

Approach to Sustainability

Society as a whole is stepping up its efforts to achieve a sustainable society. MegaChips has ranked responding to issues surrounding sustainability as a key management strategic issue, and will promote sustainability-related initiatives through its corporate activities and businesses with the aim of further enhancing MegaChips’ corporate value by collaborating with its stakeholders.

Achieving a Sustainable Society

Based on its management philosophy of fueling the Company’s growth through “innovation”, having a trustworthy relationship with its customers through “trust”, creating products that benefit society through “creation”, MegaChips will contribute to achieving a more prosperous, safe, and sustainable society as a “socially, environmentally, and people-friendly company” by initiatives to solve social issues through its corporate activities and businesses.

1. Compliance with laws, regulations, and social norms

MegaChips will comply with all laws and regulations and the rules of the international community, and conduct fair and sound corporate activities that do not violate social norms in accordance with company rules and standards. MegaChips takes a firm stance against antisocial forces that threaten the order and safety of society and will fulfill its responsibility as a corporation. In addition, we will continuously work on risk management initiatives and strive to prevent and reduce various risks.

2. Contributing to society by providing superior products

MegaChips contributes to society by promptly responding to the needs of the market and its customers and providing system (device) solutions based on its proprietary technology, thereby gaining the trust of its customers. MegaChips takes on the challenge of creating new corporate value and goes to great lengths to enhance its product planning and development capabilities.

3. Respect for human rights and creation of a comfortable work environment

In addition to protecting safety in the workplace and health of all employees, MegaChips respects privacy and human rights and promotes the development of a workplace environment with diverse workstyles where staff can

demonstrate their various skills. We will also foster a corporate culture in which each employee can exercise initiative and creativity while respecting personality and individuality, and develop highly specialized and creative human resources with rich originality.

4. Promoting fair transactions with business partners and suppliers

We will build solid relationships with our suppliers and other business partners, giving due consideration to the laws and regulations of each country and international rules and norms, and engaging in fair transactions in free competition. At the same time, we will strictly prevent all forms of corruption with our business partners, including extortion and bribery. We will also strive to understand various issues, including human rights violations, in the supply chain, and promote the establishment of a sustainable supply chain.

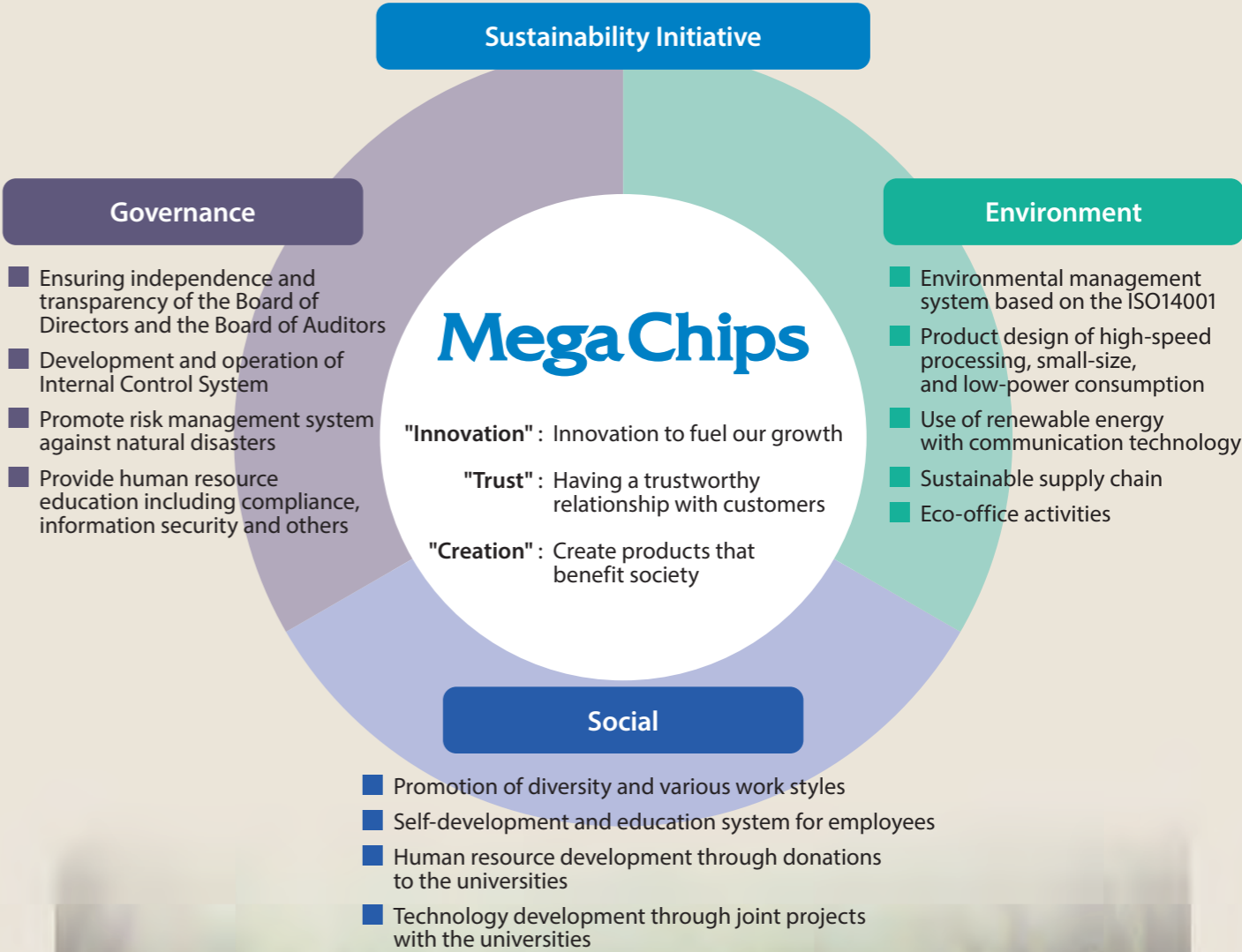
5. Respect for stakeholders

In addition to respecting viewpoint of all stakeholders, MegaChips will build relationships of trust through proactive information sharing and communication and work together with stakeholders to resolve social issues. We also respect the traditions and culture of the local communities and build trust relationships with people to contribute to the development of the communities.

6. Contributing to the preservation of the global environment and the creation of a prosperous society

Based on the belief that it is essential to promote environmental conservation in order to realize a safer future society, we will contribute to the realization of a sustainable global environment by achieving “symbiosis between the environment and management”. We will continuously work

to reduce the environmental impact of our business activities by manufacturing environmentally friendly products, increasing the efficiency of resource use in manufacturing, reducing the use of chemical substances, and reducing energy consumption during transportation.



Quality Initiatives

MegaChips established a quality management system based on the international standards, carries out thorough quality control and provides unique and reliable products to customers.

Our Quality Policy

Our greatest strength is the “fabless business model” which outsources all production and our business development based on the original, proprietary technology. We are committed to our customers’ satisfaction by improving the quality of all aspects of our operations from product designs, R&D and production management to shipment and after-sale services.

We will implement the following measures to build, operate, and continuously improve effectiveness of our quality assurance system.

- With law-abiding awareness and ethical responsibility, we comply with laws and regulations and strive to satisfy customers’ needs
- Set quality goals of company-wide and department level and promote activities to achieve those goals
- Conduct assessment of the effectiveness of our quality management system and regularly review the management system to maintain appropriateness of quality policy
- Notify all employees of the quality policy through all-hands meetings, bulletin boards, training and seminars and share as necessary according to positions and functions for quality policy management

Certified to the ISO 9001 standard

ISO 9001 is an international standard for quality management systems. Its objective is to improve product quality assurance frameworks and to increase customer satisfaction.

MegaChips has built a quality management system that also responds to requirements of the automotive products based on the ISO9001 standard, and established an organization to deliver higher quality products and services by making efforts that go beyond customer satisfaction.



Outline of ISO 9001:2000 certification

| | |
|--------------------------|---|
| Registrar | Japan Audit and Certification Organization for Environment and Quality (JACO) |
| Registered company | MegaChips Corporation |
| Locations | Head Office: 1-1-1 Miyahara, Yodogawa-ku Osaka 532-0003, Japan Tokyo Office: 17-6 Ichibancho, Chiyoda-ku Tokyo 102-0082, Japan Makuhari Office: 1-3 Nakase, Mihama-ku Chiba 261-8501, Japan |
| Certified units | Planning, design/development, and manufacturing outsourcing of System LSI |
| Exceptions | None |
| Registration date | March 27, 2006 |
| Approval Certificate NO. | QC05J0270 |
| Certificate Expiry | March 26,2024 |



Periodic quality improvement activities with contract manufacturers

Employee-Related Initiatives

MegaChips considers that human capital (human resources) is vital to the growth of the company. We are committed to promoting diversity and various work styles and enhancing workforce training so that our employees can demonstrate their abilities and achieve maximum outcomes.

Diversity

MegaChips is working to create not only a framework that allows its female employees to play an active role, thereby developing their careers and exercising their leadership skills, but also a work environment in which all employees, regardless of gender, can balance work and life and demonstrate their abilities.

Promotion of the Role of Women

MegaChips fully supports its female employees for the improvement of their existing skills or acquisition of new skills as well as career advancement with various policies aimed at raising awareness, such as leadership training and empowerment programs.



On-line training of female employees

Diverse Work Styles

MegaChips considers that a transition to a work style with high value-added productivity is essential to enhance the significance of a company’s existence in society and that a balance between work and life is important for a diverse workforce to flourish. In order to realize reforms in the way we work that are in line with these objectives, we are actively working to create an environment where employees can utilize their individuality and skills.

Childcare Leave

In addition to the parental leave stipulated by the Labor Standards Act, all employees can take childcare leave for up to two years after the date of the child’s birth. The rate of returning employees who used this system has been 100% (as of the end of June 2022).

Nursing Care Leave

Employees who wish to care for a family member in need of nursing care may take a care leave upon request.

Telecommuting/Full Flexible Working

MegaChips has a remote work system that allows employees to work from home to the extent that it does not interfere with their work responsibilities. This system has a synergistic effect with the existing full flexible work hours (no core time) to efficiently secure opportunities for employees to be active.

Support for Second Careers for Senior Employees (Flexible Work System)

MegaChips’ system allows employees who are 56+ years old to reduce both their working hours and base salary by 75% if they wish to do so and if their request is approved. This is a system designed for diverse work styles after retirement and we support the enhancement of various life events such as preparation for a second career or caring for a family member.

Self-Development and Educational Support

Based on the idea that the most effective way for people to grow is to develop their own careers, we support our employees in setting their own goals and developing their abilities autonomously.

Learning Language Support

Under the basic idea that language is something you learn on your own, for your own sake, the company subsidizes the tuition fees of external services to encourage employees.

E-learning Training by Job Level

We continuously provide education and training according to job rank and role so that each employee can further improve their skills, awareness, and behavior. We ensure equal educational opportunities of e-learning programs even under remote work system.

Environmental Initiatives

MegaChips regards a promotion of global environmental conservation as one of our most important factors in business management. We contribute to achieve sustainable society through our business activities, products and services.

Environmental Management System

The environmental protection is a prerequisite for future generations. MegaChips is committed to achieving symbiosis between our business and the environment, contributing to a greener and cleaner Earth. To achieve this, we have developed an environmental management system complying with ISO14001.



Major Environmental Preservation Activities

- Provide “Eco-Friendly and Recycling-Oriented Products” of low-power consumption and small size
- Work on to “Reduce Environmentally Hazardous Chemical Substances and Conduct Green Procurement” based on our unique green procurement guidelines
- Put in an effort to “Promote Eco-Office Activities” for saving energy and natural resources
- “Observe Regulations on Conflict Minerals Reporting Requirements” and “Compliance with Laws and Other Requirements”

Certified to the ISO 14001 Standard

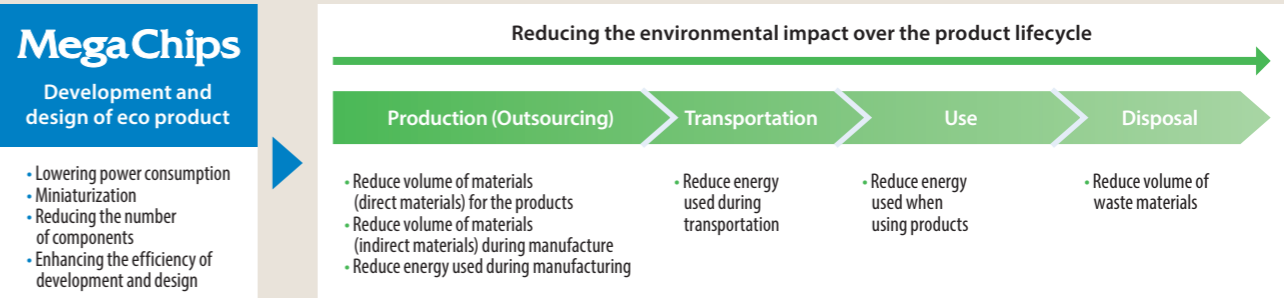
ISO 14001 is an international standard for environmental management systems. It has been created for the purpose of minimizing the environmental impact of corporate activities. MegaChips has established an environmental management system based on the ISO 14001 standard, as part of its ongoing commitment to reducing global environmental impact.



Eco Products

MegaChips has grown through the philosophy of “innovation” to develop the Company’s business, “trust” to maintain its coexistence with customers, and “creativity” to continue to contribute to society. Based on this management philosophy, MegaChips will develop and grow together with its customers and contribute to the conservation of the global environment by using its unique technological capabilities to improve the functions, performance, and quality of LSI, including low power consumption, miniaturization, and high-speed processing, as well as by providing solutions that save energy and resources.

Environmental Load Reduction with the Development of Eco Products



Examples of Products

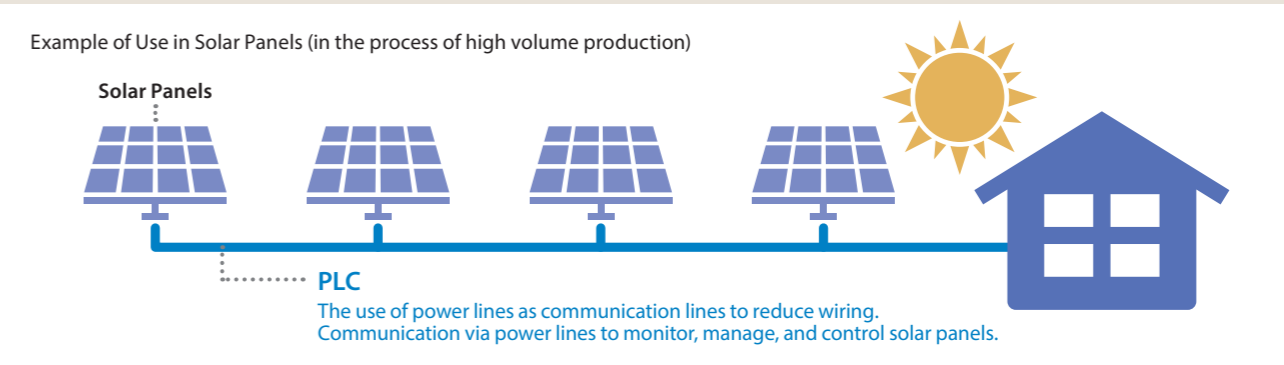
1) ASIC Design for Lower Power Consumption

The pursuit of lower power consumption in ASIC (Application Specific Integrated Circuit) development is essential now that environmental considerations are becoming increasingly important. Taking advantage of the strength of being a fabless company, MegaChips has achieved a significant reduction in ASIC’s power consumption by aggressively adopting low-power manufacturing processes provided by wafer fabrication vendors around the world and specialized libraries for low-power consumption provided by IP vendors. In the most recent concrete example, the application of technologies that dynamically control the CMOS transistors’ operating voltage achieved a more than 50% reduction in power consumption compared to when these methods were not incorporated.

These ASICs will be used in various application area, including industrial equipment, communications equipment, and IoT devices, and will contribute to supporting people’s lives while being environmentally friendly.

2) Contributing to the Use of Renewable Energy with High-Speed Power Line Communication

PLC (Power Line Communication) is a technology that uses power lines as communication lines as well. MegaChips’ LSI for high-speed PLC is, for instance, used in solar panels and contributes to use of renewable energy deployment. In addition, PLC is applied to systems that stabilize the balance between supply and demand of electricity.



Climate Change Initiatives

Climate change is an important issue that must be addressed by society as a whole, not only because it affects all aspects of human life, but also because it poses a major threat to security, the geopolitical environment, and natural resources. MegaChips takes future climate change-related events as risks, while identifying new opportunities for managerial strategy in accordance with TCFD recommendations.



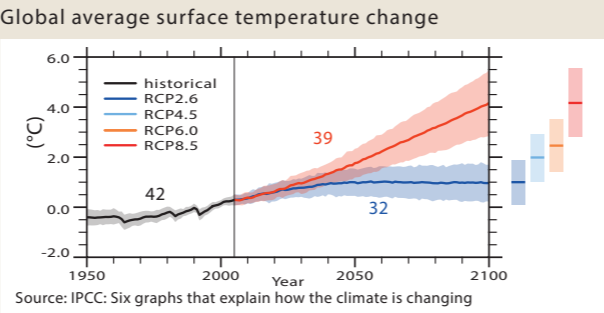
Governance

MegaChips’ corporate governance system (P36) involves the review and analysis of the financial impact of climate change on the Company and related responses by a team formed with representatives from the relevant divisions.

The team analyzes and understands the impact of climate change in terms of both risks and opportunities, as well as encouraging the review of responses to identified risks and opportunities and striving for enhanced disclosure of information related to climate change in accordance with the TCFD recommendations.

Strategies (Scenario Analysis)

Based on the impact of climate change, and in order to achieve a society in which the increase in global average temperature is limited to 2°C, MegaChips has identified risks and opportunities under two scenarios in FY2030, one involving a 2°C temperature increase and the other involving a 4°C temperature increase, and has analyzed their respective impacts on our business and considered countermeasures in order to achieve a society in which the increase in global average temperature is limited to 2°C. We will continue to improve the accuracy of our scenario analysis and use it to set targets and promote each initiative to achieve those targets.



Risk and Opportunity

1. Risk Recognition and Response

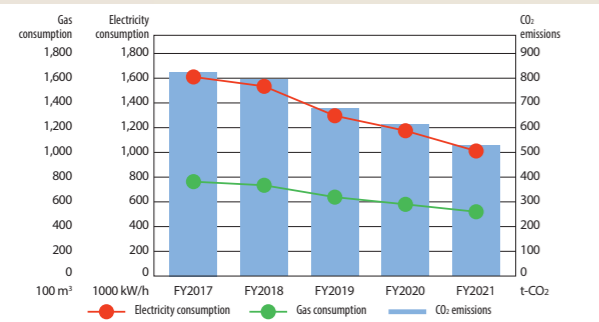
Risk of transitioning to a low-carbon economy and financial impact in response to climate change

As a fabless manufacturer that specializes in product design & development, and outsources its production, MegaChips does not own any manufacturing facilities. Therefore, the impact of climate change on long-term assets such as buildings and equipment is negligible.

In addition, we have been enhancing our equity capital in preparation for increased R&D expenses for product development in response to the low-carbon economy, and have established a strong financial base that is sufficient to meet any increase in demand for necessary funds.

Energy consumption at our domestic business sites is as follows.

MegaChips will continue to collect and manage energy consumption data and conduct our business operations in an energy- and resource-efficient manner.



| | Electricity consumption (kW/h) | Gas consumption (m³) | CO2 emissions (t-CO2) |
|--------|--------------------------------|----------------------|-----------------------|
| FY2017 | 1,610,296 | 76,396 | 819 |
| FY2018 | 1,534,428 | 73,407 | 788 |
| FY2019 | 1,301,397 | 63,824 | 672 |
| FY2020 | 1,175,139 | 58,133 | 607 |
| FY2021 | 1,011,365 | 52,019 | 521 |

The following are risks with financial impact based on an anticipated transition to a low-carbon economy.

- Increased labor costs due to tighter environmental laws and regulations
- Increased development costs of LSI products for customers’ products for a low-carbon economy
- Decreased demand for customers’ products due to changes in consumer behavior
- Increased costs for energy and raw material costs at outsourced production sites
- Increased transportation costs for LSI products

Physical risks and financial impact from extreme weather conditions

Items with financial impact on physical risks due to extreme weather conditions are a decrease in manufacturing capacity at outsourced manufacturer’s production sites and an increase in energy costs for managed use of air conditioning are expected due to higher temperatures.

Response to risk items with financial impact

MegaChips will evaluate and implement the following measures in response to the risk items mentioned above.

- Identify and reduce GHG (greenhouse gases) emissions in collaboration with outsourced manufacturing partners
- Reduce development costs by revising the conventional development processes
- Develop low-power-consumption LSI products for a low-carbon economy
- Strengthen the growth of new business fields
- Reinforce the supply chain’s backup system
- Reinforce the information collection system and restructure the BCP (business continuity plan) system by strengthening cooperation with contract manufacturers
- Expand the scope of contract manufacturing companies and promote multiple locations

2. Opportunity Recognition and Initiative

Opportunities related to climate change

With respect to the opportunities that will be brought about as the mitigation of climate change and climate change initiatives progress, we expect to secure profit-earning opportunities through increased demand for LSI products, social contributions and recognition through energy-saving products, and aggressive investment in new product development through flexible raw material procurement.

Specifically, in terms of product sales opportunities, there will be an increase in the supply to the market of low-power consumption LSI products and LSI products that respond to the energy-saving and miniaturization of customer products, and in terms of product development, there will be an increased need for aggressive development investments that promote advanced technology development and research to meet customer needs. In addition, if the conditions for raw material procurement are relaxed, it will be possible to develop LSI products with new materials and reduce costs by stabilizing and streamlining the production of existing products.

Addressing opportunities

In order to connect opportunities related to climate change to business, we will supply the market with low-power LSI products that respond to a low-carbon society and LSI products that contribute to the energy saving and miniaturization of customer products, and promote proposal-based sales that meet customer needs.

In addition, we will invest in the development of advanced products using new raw materials and concentrate our management resources on business fields where market expansion is anticipated, in order to expand our business. At the same time, in order to create new businesses, we will promote partnerships with companies and universities in Japan and overseas, and form alliances with start-ups in the United States through investing in CVC funds.

Risk Management

MegaChips will conduct risk management under a system that the risks brought by the climate change and their impacts are analyzed, evaluated and managed by a team formed with representatives from the relevant divisions, and reported to the Bord of Directors.

Supply Chain Initiatives

Since its founding, MegaChips has built smooth supply chains and developed strong trusting relationships with experienced foundry partners and established a production system to achieve high manufacturing quality and stable supply.

Selection and Approval of Partners

For MegaChips, as a fabless company, partners such as contractors for wafer production, assembly, and testing, and suppliers of various materials are one of the most important management resources. MegaChips has strict screening criteria for selecting partners and conducts periodic evaluations. For this reason, the partners that MegaChips approves are industry-leading companies that not only have high quality and advanced technology, but also give consideration to CSR and sustainability.

Contractor selection and Management (refer to ● in the diagram of Supply chain management on the left page)

The quality of contractors (production contractors and suppliers) who have an impact on qualities of mass-produced LSI products is reviewed when selecting a new contractor for new products and when replacing contractors for existing products with others. The evaluation criteria are quality approval, price, delivery time, customer service, technical support, and credit check. Only those contractor candidates that pass the review will be approved as a contractor.

Approval of Contractors (refer to ● in the diagram of Supply chain management on the left page)

Review for approval is conducted for selected contractors when determining whether to start new transactions or transactions outside the scope of the existing approval. The review involves five criteria: quality management system (QMS), environment-related substance management, quality control, production technology (manufacturing technology), and production management. Periodic evaluations are also conducted, and approval is revoked if the score rate obtained falls below the standard or if a material defect or change occurs. Re-approval is required to resume transactions.

Green Company Certification (refer to ● in the diagram of Supply chain management on the left page)

MegaChips evaluates the environmental and chemical substance management of every supplier based on its “Green Company Certification Standard” and determines whether they qualify as green companies. The evaluation process is based on the “Guidelines for the Management of Chemical Substances in Products” established by the Japan Electronics and Information Technology Industries Association (JEITA), an industry organization.

Partnership Management

We hold regular meetings with our major contractors to monitor their production and quality status in a timely manner, and to exchange and share information.

MegaChips Policy on Conflict Minerals

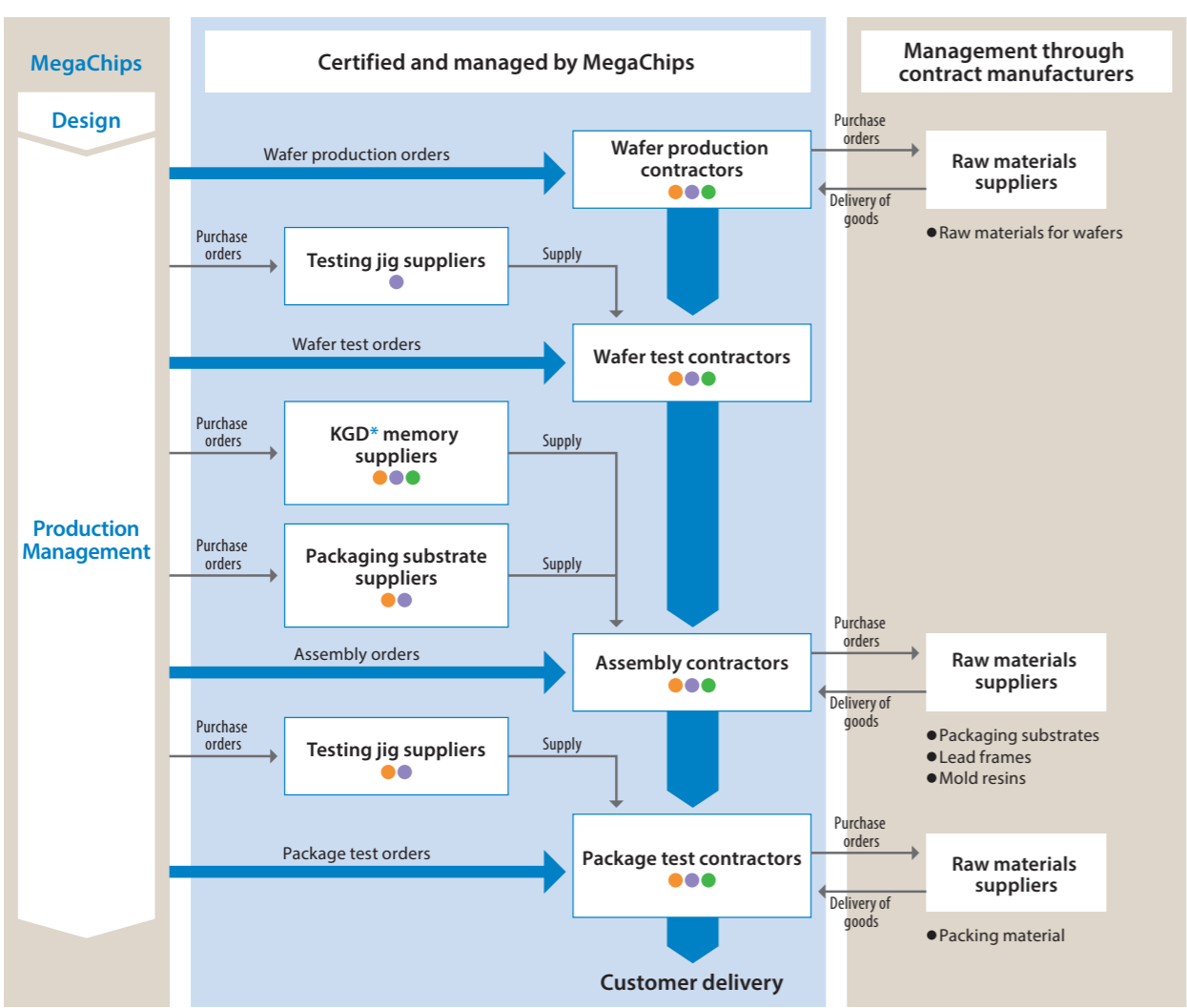
There is a concern that the purchase of the certain minerals resource finance armed groups that infringe human rights and damage the environment in the Democratic Republic of the Congo (DRC) and 9 adjoining countries. To avoid contributing to such armed groups, the United States Securities and Exchange Commission (SEC) final rule under the Dodd-Frank Act of 2010 designated “Conflict Minerals” as tantalum, tin, tungsten, and gold, and requires an annual report about whether the company’s own products include “Conflict Minerals” that finance such armed groups in DRC and adjoining countries.

To contribute to our customers’ secure procurement, MegaChips has made a policy to not procure “Conflict Minerals” that finance armed groups, and take following actions;

- 1. Identify the smelters of the “Conflict Minerals” by supply chain inquiry and confirm that the smelters do not source “Conflict Minerals” that finance armed groups in DRC and adjoining countries using CMRT and CRT, international uniform format.
- 2. Request our suppliers to support our policy of not procuring “Conflict Minerals” that finance armed groups, and to cooperate proactively with “Conflict Minerals” smelter inquiry.



Supply chain management



* The term KGD (known good die) is a bare chip that is guaranteed to be good. ● Contractor selection and Management ● Approval of Contractors ● Green Company Certification