 55.64 | **$ (0.31)** |
| Net income - diluted | **—** | — | **—** |
| Cash dividends | **34.00** | 34.00 | **0.30** |

The accompanying Notes to the Consolidated Financial Statements are integral parts of these statements.

# Consolidated Statements of Changes in Net Assets

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

| | Number of shares of common stock issued | Thousands of yen: Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2014** | 24,038,400 | ¥ 4,840,313 | ¥ 6,181,300 | ¥ 21,296,923 | ¥ (1,055,975) | ¥ (145,716) | ¥ 699,263 | ¥ — | ¥ 31,816,109 |
| Cash dividends paid - ¥ 34.00 per share | | | | (793,864) | | | | | (793,864) |
| Net income (loss) attributable to owners of parent | | | | 1,251,546 | | | | | 1,251,546 |
| Purchase of treasury shares | | | | | (1,262,987) | | | | (1,262,987) |
| Valuation difference on available-for-sale securities | | | | | | 69,909 | | | 69,909 |
| Foreign currency translation adjustments | | | | | | | 1,059,183 | | 1,059,183 |
| Changes in non-controlling interests | | | | | | | | 215,442 | 215,442 |
| **Balance at March 31, 2015** | 24,038,400 | 4,840,313 | 6,181,300 | 21,754,605 | (2,318,962) | (75,807) | 1,758,447 | 215,442 | 32,355,339 |
| Cash dividends paid - ¥ 34.00 per share | | | | (759,864) | | | | | (759,864) |
| Net income (loss) attributable to owners of parent | | | | (782,810) | | | | | (782,810) |
| Purchase of treasury shares | | | | | (972,662) | | | | (972,662) |
| Retirement of treasury shares | (1,000,000) | | | (1,261,424) | 1,261,424 | | | | — |
| Valuation difference on available-for-sale securities | | | | | | (524,160) | | | (524,160) |
| Foreign currency translation adjustments | | | | | | | (345,826) | | (345,826) |
| Changes in non-controlling interests | | | | | | | | (123,134) | (123,134) |
| **Balance at March 31, 2016** | **23,038,400** | **¥ 4,840,313** | **¥ 6,181,300** | **¥ 18,950,506** | **¥ (2,030,200)** | **¥ (599,967)** | **¥ 1,412,620** | **¥ 92,308** | **¥ 28,846,881** |

| | Thousands of U.S. dollars (Note 1): Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2015** | $ 42,956 | $ 54,857 | $ 193,065 | $ (20,580) | $ (672) | $ 15,605 | $ 1,911 | $ 287,143 |
| Cash dividends paid - $ 0.30 per share | | | (6,743) | | | | | (6,743) |
| Net income (loss) attributable to owners of parent | | | (6,947) | | | | | (6,947) |
| Purchase of treasury shares | | | | (8,632) | | | | (8,632) |
| Retirement of treasury shares | | | (11,194) | 11,194 | | | | — |
| Valuation difference on available-for-sale securities | | | | | (4,651) | | | (4,651) |
| Foreign currency translation adjustments | | | | | | (3,069) | | (3,069) |
| Changes in non-controlling interests | | | | | | | (1,092) | (1,092) |
| **Balance at March 31, 2016** | **$ 42,956** | **$ 54,857** | **$ 168,179** | **$ (18,017)** | **$ (5,324)** | **$ 12,536** | **$ 819** | **$ 256,007** |

The accompanying Notes to the Consolidated Financial Statements are integral parts of these statements.

# Consolidated Statements of Cash Flows

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

| | Thousands of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | **¥ 284,030** | ¥ 3,231,581 | **$ 2,520** |
| Adjustments for: | | | |
| Depreciation and amortization | **2,975,408** | 2,014,427 | **26,405** |
| Amortization of goodwill | **1,977,901** | 128,954 | **17,553** |
| Increase (decrease) in allowance for doubtful accounts | **5,806** | 131,237 | **51** |
| Increase (decrease) in accrued employee bonuses | **(135,478)** | 30,567 | **(1,202)** |
| Increase (decrease) in provision for losses on construction contracts | **(286,752)** | (171,285) | **(2,544)** |
| Interest and dividend income | **(7,823)** | (12,091) | **(69)** |
| Interest expense | **167,919** | 95,465 | **1,490** |
| Foreign exchange losses (gains) | **107,532** | (64,599) | **954** |
| Gain on sale of investment securities | **(59,647)** | — | **(529)** |
| Loss on valuation of investment securities | **161** | 20,372 | **1** |
| Change in assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables (trade) | **3,401,793** | (1,412,280) | **30,189** |
| Inventories | **288,425** | 843,206 | **2,559** |
| Other current assets | **164,597** | 499,427 | **1,460** |
| Increase (decrease) in: | | | |
| Payables (trade) | **(658,946)** | 269,730 | **(5,847)** |
| Other current liabilities | **(3,131,638)** | 293,001 | **(27,792)** |
| Other, net | **42,977** | (31,748) | **381** |
| | **5,136,267** | 5,865,966 | **45,582** |
| Interest and dividends received | **7,933** | 12,646 | **70** |
| Interest paid | **(152,634)** | (78,180) | **(1,354)** |
| Income taxes paid | **(719,555)** | (47,585) | **(6,385)** |
| Net cash provided by operating activities | **4,272,011** | 5,752,847 | **37,912** |
| **Cash flows from investing activities:** | | | |
| Purchase of property and equipment | **(1,385,282)** | (665,270) | **(12,293)** |
| Purchase of intangible assets | **(1,911,967)** | (514,072) | **(16,968)** |
| Proceeds from sales of investment securities | **65,517** | — | **581** |
| Payment of loans receivable | **(19,641)** | (1,218,766) | **(174)** |
| Payment for long-term prepaid expenses | **(1,544,695)** | (1,067,091) | **(13,708)** |
| Proceeds from investments in subsidiaries resulted in consolidation (Note 6) | **—** | 86,622 | **—** |
| Purchase of investments in subsidiaries resulted in consolidation (Note 6) | **—** | (19,510,589) | **—** |
| Payments for transfer of business (Note 6) | **—** | (1,157,153) | **—** |
| Other, net | **(1,159,509)** | (654,241) | **(10,290)** |
| Net cash used in investing activities | **(5,955,579)** | (24,700,562) | **(52,853)** |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | **1,767,930** | 11,701,700 | **15,689** |
| Proceeds from long-term loans payable | **3,000,000** | 14,000,000 | **26,624** |
| Repayment of long-term loans payable | **(3,416,670)** | (2,833,332) | **(30,321)** |
| Purchase of treasury shares | **(972,662)** | (1,262,987) | **(8,632)** |
| Cash dividends paid | **(758,036)** | (790,955) | **(6,727)** |
| Net cash provided by (used in) financing activities | **(379,438)** | 20,814,424 | **(3,367)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(232,940)** | 720,929 | **(2,067)** |
| **Net increase (decrease) in cash and cash equivalents** | **(2,295,947)** | 2,587,638 | **(20,375)** |
| **Cash and cash equivalents at beginning of year** | **13,028,308** | 10,440,669 | **115,622** |
| **Cash and cash equivalents at end of year (Note 6)** | **¥ 10,732,361** | ¥ 13,028,308 | **$ 95,246** |

*Important noncash transactions: Retirement of treasury stock ¥1,261,424 thousand ($11,194 thousand) in 2016
*The accompanying Notes to the Consolidated Financial Statements are integral parts of these statements.

# Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of MegaChips Corporation and its consolidated subsidiaries ("the Company") has been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, as required under "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18) issued and revised by the Accounting Standards Board of Japan ("ASBJ"). In this case, adjustments for the following four items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit plans recognized outside profit and loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2016, which was ¥112.68 to US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain 2015 consolidated financial statement items have been reclassified in order to conform to the presentation for 2016.

As permitted, amounts of less than 1,000 yen are omitted in the presentations for 2015 and 2016. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

## 2. Significant accounting policies

### (1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and ten subsidiaries over which the Company has power of control through substantial ownership or the existence of certain other conditions evidencing control by the Company.

The names of the significant subsidiaries are Shun Yin Investment Ltd., MegaChips Technology America Corporation, MegaChips Taiwan Corporation, MegaChips Corporation, China, Modiotek Co., Ltd. and SiTime Corporation.

There are no non-consolidated subsidiaries. Although there were three non-consolidated subsidiaries in the previous fiscal year, all of them have been liquidated in the fiscal year ended March 31, 2016.

There are no equity method affiliates.

The assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

All significant intercompany transactions and accounts have been eliminated.

For the year ended March 31, 2016, Shun Yin Investment Ltd., MegaChips Corporation, China, Modiotek Co., Ltd. and SiTime Corporation were included based on a fiscal year that ended on December 31. These subsidiaries did not prepare for consolidation purposes financial statements that corresponded with the fiscal year of the Company.

For the consolidated subsidiaries with a fiscal year-end different from that of the Company, if significant transactions occurred between their fiscal year-end and that of the Company, necessary adjustments were made to reflect the transactions in the consolidated financial statements.

### (2) Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase and that carry insignificant risk of change in value are considered to be cash and cash equivalents.

### (3) Allowance for doubtful receivables

The allowance for doubtful receivables is stated at an amount based principally on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

### (4) Inventories

Work-in-process relating to contract work is stated at cost determined by the specific identification method, while other work-in-process is stated at cost determined by the first-in, first-out method. Other inventories are stated mainly at cost determined by the moving average method or the first-in, first-out method. Inventories are reviewed for their decrease in profitability and are written-down as necessary based on the results of the review.

### (5) Securities and investments

Available-for-sale securities with readily determinable fair market values are stated at fair market value, and unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. The cost of sales of such securities is computed using moving average method. Available-for-sale securities without readily determinable fair market values are stated at an amount determined by the moving average method.

Investments in business partnerships are increased by earnings, decreased by losses and distributions form the business partnerships and included in investment securities.

If the market value of equity securities or available-for-sales securities, including investments in business partnerships, declines significantly and is not expected to recover, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of equity securities or available-for-sales securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly and is not expected to recover.

### (6) Property and equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining balance method based on the estimated useful life of the asset. Depreciation of property and equipment acquired before March 31, 2007 is based on a previous declining balance method using a fixed percentage of diminishing value.

The principle estimated useful lives are as follows:

| | 2016 | 2015 |
|---|---|---|
| Buildings | **3 to 50 years** | 3 to 50 years |
| Others | **2 to 20 years** | 2 to 20 years |

### (7) Intangible assets

Capitalized costs of internal use software are amortized by the straight-line method over the estimated useful life of mainly 5 years.

Capitalized costs of software product masters to be sold are amortized by the straight-line method over the estimated future sales period of mainly 3 years.

Amortization of other intangible assets is computed by the straight-line method.

### (8) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of effect (5 to 10 years).

### (9) Long-term prepaid expenses

Long-term prepaid expenses are amortized by the straight-line method.

Certain post-development stage expenses related to the initial mass production of new products are amortized by the straight-line method over the estimated future sales period of 3 years.

### (10) Bonuses

Accrued liabilities for employee bonuses as of the balance sheet date are based on the estimated amounts to be paid in the future.

### (11) Provision for loss on construction contracts

When total cost of construction is likely to exceed total revenue and the amount can be reasonably estimated, the Company records any amount estimated to exceed the total construction revenue as provision for loss on construction contracts.

### (12) Basis for recording revenue on engineering contracts

The percentage-of-completion method is applied to engineering contracts for which the outcome is deemed certain by the end of the fiscal year. The percentage of construction completed is estimated using the ratio of the actual cost incurred to the total estimated cost.

The completed contract method is applied to other construction contracts that do not meet the above criteria.

### (13) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The asset / liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

### (14) Translation of foreign currencies

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Assets and liabilities and income and expenses of foreign subsidiaries are translated into Japanese yen at the year-end rates. Net assets of foreign subsidiaries are translated into Japanese yen at historical rates. The translation differences arising from the use of different rates are recognized as foreign currency translation adjustments in the consolidated balance sheets.

### (15) Per share amounts of net income and cash dividends

The computation of per share shown in the consolidated statements of income and statements of comprehensive income is based upon the weighted average number of issued shares outstanding during each period. As there was no dilutive stock outstanding during the years, the computation of diluted per share was not calculated.

Cash dividends per share shown in the consolidated statements of income and statements of comprehensive income represent actual amounts applicable to earnings in the respective fiscal year, including dividends to be paid after the end of the period.

## 3. Changes in accounting policies

### (1) Application of the Accounting Standard for Business Combinations, etc.

Starting from the current fiscal year ended March 31, 2016, the Company has adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013, hereinafter the "Business Combinations Accounting Standard") the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013, hereinafter the "Consolidated Financial Statements Accounting Standard"), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013, hereinafter the "Business Divestitures Accounting Standard"). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, for business combinations conducted after the beginning of the fiscal year ended March 31, 2016, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

The Company applied these standards in accordance with the transitional treatment prescribed in Article 58-2(4) of the Business Combinations Accounting Standard, Article 44-5(4) of the Consolidated Financial Statements Accounting Standard and Article 57-4(4) of the Business Divestitures Accounting Standard and applied these standards from the beginning of the current fiscal year, prospectively.

The changes have had no impact on the consolidated financial statements.

### (2) Change in the method for valuating inventories

The Company in the past applied mainly the cost method, using the weighted average method or the first-in first-out method to valuate inventories (excluding work in process). As the Company introduced a new enterprise system, it reviewed the valuation method to better calculate inventory values and to improve operational efficiency and, as a result, changed the valuation method. Starting with the fiscal year ended March 31, 2016, the Company is applying mainly the cost method, using the moving average method or the first-in first-out method.

Because the effect of the change is minor, the Company has not apply the new method retroactively.

## 4. Changes in presentation method

### Consolidated balance sheets

"Construction in progress," which had been presented in "Others" of property and equipment in the previous fiscal year, is separately presented in the fiscal year ended March 31, 2016 as its quantitative importance has increased. To conform to the current presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥7,504,736 thousand presented in "Others" of property and equipment in the consolidated balance sheets for the previous fiscal year has been reclassified into ¥12,811 thousand in "Construction in progress" and ¥7,491,925 thousand in "Others".

## 5. Additional information

### Capitalizing manufacturing costs of reticles in fixed assets

The Company historically recorded the manufacturing costs for reticles (the original glass mask plates of LSI circuits used for manufacturing LSIs) as research and development expenses (or cost of sales in the case of commissioned research and development) as part of its research and development activities. However, reticles became more important in the manufacturing of LSIs and have increased beyond their role in research and development activities.

It has also become clear that the consideration required for manufacturing and acquiring reticles has the nature of manufacturing costs for LSIs due to the expansion in the production of LSIs associated with the recent development of the ASSP business, changes in the business environment such as rising manufacturing costs of reticles with the miniaturization of LSIs and the reduction in development failures due to the improvement in design accuracy in the development of reticles.

As a result, the Company has decided to capitalize the consideration required for manufacturing and acquiring reticles in "Others" of property and equipment from the second quarter of the fiscal year ended March 31, 2016 and allocate it to cost of products manufactured through depreciation.

As a result of the change in accounting, gross profit increased ¥665,584 thousand (US$5,906 thousand), and operating income and income before income taxes rose ¥1,007,511 thousand (US$8,941 thousand). The description of the impact on segment information is omitted as the Company has a single business segment.

## 6. Cash and cash equivalents

(1) The reconciliation between the closing balance of cash and cash equivalents on the consolidated statements of cash flows and the amount of cash and deposits on the consolidated balance sheets were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cash and time deposits – balance sheets | **¥ 10,949,946** | ¥ 13,182,156 | **$ 97,177** |
| Time deposits with maturity dates longer than 3 months | **(217,585)** | (153,848) | **(1,930)** |
| Cash and cash equivalents – statements of cash flows | **¥ 10,732,361** | ¥ 13,028,308 | **$ 95,246** |

(2) Assets and liabilities of subsidiaries that newly consolidated as a result of an acquisition of shares in the fiscal year ended March 31, 2015

Assets and liabilities of Modiotek Co., Ltd., newly consolidated as a result of the acquisition of its shares, and the relationship between the acquisition cost and the cash proceeds (net amount) due to the acquisition were as follows:

| | Thousands of yen |
|---|---|
| | 2015 |
| Current assets | ¥ 816,946 |
| Fixed assets | 36,351 |
| Goodwill | 129,112 |
| Current liabilities | (43,628) |
| Non-controlling interests | (224,991) |
| Acquisition cost | 713,790 |
| Cash and cash equivalents of Modiotek Co., Ltd. | 800,412 |
| Difference: Cash proceeds due to the acquisition | ¥ 86,622 |

Assets and liabilities of Magic Pixel Inc., newly consolidated as a result of the acquisition of its shares, and the relationship between the acquisition cost and the expenditure (net amount) were as follows:

| | Thousands of yen |
|---|---|
| | 2015 |
| Current assets | ¥ 108,337 |
| Fixed assets | 35,746 |
| Goodwill | 53,138 |
| Current liabilities | (26,085) |
| Long-term liabilities | (3,441) |
| Non-controlling interests | (38,603) |
| Acquisition cost | 129,092 |
| Cash and cash equivalents of Magic Pixel Inc. | 8,875 |
| Difference: Expenditure for the acquisition | ¥ 120,217 |

Assets and liabilities of SiTime Corporation, newly consolidated as a result of the acquisition of its shares, and the relationship between the acquisition cost and the expenditure (net amount) were as follows:

| | Thousands of yen |
|---|---|
| | 2015 |
| Current assets | ¥ 6,489,577 |
| Fixed assets | 7,326,612 |
| Goodwill | 17,506,072 |
| Current liabilities | (5,117,917) |
| Long-term liabilities | (2,873,912) |
| Acquisition cost | 23,330,432 |
| Accounts payable - cost directly related to the acquisition of shares | 203,621 |
| Cash and cash equivalents of SiTime Corporation | 3,736,438 |
| Difference: Expenditure for the acquisition | ¥ 19,390,372 |

(3) Assets and liabilities acquired in the acquisition of business in the fiscal year ended March 31, 2015

Assets and liabilities acquired in the acquisition of the "Smart Connectivity business based on DisplayPort technology" at MegaChips Technology America Corporation, a consolidated subsidiary, were as follows:

| | Thousands of yen |
|---|---|
| | 2015 |
| Fixed assets | ¥ 678,590 |
| Goodwill | 1,743,462 |
| Acquisition cost | 2,422,052 |
| Expenditures in the previous fiscal year | 1,286,500 |
| Translation gain or loss | (21,601) |
| Difference: Expenditure due to the acquisition of business | ¥ 1,157,153 |

## 7. Financial Instruments

### (1) Status of financial instruments

**(i) Policies for the handling of financial instruments**

To improve the efficiency with which funds are used while applying appropriate risk control, the Company has adopted basic policies by which they concentrate the use of funds on their main business activities, refrain from speculative fund management, and invest in financial instruments only after the details of the products and risks involved are clearly understood by fully evaluating the historical performance and any potential impact.

The financial Instruments in which the Company invests are limited to bank deposits and governmental and corporate bond investment trusts in which the principal is appropriately protected and for which the liquidity is high, with lower credit and market risks. The Company does not invest in financial instruments such as derivatives that carry significant investment risks. To minimize risks associated with fund management, the Company manages funds in accordance with internal rules that stipulate strict investment rules, including those for limiting investment amounts, restrictions on investment periods, and rating standards.

Furthermore, to reduce risks of fluctuations in foreign exchange rates over certain receivables and payables denominated in foreign currencies, resulting from normal business transactions, the Company uses foreign exchange forward contracts in accordance with internal rules that stipulate the risk management structure and policies.

While the Company maintains sufficient funds to make payments on obligations arising from unexpected developments, they also maintain an appropriate level of funds for working capital. To meet their needs for working capital, the Company raises funds, when necessary, but within established limits for borrowings from financial institutions and limits for the sale of their accounts receivable. The Company determines their funding strategies each fiscal year by taking into account certain factors such as their business performance, their funding requirements and the efficiency of other alternative methods of funding.

**(ii) Details and risks of financial instruments**

Cash and deposits are mainly deposited in the current checking accounts at banks, primarily for use as working capital. These major banks present almost no credit risks as their credibility is very high.

Notes and accounts receivable and trade receivables are exposed to the credit risk of customers. 52.5% of the operating receivables at the end of the fiscal year ended March 31, 2016, (53.0% as at the end of the previous fiscal year) were due from Nintendo Co.,Ltd.. Considering their operating results and credit status, the credit risk associated with these receivables is believed to be minimal.

Investment securities are categorized as available-for-sale securities and consist mainly of stocks held for investment and investment securities held for maintaining partnerships. All of these investments have been made to collect information on present and future business partners about future business development with the aim of achieving synergies and improving corporate value. Therefore, if the business policies of the Company or those of the issuing company change, there is a risk that the initial plans may not be realized.

In addition, among shares held by the Company, listed equity securities are exposed to market risk, while unlisted equity securities may be impaired if the value of the issuing companies falls because of poor business performance or a deteriorating financial situation. Of all investment securities held as of the end of the current fiscal year, shares held by subsidiaries accounted for 88.3% (85.6% as at the end of the previous fiscal year).

All trade payables are due within one year.

Short-term loans payable comprise mainly funds borrowed to finance business transactions, while the current portion of long-term loans payable and long-term loans payable comprise mainly funds borrowed to finance investment in business activities.

Trade receivables and trade payables denominated in foreign currencies recognized as a result of normal business transactions are exposed to the risks of fluctuations in foreign exchange rates. The Company seeks to reduce these risks by using foreign exchange forward contracts when necessary for the amount after considering the net position of accounts receivable-trade and accounts payable-trade denominated in the same foreign currency.

**(iii) Risk management system**

a. Credit risk

Credit risk is defined as the risk of incurring losses as a result of a decline in value of financial assets due to credit events (reasons) such as dishonored checks or bankruptcy as a result of a deterioration in the financial conditions of business partners or issuing companies. To maintain sound assets, the Accounting Department, the Finance Department and the Operating Department of the Company control the due dates associated with and the outstanding balances of individual customers. The Company has also developed a system in which credit screening, credit control and asset control are consistently carried out in accordance with the relevant accounting and sales management rules. In addition, the Company evaluates their assets in accordance with the accounting standards and other related rules for impairment and valuation allowances as necessary.

b. Market risk

Market risk is defined as the risk of the Company incurring losses due to changes in the fair market value of financial instruments as a result of fluctuations in interest rates, foreign exchange rates and stock prices. It is a general term for risks associated with assets and liabilities with interest rate fluctuation risk, exchange rate fluctuation risk or stock price fluctuation risk.

In accordance with its accounting rules and cash management rules, the Finance Department regularly monitors the fair market value and the financial condition of issuing companies. It also regularly reviews its investment policies by obtaining information about business plans and other relevant matters. The Finance Department also monitors trends in interest rates, foreign exchange rates and stock prices in an effort to reduce the market risks associated with the Company's assets and liabilities.

In general, the Company does not make investments as part of fund management in financial products that involve risks related to fluctuations in stock prices or foreign exchange rates. However, in accordance with foreign exchange risk management rules, the Company uses foreign exchange forward contracts and other derivatives when necessary in managing risks of fluctuations in foreign exchange rates related to certain receivables and payables denominated in foreign currencies related to normal business transactions.

c. Liquidity risk

Liquidity risk is defined as the risk of the Company incurring losses due to a shortage of available cash as a result of the Company's inability to raise funds because of a deterioration in their financial situation or other reason or incurring loss if they are forced to accept significantly worse than usual funding conditions. By constantly monitoring the management of funds and regularly preparing and updating funding plans, the Finance Department ensures that the Company maintains an appropriate level of funds, including sufficient funds to meet obligations that may arise from unexpected developments. As a measure to respond to liquidity risk, the Company has also established credit lines and overdraft agreements with their banks. No financial covenants are attached to these overdraft agreements.

**(iv) Supplementary explanation concerning the fair market value, etc., of financial instruments**

In addition to values based on market prices, the fair market values of financial instruments include values that are reasonably computed when there are no market prices available. When making such computations, various factors are taken into account. When these conditions change, the fair market values may vary.

## (2) Matters concerning the fair market values of financial instruments

Information about figures for financial instruments presented in the consolidated balance sheets, related fair values and their differences as of March 31, 2015 and March 31, 2016 are set forth in the tables below. Items whose fair market values were considered very difficult to determine are not presented in the tables.

**(Cash and time deposits)**

Because cash and time deposits are highly liquid, the fair market value is similar to the book value. Consequently, the fair market value of cash and time deposits is based on book value.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 10,949,946** | ¥ 13,182,156 | **$ 97,177** |
| Fair value | **10,949,946** | 13,182,156 | **97,177** |
| Difference | **¥ —** | ¥ — | **$ —** |
| Due in one year or less | **¥ 10,949,946** | ¥ 13,182,156 | **$ 97,177** |

**(Trade receivables)**

Because trade receivables are due in a short period of time, the fair market value is similar to the book value. Consequently, the fair market value of trade receivables is based on book value. Allowance for doubtful receivables associated with trade receivables has been deducted.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 13,354,522** | ¥ 17,034,699 | **$ 118,517** |
| Fair value | **13,354,522** | 17,034,699 | **118,517** |
| Difference | **¥ —** | ¥ — | **$ —** |
| Due in one year or less | **¥ 13,358,667** | ¥ 17,035,857 | **$ 118,554** |

(Note) Claims provable in bankruptcy, claims provable in corporate rehabilitation procedures and other are not included in due in one year or less as the expected amount of redemption cannot be anticipated.

**(Investments in securities)**

The fair values of shares, etc., are based on market prices

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 1,096,721** | ¥ 1,709,333 | **$ 9,733** |
| Fair value | **1,096,721** | 1,709,333 | **9,733** |
| Difference | **¥ —** | ¥ — | **$ —** |

(Note) The above table includes securities for investments in business partnerships.

Financial instruments whose fair value was considered to be very difficult to determine are shown below. These financial instruments do not have a fair market value, and it is considered very difficult to determine one because future cash flows cannot be estimated. As a result, these financial instruments are not included in the above table.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Available-for-sale securities | | | |
| Non-listed equity securities | **¥ 55,594** | ¥ 69,216 | **$ 493** |
| Non-listed bonds | **369** | 682 | **3** |
| Others | **20,541** | 29,717 | **182** |

(Note) The above table includes securities for investments in business partnerships.

**(Trade payables)**

Because trade payables are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of trade payables is based on book value.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 4,242,223** | ¥ 5,201,778 | **$ 37,648** |
| Fair value | **4,242,223** | 5,201,778 | **37,648** |
| Difference | **¥ —** | ¥ — | **$ —** |

**(Short-term loans payable)**

Because short-term loans payable are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of short-term loans payable is based on book value.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 13,394,730** | ¥ 11,701,700 | **$ 118,874** |
| Fair value | **13,394,730** | 11,701,700 | **118,874** |
| Difference | **¥ —** | ¥ — | **$ —** |
| Due in one year or less | **¥ 13,394,730** | ¥ 11,701,700 | **$ 118,874** |

**(Accounts payable - other)**

Because accounts payable - other are due in short period of time, the fair value is similar to the book value. Consequently, the fair value of accounts payable - other is based on book value.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 2,204,063** | ¥ 6,234,046 | **$ 19,560** |
| Fair value | **2,204,063** | 6,234,046 | **19,560** |
| Difference | **¥ —** | ¥ — | **$ —** |

**(Long-term loans payable, including the current portion of long-term loans payable)**

The fair value of long-term loans payable is calculated by discounting the sum of repayment of principal and interest to be paid using the hypothetical interest rate assumed applicable to new borrowing on similar conditions.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Figures presented in the consolidated balance sheets | **¥ 15,000,000** | ¥ 15,416,670 | **$ 133,120** |
| Fair value | **15,053,434** | 15,483,938 | **133,594** |
| Difference | **¥ 53,434** | ¥ 67,268 | **$ 474** |
| Long-term loans payable due within one year | **¥ 2,000,000** | ¥ 3,416,670 | **$ 17,749** |
| Long-term loans payable due after one year but within two years | **5,000,000** | 2,000,000 | **44,373** |
| Long-term loans payable due after two years but within three years | **2,000,000** | 2,000,000 | **17,749** |
| Long-term loans payable due after three years but within four years | **2,000,000** | 2,000,000 | **17,749** |
| Long-term loans payable due after four years but within five years | **2,000,000** | 2,000,000 | **17,749** |
| Long-term loans payable due after five years | **2,000,000** | 4,000,000 | **17,749** |

## 8. Securities

(1) The following tables summarize the costs and carrying amounts (the fair values) of and the unrealized gains and losses on equity securities classified as available-for-sale securities for which fair values were available at March 31, 2016 and March 31, 2015:

**(i) Securities with unrealized gains**

(Equity securities)

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cost | **¥ 4,750** | ¥ 22,494 | **$ 42** |
| Carrying amount | **57,475** | 162,171 | **510** |
| Unrealized gains | **¥ 52,725** | ¥ 139,676 | **$ 467** |

(Note) The above table includes securities which are included in investments in business partnerships.

**(ii) Securities with unrealized losses**

(Equity securities)

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cost | **¥ 1,681,669** | ¥ 1,727,411 | **$ 14,924** |
| Carrying amount | **1,039,246** | 1,547,161 | **9,222** |
| Unrealized losses | **¥ (642,423)** | ¥ (180,250) | **$ (5,701)** |

(2) Total sales, gains and losses realized for available-for-sale securities for the year ended March 31, 2016 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Amount of sales | **¥ 65,517** | ¥ — | **$ 581** |
| Total gain on sales | **59,647** | — | **529** |
| Total loss on sales | **—** | — | **—** |

(3) If the market value at the end of the period declines by 50% or more from the book value, the Company writes down the book value of available-for-sale securities, recognizing impairment loss. If the market value declines by 30% to 50%, the Company write down the book value by the amount that is deemed necessary, taking into consideration the significance of the amount and the possibility of its recovery. The amount of impairment loss in available-for-sale securities in the fiscal years ended March 31, 2016 and March 31, 2015 was as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Loss on valuation of investment securities | **¥ 161** | ¥ 20,372 | **$ 1** |

(4) Investment securities in non-consolidated subsidiaries as of March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Investment securities (shares) | **¥ —** | ¥ 2,083 | **$ —** |

(5) Assets that were provided as collateral as of March 31, 2015 were as follows. The shares have been returned on April 30, 2015.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Shares in consolidated subsidiaries eliminated for consolidation | **¥ —** | ¥ 23,330,432 | **$ —** |

## 9. Derivative transactions

The details of derivative transactions have been omitted in the disclosure because they are not significant to the Company.

## 10. Retirement benefits

### (1) Summary of retirement benefits systems

The Company has adopted a prepaid retirement benefit system and a defined contribution plan system.

### (2) Matters concerning retirement benefit expenses

Payments of prepaid retirement allowances and contributions for the defined contribution plan system for the years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Retirement benefit expenses | **¥ 372,952** | ¥ 328,665 | **$ 3,309** |

## 11. Inventories

(1) Inventories at March 31, 2016 and March 31, 2015 consisted of the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Finished products | **¥ 2,019,432** | ¥ 2,087,683 | **$ 17,921** |
| Raw materials | **1,003,493** | 667,775 | **8,905** |
| Work-in-process | **2,092,163** | 2,707,564 | **18,567** |
| Supplies | **3,219** | 3,295 | **28** |
| Total | **¥ 5,118,308** | ¥ 5,466,318 | **$ 45,423** |

(2) A reduction of book value due to a decline in the profitability of inventories held for the purpose of ordinary sale for the years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cost of sales | **¥ 301,160** | ¥ 89,856 | **$ 2,672** |

## 12. Provision for losses on construction contracts

(1) Inventories related to construction contracts that are likely to incur losses and the provision for losses on construction contracts are presented on a gross base. The amount equivalent to the provision for losses on construction contracts included in inventories that are likely to incur losses as of March 31, 2016 and 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Inventories | ¥ — | ¥ 53,620 | $ — |

(2) The provision for losses on construction contracts (negative figures presenting reversal of provision for loss on construction contracts) included in the cost of sales for the fiscal years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Cost of sales | ¥ (286,752) | ¥ (171,285) | $ (2,544) |

## 13. Intangible assets

Other intangible assets at March 31, 2016 and March 31, 2015 consisted of the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Computer software | ¥ 2,339,709 | ¥ 810,905 | $ 20,764 |
| Patent rights | 92,656 | 152,147 | 822 |
| Others | 525,254 | 821,216 | 4,661 |
| Total | ¥ 2,957,620 | ¥ 1,784,269 | $ 26,247 |

## 14. Short-term debt

(1) In order to achieve efficient financing, the Company has entered into overdraft agreements with certain financial institutions. The status of these agreements at March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Maximum overdraft amount | ¥ 24,000,000 | ¥ 30,000,000 | $ 212,992 |
| Credit line used | 10,700,000 | 10,500,000 | 94,959 |
| Available credit line | ¥ 13,300,000 | ¥ 19,500,000 | $ 118,033 |

(2) Debt secured by collateral (see Note 8(5)) as of March 31, 2015 was as follows. The debt has been repaid on April 30, 2015.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Short-term loans payable | ¥ — | ¥ 6,000,000 | $ — |

## 15. Leases

Future lease payments required under non-cancelable operating lease transactions in the fiscal years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Due within one year | **¥ 441,265** | ¥ 191,361 | **$ 3,916** |
| Thereafter | **345,124** | 430,563 | **3,062** |
| Total | **¥ 786,389** | ¥ 621,924 | **$ 6,978** |

## 16. Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses for the years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Research and development expenses | **¥ 5,956,381** | ¥ 7,320,313 | **$ 52,861** |

## 17. Income taxes

Japan's statutory tax rate related to income was 33.0% for the fiscal year ended March 31, 2016 and 35.6% for the fiscal year ended March 31, 2015.

(1) Significant components of the Company's deferred tax assets and liabilities as of March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Deferred tax assets:** | | | |
| Accrued bonuses | **¥ 159,043** | ¥ 228,319 | **$ 1,411** |
| Provision for losses on construction contracts | **1,444** | 95,757 | **12** |
| Enterprise taxes | **26,883** | 22,787 | **238** |
| Accrued legal welfare expenses | **26,449** | 33,417 | **234** |
| Valuation loss on inventory | **195,224** | 67,232 | **1,732** |
| Excess software costs | **550,620** | 713,951 | **4,886** |
| Excess long-term prepaid expenses costs | **6,087** | 20,886 | **54** |
| Directors' and corporate auditors' severance benefits | **9,220** | 9,715 | **81** |
| Loss on write-down of investment securities | **80,138** | 45,640 | **711** |
| Tax losses carried forward | **8,928,290** | 2,400,239 | **79,235** |
| Others | **1,141,328** | 564,479 | **10,128** |
| **Total deferred tax assets** | **11,124,731** | 4,202,428 | **98,728** |
| **Valuation allowance** | **(8,407,811)** | (469,138) | **(74,616)** |
| **Deferred tax assets** | **2,716,920** | 3,733,289 | **24,111** |

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Deferred tax liabilities:** | | | |
| Valuation difference on available-for-sale securities | **(18,890)** | (51,488) | **(167)** |
| Mark-to-market valuation difference of consolidated subsidiaries upon acquisition | **(2,507,079)** | (3,178,377) | **(22,249)** |
| Others | **(90,521)** | (18,902) | **(803)** |
| **Total deferred tax liabilities** | **(2,616,491)** | (3,248,768) | **(23,220)** |
| **Net deferred tax assets** | **¥ 100,428** | ¥ 484,521 | **$ 891** |

(Note) Net deferred tax assets in the proceeding table are classified as follows in the accompanying consolidated balance sheets.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Current assets - Deferred tax assets | **¥ 1,146,507** | ¥ 2,054,508 | **$ 10,174** |
| Investments and other assets - Long-term deferred tax assets | **1,461,001** | 1,608,390 | **12,965** |
| Current liabilities - Deferred tax liabilities | **—** | (304,465) | **—** |
| Long-term liabilities - Long-term deferred tax liabilities | **(2,507,079)** | (2,873,912) | **(22,249)** |

(2) The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for the years ended March 31, 2016 and March 31, 2015.

| | % | |
|---|---|---|
| | **2016** | 2015 |
| Statutory tax rate | **33.0** | 35.6 |
| (Reconciliation) | | |
| Expenses permanently non-deductible | **19.9** | 3.0 |
| Dividend income permanently excluded from taxable income | **—** | (0.0) |
| Inhabitants per capita taxes | **4.3** | 0.3 |
| Effect of foreign tax | **114.8** | 1.4 |
| Tax credit for research and development expenses | **(19.5)** | (2.8) |
| Amortization of goodwill | **209.1** | 1.4 |
| Increase (decrease) in valuation allowance | **19.7** | 11.0 |
| Effect of tax rate changes | **40.2** | 9.5 |
| Withholding taxes, etc., on dividends, etc., from foreign subsidiaries | **—** | 3.3 |
| Others | **(4.1)** | 0.7 |
| Effective tax rate | **417.4** | 63.5 |

(3) Revisions of deferred tax assets and liabilities due to changes in income tax rates

The Act on Partial Revision of the Income Tax Act (Act No.15 of 2016) and the Act on Partial Revision of the Local Tax Act (Act No. 13 of 2016) were enacted in the Diet on March 29, 2016, and it has been decided that corporate tax rates, etc., will be reduced from the fiscal year starting on April 1, 2016. As a result, the effective legal tax rates used for calculating deferred tax assets and deferred tax liabilities will be changed from 32.2% to 30.8% pertaining to temporary differences that are expected to be eliminated in the fiscal year starting from April 1, 2016 and the fiscal year starting from April 1, 2017 and to 30.6% pertaining to temporary differences that are expected to be eliminated in the fiscal year starting from April 1, 2018, respectively.

As a result of the change in tax rates, deferred tax assets (the amount after deducting deferred tax liabilities) decreased by ¥113,195 thousands (US$1,004 thousands), while income taxes-deferred and valuation difference on available-for-sale securities have increased by ¥114,059 thousand (US$1,012 thousand) and ¥864 thousand (US$7 thousand), respectively.

## 18. Other comprehensive income

Reclassification adjustments and related taxes to other comprehensive income for the years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Valuation difference on available-for-sale securities | | | |
| Increase (decrease) during the year | **¥ (497,111)** | ¥ 82,222 | **$ (4,411)** |
| Reclassification adjustments | **(59,647)** | — | **(529)** |
| Subtotal before tax | **(556,758)** | 82,222 | **(4,941)** |
| Income tax expenses (benefits) | **32,598** | (12,313) | **289** |
| Valuation difference on available-for-sale securities | **(524,160)** | 69,909 | **(4,651)** |
| Foreign currency translation adjustments | | | |
| Increase (decrease) during the year | **(350,261)** | 1,084,897 | **(3,108)** |
| Subtotal before tax | **(350,261)** | 1,084,897 | **(3,108)** |
| Foreign currency translation adjustments | **(350,261)** | 1,084,897 | **(3,108)** |
| Total other comprehensive income | **¥ (874,421)** | ¥ 1,154,806 | **$ (7,760)** |

## 19. Net assets

Under the Japanese Corporate Law ("the Law"), the entire amount paid-in for newly issued shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases of dividend distribution, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be reserved as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be transferred to common stock by a resolution of the shareholders' meeting.

The Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Company Board of Directors' meeting held on May 13, 2016, the Company's Board of Directors resolved cash dividends of ¥34 ($0.30) per share amounting to ¥728 million ($6,460 thousand). This appropriation has not been accounted in the consolidated financial statements at March 31, 2016. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 20. Segment information

**(1)** Segment information

The MegaChips Group is mainly engaged in the design, development, manufacture (on an outsourcing basis) and sale of system LSIs, based on its basic image, audio and communications technologies, and electronic devices and system equipment that contain its system LSIs under the one business segment. As a result, the presentation of segment information has been omitted.

**(2)** Information by geographic area

Information concerning net sales by geographic area in the fiscal years ended March 31, 2016 and March 31, 2015 is set forth in the table below. The geographic area is classified into country or region based on the location of the customer.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Net sales:** | | | |
| Japan | **¥ 30,175,248** | ¥ 40,018,626 | **$ 267,795** |
| Asia (excluding Japan) | **21,395,799** | 19,203,590 | **189,881** |
| Others | **4,091,763** | 5,015,521 | **36,313** |
| Total | **¥ 55,662,811** | ¥ 64,237,738 | **$ 493,990** |

Information concerning property, plant and equipment by geographic area in the fiscal years ended March 31, 2016 and March 31, 2015 is set forth in the table below. The geographic area is classified into country or region based on the location of the property, plant and equipment.

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Property, plant and equipment:** | | | |
| Japan | **¥ 2,168,087** | ¥ 1,573,739 | **$ 19,241** |
| Asia (excluding Japan) | **348,511** | 274,948 | **3,092** |
| North America | **571,366** | 353,535 | **5,070** |
| Others | **3,890** | 6,087 | **34** |
| Total | **¥ 3,091,855** | ¥ 2,208,311 | **$ 27,439** |

**(3)** Net sales to major customers for the fiscal year ended March 31, 2016 were as follows:

| | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2016** | **2016** |
| Nintendo Co., Ltd. | **¥ 16,582,046** | **$ 147,160** |
| Wah Lee Industrial Corp. | **¥ 8,997,036** | **$ 79,845** |

**(4)** Net sales to major customers for the fiscal year ended March 31, 2015 were as follows:

| | Thousands of yen |
|---|---|
| | 2015 |
| Nintendo Co., Ltd. | ¥ 23,827,570 |
| Wah Lee Industrial Corp. | ¥ 11,601,005 |

## 21. Other income (expenses)

Other income (expenses): others net in the consolidated statements of income and statements of comprehensive income comprised the following:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Gain (loss) on investments in partnerships | ¥ 20,552 | ¥ 20,595 | $ 182 |
| Gain (loss) on sale of property, plant and equipment | — | 509 | — |
| Gain (loss) on disposal of property, plant and equipment | (48,569) | (18,305) | (431) |
| Others, net | (12,957) | (19,588) | (114) |
| Total | ¥ (40,974) | ¥ (16,788) | $ (363) |

## 22. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2016 and March 31, 2015 were as follows:

| | Thousands of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Legal advisory fees | ¥ 8,400 | ¥ 10,400 | $ 74 |

## 23. Business combinations

For the fiscal year ended March 31, 2016:
There are no business combinations.

For the fiscal year ended March 31, 2015:
**(Business combination due to acquisition)**
MegaChips Taiwan Corporation (Head office: Taipei, Taiwan), a consolidated subsidiary of the Company, underwrote the capital increase of Modiotek Co., Ltd., (Head office: Hsinchu, Taiwan) and made it a consolidated subsidiary of the Company on April 23, 2014.

### (1) Overview of business combination

**(i) Name and business of the acquired company**
Name of the acquired company: Modiotek Co., Ltd.
Business: Design and outsourcing of manufacturing semiconductors for processing voices and music
**(ii) Main reason for business combination**
The business combination was conducted for the Company to expand its customer channels and strengthen its marketing, sales and development capabilities and customer support system in Asia centered on Taiwan and China to expand the Group's business in East Asia by making Modiotek Co., Ltd. its Group company.
**(iii) Date of business combination**
April 23, 2014
**(iv) Legal form of business combination**
Acquisition of shares by MegaChips Taiwan Corporation, a consolidated subsidiary of the Company, to underwrite the capital increase with cash consideration.
**(v) Name of company after business combination**
Modiotek Co., Ltd.
**(vi) Percentage of voting rights acquired**
72.2%
**(vii) Main grounds for determining the acquiring entity**
MegaChips Taiwan Corporation, a consolidated subsidiary of the Company, underwrote the capital increase of Modiotek Co., Ltd. with cash consideration

and owned the majority of the voting rights of Modiotek Co., Ltd.

### (2) Period of operating results of the acquired company included in the consolidated financial statements

Although the fiscal year-end of the acquired company is different from the consolidated fiscal year-end of the Company, the Company prepares consolidated financial statements based on the financial statements of the subsidiary as the difference in fiscal year-ends does not exceed three months. The Company deemed date of acquisition of the business combination is June 30, 2014 and included the operating results for the period from July 1, 2014 to December 31, 2014 in the fiscal year ended March 31, 2015.

### (3) Acquisition cost and its breakdown

| | Thousands of yen |
|---|---|
| Consideration for acquisition | ¥ 713,790 |
| Acquisition cost | ¥ 713,790 |

### (4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly from the excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight-line basis for the next five years.

| | Thousands of yen |
|---|---|
| Amount of goodwill recognized | ¥ 129,112 |

### (5) Amount of assets recognized and liabilities assumed on the date of the business combination

| | Thousands of yen |
|---|---|
| Current assets | ¥ 816,946 |
| Fixed assets | 36,351 |
| Total assets | ¥ 853,297 |
| Current liabilities | ¥ 43,628 |
| Long-term liabilities | — |
| Total liabilities | ¥ 43,628 |

### (6) Estimated amount of consolidated profit and loss in the fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

The statement is omitted, as these are not significant.

Modiotek Co., Ltd. (Head office: Hsinchu, Taiwan), a consolidated subsidiary of the Company, acquired shares issued by Magic Pixel Inc. (Head office: Hsinchu, Taiwan) and made it a consolidated subsidiary of the Company on September 10, 2014.

### (1) Overview of business combination

**(i) Name and business of the acquired company**

Name of the acquired company: Magic Pixel Inc.

Business: Design and outsourcing of manufacturing semiconductors for image related use

**(ii) Main reason for business combination**

The business combination was conducted to strengthen the system of Modiotek Co., Ltd., which is the base of customs support in Taiwan and China, for the purpose of expanding the business of the Group in East Asia.

**(iii) Date of business combination**

September 10, 2014

**(iv) Legal form of business combination**

Acquisition of shares with cash consideration

**(v) Name of company after business combination**

Magic Pixel Inc.

The Company has been merged into Modiotek Co., Ltd., on November 14, 2014.

**(vi) Percentage of voting rights acquired**

91.8%

**(vii) Main grounds for determining the acquiring entity**

Modiotek Co., Ltd., a consolidated subsidiary of the Company, acquired shares in Magic Pixel Inc. with cash as consideration and owned the majority of the voting rights of Magic Pixel Inc.

### (2) Period of operating results of the acquired company included in the consolidated financial statements

From October 1, 2014 to November 13, 2014

Magic Pixel Inc. was merged into Modiotek Co., Ltd. on November 14, 2014.

### (3) Acquisition cost and its breakdown

| | Thousands of yen |
|---|---|
| Consideration for acquisition | ¥ 129,092 |
| Acquisition cost | ¥ 129,092 |

### (4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly from the excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight-line basis for the next five years.

| | Thousands of yen |
|---|---|
| Amount of goodwill recognized | ¥ 53,138 |

### (5) Amount of assets recognized and liabilities assumed on the date of the business combination

| | Thousands of yen |
|---|---|
| Current assets | ¥ 108,337 |
| Fixed assets | 35,746 |
| Total assets | ¥ 144,084 |
| Current liabilities | ¥ 26,085 |
| Long-term liabilities | 3,441 |
| Total liabilities | ¥ 29,526 |

### (6) Estimated amount of consolidated profit and loss in the fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

The statement is omitted, as these are not significant.

The Company acquired all the shares issued by SiTime Corporation (Head office: California, the United States) and made it a consolidated subsidiary of the Company on November 18, 2014.

### (1) Overview of business combination

**(i) Name and business of the acquired company**

Name of the acquired company: SiTime Corporation

Business: Development and sale of timing devices based on Micro-Electro-Mechanical Systems (MEMS)

**(ii) Main reason for business combination**

The business combination was conducted to promote entry into the timing device business as part of business development into the IoT area by making SiTime Corporation a wholly owned subsidiary of the Company. SiTime Corporation develops and sells Micro-Electro-Mechanical Systems (MEMS) oscillators and other timing devices that will replace the existing market for crystal oscillators.

**(iii) Date of business combination**

November 18, 2014

**(iv) Legal form of business combination**

Acquisition of shares with cash consideration

**(v) Name of company after business combination**

SiTime Corporation

**(vi) Percentage of voting rights acquired**

100%

**(vii) Main grounds for determining the acquiring entity**

The Company acquired all the outstanding shares of SiTime Corporation with cash consideration.

### (2) Period of operating results of the acquired company included in the consolidated financial statements

Although the consolidated fiscal year-end of the acquired company is different from the consolidated fiscal year-end of the Company, the Company prepares consolidated financial statements based on the financial statements of the subsidiary as the difference in consolidated fiscal year-ends does not exceed three months. As the deemed date of the acquisition is December 31, 2014, the operating results of the acquired company are not included in the fiscal year ended March 31, 2015.

### (3) Acquisition cost and its breakdown

| | Thousands of yen |
|---|---|
| Consideration for acquisition: Cash | ¥ 23,279,574 |
| Expenses directly required for acquisition: Advisory fees, etc. | 50,857 |
| Acquisition cost | ¥ 23,330,432 |

### (4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized mainly as the excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight-line basis for the next ten years.

| | Thousands of yen |
|---|---|
| Amount of goodwill recognized | ¥ 17,506,072 |

(Note) As the allocation of the acquisition cost has yet to be completed, provisional accounting is undertaken based on information reasonably available.

### (5) Amount of assets recognized and liabilities assumed on the date of the business combination

| | Thousands of yen |
|---|---|
| Current assets | ¥ 6,489,577 |
| Fixed assets | 7,326,612 |
| Total assets | ¥ 13,816,189 |
| Current liabilities | ¥ 5,117,917 |
| Long-term liabilities | 2,873,912 |
| Total liabilities | ¥ 7,991,829 |

### (6) Estimated amount of consolidated profit and loss in the fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

As an appropriate calculation of the estimated amounts is difficult, they are not stated. This note is not audited.

**(Acquisition of business)**

MegaChips Technology America Corporation (Head office: California, the United States), a consolidated subsidiary of the Company, completed the acquisition of the Smart Connectivity business based on DisplayPort technology from STMicroelectronics (NYSE:STM) on September 2, 2014.

### (1) Overview of business combination

**(i) Name of the acquired business**

Acquired business: Smart Connectivity business based on DisplayPort technology of STMicroelectronics

**(ii) Main reason for business combination**

The acquisition of the business on this occasion will enable the Group to promote the standardization initiatives of DisplayPort technology. The Group will expand its global business by providing major customers overseas with innovative solutions through pursuing synergy with existing technologies.

**(iii) Date of business combination**

September 2, 2014

**(iv) Legal form of business combination**

Acquisition of business with cash consideration

**(v) Name of company after business combination**

MegaChips Technology America Corporation

**(vi) Main grounds for determining the acquiring entity**

MegaChips Technology America Corporation, a consolidated subsidiary of the Company, acquired the business with cash consideration.

### (2) Period of operating results of the acquired company included in the consolidated financial statements

From September 2, 2014 to March 31, 2015

### (3) Acquisition cost and its breakdown

| | Thousands of yen |
|---|---|
| Consideration for acquisition | ¥ 2,422,052 |
| Acquisition cost | ¥ 2,422,052 |

### (4) Amount of goodwill recognized, cause, amortization method and amortization period

Goodwill is recognized from the excess earning power that is expected from business development in the future. The goodwill will be amortized on a straight-line basis for the next ten years.

| | Thousands of yen |
|---|---|
| Amount of goodwill recognized | ¥ 1,743,462 |

### (5) Amount of assets recognized and liabilities assumed on the date of the business combination

| | Thousands of yen |
|---|---|
| Current assets | ¥ — |
| Fixed assets | 678,590 |
| Total assets | ¥ 678,590 |
| Current liabilities | ¥ — |
| Long-term liabilities | — |
| Total liabilities | ¥ — |

### (6) Estimated amount of consolidated profit and loss in the fiscal year ended March 31, 2015 on the assumption that the business combination was completed on April 1, 2014 and the impact on the statements of comprehensive income and the calculation method

As the calculation of the estimated amounts is difficult because of the partial acquisition of the business, they are not stated. This note does not receive an audit certificate.

## 24. Subsequent events

### Disposal of Treasury Stock as an Incentive to U.S. Subsidiary Members

At the 26th ordinary general meeting of shareholders held on June 23, 2016, the Company resolved to dispose of its treasury stock through a third-party allocation pursuant to the provisions of Article 199 of the Companies Act, as an incentive for the directors and employees of SiTime Corporation (“SiTime”), a subsidiary of the Company, for the purpose of retaining them.

### (1) Outline of the treasury stock disposal

| | | |
|---|---|---|
| ① Type and total number of shares | 339,911 common shares of MegaChips Corporation | |
| ② Payment amount per share | 1 cent per share | |
| ③ Total payment amount | 3,399 dollars and 11 cents | |
| ④ Payment dates and number of shares disposed on each date (All dates are Japanese time) | 1. September 15, 2016<br>2. December 15, 2016<br>3. March 15, 2017<br>4. June 15, 2017<br>5. September 15, 2017<br>6. December 15, 2017<br>7. March 15, 2018<br>8. June 15, 2018 | 45,380 shares<br>45,380 shares<br>45,380 shares<br>45,384 shares<br>39,588 shares<br>39,588 shares<br>39,588 shares<br>39,623 shares |
| ⑤ Method of subscription or disposal | Third-party allocation | |
| ⑥ Individuals to which treasury stock is allocated | Directors and employees of SiTime (Total: 35 persons) | |
| ⑦ Other | The allocation of treasury stock is limited to the management and employees of SiTime as of the date of allocation. | |

### (2) Reasons for disposing of treasury stock at terms significantly favorable to a specific party

The Company acquired SiTime, a U.S. company, on November 18, 2014.

SiTime is located in the area of California known as Silicon Valley, where it has become common to provide incentives in various forms such as employee stock options. The Company decided to provide the SiTime management and employees with incentives by way of stock allocation, which is similar to offering stock options, expecting to help increase their motivation to improve MegaChips Group’s performance and increase its corporate value.

Between September 15, 2016 and June 15, 2018, the Company will allocate a certain number of shares to the SiTime management and employees by way of treasury stock disposal, receiving one cent per share.

The Company has chosen this method instead of issuing stock options based on the conclusion that stock options would not be an effective retention measure due to constraints by the Internal Revenue Code and other laws.

# Independent Auditor's Report

MegaChips Corporation and its Consolidated Subsidiaries

### To the Board of Directors of MegaChips Corporation:

We have audited the accompanying consolidated financial statements of MegaChips Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MegaChips Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 24 to the consolidated financial statements. At the 26th ordinary general meeting of shareholders held on June 23, 2016, the Company resolved to dispose of its treasury stock through a third-party allocation pursuant to the provisions of Article 199 of the Companies Act.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 23, 2016
Osaka, Japan

KPMG AZSA LLC

## Corporate Data (As of June 23, 2016)

| | |
|---|---|
| **Company Name** | MegaChips Corporation |
| **Business Activities** | Design, development, manufacturing (outsourcing) and sales of system LSIs, and electronic devices and systems products with LSIs manufactured by the Company |
| **Establishment** | April 4, 1990 |
| **Capital Stock** | ¥4.84 billion |
| **Corporate Headquarters** | 1-1-1, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan<br>Phone: +81-6-6399-2884<br>FAX: +81-6-6399-2886 |
| **Representative** | Akira Takata, President and CEO |
| **Number of Employees** | Consolidated: 925 employees (as of the end of March 2016) |

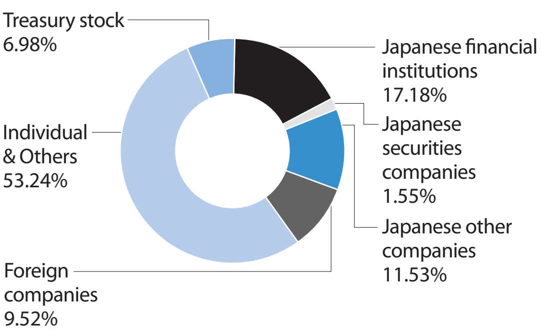
| | |
|---|---|
| **Domestic bases** | |
| **Tokyo Office** | 17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan |
| **Makuhari Office** | 1-3 Nakase, Mihama-ku Chiba 261-8501 |
| **Major overseas bases** | |
| **MegaChips Technology America Corporation** | 2033 Gateway Place, Suite 400, San Jose, CA95110 U.S.A. |
| **SiTime Corporation** | 990 Almanor Avenue Sunnyvale,California 94085 U.S.A |
| **MegaChips Taiwan Corporation** | RM. B 2F, Worldwide House, No.129, Min Sheng E.Rd., Sec.3, Taipei 105 Taiwan |
| **Modiotek Co., Ltd.** | 4F, No.3, Creation Road III, Science Park, HsinChu, Taiwan |
| **MegaChips Corporation, China** | 1603, AVIC Center Building No.1018 Huafu Road Futian District, ShenZhen 518031, China |
| **India Branch** | 17th Floor, Concorde Block UB CITY, Vittal Mallya Road, Bangalore 560 001 India |

## Stock Information (As of March 31, 2016)

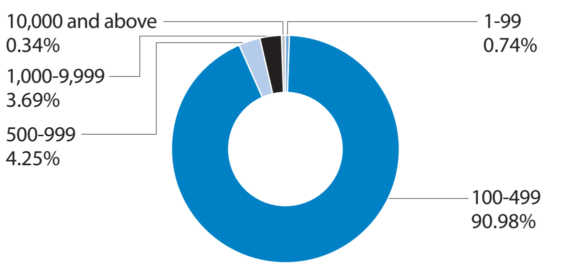
| | |
|---|---|
| **Authorized Stock** | 100,000,000 |
| **Shares of Common Stock Outstanding** | 23,038,400 |
| **Listing of Stock** | Listed on the No.1 Section of the Tokyo Stock Exchange |
| **Securities Code Number** | 6875 |
| **Number of Shareholders** | 36,927 |

| | |
|---|---|
| **Settlement Date** | March 31 |
| **General Shareholders' Meeting** | June |
| **Shareholders' List Closing Date** | March 31 |
| **Share Trading Unit** | 100 |
| **Shareholder registry administrator** | Mitsubishi UFJ Trust and Banking Corporation |

### ● Shareholders Breakdown by Type




### ● Shareholders Breakdown by Number of Shares Held




* Shares of treasury stock are excluded from the scope of the graph.

MegaChips Corporation

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