

MegaChips Corporation

Annual Report 2017

Year Ended March 31, 2017



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

	2013/3	2014/3	2015/3	2016/3	2017/3	2017/3
For the Year:						
Net sales	¥ 53,623	¥ 58,469	¥ 64,237	¥ 55,662	¥ 67,438	\$ 601,108
Cost of sales	40,568	43,348	45,263	39,233	48,667	433,795
Operating income (before amortization of goodwill)	3,962	4,173	4,895	3,513	4,922	43,877
Operating income (after amortization of goodwill)	3,962	4,173	4,895	(335)	1,926	17,173
Profit attributable to owners of parent	4,044*2	4,725*3	1,251	(782)	(947)*4	(8,445)
At Year-End:						U.S. dollars
Total assets	44,075	44,867	77,830	69,921	80,465	717,226
Net assets	27,595	31,816	32,355	28,846	27,631	246,290
Per Share Information:						Shares
Net income	170.23	202.40	55.64	(35.24)	(44.14)	(0.39)
Net assets	1,181.89	1,362.64	1,438.09	1,341.86	1,280.71	11.42
Number of Shares Issued at Year End:	24,038,400	24,038,400	24,038,400	23,038,400	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 ¥112.19 US\$1, the rate prevailing on March 31, 2017.

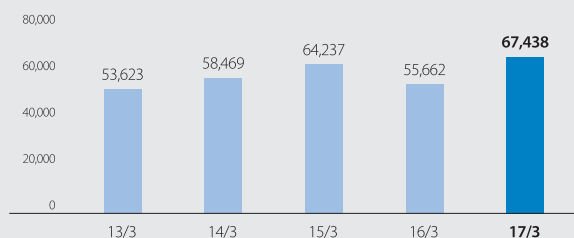
*2 The extraordinary income of ¥1,406 million was recognized in FY2013 as "negative goodwill," because the market net book value exceeded the acquisition value at the time of MegaChips' purchase of all shares owned by Kawasaki Microelectronics, Inc. (hereinafter "Kawasaki Micro").

*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.

*4 In FY2017, the Company posted a loss on valuation of investment securities of ¥1,158 million, which was mainly attributable to a decrease in the stock value of the Company's manufacturing subcontractor Macronix International Co., Ltd.

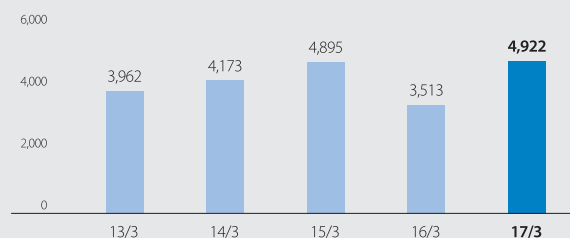
Net Sales

(¥ Millions)



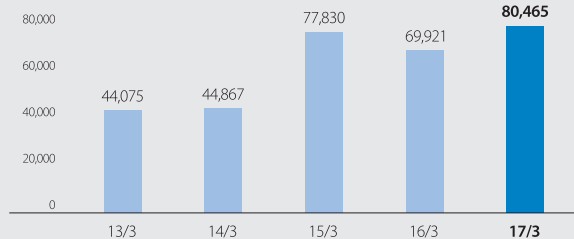
Operating Income before Amortization of Goodwill

(¥ Millions)



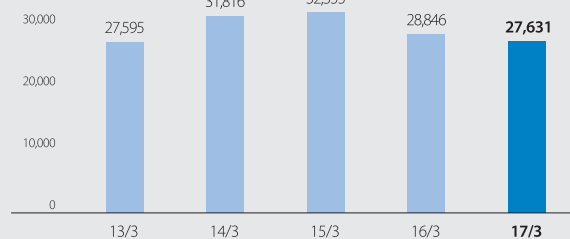
Total Assets

(¥ Millions)



Net Assets

(¥ Millions)



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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.



We advanced our new product development and global customer exploration, accelerating the structural shift toward our mid-term growth target.

President and CEO
Akira Takata

| Business Results

Thanks to the contribution of our new products, our sales hit a record high.

During FY2017, we honed the competitiveness of our ASIC (Application Specific IC) business targeting game consoles, digital cameras, as well as office machines, and also successfully expanded our global business through the enhancement of our ASSP (Application Specific Standard Product) products for mobile and IoT appliances.

In the ASIC business, we saw a higher demand for game software storage LSI (custom memory), and in the ASSP business, the sales and shipments nearly quadrupled from FY2015, mainly due to an increase in sales of MEMS timing devices for mobile products to U.S. major IT companies.

As a result, the Company's sales reached ¥67,438 million, hitting a record high. The operating income before amortization of goodwill associated with the acquisition of an overseas firm, the operating income after amortization, and the ordinary income amounted to ¥4,922 million, ¥1,926 million, and ¥994 million, respectively. Meanwhile, the Company posted an extraordinary loss; a loss on valuation of investment securities of ¥1,158 million occurred with Macronix International Co., Ltd. shares, resulting in a current year loss attributable to owners of parent of ¥947 million.

In the consolidated forecast for FY2017 published on

February 2, 2017, we estimated sales at ¥64,000 million, the operating income at ¥1,200 million, the ordinary income at ¥1,000 million, and the current year loss attributable to owners of parent at ¥1,000 million. While the actual sales exceeded the forecast, the ordinary income was as estimated because a foreign exchange loss related to a consolidation adjustment with overseas subsidiaries mainly involving U.S. dollars was recognized as a non-operating loss, although said consolidation adjustment was a factor that increased the Company's operating income.

As seen above, our mid-term efforts, such as the launch of new products for game consoles and the sales expansion of MEMS timing devices, proved productive during FY2017, giving a good start for our foray into new business fields.

| Mid-Term Management Policies for FY2018

We are pursuing global expansion on two fronts: the growing ASSP business and the stable ASIC business.

With the advent of the IoT era where everything is connected to the Internet, the demand for semiconductors is expected to keep rising. Considering it an opportunity for the Group's further growth, we aim at becoming a bigger

global player by pursuing expansion on two fronts: the stable ASIC business, which has a strong customer base, and the ASSP business, which has a competitive edge in emerging fields.

In the ASIC business, in addition to the game console, digital camera, and office machine core fields, we will explore new and influential customers in new fields, both inside and outside Japan. More specifically, we will develop the “automotive” and “industrial machine” fields. In the former, the high-speed communication technology will play an important role to meet the needs for autonomous driving and safety-driving support systems. In the latter, the demand for factory automation systems and robotics that comprehensively link and control various kinds of information (e.g., operation processes, quality, progress), and therefore heighten productivity, is growing. By making the best use of our core expertise, which consists of unique high-speed communication intellectual property (design assets) and analog technology know-how, we will further develop our ASIC business in these two new fields.

In the ASSP business, we will accelerate our projects targeting leading global manufacturers in the equipment market, which is expected to grow further with the advent of the IoT era. Special attention will be given to MEMS timing device projects and Smart Connectivity products, which are further explained below.

The Smart Connectivity (DisplayPort, hereinafter called

“DP”) products are used in the sound/image output and input devices of PCs, game consoles, AV equipment, and monitors, as well as in splitters and connectors. As a leading company in Smart Connectivity, we offer a wide variety of products and have also recently started to ship products that support the new “USB Type-C” standard—a growing market—to companies inside and outside Japan.

MEMS timing devices are components that generate a reference signal (i.e., clocks) in various types of electronic equipment so that they can be operated at the appropriate time. Our MEMS timing devices are silicon-based, which achieves a level of performance (time accuracy and stability against vibrations and temperature fluctuation) and compactness that have been difficult to attain with conventional crystal products. The use of silicon MEMS timing devices is rapidly becoming popular, especially in mobile and wearable devices. As a measure to further expand our customer base, we are planning to launch new products with high performance and long-term stability for equipment used in base stations, core communication networks or the like, and automotive products to contribute to autonomous driving.

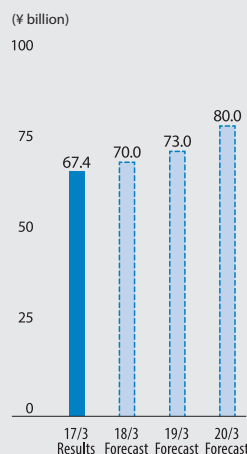
By aggressively bringing new products to the IoT, communication infrastructure, and automotive/industrial machine markets, we aim to become a global player, expand our businesses, and achieve sustainable growth.

Mid-Term Management Policies and Earnings Forecast for FY 2018

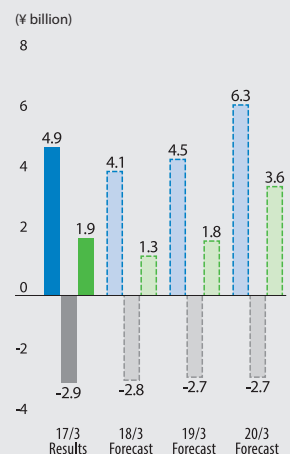
Basic Policy

- 1 Expand application areas and acquire domestic leading customers in the automotive and the industrial equipment fields, with our core high-speed communication technology.
- 2 Accelerate business development in the automotive, IoT and 5G infrastructure fields as well as expanding the business with global leading customers centering on MEMS Timing Device and Smart Connectivity.
- 3 Foster global personnel for the new mid-term business opportunity.

Net Sales



Operating Income



Forecast for FY2018

By pursuing the Mid-term Management Policies, we will increase sales and profits.

As the industrial structure becomes more dependable on information and communication equipment in the future, the needs for higher performance and new applications will increase, and the demand for electronic components that contribute to making equipment smaller, thinner, and more energy efficient will grow further.

Amid such circumstances, we seek to expand our ASIC business to the automotive/industrial machine fields and make use of our core expertise in high-speed communications to capture new influential customers while further developing our global ASSP business strategy in the IoT, automotive, and communication infrastructure fields through MEMS timing devices and Smart Connectivity.

We are expecting that these efforts will raise our consolidated sales as well as profits attributable to owners of parent for FY2018 to ¥70,000 million and ¥200 million, respectively.

Full – Year Forecast for FY2018

	(¥ Millions)	
	18/3 (Forecast)	17/3 (Results)
Sales	70,000	67,438
Operating Income before Amortization	4,100	4,922
Amortization of Goodwill*	2,800	2,996
Operating Income after Amortization	1,300	1,926
Ordinary Income	1,000	994
Profit Attributable to Owners of Parent	200	-947
Net Income per Share (¥)	9.28	-44.14

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

Policy on Dividend

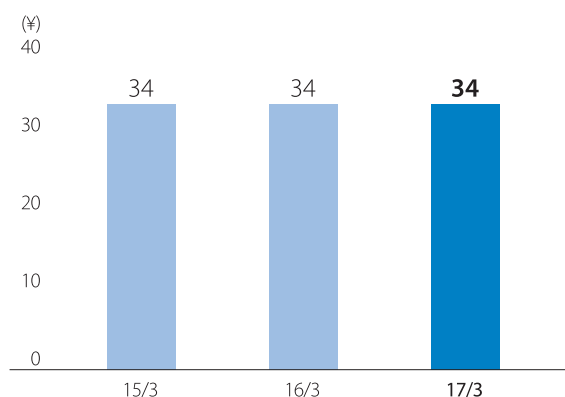
We will enhance the equity value and the capital efficiency to ensure the returns to stockholders.

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 FY2017 following the previous fiscal year.

The annual dividend per share for FY2018 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 will continue to actively distribute profits to our shareholders, while enhancing our stock value and capital efficiency.

Cash Dividends



Internet of Things Solutions

Our products are used in various digital devices,
supporting society and industry.

1 LSIs for game consoles

We offer various LSI's for game consoles, including custom-memory LSI's for storing game software, which are high capacity, low power, and cost-competitive.

3 LSI for home/ access networks

High-speed cable communications LSIs enable multiple electrical appliances to connect to a home network, and allowing you to download videos and music at home.

5 MEMS timing devices

Silicon-based products that overcome the limitations of quartz devices are used in various electronic equipment, ranging from consumer to industrial applications including LTE Base stations.

2 LSIs for LCD panels

Data transmission LSIs installed in LCDs are used for a wide variety of input and output interfaces, such as LCD televisions and monitors, laptop computers, tablets and automotive displays.

4 Smart Connectivity LSIs for video interfaces (DisplayPort)

Known for transmitting beautiful and highly defined videos, our LSI's are used in various AV equipment, PCs, high-resolution monitors and digital signage.

6 LSIs for digital cameras

Our image-processing LSIs for digital cameras are among the world's best in high-resolution, high-definition, noise reduction, and backlight correction.



As a fabless maker, MegaChips focuses its resources on R&D to create unique LSI products. In the upcoming IoT era, everything around you—cars, medical devices, industrial machines, office equipment, etc.—will be connected to the Internet. We provide products and solutions essential to IoT appliances.

7 Automotive Ethernet PHY

We are the first Japanese company to have developed a highly reliable, high-speed, and high-capacity automotive Ethernet PHY for a safer and more comfortable driving environment.

8 LSIs for industrial use (power line/coaxial line communication)

We build communication infrastructures at offices and factories using our LSIs with the existing power lines. Our LSIs are also used in smart meters that remotely measure power consumption.

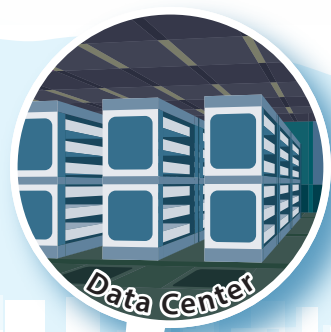
9 LSIs for office equipment

We develop and supply large-scale LSIs that control the image-processing function of office equipment such as multi-purpose printers.

10 Security system equipment

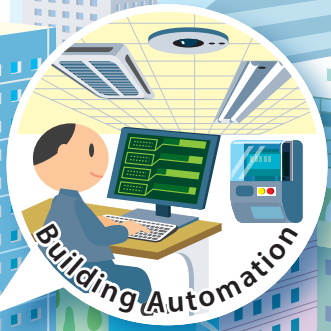
We develop security equipment, including network video recorders and network cameras for video surveillance, that enhances the safety and security of society.

3 5



5

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3 5



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2 4 5



MegaChips Creates Unique Products through the Fusion of Analog, Digital, and MEMS Technologies

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 system LSIs and solutions with our original analog, digital, and MEMS technologies.

Major Achievements in R&D for FY2017

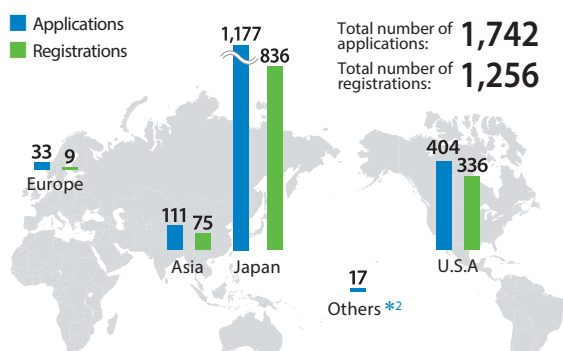
Development of LSI products	<ul style="list-style-type: none"> LSI for storing game software for game consoles Timing controller LSI for liquid crystal panels 	<ul style="list-style-type: none"> Intellectual property core and LSI for optical communications Analog front-end LSI LSI for wired (coaxial and power line) multi-hop communications 	<ul style="list-style-type: none"> Smart Connectivity LSI (DisplayPort) MEMS timing devices
Development of other products	<ul style="list-style-type: none"> Expansion of the functionality of and custom development of full digital video recording and transmission systems 	<ul style="list-style-type: none"> Development of an additional product lineup for surveillance camera systems 	

Intellectual Property Strategy

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

In FY2017, we filed patent applications such as image processing and data transfer for a liquid crystal panel controller, security for game consoles, memory control technology, gesture detector, and image recognition. A patent application was also submitted for basic and applied technologies used for status estimation.

Patent Applications and Registrations by Region^{*1}



^{*1} The number of cases shown are the cumulative total as of the end of March 2017.

^{*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

"Product of the Year" Award by a Major Industrial Magazine for Two Consecutive Years

The MEMS timing device "Elite Platform™ Super-TCXO", developed by SiTime Corporation, a wholly owned subsidiary of MegaChips Corporation, has been named the Product of the Year by Electronic Products, the leading industrial magazine for electric design engineers. With an innovative structure and based on state-of-the-art technology, the "Elite Platform™ Super-TCXO" device allows for high performance, reliability, and service quality, even under extreme conditions such as high temperatures, impacts, and vibrations.



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

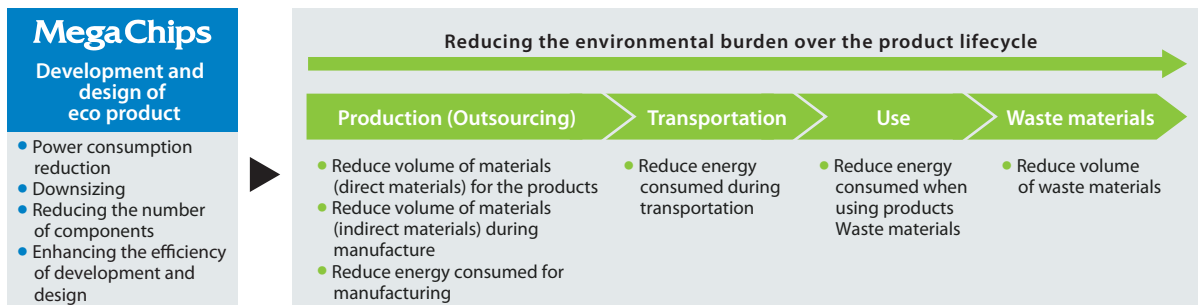
Environmental Management System

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



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 18th Campus Venture Grand Prix Osaka.

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



Awards ceremony
at the 18th Campus Venture Grand Prix Osaka

Raising Corporate Value and Practicing Sound Corporate Management

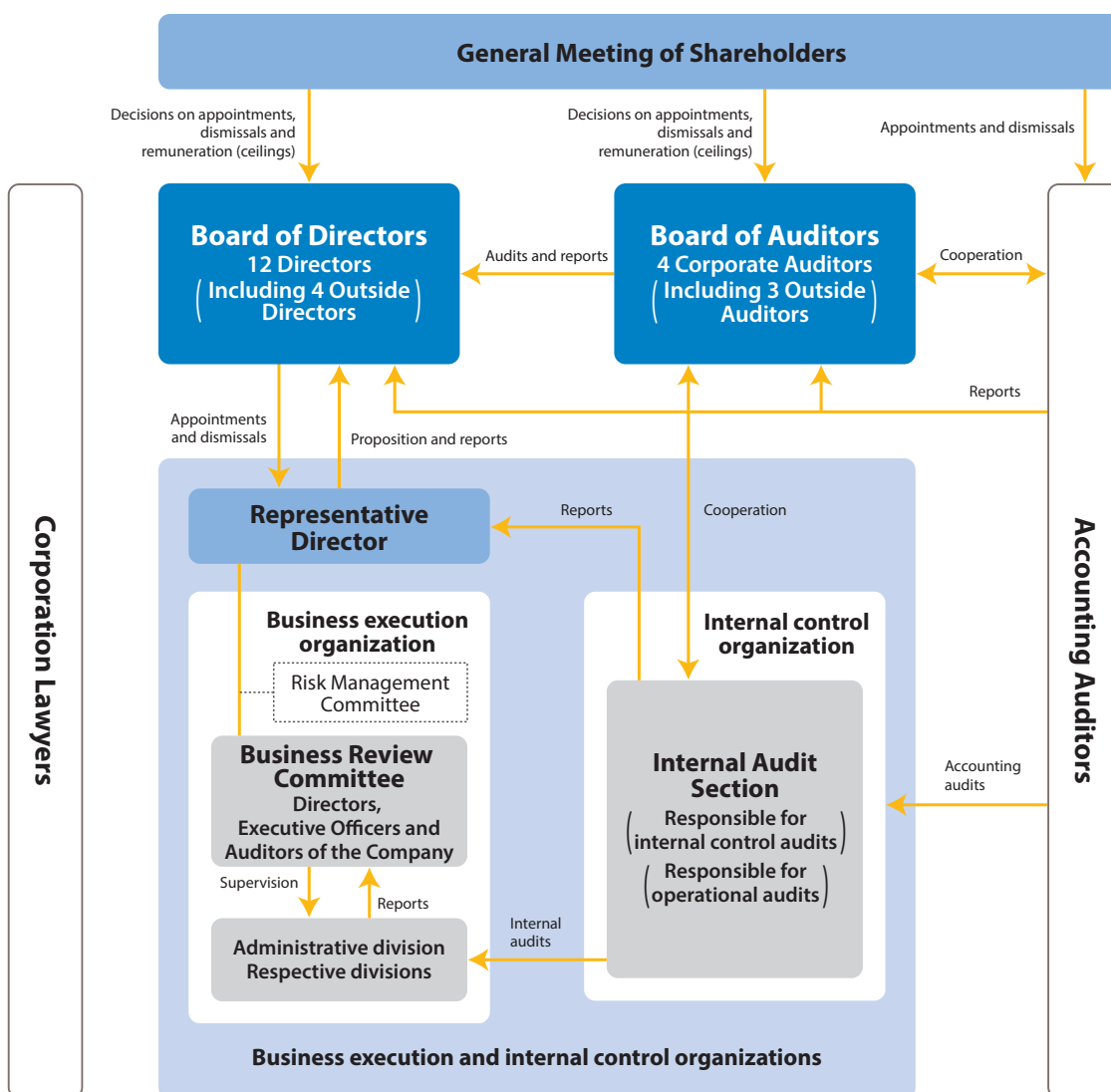
Our Basic View

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 twelve 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, four* 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.

For FY2017, the Company has received from its Accounting Auditors an internal control audit report with an unqualified opinion for the same fiscal year.

(As of June 23, 2017)

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



Yasuto Shimomae
Director



Koichi Akeyama
Director



Keiichiro Akahoshi
Outside Director



Dang-Hsing Yiu
Outside Director



Chisato Tominaga
Outside Director



Jiun-Hao Lai
Outside Director

Auditors



Tadashi Sumi
Standing Statutory Auditor



Nozomu Ohara
Outside Auditor



Keiichi Kitano
Outside Auditor



Katsuhiko Asada
Outside Auditor

Financial Section

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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*
	2013	2014	2015	2016	2017	2017
Operating Results						
Net sales	¥ 53,623	¥ 58,469	¥ 64,237	¥ 55,662	¥ 67,438	\$ 601,108
Operating income (before amortization of goodwill)	3,962	4,173	4,895	3,513	4,922	43,877
Operating income (after amortization of goodwill)	3,962	4,173	4,895	(335)	1,926	17,173
Profit attributable to owners of parent	4,044	4,725	1,251	(782)	(947)	(8,445)
R&D expenses	2,879	5,574	7,320	5,956	5,199	46,342
Financial Position						
Total assets	¥ 44,075	¥ 44,867	¥ 77,830	¥ 69,921	¥ 80,465	\$ 717,226
Net assets	27,595	31,816	32,355	28,846	27,631	246,290
Other Information						
Employees	703	739	942	925	851	851
Yen except for PER and market capitalization						U.S. dollars*
Per Share Information						
Net income	¥ 170.23	¥ 202.40	¥ 55.64	¥ (35.24)	¥ (44.14)	\$ (0.39)
Net assets	1,181.89	1,362.64	1,438.09	1,341.86	1,280.71	11.42
Cash dividends	34	34	34	34	34	0.30
Stock Information (March 31)						
Stock price	¥ 1,458	¥ 1,210	¥ 1,392	¥ 1,265	¥ 3,050	\$ 27
PER (Times)	8.56	5.98	25.02	(35.90)	(69.10)	(69.10)
Market capitalization (Millions of yen, Thousands of U.S. dollars)	¥ 35,047	¥ 29,086	¥ 33,461	¥ 29,143	¥ 70,267	\$ 626,322
Indicators						
Operating income to sales (%) (after amortization of goodwill)	7.4	7.1	7.6	(0.6)	2.9	
ROE (%)	15.4	15.9	3.9	(2.6)	(3.4)	
ROA (%)	11.0	10.6	2.0	(1.1)	(1.3)	
Shareholders' equity ratio (%)	62.6	70.9	41.3	41.1	34.3	
Sales to total assets ratio (Times)	1.46	1.31	1.05	0.75	0.90	
Operating income per employee (Millions of yen)	¥ 8	¥ 6	¥ 6	¥ (0)	¥ 2	
EBITDA (Millions of yen)	¥ 4,664	¥ 4,955	¥ 4,460	¥ 5,234	¥ 5,394	\$ 48,080

* The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥112.19 US\$1, the rate prevailing on March 31, 2017.

Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

Analysis of Business Results

● Net Sales

MegaChips recorded net sales of ¥67,438 million (up by 21.2% year-on-year), chiefly reflecting the steady performance of the game storage software LSI (custom-memory) and MEMS timing device businesses.

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

The cost of sales for the consolidated fiscal year under review was ¥48,667 million. The cost of sales ratio was 72.2%, down by 1.7 points from the previous fiscal year, and the gross profit increased by 14.3% year-on-year, totaling ¥18,770 million.

Selling, general, and administrative (SG&A) expenses finished at ¥16,844 million, an increase of ¥80 million from the previous fiscal year despite the streamlining of R&D processes, reflecting active prior investments for human resource development toward global business expansion. SG&A expenses mainly consisted of personnel expenses including salaries, provision for bonuses, and other items of ¥5,620 million (up 18.9% from the previous fiscal year), R&D expenses of ¥5,199 million (down by 12.7%), and the amortization of goodwill of ¥1,916 million associated with the acquisition of an overseas company (down by 3.1%).

As a result, the operating income for the

consolidated fiscal year under review amounted to ¥1,926 million (the operating loss for the previous year was ¥335 million).

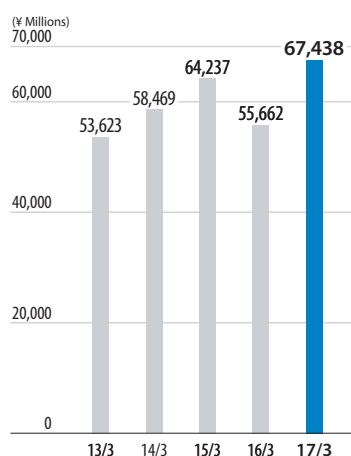
● Net Income before Income Taxes

Non-operating expenses exceeded non-operating income by ¥931 million, because of foreign exchange losses of ¥776 million mainly due to the elimination of internal transactions with subsidiaries and the posting of interest rates of ¥170 million for loans from financial institutions as non-operating expenses.

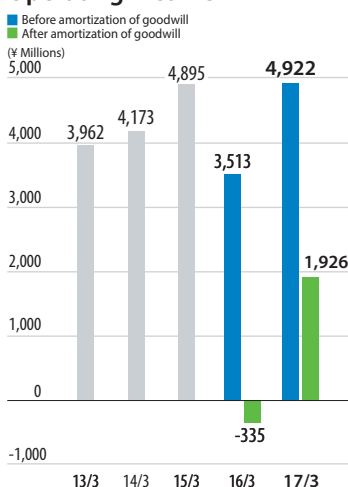
Extraordinary losses exceeded extraordinary income by ¥1,289 million. The main factors were the posting of a gain on the sales of investment securities of ¥139 million associated with the sales of Sockets Inc. shares as extraordinary income, a loss on retirement of non-current assets of ¥114 million, an impairment loss of goodwill of ¥102 million, and a loss on valuation of investment securities of ¥1,158 million mainly associated with Macronix International Co., Ltd. shares as extraordinary losses.

As a result, the net loss before taxes for the consolidated fiscal year under review was ¥294 million (the net income before taxes for the previous fiscal year was ¥284 million).

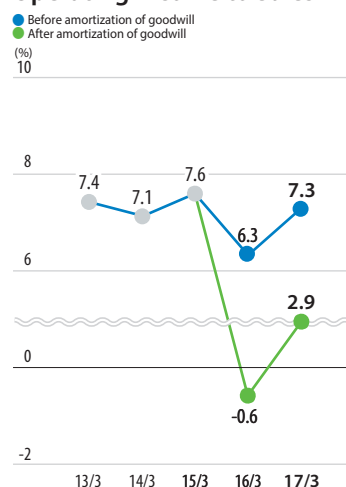
Net Sales



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 current net loss belonging to the shareholders of the parent company amounted to ¥947 million (negative ¥782 million for the previous fiscal year) as a result of income taxes-current of ¥550 million (a decrease by 29.5% year-on-year), income taxes-deferred of a positive ¥179 million (positive ¥404 million for the previous fiscal year), and a loss belonging to non-controlling interests of ¥77 million.

● Dividends

MegaChips regards the appropriate distribution of profits to its shareholders as an important management issue and endeavors to actively distribute profits, all the while considering its future financial situation in order to ensure further growth and sustainable profit distribution. The basic policies are as follows:

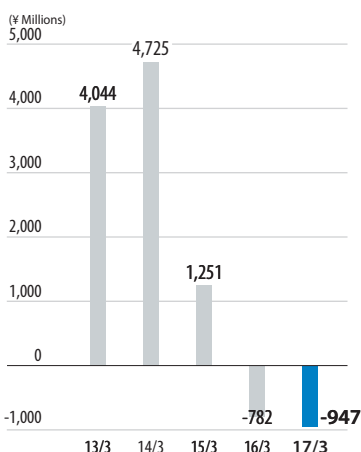
- (1) MegaChips will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income attributable to owners of parent (with special factors relating to accounting, financial settlement, and taxation added or subtracted upon due consideration) as the aggregate 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 MegaChips at the end of the period.

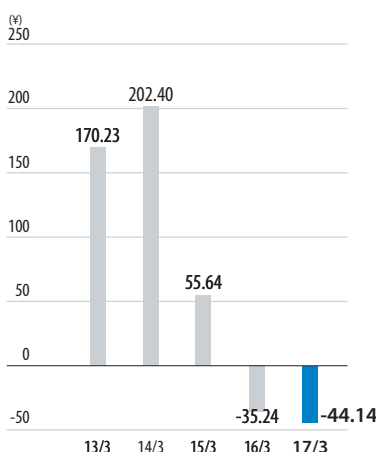
- (2) Aiming at sustainable improvements in its corporate value, MegaChips will allocate funds to fundamental research to create innovative new technologies, the development of unique products, the achievement of a suitable business portfolio, and the securing of competent human resources to achieve 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) MegaChips will 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 MegaChips' financial situation in order to improve the efficiency of capital allocation.

With respect to the distribution of retained earnings for the fiscal year under review, MegaChips 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, 2017 under the aforementioned basic policy on the distribution of profits.

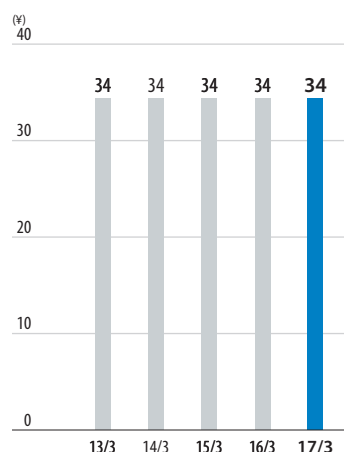
Profit Attributable to Owners of Parent



Net Income Per Share



Dividends



■ High Liquidity and Outstanding Reserves

● Cash Flow

Net cash provided by operating activities was ¥340 million (compared with net cash of ¥4,272 million provided by such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to a loss before taxes of ¥294 million (net income before taxes of ¥284 million in the previous fiscal year) and an increase in notes and accounts receivable-trade of ¥8,356 million, together with depreciation and amortization of goodwill of ¥2,319 million and ¥1,916 million, respectively, and an increase in notes and accounts payable-trade of ¥4,484 million.

Net cash used in investing activities was ¥6,540 million (compared with net cash of ¥5,955 million used in such activities in the same period of the previous fiscal year). This was chiefly attributable to the purchase of property, plant, and equipment of ¥2,308 million, the purchase of intangible non-current assets of ¥2,839 million, and the purchase of long-term prepaid expenses of ¥856 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 ¥6,200

million (compared to net cash used of ¥1,683 million in the same period of the previous fiscal year).

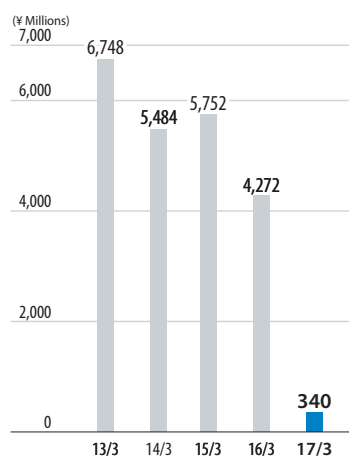
Net cash provided by financing activities was ¥7,439 million (compared with net cash of ¥379 million used in such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to a net increase in short-term loans payable of ¥10,165 million, despite repayments of long-term loans payable of ¥2,000 million and cash dividends paid of ¥726 million.

As a result, cash and cash equivalents at the end of FY2017 reached ¥11,954 million, up ¥1,221 million from the end of FY2016.

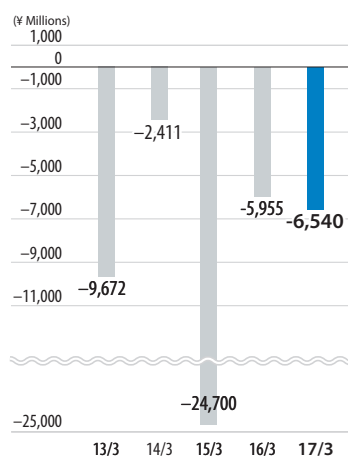
● Capital Requirements

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, as well as selling, general and administrative expenses. A major component of the operating expenses is manufacturing outsourcing expenses for LSI products.

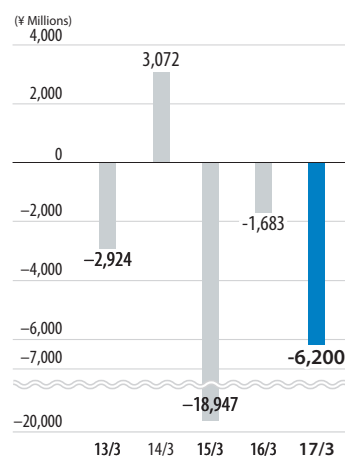
Cash Flows from Operating Activities



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 to warrant special mention. The outstanding balance of borrowings from financial institutions as of the end of the consolidated

fiscal year under review was ¥36,471 million.

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

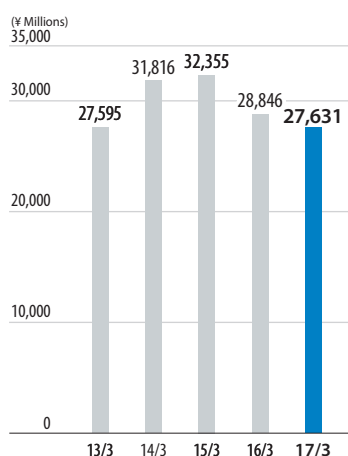
■ Financial Position

Total assets at the end of the consolidated fiscal year under review amounted to ¥80,465 million (an increase of ¥10,543 million from the end of the previous fiscal year). Current assets, centered on cash and deposits, notes and accounts receivable-trade, and inventories, increased by ¥11,308 million from the previous fiscal year to ¥43,317 million. The main contributing factors to this change included increases in cash and deposits of ¥1,153 million and in notes and accounts receivable-trade of ¥8,405 million, and in merchandise and products of ¥1,684 million. Under non-current assets, goodwill saw a notable decrease of ¥2,567 million.

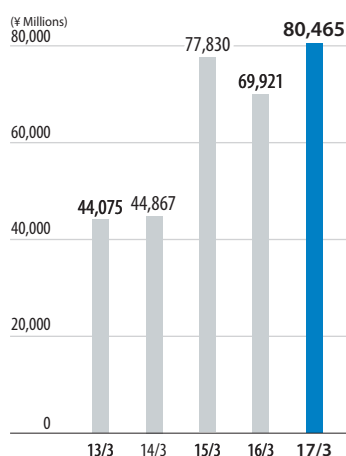
MegaChips' asset structure is characterized by its

high liquidity. Although intangible assets made up a certain percentage of non-current assets chiefly due to the acquisition of businesses, current assets accounted for 53.8% of total assets. Meanwhile, the current ratio was 104.8%, because the current liabilities stood at ¥41,347 million, mainly due to an increase in short-term loans payable for raising working capital. Quick assets, obtained by deducting an inventory of ¥6,714 million from those current assets, were ¥36,602 million, accounting for 45.5% of total assets. This asset structure owes to the fact that MegaChips is a fabless manufacturer and does not have assets such as production facilities that immobilize part of its capital

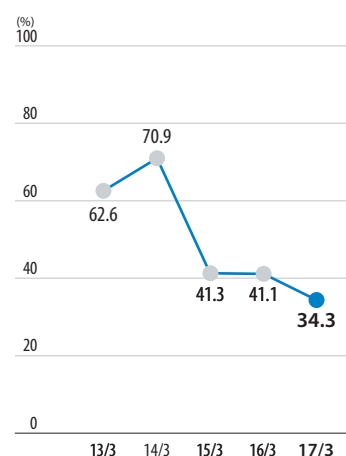
Net Assets



Total Assets



Shareholders' Equity Ratio



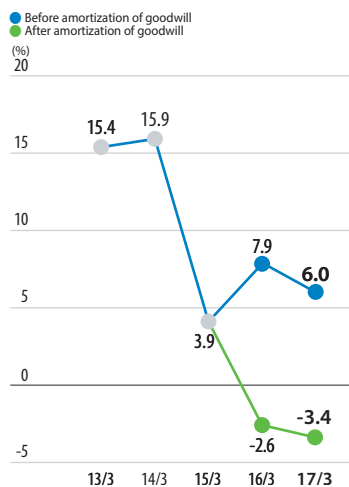
over the long term. MegaChips will continue to strive to improve its liquidity and maintain a sound asset structure.

Total liabilities at the end of the consolidated fiscal year under review amounted to ¥52,834 million (an increase of ¥11,759 million year-on-year), mainly consisting of short-term loans payable of ¥23,471 million, long-term loans payable (including the current portion of long-term loans payable) of ¥13,000 million, and trade payables of ¥8,871 million primarily comprising of outstanding payments to contracted manufacturers of LSIs. The main contributing factors were an increase of ¥4,629 million in notes and accounts payable-trade, an increase of ¥10,076 million in short-

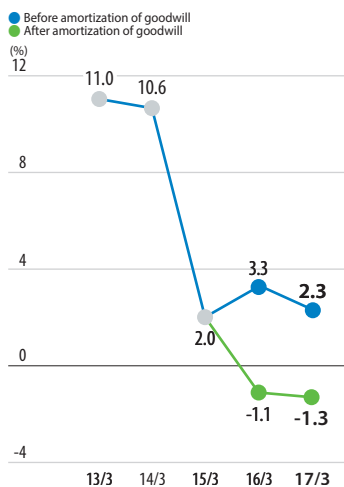
term loans payable for working capital, and a decrease of ¥2,000 million in long-term loans payable (including the current portion of long-term loans payable).

Net assets amounted to ¥27,631 million, down by ¥1,215 million year-on-year. The main contributing factors for this decrease were a loss belonging to the shareholders of the parent company of ¥947 million, dividends of surplus of ¥728 million, an increase of ¥1,034 million in valuation difference on available-for-sale securities, and a decrease of ¥667 million in foreign currency translation adjustment. Shareholders' equity amounted to ¥27,617 million, making the shareholders' equity ratio 34.3%.

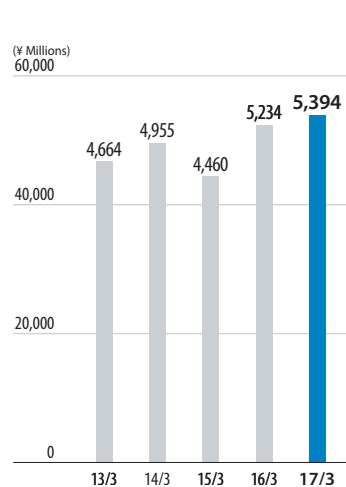
ROE



ROA



EBITDA



Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

■ Research and Development, Patents and Other Intellectual Property Rights

MegaChips invested a consolidated total of ¥5,199 million in R&D expenses for the fiscal year under review.

MegaChips is focusing its management resources on research and development to make the best use of its advantageous analog/digital/MEMS technologies and thereby generate system LSIs and intellectual property (design asset) for system LSIs.

MegaChips 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 MegaChips holds and the details of patents among the industrial property rights MegaChips holds by country are as follows:

Industrial Property Rights (As of March 31, 2017)

	Patents	Trademarks	IC Design Rights	Total
Acquired	1,256	35	2	1,293
Applied for	486	—	—	486
Total	1,742	35	2	1,779

Patents by Country (As of March 31, 2017)

	Japan	North America	Asia (excluding Japan)	EU	Other	Total
Acquired	836	336	75	9	—	1,256
Applied for	341	68	36	24	17	486
Total	1,177	404	111	33	17	1,742

■ Business and Other Risks

MegaChips 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 MegaChips as of June 23, 2017.

● Dependence on Specific Customers

(1) Purchasers

MegaChips 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 and other images processing; Timing controller LSI for liquid crystal 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, MegaChips has 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

MegaChips has 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 competition that the end products using our LSIs are exposed to.

(2) Risks in Strategic Investment

In the event that MegaChips engages 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 MegaChips' 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.

Analysis of Sales and Financial Standing

MegaChips Corporation and its Consolidated Subsidiaries

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.

MegaChips 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

MegaChips 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.

We 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.

MegaChips 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 MegaChips. For this reason, we have been collecting information on recent acquisitions.

(2) Accounting Auditors

The Board of Statutory Auditors shall submit the proposal to dismiss or not to reappoint the account auditor to the General Meeting of Shareholders, if MegaChips has a reason to do so or if the accounting auditor violates or contravene laws or ordinances, or if we believe that the accounting auditor offended public order or morals.

(3) Risk Concerning the Establishment of Internal Control Systems

MegaChips 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, MegaChips 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 MegaChips 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 2017), 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, 2016 and 2017

ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and time deposits (Note 6 and 7)	¥ 12,103,207	¥ 10,949,946	\$ 107,881
Receivables			
Trade (Note 7)			
Notes and electronically recorded monetary claims operating	40,000	15,500	356
Accounts	21,723,961	13,343,167	193,635
Others	343,680	548,065	3,063
Allowance for doubtful receivables	(15,502)	(4,145)	(138)
Inventories (Note 11)	6,714,564	5,118,308	59,849
Deferred tax assets (Note 18)	884,818	1,146,507	7,886
Other current assets	1,522,820	891,947	13,573
Total current assets	43,317,549	32,009,297	386,108
Property and equipment:			
Buildings	4,379,050	3,932,407	39,032
Land	289,638	289,638	2,581
Construction in progress	942,483	858,822	8,400
Others	9,194,791	7,789,348	81,957
	14,805,965	12,870,216	131,972
Less accumulated depreciation	(10,190,954)	(9,778,361)	(90,836)
Total property and equipment	4,615,010	3,091,855	41,135
Intangible assets:			
Goodwill	14,910,416	17,478,244	132,903
Technical assets	5,089,205	6,106,168	45,362
Others (Note 13)	4,994,231	2,957,620	44,515
Total intangible assets	24,993,852	26,542,032	222,781
Investments and other assets:			
Investments in securities (Note 7 and 8)	1,140,253	1,173,226	10,163
Long-term prepaid expenses	2,903,799	3,086,797	25,882
Deferred tax assets (Note 18)	1,205,034	1,461,001	10,741
Other investments	2,301,604	2,569,001	20,515
Allowance for doubtful receivables	(11,508)	(11,508)	(102)
Total investments and other assets	7,539,183	8,278,517	67,200
Total assets	¥ 80,465,595	¥ 69,921,704	\$ 717,226

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

LIABILITIES AND NET ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term loans payable (Note 7 and 14)	¥ 23,471,120	¥ 13,394,730	\$ 209,208
Current portion of long-term loans payable (Note 7)	5,000,000	2,000,000	44,567
Payables:			
Trade (Note 7)			
Electronically recorded obligations operating	1,777,681	—	15,845
Accounts	7,093,597	4,242,223	63,228
Others (Note 7)	1,750,923	2,204,063	15,606
Accrued expenses	1,679,148	1,643,012	14,967
Income taxes payable	409,665	337,595	3,651
Provision for losses on construction contracts (Note 12)	14,533	4,689	129
Other current liabilities	150,363	320,416	1,340
Total current liabilities	41,347,033	24,146,731	368,544
Long-term liabilities:			
Long-term loans payable (Note 7)	8,000,000	13,000,000	71,307
Deferred tax liabilities (Note 18)	2,078,745	2,507,079	18,528
Other long-term liabilities	1,408,518	1,421,011	12,554
Total long-term liabilities	11,487,264	16,928,091	102,391
Total liabilities	52,834,298	41,074,823	470,935
Net assets (Note 20):			
Shareholders' equity			
Common stock			
Authorized - 100,000,000 shares			
Issued			
23,038,400 shares in 2016			
23,038,400 shares in 2017	4,840,313	4,840,313	43,143
Capital surplus	6,182,338	6,181,300	55,105
Retained earnings	17,274,367	18,950,506	153,974
Treasury stock, at cost			
1,609,450 shares in 2016			
1,474,051 shares in 2017	(1,859,404)	(2,030,200)	(16,573)
Total shareholders' equity	26,437,615	27,941,919	235,650
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	434,952	(599,967)	3,876
Foreign currency translation adjustments	745,021	1,412,620	6,640
Total accumulated other comprehensive income	1,179,974	812,653	10,517
Non-controlling interests			
Non-controlling interests	13,707	92,308	122
Total net assets	27,631,297	28,846,881	246,290
Total liabilities and net assets	¥ 80,465,595	¥ 69,921,704	\$ 717,226

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

Consolidated Statements of Operations and Comprehensive Income

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥ 67,438,389	¥ 55,662,811	\$ 601,108
Cost of sales (Note 11 and 12)	48,667,485	39,233,920	433,795
Gross profit	18,770,904	16,428,890	167,313
Selling, general and administrative expenses (Note 10, 15, 16 and 17)	16,844,157	16,763,968	150,139
Operating income (loss)	1,926,747	(335,078)	17,173
Other income (expenses):			
Interest income	6,573	7,823	58
Interest expense	(170,065)	(167,919)	(1,515)
Foreign exchange gains	—	801,191	—
Foreign exchange losses	(776,719)	—	(6,923)
Impairment loss (Note 22)	(102,094)	—	(910)
Loss on retirement of noncurrent assets	(114,143)	(48,569)	(1,017)
Gain on sale of investment securities	139,553	59,647	1,243
Loss on valuation of investment securities (Note 8)	(1,158,251)	(161)	(10,324)
Special retirement expenses	(54,798)	(39,996)	(488)
Others, net (Note 23)	8,463	7,094	75
	(2,221,483)	619,109	(19,801)
Income (loss) before income taxes	(294,736)	284,030	(2,627)
Income taxes (Note 18):			
Current	550,601	781,211	4,907
Deferred	179,513	404,328	1,600
Total income taxes	730,114	1,185,540	6,507
Net income (loss)	(1,024,850)	(901,509)	(9,134)
Net income (loss) attributable to:			
Owners of parent	(947,554)	(782,810)	(8,445)
Non-controlling interests	(77,296)	(118,699)	(688)
Other comprehensive income (Note 19)			
Valuation difference on available-for-sale securities	1,034,920	(524,160)	9,224
Foreign currency translation adjustments	(668,903)	(350,261)	(5,962)
Total other comprehensive income	366,016	(874,421)	3,262
Comprehensive income	¥ (658,834)	¥ (1,775,931)	\$ (5,872)
Comprehensive income attributable to:			
Owners of parent	(580,233)	(1,652,797)	(5,171)
Non-controlling interests	(78,600)	(123,134)	(700)
	(Yen)		U.S. dollars (Note 1)
Amounts per share			
Net income (loss) - basic (Note 2)	¥ (44.14)	¥ (35.24)	\$ (0.39)
Net income - diluted (Note 2)	—	—	—
Cash dividends (Note 20)	34.00	34.00	0.30

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

Consolidated Statements of Changes in Net Assets

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Number of shares of common stock issued	Thousands of yen							Total
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Non-controlling interests	
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
Cash dividends paid - ¥ 34.00 per share				(728,584)					(728,584)
Net income (loss) attributable to owners of parent				(947,554)					(947,554)
Disposal of treasury shares			1,038		170,795				171,834
Valuation difference on available-for-sale securities						1,034,920			1,034,920
Foreign currency translation adjustments							(667,599)		(667,599)
Changes in non-controlling interests								(78,600)	(78,600)
Balance at March 31, 2017	23,038,400	¥ 4,840,313	¥ 6,182,338	¥ 17,274,367	¥ (1,859,404)	¥ 434,952	¥ 745,021	¥ 13,707	¥ 27,631,297

	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, 2016	\$ 43,143	\$ 55,096	\$ 168,914	\$ (18,096)	\$ (5,347)	\$ 12,591	\$ 822	\$ 257,125
Cash dividends paid - \$ 0.30 per share			(6,494)					(6,494)
Net income (loss) attributable to owners of parent			(8,445)					(8,445)
Disposal of treasury shares		9		1,522				1,531
Valuation difference on available-for-sale securities					9,224			9,224
Foreign currency translation adjustments						(5,950)		(5,950)
Changes in non-controlling interests							(700)	(700)
Balance at March 31, 2017	\$ 43,143	\$ 55,105	\$ 153,974	\$ (16,573)	\$ 3,876	\$ 6,640	\$ 122	\$ 246,290

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

Consolidated Statements of Cash Flows

MegaChips Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (294,736)	¥ 284,030	\$ (2,627)
Adjustments for:			
Depreciation and amortization	3,033,703	2,975,408	27,040
Amortization of goodwill	1,916,451	1,977,901	17,082
Increase (decrease) in allowance for doubtful accounts	11,357	5,806	101
Increase (decrease) in accrued employee bonuses	84,875	(135,478)	756
Increase (decrease) in provision for losses on construction contracts	9,844	(286,752)	87
Interest and dividend income	(6,573)	(7,823)	(58)
Interest expense	170,065	167,919	1,515
Foreign exchange losses (gains)	(2,822)	107,532	(25)
Impairment loss (Note 22)	102,094	—	910
Loss on retirement of noncurrent assets	114,143	48,569	1,017
Gain on sale of investment securities	(139,553)	(59,647)	(1,243)
Loss on valuation of investment securities	1,158,251	161	10,324
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables (trade)	(8,356,504)	3,401,793	(74,485)
Inventories	(1,625,639)	288,425	(14,490)
Other current assets	211,576	164,597	1,885
Increase (decrease) in:			
Payables (trade)	4,484,898	(658,946)	39,975
Other current liabilities	4,217	(3,131,638)	37
Others, net	165,203	(5,591)	1,472
	1,040,854	5,136,267	9,277
Interest and dividends received	6,699	7,933	59
Interest paid	(146,447)	(152,634)	(1,305)
Income taxes paid	(560,793)	(719,555)	(4,998)
Net cash provided by operating activities	340,313	4,272,011	3,033
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	462,307	34,990	4,120
Payments into time deposits	(386,272)	(114,854)	(3,443)
Purchase of property and equipment	(2,308,165)	(1,385,282)	(20,573)
Purchase of intangible assets	(2,839,939)	(1,911,967)	(25,313)
Proceeds from sales of investment securities	246,469	65,517	2,196
Purchase of investment securities	(250,708)	—	(2,234)
Payment for long-term prepaid expenses	(856,371)	(1,544,695)	(7,633)
Others, net	(607,758)	(1,099,285)	(5,417)
Net cash used in investing activities	(6,540,439)	(5,955,579)	(58,297)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	10,165,730	1,767,930	90,611
Proceeds from long-term loans payable	—	3,000,000	—
Repayment of long-term loans payable	(2,000,000)	(3,416,670)	(17,826)
Purchase of treasury shares	—	(972,662)	—
Cash dividends paid	(726,383)	(758,036)	(6,474)
Other, net	148	—	1
Net cash provided by (used in) financing activities	7,439,494	(379,438)	66,311
Effect of exchange rate changes on cash and cash equivalents	(17,561)	(232,940)	(156)
Net increase (decrease) in cash and cash equivalents	1,221,806	(2,295,947)	10,890
Cash and cash equivalents at beginning of year	10,732,361	13,028,308	95,662
Cash and cash equivalents at end of year (Note 6)	¥ 11,954,167	¥ 10,732,361	\$ 106,552

* Important noncash transactions: Retirement of treasury stock ¥1,261,424 thousand in 2016

* The accompanying Notes to the Consolidated Financial Statements are an integral part 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, 2017, which was ¥112.19 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 2016 consolidated financial statement items have been reclassified in order to conform to the presentation for 2017.

As permitted, amounts of less than 1,000 yen are omitted in the presentations for 2016 and 2017. 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 nonconsolidated subsidiaries.

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, 2017, Shun Yin Investment Ltd., MegaChips Corporation, China,

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

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 from 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.

Depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 is computed principally by the straight-line method.

The principle estimated useful lives are as follows:

	2017	2016
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 3 to 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 (loss) and cash dividends

The computation of per share amounts of net income (loss) shown in the consolidated statements of operations and comprehensive income is based upon the weighted average number of issued shares outstanding during each period. Because results for the years ended March 31, 2017 and 2016 were net loss per share, the computation of diluted net income per share was not calculated.

Cash dividends per share shown in the consolidated statements of operations and 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

Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Due to amendments to the Japanese Corporation Tax Act, the Company adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016 (hereinafter, "PITF No.32")) from the current fiscal year

and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight line method.

The change has had only insignificant impact on profit and loss.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

4. Changes in presentation method

Consolidated Statements of Operations and Comprehensive Income

"Loss on retirement of noncurrent assets", which had been presented in "Others, net" of "Other income (expenses)" in the previous fiscal year, is separately presented in the fiscal year ended March 31, 2017 as its quantitative importance has increased. "Borrowing fees", which had been separately presented in the previous fiscal year, are presented in "Others, net" in the fiscal year ended March 31, 2017 as its quantitative importance has decreased. To conform to the current presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥(500) thousand presented in "Borrowing fees" of "Other income (expenses)" and ¥(40,974) thousand presented in "Others, net" in the consolidated statements of income and comprehensive income for the previous fiscal year have been reclassified into ¥(48,569) thousand in "Loss on retirement of noncurrent assets" and ¥7,094 thousand in "Others, net".

Consolidated Statements of Cash Flows

"Loss on retirement of noncurrent assets", which had been presented in "Others, net" of "Cash flows from operating activities" in the previous fiscal year, is separately presented in the fiscal year ended March 31, 2017 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, ¥42,977 thousand presented in "Others, net" of "Cash flows from operating activities" in the consolidated statements of cash flows for the previous fiscal year have been reclassified into ¥48,569 thousand presented in "Loss on retirement of noncurrent assets" and ¥(5,591) thousand in "Others, net".

"Proceeds from withdrawal of time deposits" and "Payments into time deposits", which had been presented in "Others, net" of "Cash flows from investing activities" in the previous fiscal year, are separately presented in the fiscal year ended March 31, 2017 as their quantitative importance has increased. "Payment of loans receivable", which had been separately presented in the previous fiscal year, is presented in "Others, net" in the fiscal year ended March 31, 2017 as its quantitative importance has decreased. To conform to the current presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥(19,641) thousand presented in "Payment of loans receivable" and ¥(1,159,509) thousand presented in "Others, net" of "Cash flows from investing activities" in the consolidated statements of cash flows for the previous fiscal year has been reclassified into ¥34,990 thousand in "Proceeds from withdrawal of time deposits" and ¥(1,099,285) thousand in "Others, net".

5. Additional information

Application of the Implementation Guidance on Recoverability of Deferred Tax Assets

The Company adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ

Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")) from the current fiscal year.

6. Cash and cash equivalents

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
	2017	2016	2017
Cash and time deposits – balance sheets	¥ 12,103,207	¥ 10,949,946	\$ 107,881
Time deposits with maturity dates longer than 3 months	(149,039)	(217,585)	(1,328)
Cash and cash equivalents – statements of cash flows	¥ 11,954,167	¥ 10,732,361	\$ 106,552

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 it concentrates the use of funds on its 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, it also maintain an appropriate level of

funds for working capital. To meet its 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 its accounts receivable. The Company determines its funding strategies each fiscal year by taking into account certain factors such as its business performance, its funding requirements and the efficiency of other alternative methods of funding.

(ii) Details and risks of financial instruments

Cash and deposits are deposited mainly 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, with 43.0% of the operating receivables at the end of the fiscal year ended March 31, 2017, (52.5% as at the end of the previous fiscal year) 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

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

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 96.8% (88.3% 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 condition 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 its 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 its 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, 2017 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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 12,103,207	¥ 10,949,946	\$ 107,881
Fair value	12,103,207	10,949,946	107,881
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 12,103,207	¥ 10,949,946	\$ 107,881

(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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 21,748,458	¥ 13,354,522	\$ 193,853
Fair value	21,748,458	13,354,522	193,853
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 21,763,961	¥ 13,358,667	\$ 193,991

(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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 1,106,994	¥ 1,096,721	\$ 9,867
Fair value	1,106,994	1,096,721	9,867
Difference	¥ —	¥ —	\$ —

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

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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
	2017	2016	2017
Available-for-sale securities			
Unlisted equity securities	¥ 17,512	¥ 55,594	\$ 156
Unlisted bonds	193	369	1
Others	15,552	20,541	138

(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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 8,871,279	¥ 4,242,223	\$ 79,073
Fair value	8,871,279	4,242,223	79,073
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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 23,471,120	¥ 13,394,730	\$ 209,208
Fair value	23,471,120	13,394,730	209,208
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 23,471,120	¥ 13,394,730	\$ 209,208

(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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 1,750,923	¥ 2,204,063	\$ 15,606
Fair value	1,750,923	2,204,063	15,606
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 the 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
	2017	2016	2017
Figures presented in the consolidated balance sheets	¥ 13,000,000	¥ 15,000,000	\$ 115,874
Fair value	13,037,556	15,053,434	116,209
Difference	¥ 37,556	¥ 53,434	\$ 334
Long-term loans payable due within one year	¥ 5,000,000	¥ 2,000,000	\$ 44,567
Long-term loans payable due after one year but within two years	2,000,000	5,000,000	17,826
Long-term loans payable due after two years but within three years	2,000,000	2,000,000	17,826
Long-term loans payable due after three years but within four years	2,000,000	2,000,000	17,826
Long-term loans payable due after four years but within five years	2,000,000	2,000,000	17,826
Long-term loans payable due after five years	—	2,000,000	—

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, 2017 and March 31, 2016:

(i) Securities with unrealized gains

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Cost	¥ 677,467	¥ 4,750	\$ 6,038
Carrying amount	1,106,994	57,475	9,867
Unrealized gains	¥ 429,526	¥ 52,725	\$ 3,828

(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
	2017	2016	2017
Cost	¥ —	¥ 1,681,669	\$ —
Carrying amount	—	1,039,246	—
Unrealized losses	¥ —	¥ (642,423)	\$ —

(2) Total sales, gains and losses realized for available-for-sale securities for the year ended March 31, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Amount of sales	¥ 248,292	¥ 65,517	\$ 2,213
Total gain on sales	139,553	59,647	1,243

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

(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, 2017 and March 31, 2016 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Loss on valuation of investment securities	¥ 1,158,251	¥ 161	\$ 10,324

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, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit expenses	¥ 294,918	¥ 372,952	\$ 2,628

11. Inventories

(1) Inventories at March 31, 2017 and March 31, 2016 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished products	¥ 3,704,345	¥ 2,019,432	\$ 33,018
Raw materials	1,034,276	1,003,493	9,218
Work-in-process	1,972,771	2,092,163	17,584
Supplies	3,170	3,219	28
Total	¥ 6,714,564	¥ 5,118,308	\$ 59,849

(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, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Cost of sales	¥ 231,832	¥ 301,160	\$ 2,066

12. Provision for losses on construction contracts

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, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Cost of sales	¥ 9,844	¥ (286,752)	\$ 87

13. Intangible assets

Other intangible assets at March 31, 2017 and March 31, 2016 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Computer software	¥ 4,714,700	¥ 2,339,709	\$ 42,024
Patent rights	32,368	92,656	288
Others	247,162	525,254	2,203
Total	¥ 4,994,231	¥ 2,957,620	\$ 44,515

14. Short-term debt

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, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Maximum overdraft amount	¥ 24,000,000	¥ 24,000,000	\$ 213,922
Credit line used	18,000,000	10,700,000	160,442
Available credit line	¥ 6,000,000	¥ 13,300,000	\$ 53,480

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

15. Leases

Future lease payments required under noncancelable operating lease transactions in the fiscal years ended March 31, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 460,853	¥ 441,265	\$ 4,107
Thereafter	1,644,558	345,124	14,658
Total	¥ 2,105,412	¥ 786,389	\$ 18,766

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, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Research and development expenses	¥ 5,199,116	¥ 5,956,381	\$ 46,342

17. Stock options, etc.

Disposal of treasury stock as incentives to the management and employees of a U.S. subsidiary of the Company

The Company grants retention incentives to the management and employees of SiTime Corporation ("SiTime"), a subsidiary of the Company, by disposing of treasury stock through a third-party allocation.

(1) Amount, posted as an expense, of the disposition of treasury stock through a third-party allocation as retention incentives and the financial statement presentation thereof

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Selling, general, and administrative expenses	¥ 171,685	¥ —	\$ 1,530

(2) Outline of the disposal of treasury stock through a third-party allocation as retention incentives

Company name	MegaChips Corporation	
Grant date	July 20, 2016	
Category and number of grantees	One director and 34 employees of SiTime	
Type and total number of shares	339,911 common shares	
Total paid-in amount	1 cent per share	
Payment dates and number of shares disposed of on each date (total)	1. September 15, 2016 2. December 15, 2016 3. March 15, 2017 4. June 15, 2017 5. September 15, 2017 6. December 15, 2017 7. March 15, 2018 8. June 15, 2018	45,380 shares 45,380 shares 45,380 shares 45,384 shares 39,588 shares 39,588 shares 39,588 shares 39,623 shares
Conditions	As a vesting condition, the director or employee to which treasury stock is allocated must be enrolled in SiTime.	

(3) Scale of disposal of treasury stock through a third-party allocation as retention incentives and changes therein

(i) Number of treasury stock disposed of through a third-party allocation

End of previous fiscal year	—
Number of shares to be allocated (total)	339,911 shares
Forfeited	1,976 shares
Allocated	135,399 shares
Unallocated balance	202,536 shares

(ii) Breakdown of unallocated balance at the end of the current fiscal year

Category and number of grantees	One director, 33 employees of SiTime	
Payment dates and number of shares disposed of on each date (total)	4. June 15, 2017 5. September 15, 2017 6. December 15, 2017 7. March 15, 2018 8. June 15, 2018	45,137 shares 39,341 shares 39,341 shares 39,341 shares 39,376 shares

(iii) Unit price information

Fair value per share as of the grant date	¥ 1,268
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Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

18. Income taxes

Japan's statutory tax rate related to income was 30.8% for the fiscal year ended March 31, 2017 and 33.0% for the fiscal year ended March 31, 2016.

(1) Significant components of the Company's deferred tax assets and liabilities as of March 31, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Accrued bonuses	¥ 177,515	¥ 159,043	\$ 1,582
Provision for losses on construction contracts	4,477	1,444	39
Enterprise taxes	40,738	26,883	363
Accrued legal welfare expenses	29,707	26,449	264
Valuation loss on inventory	183,113	195,224	1,632
Excess software costs	522,824	550,620	4,660
Excess long-term prepaid expenses costs	9,167	6,087	81
Directors' and corporate auditors' severance benefits	9,220	9,220	82
Loss on write-down of investment securities	87,549	80,138	780
Tax losses carried forward	7,358,318	8,928,290	65,588
Tax credit for research and development expenses carried forward	515,083	461,019	4,591
Others	621,709	680,308	5,541
Total deferred tax assets	9,559,428	11,124,731	85,207
Valuation allowance	(7,455,616)	(8,407,811)	(66,455)
Deferred tax assets	2,103,811	2,716,920	18,752
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(2,633)	(18,890)	(23)
Mark-to-market valuation difference of consolidated subsidiaries upon acquisition	(2,075,075)	(2,507,079)	(18,496)
Others	(14,996)	(90,521)	(133)
Total deferred tax liabilities	(2,092,704)	(2,616,491)	(18,653)
Net deferred tax assets	¥ 11,106	¥ 100,428	\$ 98

(Changes in presentation method)

"Tax credit for research and development expenses carried forward", which had been presented in "Others" of "Deferred tax assets" in the previous fiscal year, is separately presented in the fiscal year ended March 31, 2017 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, ¥1,141,328 thousand presented in "Others" of deferred tax assets for the previous fiscal year have been reclassified into ¥461,019 thousand in "Tax credit for research and development expenses carried forward" and ¥680,308 thousand in "Others".

(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
	2017	2016	2017
Current assets - deferred tax assets	¥ 884,818	¥ 1,146,507	\$ 7,886
Investments and other assets - Long-term deferred tax assets	1,205,034	1,461,001	10,741
Current liabilities - deferred tax liabilities	—	—	—
Long-term liabilities - Long-term deferred tax liabilities	(2,078,745)	(2,507,079)	(18,528)

(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, 2017 and March 31, 2016.

	%	
	2017	2016
Statutory tax rate	—	33.0
(Reconciliation)		
Expenses permanently nondeductible	—	19.9
Inhabitants per capita taxes	—	4.3
Effect of foreign tax	—	114.8
Tax credit for research and development expenses	—	(19.5)
Amortization of goodwill	—	209.1
Increase (decrease) in valuation allowance	—	19.7
Effect of tax rate changes	—	40.2
Others	—	(4.1)
Effective tax rate	—	417.4

(Note) As loss before income taxes was reported for the current fiscal year, the statement has been omitted.

19. Other comprehensive income

Reclassification adjustments and related taxes to other comprehensive income for the years ended March 31, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 43	¥ (497,111)	\$ 0
Reclassification adjustments	1,018,619	(59,647)	9,079
Subtotal before tax	1,018,663	(556,758)	9,079
Income tax expenses (benefits)	16,256	32,598	144
Valuation difference on available-for-sale securities	1,034,920	(524,160)	9,224
Foreign currency translation adjustments			
Increase (decrease) during the year	(657,577)	(350,261)	(5,861)
Subtotal before tax	(657,577)	(350,261)	(5,861)
Income tax expenses (benefits)	(11,325)	—	(100)
Foreign currency translation adjustments	(668,903)	(350,261)	(5,962)
Total other comprehensive income	¥ 366,016	¥ (874,421)	\$ 3,262

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

20. 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's Board of Directors' meeting held on May 10, 2017, the Company's Board of Directors resolved cash dividends of ¥34 (\$0.30) per share amounting to ¥733 million (\$6,535 thousand). This appropriation has not been accounted in the consolidated financial statements at March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

21. Segment information

(1) Segment information

The MegaChips Group is engaged mainly 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 product and service

As the products and services fall under one category, the presentation of information by product and service has been omitted.

(3) Information by geographic area

Information concerning net sales by geographic area in the fiscal years ended March 31, 2017 and March 31, 2016 is set forth in the table below. The geographic areas are classified by country based on the location of the customer.

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales:			
Japan	¥ 36,890,894	¥ 30,175,248	\$ 328,825
Taiwan	16,569,530	11,668,120	147,691
Others	13,977,964	13,819,442	124,591
Total	¥ 67,438,389	¥ 55,662,811	\$ 601,108

Information concerning property, plant and equipment by geographic area in the fiscal years ended March 31, 2017 and March 31, 2016 is set forth in the table below. The geographic areas are classified by country based on the location of the property, plant and equipment.

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment:			
Japan	¥ 2,136,446	¥ 2,168,087	\$ 19,043
Taiwan	585,574	290,830	5,219
America	1,841,708	571,366	16,415
Others	51,281	61,570	457
Total	¥ 4,615,010	¥ 3,091,855	\$ 41,135

(4) Net sales to major customers for the fiscal year ended March 31, 2017 were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2017	2017
Nintendo Co., Ltd.	¥ 24,279,338	\$ 216,412

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

	Thousands of yen
	2016
Nintendo Co., Ltd.	¥ 16,582,046
Wah Lee Industrial Corp.	¥ 8,997,036

22. Impairment loss

The Company groups assets with consideration for the segmentation for the purpose of management accounting by which income and expenditure are viewed on an ongoing basis and determines whether an impairment loss should be recognized. In the fiscal year ended March 31, 2017, due to a subsidiary's determination to liquidate, the remaining balance of goodwill, which had been recorded on the premise of its excess earning power at the time of acquisition, is fully recorded as impairment loss. The recoverable value has been calculated, with the assumption that the value-in-use is zero.

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Impairment loss	¥ 102,094	¥ —	\$ 910

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

23. 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
	2017	2016	2017
Gain on investments in partnerships	¥ 8,497	¥ 20,552	\$ 75
Others, net	(33)	(13,457)	(0)
Total	¥ 8,463	¥ 7,094	\$ 75

24. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2017 and March 31, 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2016	2017
Legal advisory fees	¥ 12,900	¥ 8,400	\$ 114

25. Subsequent events

Recording of gain on sales of investment securities

Shun Yin Investment Ltd., (Headquarters: Taipei, TAIWAN R.O.C.; Fiscal year end: December), a consolidated subsidiary of the Company has sold 21 million shares of Macronix International Co., Ltd. (listed on the Taiwan Stock Exchange; Stock code: 2337) out of investment in securities in May and June 2017.

Accordingly, a gain on sales of investment securities of approximately 926 million yen will be recognized as other income in the consolidated statement of income for the 2nd quarter of the fiscal year ending March 31, 2018.

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, 2017 and 2016, and the consolidated statements of operations 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, 2017 and 2016, 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 25 to the consolidated financial statements. MegaChips Corporation and its consolidated subsidiaries sold the investment securities in May and June, 2017.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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, 2017
Osaka, Japan

KPMG AZSA LLC

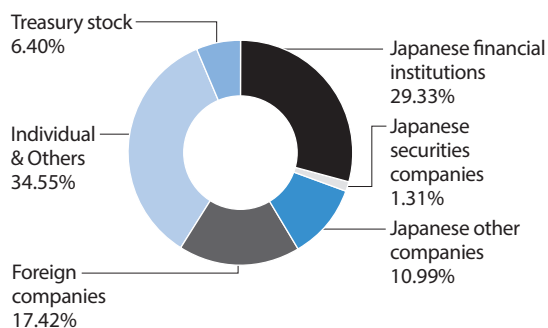
Corporate Data (As of June 23, 2017)

Company Name	MegaChips Corporation	Domestic bases	
Business Activities	Design, development, manufacturing (outsourcing) and sales of system LSIs, and electronic devices and systems products with LSIs manufactured by the Company	Tokyo Office	17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan
Establishment	April 4, 1990	Makuhari Office	1-3 Nakase, Mihama-ku Chiba 261-8501
Capital Stock	¥4.84 billion	Major overseas bases	
Corporate Headquarters	1-1-1, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan Phone: +81-6-6399-2884 FAX: +81-6-6399-2886	MegaChips Technology America Corporation	2033 Gateway Place, Suite 400, San Jose, CA95110 U.S.A.
Representative	Akira Takata, President and CEO	SiTime Corporation	5451 Patrick Henry Drive, Santa Clara, California 95054 U.S.A
Number of Employees	Consolidated: 851 employees (as of the end of March 2017)	MegaChips Taiwan Corporation	RM. B 2F, Worldwide House, No.129, Min Sheng E.Rd., Sec.3, Taipei 105 Taiwan
		MegaChips Corporation, China	1603, AVIC Center Building No.1018 Huaifu Road Futian District, ShenZhen 518031, China
		India Branch	17th Floor, Concorde Block UB CITY, Vittal Mallya Road, Bangalore 560 001 India

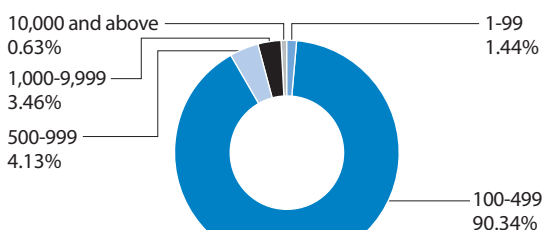
Stock Information (As of March 31, 2017)

Authorized Stock	100,000,000	Settlement Date	March 31
Shares of Common Stock Outstanding	23,038,400	General Shareholders' Meeting	June
Listing of Stock	Listed on the No.1 Section of the Tokyo Stock Exchange	Shareholders' List Closing Date	March 31
Securities Code Number	6875	Share Trading Unit	100
Number of Shareholders	19,521	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

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