

MegaChips

MegaChips Corporation

Annual Report 2018

Year Ended March 31, 2018



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

	2014/3	2015/3	2016/3	2017/3	2018/3	2018/3
For the Year:						
Net sales	¥ 58,469	¥ 64,237	¥ 55,662	¥ 67,438	¥ 89,029	\$ 837,999
Cost of sales	43,348	45,263	39,233	48,667	67,603	636,324
Operating income (before amortization of goodwill)	4,173	4,895	3,513	4,922	5,520	51,961
Operating income (after amortization of goodwill)	4,173	4,895	(335)	1,926	2,709	25,499
Profit attributable to owners of parent	4,725*2	1,251	(782)	(947)*3	1,948	18,337
At Year-End:						U.S. dollars
Total assets	44,867	77,830	69,921	80,465	94,633	890,750
Net assets	31,816	32,355	28,846	27,631	31,184	293,525
Per Share Information:						Shares
Net income	202.40	55.64	(35.24)	(44.14)	90.05	0.85
Net assets	1,362.64	1,438.09	1,341.86	1,280.71	1,435.37	13.51
Number of Shares Issued at Year End:	24,038,400	24,038,400	23,038,400	23,038,400	23,038,400	23,038,400

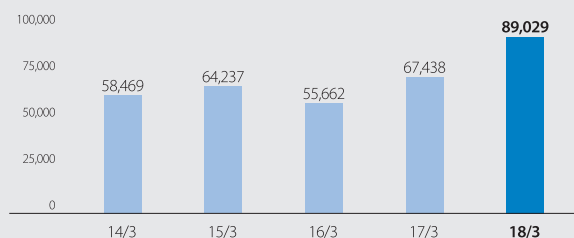
*1 The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥106.24 US\$1, the rate prevailing on March 31, 2018.

*2 In FY2013, 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 Microelectronics, Inc. and posted in income taxes-deferred a tax adjustment (profit) of ¥2,374 million associated with the deferred tax assets.

*3 In FY2016, 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.

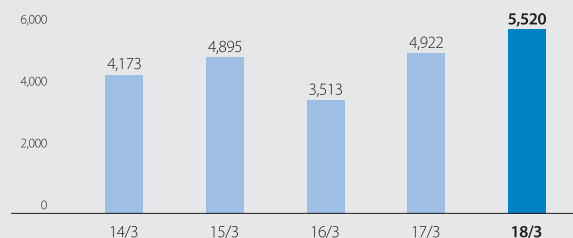
Net Sales

(¥ Millions)



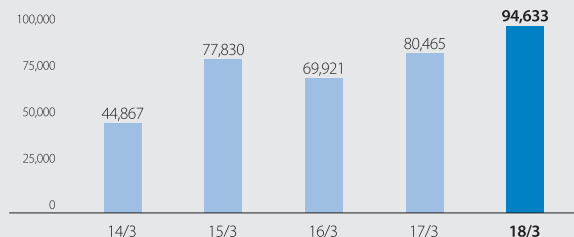
Operating Income before Amortization of Goodwill

(¥ Millions)



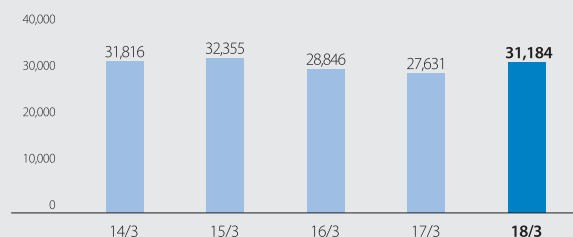
Total Assets

(¥ 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 achieved the highest record on both net sales and operating income before amortization of goodwill.

Our efforts to plant seeds for mid- and long-term growth as a global enterprise are well underway.



President and CEO
Akira Takata

Looking Back on FY2017 (Fiscal Year Ended March 31, 2018)

Both the ASIC business and the ASSP business remained strong with record-high net sales and operating income before amortization of goodwill.

The MegaChips Group is promoting measures for mid- and long-term sustainable growth with both of its core

businesses: the ASIC business which is the Group's stable business base (LSIs for customers) and the ASSP business (LSIs for specific applications) which is highly competitive in emerging markets.

As market trends for FY2017, we saw an increase in sales of game software storage LSIs (custom memory) in the ASIC business and of Smart Connectivity products (DisplayPort) and MEMS timing device products in the ASSP business. Most importantly, the MEMS products experienced growth in mobile-related sales centered on transactions with major U.S. IT companies, resulting in an approximate 50% increase in sales compared to FY2016.

As a result, the Company's net sales reached ¥89,029 million (up 32% year-on-year).

With respect to the operating income, operating income before amortization of goodwill associated with M&A (mergers/acquisitions) amounted to ¥5,520 million; operating income after amortization amounted to ¥2,709 million (up 40.6% year-on-year); and ordinary income amounted to ¥2,207 million (up 121.9% year-on-year). Meanwhile, the Company posted an extraordinary income of ¥955 million from the gain on sale of shares from Macronix International Co., Ltd. (a Taiwanese company), our business partner in the manufacture of our products, and also posted an extraordinary loss of ¥646 million from loss on retirement of non-current assets. In addition, due to a reversal in deferred tax liabilities, we recorded an approximate ¥500 million in corporate tax adjustments based on reduced tax rates in U.S. tax reform legislation. As a result, the current year profit attributable to owners of parent was ¥1,948 million (same period previous year net loss attributable to owners of parent was ¥947 million).

The record-high net sales and operating income before amortization of goodwill together with the headway made in our initiatives in growth areas have made most of FY2017 a year with steady progress.

Mid-Term Management Policies for FY2018

We will continue our global expansion in growth areas such as automotive, industrial equipment and high-speed communications.

As digital technology rapidly develops, industries and our way of living are undergoing great change. From now a shift to an industrial structure dependent on information and communication technology is expected to accelerate. As a result, the demand for electronic devices that not only high-performing, but also compact-sized and energy-efficient is increasing, and the device applications are expanding to broader areas. The need for semiconductor products as key devices is changing greatly and diversifying.

Taking these changes as opportunities for further growth, we will pursue global business development by focusing on likely areas of future expansion.

We will further expand the ASIC business by utilizing MegaChips' propriety high-speed communications core technology for such industrial device fields as automotive, FA (factory automation) and robotics. Our Company will place great importance on the proposed sales activities overseas utilizing our proprietary core technology and increase overseas net sales in the ASIC business until they

are on a comparable scale with domestic sales in the next 5 years.

In the ASSP business, we will expand in the fields of 5G telecommunications infrastructure, automotive and IoT, with MEMS timing devices at the core. MEMS timing devices are components utilized in every electronic device that generates a signal reference (clock) to operate the electronic device at the appropriate time. The MEMS timing devices developed by SiTime, a U.S. company and a subsidiary of the MegaChips Group, are silicon-based like semiconductors and offer many functions that are superior to the conventional crystal products, such as precision, high reliability, shock resistance, and low power consumption. Further, since the MEMS timing devices are ultracompact, they are perfectly suited to mobile and wearable devices and therefore are used by many companies.

Due to this superiority, SiTime products exceeded the cumulative shipment of one billion products and accounted for more than a 90% share of the MEMS timing device market. Furthermore, we have been pursuing the acquisition of new markets with new higher-performing products for mobile phone base stations (5G), telecommunications network equipment and automotive (such as products for automated driving).

Mid-Term Management Policies and Earnings Forecast for FY 2018

We will create new application and aim to achieve continuous growth as a global company to provide system solution.

Aim mid-to-long term continuous growth

Develop business in automotive/ industrial equipment/network infrastructure based on high-speed wired communication technology

Strategic move to future growth

Expand global business centering on MEMS timing device

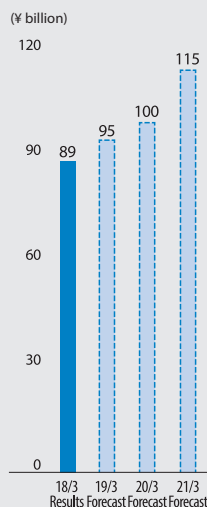
Accelerate business expansion

Win global ASIC business and intensive invest in R&D in growing market

Enhance competitive power and profitability

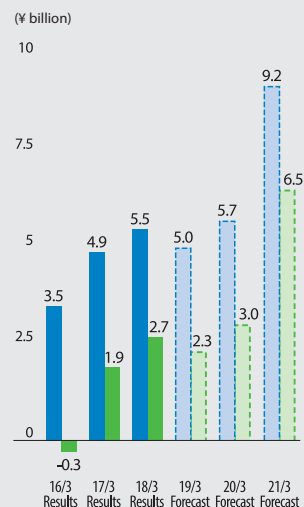
- Rapid expansion of information and communication technology
- Diversifying needs of semiconductor products, the key device of electronic equipment

Net Sales



Operating Income

■ Before mortization of goodwill
■ After amortization of goodwill



MegaChips made a strategic investment in May 2018 in Israeli-based Sckipio Corporation, the leading company in G.fast (an ultra-high-speed broadband standard) products. With adoption of this G.fast standard by several major U.S. and Europe-based telecommunications carriers, its expansion in the United States and Europe is underway and is expected to spread rapidly at the global level. We will strengthen our relationship with Sckipio through this investment and accelerate our participation in the rapidly growing network equipment and industrial equipment markets.

In this way, the MegaChips group is pursuing its policy of sustainable growth as a global enterprise.

Earnings Forecast for FY2018

We will continue concentrated investment in growth areas for continuous mid- and long-term growth.

Going forward, as the demand for electronic devices is expected to further expand, our Company group will continue to make priority investments in growth areas as seeds for the future while continuing to grow our existing business.

More particularly, we plan to strengthen our structural system by making concentrated development investments in the automotive, industrial equipment and telecommunication infrastructure fields, establishing SiTime's new design bases, making new technology

development investments, and expanding sales network.

For the consolidated results for the entire FY2018, we expect continued increases in sales in the game device and MEMS timing device areas, with estimated net sales of ¥95,000 million (up 6.7% year-on-year). We expect a decrease in profits, however, this is attributable to prior investments made for mid-to long-term growth, as mentioned previously.

Policy on Dividend

We regard the appropriate distribution of profits to shareholders as an important management issue.

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.

From now, in addition to striving to actively distribute dividends to shareholders, the Company will strive to flexibly acquire treasury shares and enhance share value and capital efficiency. We would like to ask all of the shareholders for their continued support and guidance.

Full – Year Forecast for FY2018

	(¥ Millions)	
	19/3 (Forecast)	18/3 (Results)
Sales	95,000	89,029
Operating Income before Amortization	5,000	5,520
Amortization of Goodwill *	2,700	2,811
Operating Income after Amortization	2,300	2,709
Ordinary Income	1,800	2,207
Profit Attributable to Owners of Parent	1,000	1,948
Net Income per Share (¥)	46.03	90.05

* Amortization for goodwill and intangible fixed assets attributable to corporate acquisitions

Diversity Initiatives

With the aim of creating a corporate environment where diverse peoples can thrive and grow, MegaChips has focused on the promotion of diversity since FY2014. Initially started with women's advancement as a theme, the scope of activities of Phase 1 has been steadily expanding, and diversity initiatives are now being introduced in Phase 2.

Comprehensive Picture of Activities

Phase1

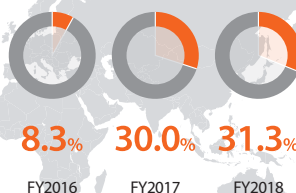
Women's advancement

Phase2

Diversity as a multinational corporation to become more competitive

In addition to strengthening cooperation by creating teams with members from both overseas operations as well as Japan, MegaChips is promoting the employment of foreign nationals as it pursues business expansion for mid-to long-term growth overseas. In the Phase 2 diversity promotion activities, we developed activities to create a structure and workplace capable of realizing smooth communications without regard to nationality.

Change in number of foreign nationals among new hires



* MegaChips' employment results (Japan)

Employees' nationalities by country



Major initiatives

- Jul. 2016 Attended International Conference for Women in Business
- Aug. Interaction with overseas operations base
- Sep. Diversity lecture
- Management training
- Nov. Panel discussion
- Dec. Awareness survey

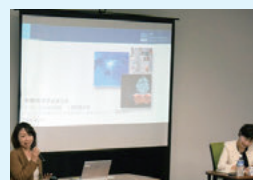
Implementation of program designed for interaction with Taiwanese employees at new employees' training

Raised awareness as "global personnel" and shared differences in cultures and values through discussions between expatriate employees and local employees.



Learning about multinational management from other companies' examples

We increased employees' awareness of issues and problems by asking the persons in charge of diversity from each company, who has experience with multinational personnel management, about examples and methods of problem-solving.



Phase2

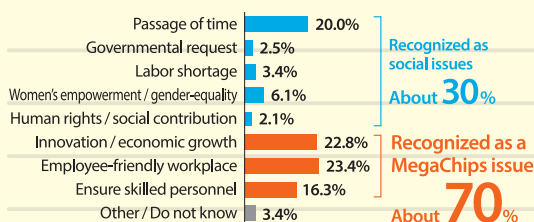
Diversity as a multinational corporation

Phase3

Work style reform

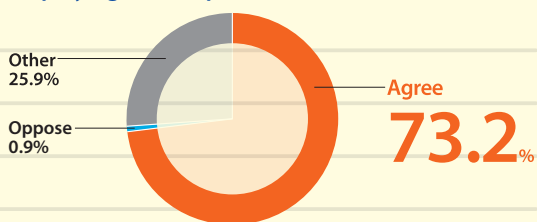
Employees' opinion poll (survey abstract, conducted in March 2018)

Reasons for promoting diversity



Acknowledging activities necessary for MegaChips' growth, such as innovation and securing skilled personnel.

Do you agree on promoting diversity, employing diverse personnel?



With many of employees agreeing with the use of diverse personnel, the acceptance of diversity is becoming prevalent.

Expectations and demands for promoting diversity

To cultivate new business, we would like to develop diversity of experience × diversity of knowledge × fertile ground for new ideas.

To facilitate communication with employees at each business base, we think it is necessary to provide training about how to express opinions based on your own thoughts.

We want to create personnel policies that target women, older persons, disabled persons, foreign nationals, time-restricted employees, LGBT, etc.

Diversity will become even more entrenched by sharing the results of promotional activities in the company report or on Intrasite.

column

View of MegaChips by New Foreign National Employees



Display Peripheral LSI Business HQ.
Fengyi Jin

I want to work internationally, using my language skills.

I came to like Japan through my experience as an exchange student during university. Since I can speak Chinese, Korean and Japanese, after improving my technical skills, and using my LSI expertise, I would like to be involved in international work, including being posted overseas.



LSI Design DIV.
Alis Ziana Binti Zaba

Even though we have different nationality, we are working together smoothly.

It has always been my dream to work in a Japanese company that has world-class technology. I am currently in charge of analog circuit design, and although, there are a lot of things that I cannot solve by myself, my senior colleagues will help me out. MegaChips' environment makes it easy for me to consult with my supervisor.

Creating Unique Products by Fusing Analog, Digital, and MEMS Technologies

MegaChips meets customers' needs based on its proprietary technologies and the research and development of applied technologies to distinguish its products from those of competitors.

To ensure our superiority and uniqueness through research and development, we promote the protection of our own intellectual property rights.

R&D Policy:

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

Major Achievements in R&D for FY2017

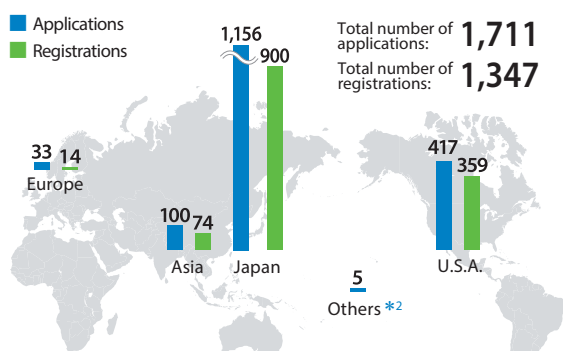
Development of LSI products	<ul style="list-style-type: none"> LSI for storing game software for game consoles Timing controller LSI for liquid crystal panels 	<ul style="list-style-type: none"> Intellectual property core and LSI for optical communications Analog front-end LSI LSI for wired (coaxial 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 high-speed cable communication technology, wired multi-hop communication protocol, time-to-digital converter and security for game consoles. A patent application was also submitted for basic and applied technologies used for analog circuit technology and image recognition system by scalable coding.

Patent Applications and Registrations by Region^{*1}



^{*1} The number of cases shown are the cumulative total as of the end of March 2018.

^{*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

Cumulative shipments of MEMS timing devices surpass the 1 billion-device mark

In February 2018, the cumulative shipment of U.S. company SiTime's MEMS timing devices reached the billion-device mark. With their superior reliability and accuracy even in harsh environments and such merits as compact size and low-energy consumption, the SiTime products are widely used ranging from FA (factory automation) and automobile to mobile devices. With more than a 90% share of the MEMS timing device market, SiTime's CEO has said that "We believe that our timing components will be the device of choice for the next 50 years."



Societal Contribution by Creating Globally-Needed Products and Services using Our Advanced Technology

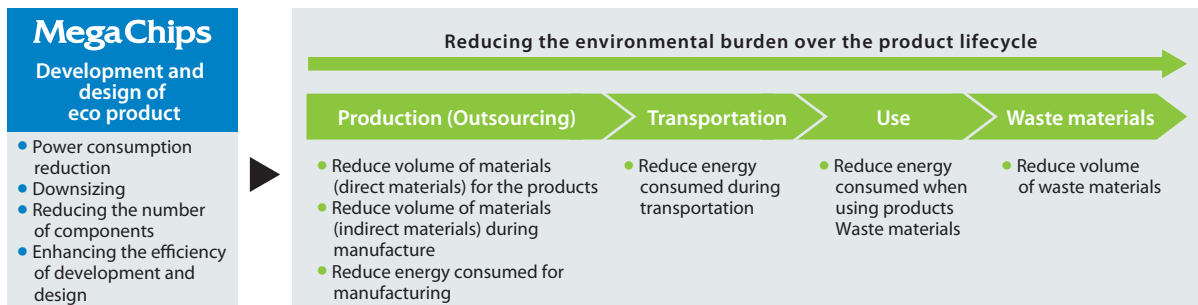
Environmental Management System

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 are 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

University students 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 and we will continue to support the contest in future years.



Awards ceremony
at the 19th Campus Venture Grand Prix Osaka

Raising Corporate Value and Practicing Sound Corporate Management

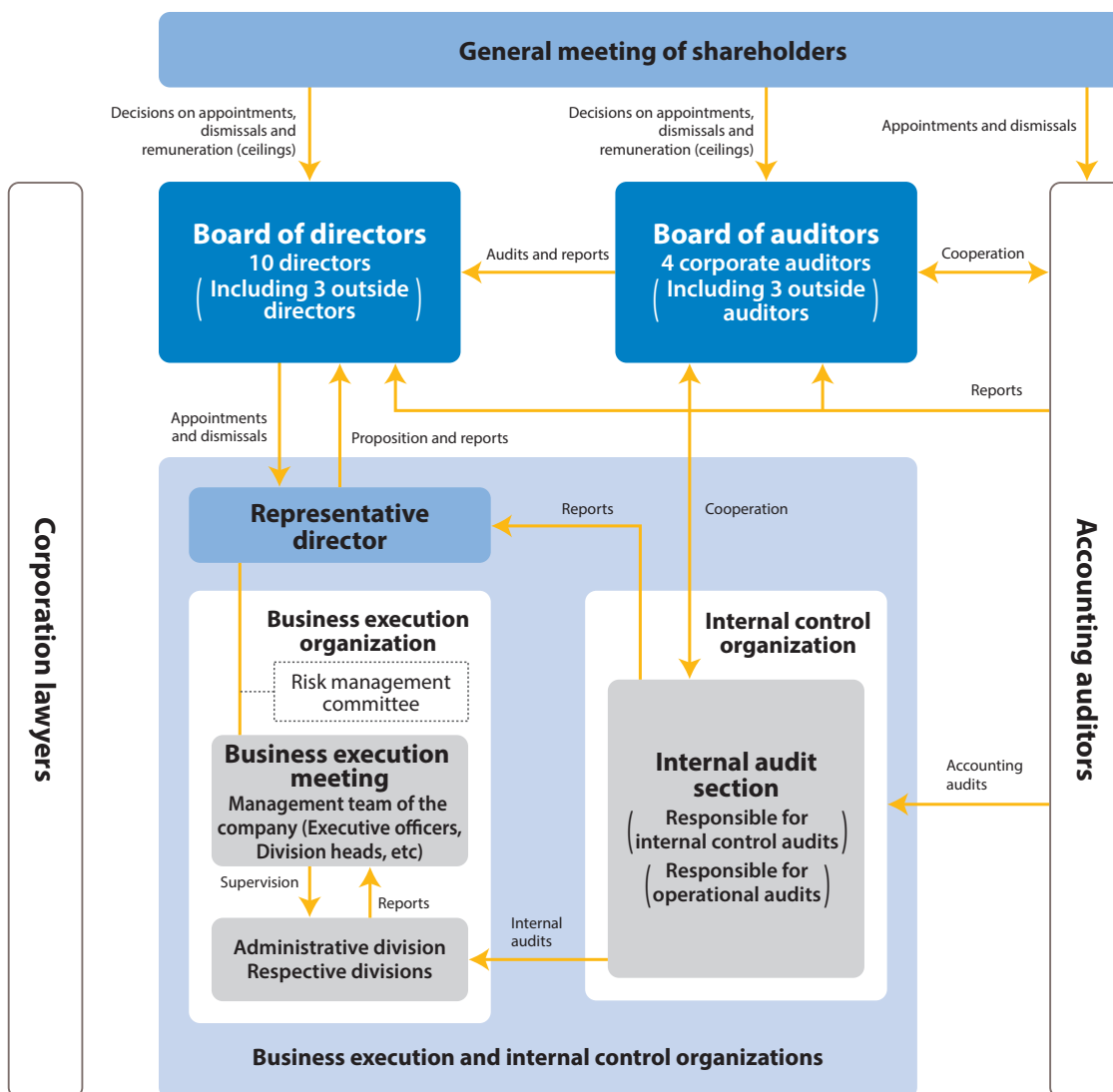
Our Basic View

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

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

Auditors and the Board of Auditors

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

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

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

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

Internal Control System

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

Instruments and Exchange Law.

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

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

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

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

The Company's internal control system covers the companies whose results are consolidated to ensure proper operations at Group companies. Each subsidiary reports the status of its execution of operations and its financial condition regularly to the Company, and the Company's business execution 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 25, 2018)

Directors



Akira Takata
President and CEO



Masayuki Fujii
Senior Managing Director



Kyoichi Kissei
Senior Managing Director



Tetsuo Hikawa
Managing Director



Yoshimasa Hayashi
Director



Yasuto Shimomae
Director



Koichi Akeyama
Director



Keiichiro Akahoshi
Outside Director



Dang-Hsing Yiu
Outside Director



Jiun-Hao Lai
Outside Director

Auditors



Tadashi Sumi
Standing Statutory Auditor



Nozomu Ohara
Outside Auditor



Keiichi Kitano
Outside Auditor

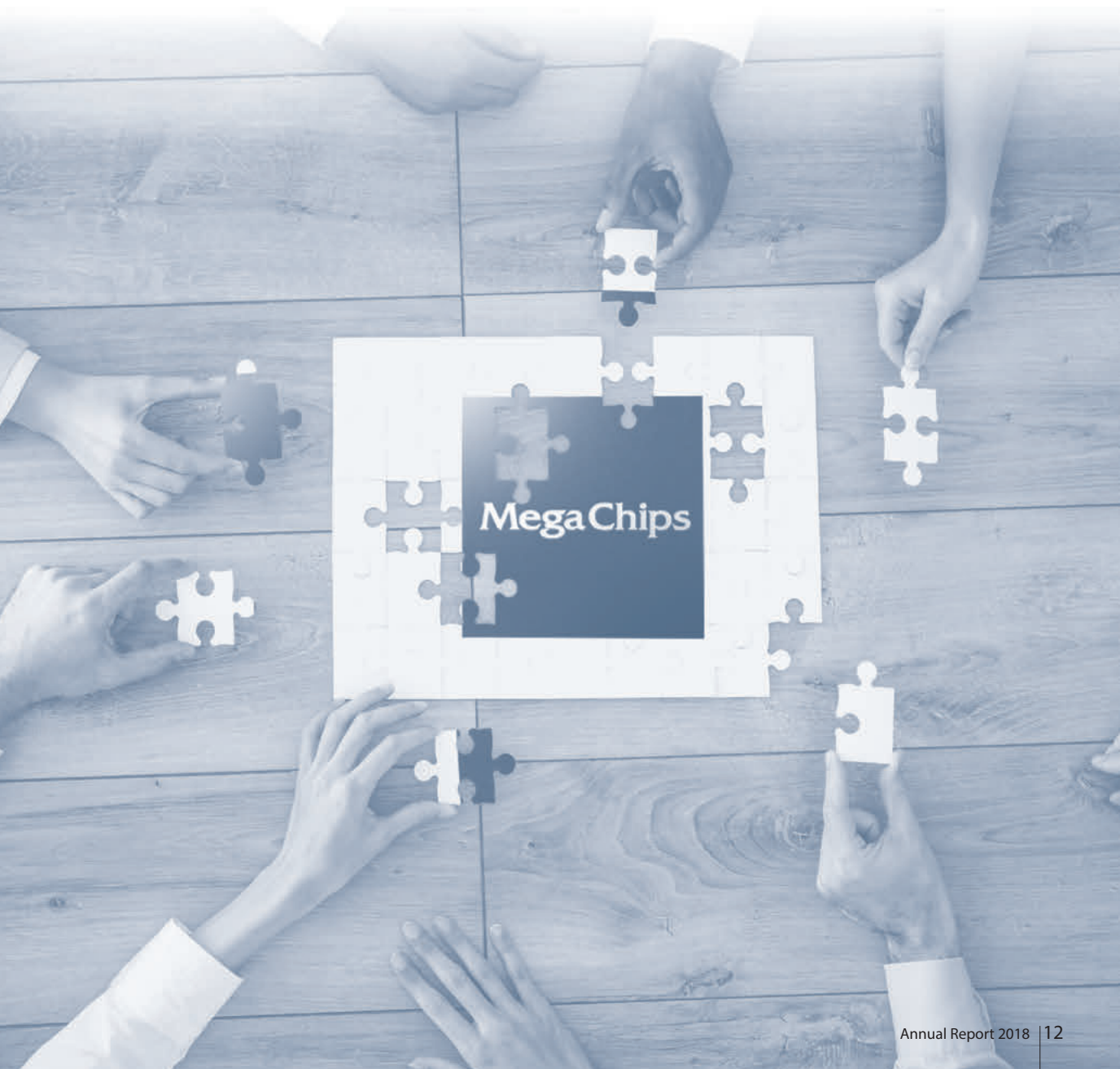


Katsuhiko Asada
Outside Auditor

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*
	2014	2015	2016	2017	2018	2018
Operating Results						
Net sales	¥ 58,469	¥ 64,237	¥ 55,662	¥ 67,438	¥ 89,029	\$ 837,999
Operating income (before amortization of goodwill)	4,173	4,895	3,513	4,922	5,520	51,961
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Profit attributable to owners of parent	4,725	1,251	(782)	(947)	1,948	18,337
R&D expenses	5,574	7,320	5,956	5,199	6,253	58,860
Financial Position						
Total assets	¥ 44,867	¥ 77,830	¥ 69,921	¥ 80,465	¥ 94,633	\$ 890,750
Net assets	31,816	32,355	28,846	27,631	31,184	293,525
Other Information						
Employees	739	942	925	851	883	883
Yen except for PER and market capitalization						U.S. dollars*
Per Share Information						
Net income	¥ 202.40	¥ 55.64	¥ (35.24)	¥ (44.14)	¥ 90.05	\$ 0.85
Net assets	1,362.64	1,438.09	1,341.86	1,280.71	1,435.37	13.51
Cash dividends	34	34	34	34	34	0.32
Stock Information (March 31)						
Stock price	¥ 1,210	¥ 1,392	¥ 1,265	¥ 3,050	¥ 3,830	\$ 36
PER (Times)	5.98	25.02	(35.90)	(69.10)	42.53	42.53
Market capitalization (Millions of yen, Thousands of U.S. dollars)	¥ 29,086	¥ 33,461	¥ 29,143	¥ 70,267	¥ 88,237	\$ 830,544
Indicators						
Operating income to sales (%) (after amortization of goodwill)	7.1	7.6	(0.6)	2.9	3.0	
ROE (%)	15.9	3.9	(2.6)	(3.4)	6.6	
ROA (%)	10.6	2.0	(1.1)	(1.3)	2.2	
Shareholders' equity ratio (%)	70.9	41.3	41.1	34.3	33.0	
Sales to total assets ratio (Times)	1.31	1.05	0.75	0.90	1.02	
Operating income per employee (Millions of yen)	¥ 6	¥ 6	¥ (0)	¥ 2	¥ 3	
EBITDA (Millions of yen)	¥ 4,955	¥ 4,460	¥ 5,234	¥ 5,394	¥ 7,100	\$ 66,834

* The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥106.24 US\$1, the rate prevailing on March 31, 2018.

Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

Analysis of Business Results

● Net Sales

MegaChips recorded net sales of ¥89,029 million (up by 32.0% year-on-year), reflecting increases in each of the game storage software LSI (custom-memory), Smart Connectivity LSI, as well as the MEMS timing device business.

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

The cost of sales for the consolidated fiscal year under review was ¥67,603 million. The cost of sales ratio was 75.9%, down by 3.7 points from the previous fiscal year, and the gross profit increased by 14.1% year-on-year, totaling ¥21,425 million.

Selling, general, and administrative (SG&A) expenses of ¥18,716 million was recorded, an increase of ¥1,872 million from the previous fiscal year, reflecting pursuit of globalization of workforce and active research and development investments. SG&A expenses mainly consisted of personnel expenses including salaries, provision for bonuses, and other items, amounting to ¥6,826 million (up 21.5% year-on-year), R&D expenses of ¥6,253 million (increase of 20.3% over the previous fiscal year), and the amortization of goodwill of ¥1,816 million associated with the acquisition of an overseas company (down by 5.2% year-on-year).

As a result, the operating income for the consolidated fiscal year under review amounted to ¥2,709 million (a 40.6% increase year-on-year).

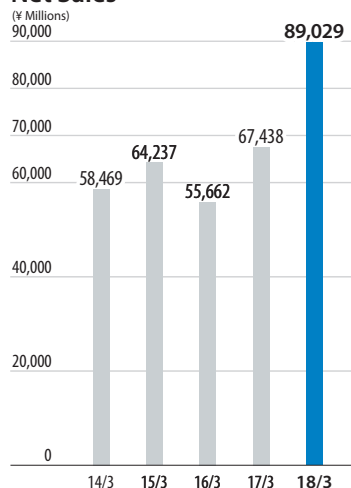
● Net Income before Income Taxes

Non-operating expenses exceeded non-operating income by ¥501 million due to foreign exchange losses of ¥250 million, which are largely attributable to the elimination of internal transactions with subsidiaries, as well as the posting of interest rates of ¥244 million for loans from financial institutions as non-operating expenses.

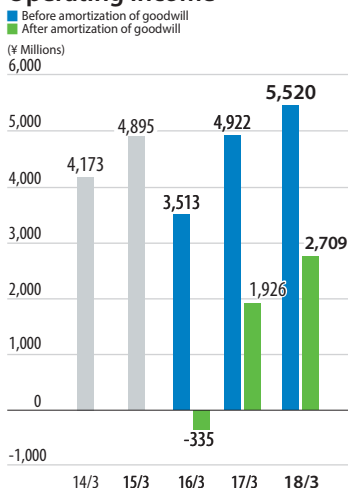
Posted an extraordinary profit of ¥955 million from the sales of investment securities of Macronix International Co., Ltd., as well as an extraordinary loss on retirement of non-current assets from the mask used in LSI development and manufacture and IP of ¥646 million, resulting in balance of ¥169 million between the extraordinary profits and extraordinary losses.

As a result, the net earnings before taxes for the consolidated fiscal year under review was ¥2,377 million (the net loss before taxes year-on-year was ¥ 294 million).

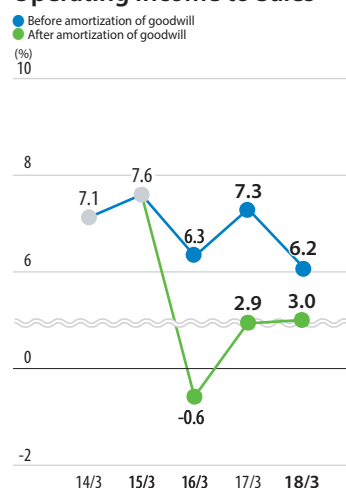
Net Sales



Operating Income



Operating Income to Sales



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

● Profit (loss) attributable to owners of parent

The current net earnings attributable to shareholders of the parent company amounted to ¥1,948 million (negative net earnings ¥947 million year-on-year) as a result of current taxes of ¥773 million (a 40.6% increase year-on-year), income taxes-deferred of a negative ¥365 million (an increase of ¥179 million year-on-year), and a profit attributable to non-controlling interests of ¥20 million.

● Dividends

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

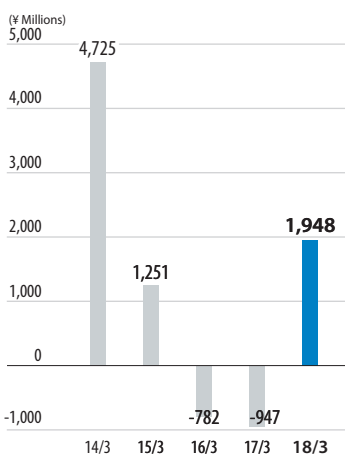
- (1) MegaChips will determine the amount of dividends by taking an amount equivalent to at least 30% of the consolidated net income attributable to owners of parent (with special factors related to accounting, financial settlement, and tax adjustments given due consideration) as the aggregate amount 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, less the number of shares held by MegaChips at the end of the period.

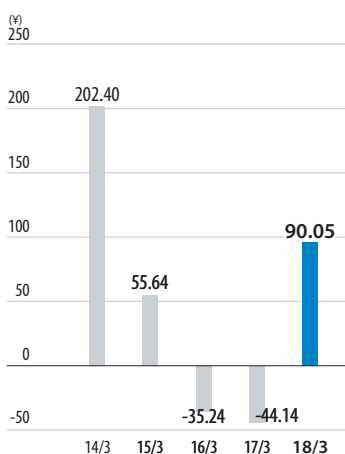
- (2) Aiming at sustainable improvements to its corporate value, MegaChips will allocate funds to basic research to create innovative new technologies, development of unique products, achievement of an appropriate business portfolio, and the securing of skilled personnel to achieve medium- to long-term growth. MegaChips will also consider maintaining a sound financial position capable of withstanding fluctuations in the business environment.
- (3) To improve capital efficiency, MegaChips will strive to return profits to shareholders by acquiring treasury shares expeditiously, taking into consideration such factors as market conditions, movements of stock prices, and MegaChips' financial situation.

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 year-on-year) to those who are shareholders as of March 31, 2018 based on basic dividend policy discussed above.

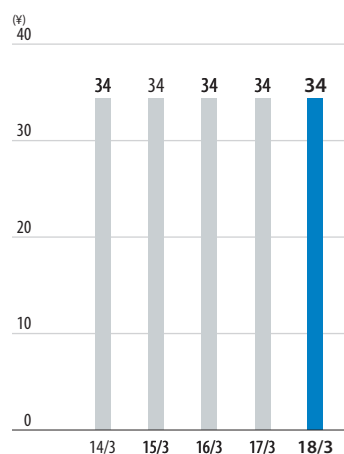
Profit Attributable to Owners of Parent



Net Income Per Share



Dividends



High Liquidity and Outstanding Reserves

● Cash Flow

Cash and cash equivalents (“net cash”) at the end of the consolidated fiscal year under review reached ¥19,449 million, an increase of ¥7,494 million over the previous consolidated fiscal year (compared with an increase of ¥1,221 million year-on-year). The status of cash flows at the end of the consolidated fiscal year under review was as follows.

Net cash from operating activities was ¥4,715 million (compared with net cash of ¥340 million from such activities year-on-year). This was chiefly attributable to net income before taxes of ¥2,377 million (net loss before taxes of ¥294 million year-on-year), depreciation expenses of ¥2,838 million and an increase in notes and accounts payable-trade of ¥2,866 million, together with an increase in notes and accounts receivable-trade of ¥5,140 million.

Net cash used in investment activities was ¥5,007 million (compared with net cash of ¥6,540 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 for ¥2,113 million, the purchase of intangible non-current assets of ¥2,838 million, and proceeds from the sale of investment securities of ¥1,181 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

investment activities, resulted in net cash used of ¥292 million (compared to net cash used of ¥6,200 million in the same period of the previous fiscal year).

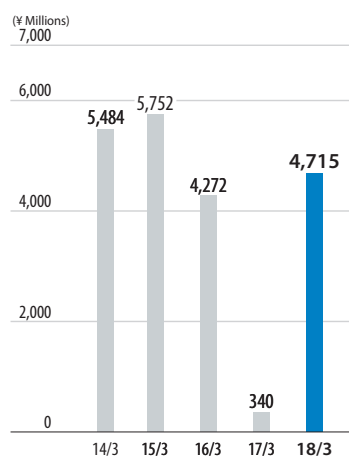
Net cash from financing activities was ¥7,954 million (compared with net cash of ¥7,439 million acquired in such activities in the same period of the previous consolidated fiscal year). This was chiefly attributable to a net decrease of ¥6,312 million in short-term loans payable, as a result of proceeds from ¥17,000 million in long-term loans payable despite repayments of ¥2,000 million in long-term loans payable.

● Capital Requirements and Financial Policy

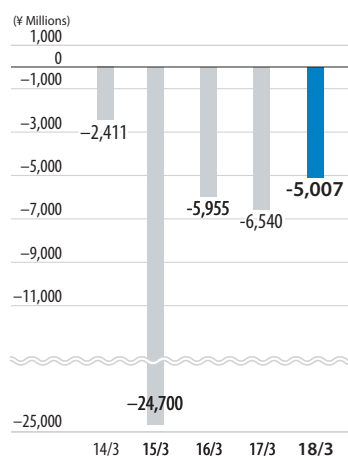
MegaChips borrows funds from financial institutions to raise working capital when necessary. Working capital is used for operating expenses, such as research and development expenses for new technology and new products, cost of goods, sales expenses as well as general management expenses, with the contract manufacturing expenses for the LSI products as the major operating cost.

In the fiscal year under review, there were no particular financing arrangements to warrant special mention. With an increase in borrowings for working capital purposes, the outstanding balance of

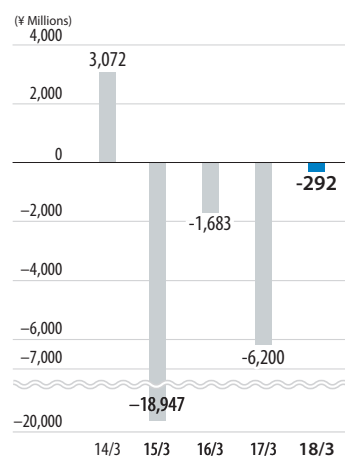
Cash Flows from Operating Activities



Cash Flows from Investing Activities



Free Cash Flow



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

borrowings from financial institutions as of the end of the consolidated fiscal year under review was ¥45,060 million.

Given its sound asset basis, financial condition, and ability to generate cash flows through its business activities, MegaChips believes it can raise the funds it needs for growth by selling accounts receivable on

hand, borrowing from financial institutions, and increasing its capital.

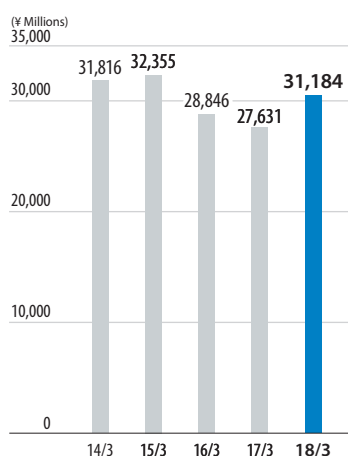
Financial Position

Total assets at the end of the consolidated fiscal year under review amounted to ¥94,633 million (an increase of ¥14,167 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 ¥57,742 million (an increase of ¥14,425 for the same period in the previous fiscal year). This is mainly attributable to increases in cash and deposits of ¥7,549 million and in notes and accounts receivable-trade of ¥5,012 million, and inventory assets of ¥630 million. Among non-current assets, goodwill saw a decrease of ¥2,293 million with increases of ¥1,856 for software and

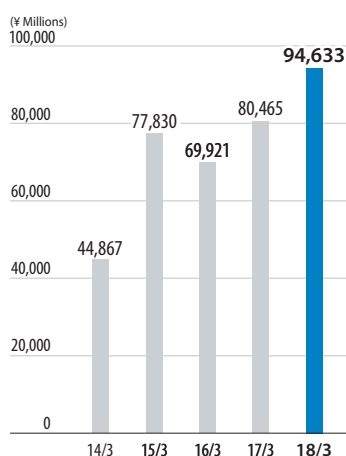
¥2,606 for investment securities.

MegaChips' asset structure is characterized by its high liquidity. Although intangible assets made up a certain percentage of non-current assets largely attributable to the corporate acquisitions, current assets accounted for 61.0% of total assets. Meanwhile, the current ratio was 155.7%, since the current liabilities are ¥37,088 million, as a result of a reduction in short-term loans payable. Current assets, obtained by deducting inventory of ¥7,344 million from those current assets, was ¥50,397 million, 53.3% of total assets. This asset structure is attributable to the fact that MegaChips is a fabless manufacturer and does not have assets such as

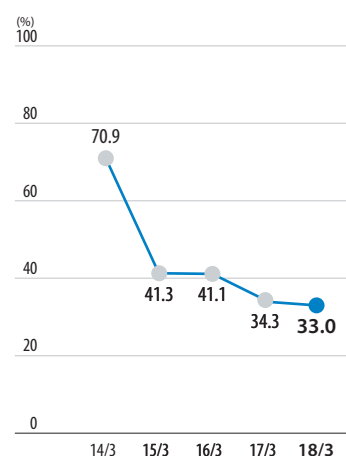
Net Assets



Total Assets



Shareholders' Equity Ratio



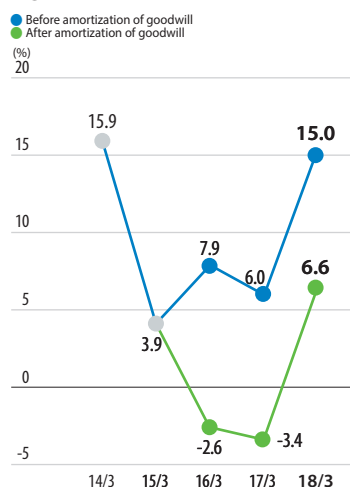
production facilities that ties up a portion of its capital on a long-term basis. MegaChips will continue to strive to improve its liquidity and maintain a sound asset base.

Total liabilities at the end of the consolidated fiscal year under review amounted to ¥63,449 million (an increase of ¥10,614 million year-on-year), which mainly consist of ¥17,060 million in short-term loans payable, ¥28,000 million in long-term loans payable (including the current portion of long-term loans payable), and trade payables of ¥11,557 million, primarily comprising outstanding payments to contracted manufacturers of LSIs. The main contributing factors were an increase of ¥2,686 million in notes and accounts payable-trade, and, in addition, as a result of meeting high capital

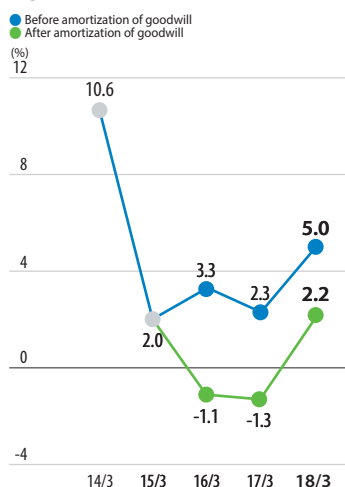
requirements, an increase of ¥15,000 million in long-term loans payable (including the current portion of long-term loans payable), and a decrease of ¥6,410 in short-term loans.

Net assets amounted to ¥31,184 million, an increase of ¥3,552 million year-on-year. The main contributing factors for this decrease were net earnings attributable to shareholders of the parent company of ¥1,948 million, surplus dividends of ¥733 million, an increase of ¥2,806 million in valuation differences on available-for-sale securities, and a decrease of ¥693 million in foreign currency translation adjustment. Shareholders' equity amounted to ¥31,184 million, a shareholders' equity ratio of 33.0%.

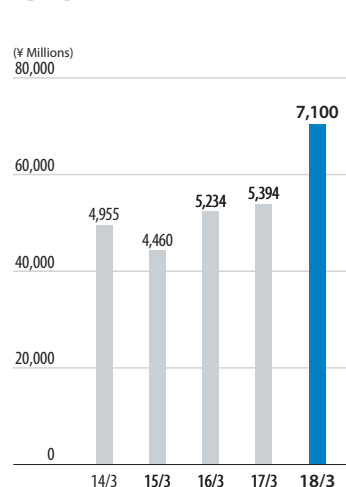
ROE



ROA



EBITDA



Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

■ Research and Development, Patents and Other Intellectual Property Rights

MegaChips invested a consolidated total of ¥6,253 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, thereby generating 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 those patents among the industrial property rights MegaChips holds by country are as follows:

Industrial Property Rights (As of March 31, 2018)

	Patents	Trademarks	IC Design Rights	Total
Issued	1,347	35	2	1,384
Applied for	364	—	—	364
Total	1,711	35	2	1,748

Patents by Country (As of March 31, 2018)

	Japan	North America	Asia (excluding Japan)	EU	Other	Total
Issued	900	359	74	14	—	1,347
Applied for	256	58	26	19	5	364
Total	1,156	417	100	33	5	1,711

■ Business and Other Risks

MegaChips has identified the following risks pertaining to its operations and other matters that may have a material impact on investors' judgment.

Forward-looking statements in this section represent the judgment of MegaChips as of June 22, 2018.

● Dependence on Specific Customers

(1) Purchasers

MegaChips principally sells LSIs for storing game software (custom memory) for use in game consoles; LSIs for game consoles and peripheral devices; LSIs for digital cameras and other image processing; timing controller LSIs for liquid crystal panels; and digital video monitoring systems for security and monitoring applications. The percentage of net sales involving LSIs for storing game software (custom memory) to Nintendo Co., Ltd. ("Nintendo") is increasing.

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

(2) Contract Manufacturers (Suppliers)

Since its foundation, MegaChips has adopted a business model in which it operates as an R&D-oriented fabless enterprise, concentrating its management resources on research and development and contracting out the manufacture of its products to third parties. Consequently, we have been able to develop products that best meet customers' needs based on our proprietary technological capabilities and to expand our business without needing 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 slight percentage of purchases are made from Macronix International Co., Ltd. ("Macronix"), which manufactures LSIs for storing game software (custom memory) supplied to our major customer, Nintendo, and LSIs for game consoles and peripheral devices.

Therefore, if Macronix become unable to manufacture, for whatever reason, MegaChips' operating results may be impacted.

Further, we have entered into manufacturing

consignment contracts with Nintendo and Macronix, respectively. We intend to build solid and close ties with these companies to ensure a stable supply of products.

● Operations

(1) Risks Associated with LSI Products

MegaChips has adopted a fabless business model, where we do not have manufacturing capacity, but instead outsource manufacturing to third parties. We outsource the manufacturing of LSI products to major foundries both in Japan and overseas.

Therefore, the demand and supply balance 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 desire.

Although our LSIs are used in state-of-the-art digital devices, since the pace of technological innovation is rapid, there is no guarantee that these products will continue to be used. Moreover, demand may fluctuate due to the effect of fierce competition to which our end products using our LSIs are subject.

(2) Risks in Strategic Investment

In the event that MegaChips engages in strategic tie-ups, including equity participation, to accelerate the growth of its businesses, the benefits that we anticipated, such as the creation of business synergies or increased earnings, may not materialize.

(3) Research and Development

Based on the management philosophy of building MegaChips' business through "Innovation", coexisting with customers over the long term through "Trust", and making an ongoing contribution to society through "Creativity", we have expanded our operations with our technological development capabilities as a base. 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 cutting-edge technologies and products to our customers, and demonstrating our "Uniqueness".

MegaChips believes that it can continue to develop and launch innovative and appealing products in the

Analysis of Sales and Financial Status

MegaChips Corporation and its Consolidated Subsidiaries

market. However, in our industry, advances in technology occur at remarkable speed 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 a competitive edge in its technologies and products. However, if other companies become dominant in the technology development competition, it will have an impact on MegaChips' operating results.

(4) Ensuring Skilled Personnel

MegaChips is expanding its operations based on its technological development capabilities in the areas of images, audio, and communications, and this business growth depends heavily on skilled personnel. It is, therefore, an extremely important business challenge to secure and retain excellent skilled personnel, as well as to determine how to treat and train these skilled personnel.

MegaChips made several corporate acquisitions and research and development investments in the growing equipment market, including mobile and wearable devices and the IoT field. As a result of the accelerated pace of global development, it is vital for MegaChips to ensure and develop an executive class and front-line managers across all divisions in overseas subsidiaries.

MegaChips will re-establish an HR system necessary for the global human resources policy, and will formulate and implement a training plan. However, if the number of skilled personnel in Japan or overseas leaving MegaChips increases in the future, or if the training of newly hired personnel or globalization efforts do not progress as planned, these factors might have a significant 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) Anti-takeover measures

Although MegaChips does not have a basic policy for corporate control, it believes that anti-takeover measures and the protection of shareholder interests against hostile acquirers are important management issues. For this reason, we have been collecting information on recent acquisitions.

(2) Accounting Auditors

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

(3) Risk Concerning the Establishment of Internal Control Systems

MegaChips takes legal compliance very seriously and considers the establishment of a corporate governance system as important managerial issue. We have consequently taken steps to strengthen such corporate governance system and enhance risk management.

Further, MegaChips also approved basic policies at the meeting of the Board of Directors for 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, conducting 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 anticipated 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 there may be 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 ties with patent law offices to actively file applications and 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 alleging infringements of the intellectual property rights of other companies, our operating results may be affected.

MegaChips' independently developed proprietary technologies may not be fully protected under 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 22, 2018), 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, 2017 and 2018

ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current assets:			
Cash and time deposits (Note 5 and 6)	¥ 19,653,114	¥ 12,103,207	\$ 184,987
Receivables			
Trade (Note 6)			
Notes and electronically recorded monetary claims operating	34,100	40,000	320
Accounts	26,742,081	21,723,961	251,713
Others	295,802	343,680	2,784
Allowance for doubtful receivables	(20,655)	(15,502)	(194)
Inventories (Note 10)	7,344,902	6,714,564	69,135
Deferred tax assets (Note 16)	869,305	884,818	8,182
Other current assets	2,824,126	1,522,820	26,582
Total current assets	57,742,777	43,317,549	543,512
Property and equipment:			
Buildings	4,749,430	4,379,050	44,704
Land	289,638	289,638	2,726
Construction in progress	1,083,264	942,483	10,196
Others	9,341,136	9,194,791	87,924
	15,463,469	14,805,965	145,552
Less accumulated depreciation	(10,271,608)	(10,190,954)	(96,683)
Total property and equipment	5,191,860	4,615,010	48,869
Intangible assets:			
Goodwill	12,616,640	14,910,416	118,756
Technical assets	4,158,266	5,089,205	39,140
Software (Note 4)	6,571,497	4,714,700	61,855
Others (Note 4)	20,655	279,530	194
Total intangible assets	23,367,060	24,993,852	219,945
Investments and other assets:			
Investments in securities (Note 6 and 7)	3,747,120	1,140,253	35,270
Long-term prepaid expenses	2,391,097	2,903,799	22,506
Deferred tax assets (Note 16)	759,994	1,205,034	7,153
Other investments	1,433,441	2,301,604	13,492
Allowance for doubtful receivables	—	(11,508)	—
Total investments and other assets	8,331,653	7,539,183	78,422
Total assets	¥ 94,633,352	¥ 80,465,595	\$ 890,750

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)
	2018	2017	2018
Current liabilities:			
Short-term loans payable (Note 6 and 12)	¥ 17,060,480	¥ 23,471,120	\$ 160,584
Current portion of long-term loans payable (Note 6)	4,000,000	5,000,000	37,650
Payables:			
Trade (Note 6)			
Electronically recorded obligations operating	3,588,239	1,777,681	33,774
Accounts	7,969,155	7,093,597	75,010
Others (Note 6)	1,976,829	1,750,923	18,607
Accrued expenses	1,704,994	1,679,148	16,048
Income taxes payable	545,353	409,665	5,133
Provision for losses on construction contracts (Note 11)	—	14,533	—
Other current liabilities	243,370	150,363	2,290
Total current liabilities	37,088,422	41,347,033	349,100
Long-term liabilities:			
Long-term loans payable (Note 6)	24,000,000	8,000,000	225,903
Deferred tax liabilities (Note 16)	1,192,469	2,078,745	11,224
Other long-term liabilities	1,168,269	1,408,518	10,996
Total long-term liabilities	26,360,739	11,487,264	248,124
Total liabilities	63,449,161	52,834,298	597,224
Net assets (Note 18):			
Shareholders' equity			
Common stock			
Authorized - 100,000,000 shares			
Issued			
23,038,400 shares in 2017			
23,038,400 shares in 2018	4,840,313	4,840,313	45,560
Capital surplus	6,183,562	6,182,338	58,203
Retained earnings	18,524,246	17,274,367	174,362
Treasury stock, at cost			
1,474,051 shares in 2017			
1,312,871 shares in 2018	(1,656,229)	(1,859,404)	(15,589)
Total shareholders' equity	27,891,893	26,437,615	262,536
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	3,241,184	434,952	30,508
Foreign currency translation adjustments	51,112	745,021	481
Total accumulated other comprehensive income	3,292,297	1,179,974	30,989
Non-controlling interests			
Non-controlling interests	—	13,707	—
Total net assets	31,184,191	27,631,297	293,525
Total liabilities and net assets	¥ 94,633,352	¥ 80,465,595	\$ 890,750

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, 2017 and 2018

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales	¥ 89,029,101	¥ 67,438,389	\$ 837,999
Cost of sales (Note 10 and 11)	67,603,129	48,667,485	636,324
Gross profit	21,425,972	18,770,904	201,675
Selling, general and administrative expenses (Note 9, 13, 14 and 15)	18,716,917	16,844,157	176,175
Operating income	2,709,055	1,926,747	25,499
Other income (expenses):			
Interest income	7,226	6,573	68
Interest expense	(244,450)	(170,065)	(2,300)
Foreign exchange losses	(250,793)	(776,719)	(2,360)
Impairment loss (Note 20)	—	(102,094)	—
Loss on retirement of noncurrent assets	(646,331)	(114,143)	(6,083)
Gain on sale of investment securities	955,059	139,553	8,989
Loss on valuation of investment securities (Note 7)	—	(1,158,251)	—
Special retirement expenses	(139,463)	(54,798)	(1,312)
Others, net (Note 21)	(13,184)	8,463	(124)
	(331,938)	(2,221,483)	(3,124)
Income (loss) before income taxes	2,377,116	(294,736)	22,374
Income taxes (Note 16):			
Current	773,926	550,601	7,284
Deferred	(365,578)	179,513	(3,441)
Total income taxes	408,348	730,114	3,843
Net income (loss)	1,968,768	(1,024,850)	18,531
Net income (loss) attributable to:			
Owners of parent	1,948,156	(947,554)	18,337
Non-controlling interests	20,612	(77,296)	194
Other comprehensive income (Note 17)			
Valuation difference on available-for-sale securities	2,806,232	1,034,920	26,414
Foreign currency translation adjustments	(701,281)	(668,903)	(6,600)
Total other comprehensive income	2,104,950	366,016	19,813
Comprehensive income	¥ 4,073,719	¥ (658,834)	\$ 38,344
Comprehensive income attributable to:			
Owners of parent	4,053,521	(580,233)	38,154
Non-controlling interests	20,197	(78,600)	190
	(Yen)		U.S. dollars (Note 1)
Amounts per share			
Net income (loss) - basic (Note 2)	¥ 90.05	¥ (44.14)	\$ 0.84
Net income - diluted (Note 2)	89.57	—	0.84
Cash dividends (Note 18)	34.00	34.00	0.32

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, 2017 and 2018

	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, 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)
Purchase of treasury shares									—
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
Cash dividends paid - ¥34.00 per share				(733,187)					(733,187)
Net income (loss) attributable to owners of parent				1,948,156					1,948,156
Change in scope of consolidation				34,910					34,910
Purchase of treasury shares					(253)				(253)
Disposal of treasury shares			1,224		203,428				204,652
Valuation difference on available-for-sale securities						2,806,232			2,806,232
Foreign currency translation adjustments							(693,908)		(693,908)
Changes in non-controlling interests								(13,707)	(13,707)
Balance at March 31, 2018	23,038,400	¥ 4,840,313	¥ 6,183,562	¥ 18,524,246	¥ (1,656,229)	¥ 3,241,184	¥ 51,112	¥ —	¥ 31,184,191

	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, 2017	\$ 45,560	\$ 58,192	\$ 162,597	\$ (17,501)	\$ 4,094	\$ 7,012	\$ 129	\$ 260,083
Cash dividends paid - \$ 0.32 per share			(6,901)					(6,901)
Net income (loss) attributable to owners of parent			18,337					18,337
Change in scope of consolidation			328					328
Purchase of treasury shares				(2)				(2)
Disposal of treasury shares		11		1,914				1,926
Valuation difference on available-for-sale securities					26,414			26,414
Foreign currency translation adjustments						(6,531)		(6,531)
Changes in non-controlling interests							(129)	(129)
Balance at March 31, 2018	\$ 45,560	\$ 58,203	\$ 174,362	\$ (15,589)	\$ 30,508	\$ 481	\$ —	\$ 293,525

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, 2017 and 2018

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 2,377,116	¥ (294,736)	\$ 22,374
Adjustments for:			
Depreciation and amortization	3,544,139	3,033,703	33,359
Amortization of goodwill	1,816,479	1,916,451	17,097
Increase (decrease) in allowance for doubtful accounts	6,612	11,357	62
Increase (decrease) in accrued employee bonuses	26,865	84,875	252
Increase (decrease) in provision for losses on construction contracts	(14,533)	9,844	(136)
Interest and dividend income	(7,226)	(6,573)	(68)
Interest expense	244,450	170,065	2,300
Foreign exchange losses (gains)	103,358	(2,822)	972
Impairment loss (Note 20)	—	102,094	—
Loss on retirement of noncurrent assets	646,331	114,143	6,083
Gain on sale of investment securities	(955,059)	(139,553)	(8,989)
Loss on valuation of investment securities	—	1,158,251	—
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables (trade)	(5,140,447)	(8,356,504)	(48,385)
Inventories	(705,769)	(1,625,639)	(6,643)
Other current assets	(239,550)	211,576	(2,254)
Increase (decrease) in:			
Payables (trade)	2,866,978	4,484,898	26,985
Other current liabilities	840,064	4,217	7,907
Others, net	213,740	165,203	2,011
	5,623,550	1,040,854	52,932
Interest and dividends received	7,471	6,699	70
Interest paid	(237,190)	(146,447)	(2,232)
Income taxes paid	(678,812)	(560,793)	(6,389)
Net cash provided by (used in) operating activities	4,715,018	340,313	44,380
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	405,613	462,307	3,817
Payments into time deposits	(469,113)	(386,272)	(4,415)
Purchase of property and equipment	(2,113,044)	(2,308,165)	(19,889)
Purchase of intangible assets	(2,838,999)	(2,839,939)	(26,722)
Proceeds from sales of investment securities	1,181,113	246,469	11,117
Purchase of investment securities	—	(250,708)	—
Payment for long-term prepaid expenses	(370,263)	(856,371)	(3,485)
Others, net	(803,172)	(607,758)	(7,559)
Net cash provided by (used in) investing activities	(5,007,867)	(6,540,439)	(47,137)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(6,312,220)	10,165,730	(59,414)
Proceeds from long-term loans payable	17,000,000	—	160,015
Repayment of long-term loans payable	(2,000,000)	(2,000,000)	(18,825)
Cash dividends paid	(732,995)	(726,383)	(6,899)
Other, net	(76)	148	0
Net cash provided by (used in) financing activities	7,954,708	7,439,494	74,874
Effect of exchange rate changes on cash and cash equivalents	(96,156)	(17,561)	(905)
Net increase (decrease) in cash and cash equivalents	7,565,702	1,221,806	71,213
Cash and cash equivalents at beginning of year	11,954,167	10,732,361	112,520
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(70,734)	—	(665)
Cash and cash equivalents at end of year (Note 5)	¥ 19,449,135	¥ 11,954,167	\$ 183,067

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, 2018, which was ¥106.24 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 2017 consolidated financial statement items have been reclassified in order to conform to the presentation for 2018.

As permitted, amounts of less than 1,000 yen are omitted in the presentations for 2017 and 2018. 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 seven 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, and SiTime Corporation.

Modiotek Co., Ltd. and its three subsidiaries have been excluded from the scope of consolidation as of the

end of the second quarter of the consolidated fiscal year due to decreased materiality attributable to the commencement of liquidation processes. The liquidation process was completed in this fiscal year.

All subsidiaries are consolidated.

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.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

Shun Yin Investment Ltd., MegaChips Corporation, China, and SiTime Corporation were consolidated 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:

	2018	2017
Buildings	3 to 50 years	3 to 50 years
Others	2 to 20 years	2 to 20 years

(7) Intangible assets

Capitalized costs of technical assets are amortized by the straight-line method over the estimated useful life of 3 to 7 years.

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.

Other intangible assets are amortized by the straight-line method.

(8) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of effect (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 estimated 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 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.

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

3. Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.
 "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 30, 2018)
 "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

- Step 1: Identify contract(s) with customers.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.

- Step 4: Allocate the transaction price to the performance obligation in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. Changes in presentation method

Consolidated Balance Sheet

The monetary materiality of software which was included as "Others" in intangible assets in the prior consolidated fiscal year has increased and is separately presented from the consolidated fiscal year ending March 31, 2018. To conform last year's presentation to this change, the prior year's consolidated financial

statement has been reclassified.

As a result, ¥4,994,231 thousand included as "Others" in intangible assets in the prior consolidated fiscal year's consolidated financial statement is reclassified to "software" (¥4,714,700 thousand) and "Others" (¥279,530 thousand).

5. 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
	2018	2017	2018
Cash and time deposits – balance sheets	¥ 19,653,114	¥ 12,103,207	\$ 184,987
Time deposits with maturity dates longer than 3 months	(203,978)	(149,039)	(1,919)
Cash and cash equivalents – statements of cash flows	¥ 19,449,135	¥ 11,954,167	\$ 183,067

6. 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 maintains 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 16.3% of the operating receivables at the end of the fiscal year ended March 31, 2018, (43.0% 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 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 99.4% (96.8% as at the end of the previous fiscal year).

All trade payables and other 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 and other 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 after considering the net position of accounts receivable - trade and accounts payable - trade and other

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

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, 2018 and 2017 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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 19,653,114	¥ 12,103,207	\$ 184,987
Fair value	19,653,114	12,103,207	184,987
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 19,653,114	¥ 12,103,207	\$ 184,987

(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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 26,755,526	¥ 21,748,458	\$ 251,840
Fair value	26,755,526	21,748,458	251,840
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 26,776,181	¥ 21,763,961	\$ 252,034

(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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 3,723,521	¥ 1,106,994	\$ 35,048
Fair value	3,723,521	1,106,994	35,048
Difference	¥ —	¥ —	\$ —

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

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

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Available-for-sale securities			
Unlisted equity securities	¥ 12,797	¥ 17,512	\$ 120
Unlisted bonds	12	193	0
Others	10,788	15,552	101

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

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

(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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 11,557,394	¥ 8,871,279	\$ 108,785
Fair value	11,557,394	8,871,279	108,785
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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 17,060,480	¥ 23,471,120	\$ 160,584
Fair value	17,060,480	23,471,120	160,584
Difference	¥ —	¥ —	\$ —
Due in one year or less	¥ 17,060,480	¥ 23,471,120	\$ 160,584

(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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 1,976,829	¥ 1,750,923	\$ 18,607
Fair value	1,976,829	1,750,923	18,607
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
	2018	2017	2018
Figures presented in the consolidated balance sheets	¥ 28,000,000	¥ 13,000,000	\$ 263,554
Fair value	28,026,750	13,037,556	263,806
Difference	¥ 26,750	¥ 37,556	\$ 251
Long-term loans payable due within one year	¥ 4,000,000	¥ 5,000,000	\$ 37,650
Long-term loans payable due after one year but within two years	8,000,000	2,000,000	75,301
Long-term loans payable due after two years but within three years	14,000,000	2,000,000	131,777
Long-term loans payable due after three years but within four years	2,000,000	2,000,000	18,825
Long-term loans payable due after four years but within five years	—	2,000,000	—
Long-term loans payable due after five years	—	—	—

7. Securities

(1) The following tables summarize the costs and carrying amounts of equity securities classified as available-for-sale securities with unrealized gains and losses at March 31, 2018 and 2017:

The following information includes equity interests in the assets of investment partnerships. Further, unlisted shares, etc., are not included in the following tables because current market values were extremely difficult to obtain due to the absence of market prices.

(i) Securities with unrealized gains

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Cost	¥ 484,791	¥ 677,467	\$ 4,563
Carrying amount	3,723,521	1,106,994	35,048
Unrealized gains	¥ 3,238,730	¥ 429,526	\$ 30,485

(ii) Securities with unrealized losses

(Equity securities)

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Cost	¥ —	¥ —	\$ —
Carrying amount	—	—	—
Unrealized losses	¥ —	¥ —	\$ —

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

- (2) Total sales, gains and losses realized for available-for-sale securities for the years ended March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Amount of sales	¥ 1,181,113	¥ 248,292	\$ 11,117
Total gain on sales	955,059	139,553	8,989

- (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, 2018 and 2017 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Loss on valuation of investment securities	¥ —	¥ 1,158,251	\$ —

8. Derivative transactions

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

9. 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, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit expenses	¥ 315,270	¥ 294,918	\$ 2,967

10. Inventories

(1) Inventories at March 31, 2018 and 2017 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished products	¥ 4,470,576	¥ 3,704,345	\$ 42,079
Raw materials	736,089	1,034,276	6,928
Work-in-process	2,135,266	1,972,771	20,098
Supplies	2,969	3,170	27
Total	¥ 7,344,902	¥ 6,714,564	\$ 69,135

(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, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Cost of sales	¥ 533,434	¥ 231,832	\$ 5,021

11. 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, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Cost of sales	¥ (14,533)	¥ 9,844	\$ (136)

12. 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, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Maximum overdraft amount	¥ 26,000,000	¥ 24,000,000	\$ 244,728
Credit line used	11,000,000	18,000,000	103,539
Available credit line	¥ 15,000,000	¥ 6,000,000	\$ 141,189

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

13. Leases

Future lease payments required under noncancelable operating lease transactions in the fiscal years ended March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 377,861	¥ 460,853	\$ 3,556
Thereafter	2,570,619	1,644,558	24,196
Total	¥ 2,948,480	¥ 2,105,412	\$ 27,753

14. Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses for the years ended March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Research and development expenses	¥ 6,253,292	¥ 5,199,116	\$ 58,860

15. 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
	2018	2017	2018
Selling, general, and administrative expenses	¥ 204,475	¥ 171,685	\$ 1,924

(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	The rights are on the condition that the executives and employees who are subject to the allocation of treasury shares are still with SiTime as of the date of payment (date of grant).	

(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

Unallocated balance at the end of the prior consolidated fiscal year	202,536 shares
Forfeited	2,455 shares
Allocated	161,258 shares
Unallocated balance at the end of the current consolidated fiscal year	38,823 shares

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

Category and number of grantees	31 employees of SiTime	
Payment dates and number of shares disposed of on each date (total)	8. June 15, 2018	38,823 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

16. Income taxes

Japan's statutory tax rate related to income was 30.8% for the fiscal year ended March 31, 2018 and 30.8% for the fiscal year ended March 31, 2017.

(1) Significant components of the Company's deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued bonuses	¥ 195,760	¥ 177,515	\$ 1,842
Provision for losses on construction contracts	—	4,477	—
Enterprise taxes	51,558	40,738	485
Accrued legal welfare expenses	30,542	29,707	287
Valuation loss on inventory	194,297	183,113	1,828
Excess software costs	422,656	522,824	3,978
Excess long-term prepaid expenses costs	17,955	9,167	169
Directors' and corporate auditors' severance benefits	9,220	9,220	86
Loss on write-down of investment securities	86,891	87,549	817
Tax losses carried forward	4,408,126	7,358,318	41,492
Tax credit for research and development expenses carried forward	644,348	515,083	6,065
Others	637,894	621,709	6,004
Total deferred tax assets	6,699,252	9,559,428	63,057
Valuation allowance	(4,962,198)	(7,455,616)	(46,707)
Deferred tax assets	1,737,054	2,103,811	16,350
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(1,221)	(2,633)	(11)
Mark-to-market valuation difference of consolidated subsidiaries upon acquisition	(1,191,828)	(2,075,075)	(11,218)
Others	(107,173)	(14,996)	(1,008)
Total deferred tax liabilities	(1,300,223)	(2,092,704)	(12,238)
Net deferred tax assets	¥ 436,830	¥ 11,106	\$ 4,111

(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
	2018	2017	2018
Current assets - deferred tax assets	¥ 869,305	¥ 884,818	\$ 8,182
Investments and other assets - Long-term deferred tax assets	759,994	1,205,034	7,153
Current liabilities - deferred tax liabilities	—	—	—
Long-term liabilities - Long-term deferred tax liabilities	(1,192,469)	(2,078,745)	(11,224)

(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, 2018 and 2017.

	%	
	2018	2017
Statutory tax rate	30.8	—
(Reconciliation)		
Expenses permanently nondeductible	10.2	—
Inhabitants per capita taxes	0.4	—
Effect of foreign tax	5.9	—
Tax credit for research and development expenses	(6.0)	—
Amortization of goodwill	23.5	—
Increase (decrease) in valuation allowance	(32.4)	—
Effect of tax rate changes	(18.4)	—
Others	3.1	—
Effective tax rate	17.2	—

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

(3) Revisions to amounts for deferred tax assets and deferred tax liabilities due to changes in corporate tax rates

As a result of the decreased federal corporate tax rates in effect from January 1, 2018 based on tax reform legislation signed into law on December 22, 2017 in the U.S., the federal corporate tax rate of 35% applicable to the consolidated subsidiaries in the U.S. has been reduced to 21%.

As a result of this change, we have reduced deferred tax assets by ¥97,299 thousand (US\$915 thousand), reduced deferred tax liabilities by ¥537,444 thousand (US\$5,508 thousand) and reduced income taxes - deferred by ¥440,144 thousand (US\$4,142 thousand).

17. Other comprehensive income

Reclassification adjustments and related taxes to other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 3,759,879	¥ 43	\$ 35,390
Reclassification adjustments	(955,059)	1,018,619	(8,989)
Subtotal before tax	2,804,820	1,018,663	26,400
Income tax expenses (benefits)	1,411	16,256	13
Valuation difference on available-for-sale securities	2,806,232	1,034,920	26,414
Foreign currency translation adjustments			
Increase (decrease) during the year	(701,281)	(657,577)	(6,600)
Subtotal before tax	(701,281)	(657,577)	(6,600)
Income tax expenses (benefits)	—	(11,325)	—
Foreign currency translation adjustments	(701,281)	(668,903)	(6,600)
Total other comprehensive income	¥ 2,104,950	¥ 366,016	\$ 19,813

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

18. 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, 2018, the Company's Board of Directors resolved cash dividends of ¥34 (\$0.32) per share amounting to ¥738 million (\$6,952 thousand). This appropriation has not been accounted in the consolidated financial statements at March 31, 2018. Such appropriations are recognized in the period in which they are approved by the shareholders.

19. Segment information

(1) Segment information

The MegaChips Group leverages unique technologies of analog, digital and MEMS and provides total solutions, including the design, development and manufacture of LSIs and MEMS timing devices under one business segment. As a result, the presentation of segment information is 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, 2018 and 2017 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
	2018	2017	2018
Net sales:			
Japan	¥ 53,655,537	¥ 36,890,894	\$ 505,040
Taiwan	23,491,272	16,569,530	221,115
Others	11,882,291	13,977,964	111,843
Total	¥ 89,029,101	¥ 67,438,389	\$ 837,999

Information concerning property, plant and equipment by geographic area in the fiscal years ended March 31, 2018 and 2017 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
	2018	2017	2018
Property, plant and equipment:			
Japan	¥ 2,096,528	¥ 2,136,446	\$ 19,733
Taiwan	628,362	585,574	5,914
America	2,321,735	1,841,708	21,853
Others	145,233	51,281	1,367
Total	¥ 5,191,860	¥ 4,615,010	\$ 48,869

(4) Net sales to major customers for the fiscal year ended March 31, 2018 were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2018	2018
Nintendo Co., Ltd.	¥ 42,135,656	\$ 396,608
Macronix International Co., Ltd.	10,059,461	94,686

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

	Thousands of yen
	2017
Nintendo Co., Ltd.	¥ 24,279,338

20. 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
	2018	2017	2018
Impairment loss	¥ —	¥ 102,094	\$ —

Notes to the Consolidated Financial Statements

MegaChips Corporation and its Consolidated Subsidiaries

21. Other income (expenses)

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

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Gain on investments in partnerships	¥ 9,287	¥ 8,497	\$ 87
Refunded consumption taxes	26,565	—	250
Borrowing fees	(29,868)	(500)	(281)
Loss on transfer of receivables	(39,238)	(2,516)	(369)
Others, net	20,069	2,982	188
Total	¥ (13,184)	¥ 8,463	\$ (124)

22. Related party transactions

Transactions with a corporate auditor, who is also the Company's lawyer, for the years ended March 31, 2018 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2017	2018
Legal advisory fees	¥ 11,900	¥ 12,900	\$ 112

Independent Auditor's Report

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, 2018 and 2017, 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, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 22, 2018
Osaka, Japan

KPMG AZSA LLC

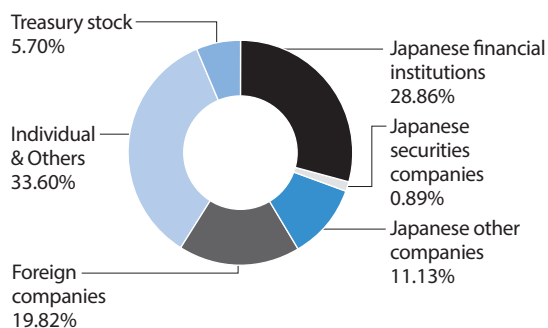
Corporate Data (As of June 22, 2018)

Company Name	MegaChips Corporation	Domestic bases	
Business Activities	Provide total solution from design and development to manufacturing for MEMS Timing Device and State-of-the-art LSIs produced by full use of our unique analog, digital and MEMS technology.	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	2755 Orchard Parkway, San Jose, CA95134 U.S.A.
Representative	Akira Takata, President and CEO	SiTime Corporation	5451 Patrick Henry Drive, Santa Clara, CA95054 U.S.A.
Number of Employees	Consolidated: 883 employees (as of the end of March 2018)	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

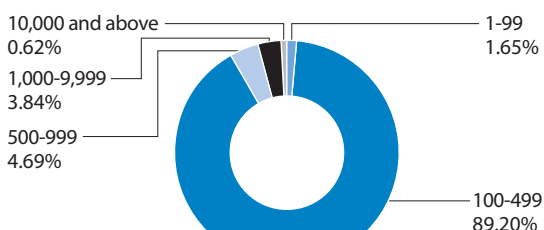
Stock Information (As of March 31, 2018)

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	17,926	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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