



MCC REPORT 2022

MCC Report
for Fiscal Year Ended March 31, 2022

MegaChips

CONTENTS

About MegaChips

- 02 Vision
- 04 History
- 06 Value Creation Process
- 08 MegaChips in the Numbers

Management Strategy

- 10 Top Message

Product Information

- 16 Products and Businesses
- 22 R&D


ESG Initiatives

- 26 Approach to Sustainability
- 28 Quality Initiatives
- 29 Employee-Related Initiatives
- 30 Environmental Initiatives
- 32 Climate Change Initiatives
- 34 Supply Chain Initiatives
- 36 Corporate Governance
- 38 Board of Directors and Auditors

Financial Section

- 41 Five-Year Summary
- 42 Analysis of Sales and Financial Status
- 48 Financial Statements
- 53 Corporate Data





Editorial Policy

This report is an important communication tool that we edit and publish with the aim of helping all of our shareholders, investors, and various other stakeholders to understand the Company's corporate activities. The emphasis is on communication about the Company's initiatives to create value over the mid- to long-term as well as major environmental, social, and governance issues in an easy-to-understand manner.

Reporting Period

Fiscal year ended March 31, 2022 (April 2021 to March 2022)

However, we will report about matters outside this period when it is appropriate to show past history, data, or recent incidents.

Cautionary Note Regarding Future-Looking Statements

Any statements in this report that are not historical facts are forward-looking statements based on our outlook and plans for the future. These forward-looking statements involve risks, uncertainties, and other factors that may cause our actual results and performance to differ from those discussed in the forward-looking statements. Investors are advised to refer to the Company's future filings under the Financial Instruments and Exchange Act and other materials disclosed by the Company.

経営理念

革新により社業の発展を図り
信頼により顧客との共存を維持し
創造により社会に貢献し続ける
存在でありたい

Management philosophy

“Innovation”: Innovation to fuel our growth

“Trust”: Having a trustworthy relationship with customers

“Creation”: Create products that benefit society

MegaChips' Unchanging Core Values

1990 was the year when Japanese electronic giants rapidly increased capital investment in DRAM production and dominated the global semiconductor market.

MegaChips emerged as Japan's first fabless semiconductor manufacturer to provide solutions of innovative system LSI.

Support the business success of customers with creative technology and innovative solutions.

This concept has been one of our unchanging core values.

History of MegaChips

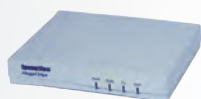
Since its establishment in 1990, MegaChips has used its proprietary technologies to create a series of market-leading advanced technologies and products. MegaChips will continue to create products that support our customers to solve the problems and contribute to achieving a prosperous future society.



The first 7 employees in a meeting when MegaChips started



LSI for wide TV window control



Miniature, lightweight video transmission server

1990-

Founded as Japan's first fabless system LSI manufacturer

Main Achievements

- LSI for game consoles (ASIC)
- LSI for facsimile image processing (ASIC)
- LSI for wide TV window control (ASSP)
- Miniature, lightweight video transmission server (System device)

2000-

Expanded application fields by developing products that reflect digitalization trends

Main Achievements

- JPEG2000 LSI (2004) World's first
- Multimedia processing LSI for 3G cell phones (ASSP)
- LSI for digital single-lens reflex cameras (ASSP, ASIC)
- LSI for digital terrestrial broadcasting reception (ASSP)
- Network cameras (System device)
- Digital image transmission servers (System device)
- Digital video recorders (System device)
- Wireless intercom (Adopted wireless LAN in 2007) World's first
- JPEG XR IP (2009) World's first



Multimedia processing LSI for 3G cell phones



LSI for digital single-lens reflex cameras



Digital image transmission servers



LSI for One-Seg



One-Seg Module



Network cameras

1990-

1990
Establishment

1991
Started customer specific LSI business

1995
Started MegaChips-brand application specific LSI business / Systems products business

1998
Tokyo sales office opened
Public stock offering

2000-

2000
Listed on the First Section of Tokyo Stock Exchange

2004
Obtained ISO14001 certification

2006
Obtained ISO9001 certification

2008
NTT DOCOMO, Inc. launched a model equipped with "VIVID message", jointly developed with Acrodea, Inc.

Global Actions

1993
Digitalization of Japanese cell phone services

1995
Release of Windows 95 / Spread of the Internet

2000
Start of broadband services

2001
Start of 3G cell phone services

2006
Start of digital TV broadcasts

2007
Release of iPhone / Increased spread of smartphones globally

For The Future

Accelerate a growth
focusing on the fields of
industrial equipment,
telecommunication
and AI

2013-

Enlarged business to Global Market

Main Achievements

- LSI for office equipment
- Timing controller LSI for liquid crystal panels
- Intelligent sensor hub LSI
- Full digital video recording and transmission systems
- Intellectual property core and LSI for optical communications
- Analog front-end LSI for home networking
- Analog front-end LSI for access networks
- High-speed PLC communication LSI for industrial applications



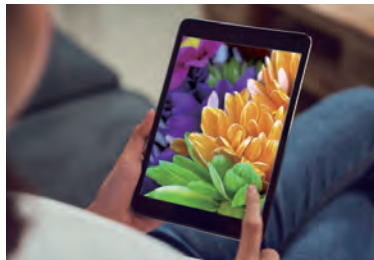
LSI for industrial communications



LSI for home networking



LSI for office equipment



LSI for liquid crystal panels

2013-

2013

Management integration
with Kawasaki Microelectronics
MegaChips Taiwan Corporation was
established as regional headquarters

2019

Announced the world's
first communication
technology LON HD-PLC
bridge with Gesytec GmbH

2020

MegaChips LSI USA
Corporation started
a business activity as
a sales base of
North America

2021

MegaChips LSI USA Corporation established
a Corporate Venture Capital Fund

2022

MegaChips transitioned to "Prime Market" of TSE
MegaChips LSI USA Corporation established CVC2

2020-

2013

"Industry 4.0",
German domestic organization
implementation accord

2016

Announcement of Japanese
government's "Society 5.0" policy

2020

Start of commercial operations of
5G services

2014

Start of driverless car on public road tests in U.S.

Value Creation Process

As a fabless manufacturer, MegaChips designs, develops, and manufactures innovative LSI that meets the needs of the customers with its unique technologies. LSI itself is not visible and does not function on its own. However, we are convinced that we can create social and economic value that contributes to solving customers' needs and social issues and realizing a sustainable society by offering advanced technologies incorporated in a variety of products and systems.

Social Issues and Needs

- Aging society and decline in working population
- Climate change, disaster prevention and mitigation
- Energy and resource conservation, and use of renewable energy
- Enhancement of social infrastructure and acceleration of technological innovation
- Diversified lifestyles and work styles

Management Philosophy

Unchanging core values
since foundation in 1990

Innovation

Trust

Creativity



INPUT

- | | |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| • Financing Capital | Net assets: 67.4 billion yen
Equity-to-asset ratio: 75.1% |
| • Human Capital | 343 employees |
| • Manufacturing Capital | Foundry partners
Obtained ISO 9001 and 14001 certifications |
| • Technical Capital | Telecommunication technology
Image processing technology
Display related technology
SoC Technology
Implementation technology |
| • Intellectual Capital | Number of patent application: 768
Number of patent registration: 719 |



Core Competence

- Japan's first fabless manufacturer
- Providing solutions for LSI systems
- Manufacturing system with solid supply chain
- Customer-oriented business accumulated over many years

Economic
Value

Social Value

Solve Social Issues

- Contributions to entertainment by providing solutions for game consoles
- Stable telecommunication networks by improving telecommunications infrastructure
- Realization of smart city with Edge AI
- Realization of energy savings through high-speed, reduced size, and lower power consumption products
- Safe and secure connected services with high-speed communication systems

Contributing to a safer, more comfortable, and more convenient lifestyle in order to realize a sustainable society

Customer Products

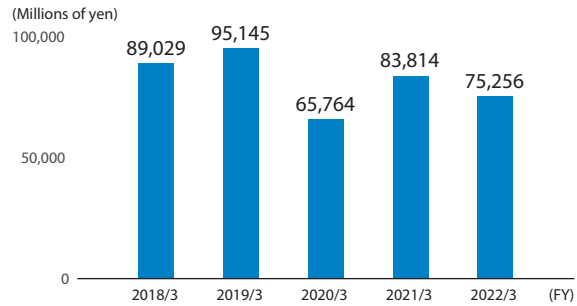
- Industrial Equipment
- Game Consoles
- AI • Robotics
- Telecommunications Infrastructure
- Factory Automation
- Energy Control

OUTPUT

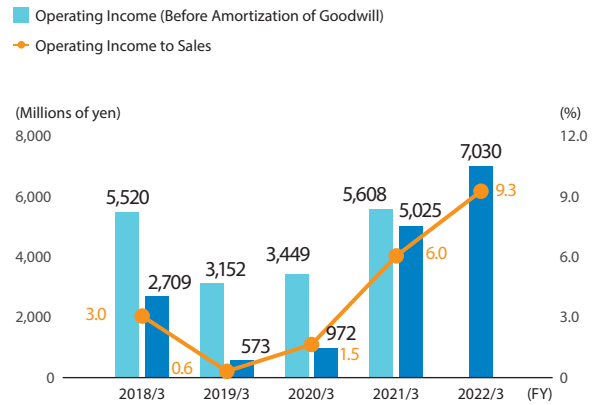
- LSI technology and services that realize customer needs
- Profit return to shareholders and investors by increasing corporate value
- Value proposition to employees
- Technological support and collaboration with universities and companies
- Investment in future engineers

Financial Highlights (Consolidated Basis)

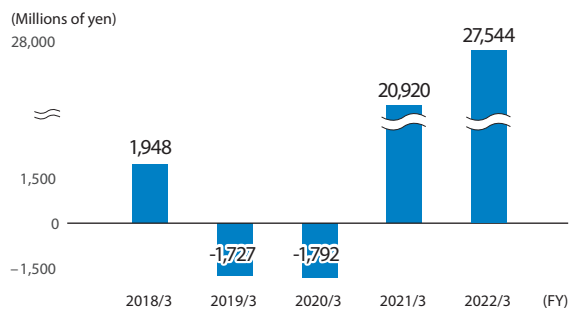
Net Sales



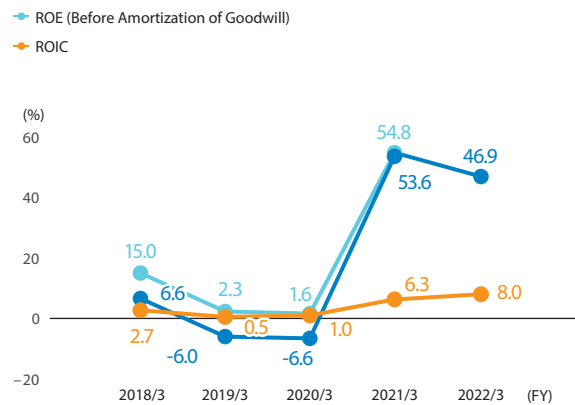
Operating Income and Operating Income to Sales



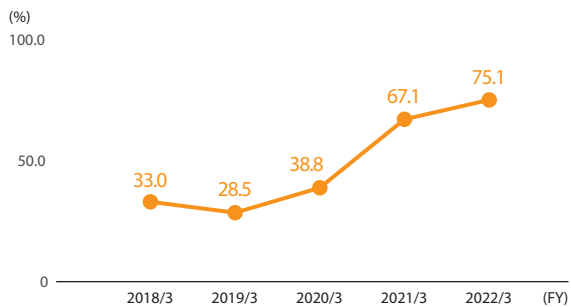
Profit Attributable to Owners of Parent



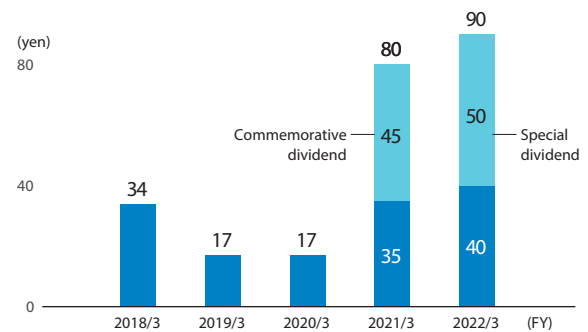
ROE/ROIC



Equity-to-Asset Ratio



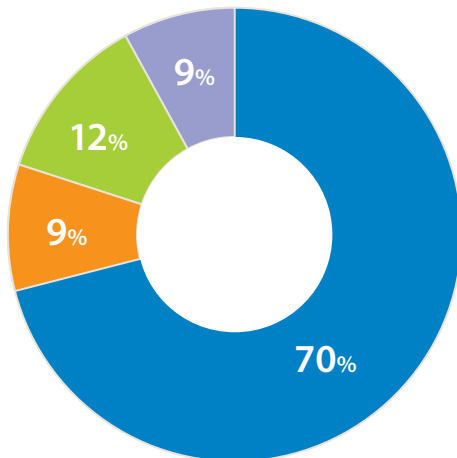
Cash Dividends Per Share



Non-Financial Highlights

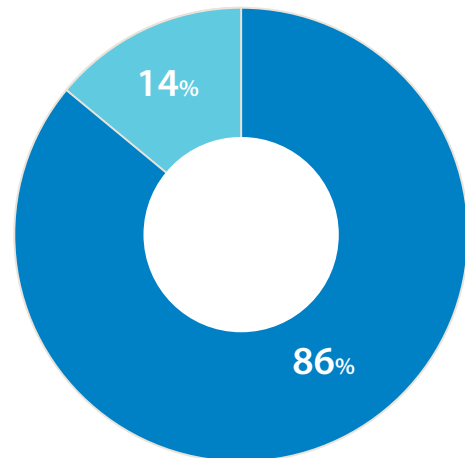
Personnel Ratio by Job Category

■ Engineers ■ Sales ■ Administration ■ Quality Assurance/Production Control



Personnel Ratio by Gender

■ Male ■ Female



Research and Development

R&D Expenses

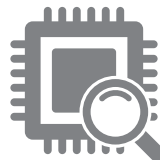
¥2.5 billion

Total Number of Applications

768

Total Number of Registrations

719



As a fabless company, MegaChips focuses on research and development, and our self-developed patented technology is a source of growth.

Female Ratio among New Graduate Employees

38%

*30% (FY2020)



New Graduate Retention Rate after 3 Years (Target: New graduate employees in April 2019)

100%



Remote Work Percentage (Annual average)

60%



Ratio of Paternity Leave

80%

*Rate of paternity leave of male employees



Rate of Returning to the Workplace After Childcare Leave

100%



Contributing to the development of a sustainable society by providing creative solutions that realize “the quality of Japanese *monozukuri* (manufacturing)”

Tetsuo Hikawa

President and CEO

Reflecting on FY2021 ended March 31, 2022

Operating profit, ordinary profit, and net profit reached record highs.

Although the business environment continues to be severe in certain industries due to the spread of COVID-19 from 2020, the electronics industry, to which MegaChips belongs, has seen increased demand mainly for industrial electronics equipment, electronic components and devices.

Supported by increased needs from our customers, there was a solid demand primarily in the ASIC business for game software storage LSI (customized memories). On the other hand, there was a decrease in net sales mainly due to a decrease in sales of SiTime Corporation (“SiTime”) in connection with it becoming an associate company from the second quarter of the previous fiscal year ended March 31, 2021 and a decrease in sales of timing controller LSI for

LCD panels, for which orders for major products were terminated in the third quarter of the same fiscal year.

Meanwhile, operating profit, ordinary profit, and net profit all reached record highs. This was due to, among other factors, a decrease in the selling, general and administrative expenses associated with SiTime becoming an associate company from the second quarter of the previous fiscal year, progress in business efficiency, and a gain on sales of shares of subsidiaries and associates due to the sale of a portion of SiTime’s stock, which greatly exceeded the anticipated profit at the beginning of the fiscal year. At the same time, the equity ratio increased, further strengthening our financial structure.

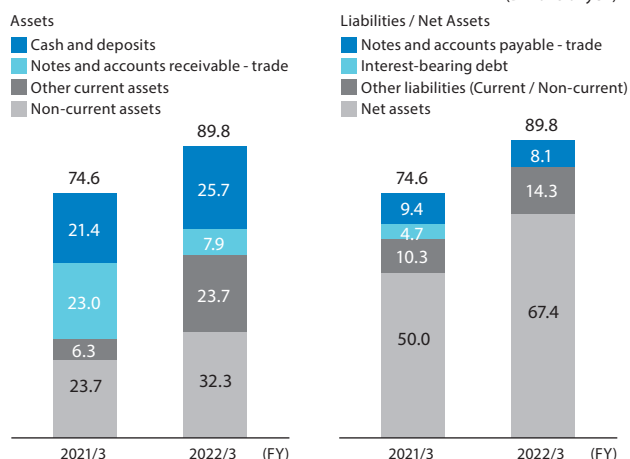
Consolidated Results

(Millions of yen)

	FY2020 (ended March 2021)	FY2021 (ended March 2022)	Year-on-year Comparison
Net sales	83,814	75,256	- 10.2%
Operating income	5,025	7,030	+ 39.9%
Ordinary income	3,912	7,857	+ 100.8%
Profit attributable to owners of parent	20,920	27,544	+ 31.7%

Financial Position

(Billions of yen)





TOP MESSAGE

Medium- to long-term vision: Looking three to five years into the future

We will foster the ASSP and module businesses as our new core businesses and strengthen the foundations of the Amusement and ASIC businesses.

As various efforts are required to realize a sustainable society in which low-carbon, material-cycle, and natural symbiosis are achieved in an integrated manner, it is to be expected that our lifestyles will undergo major changes with the advent of an extremely advanced network society in which everything is connected to the Internet and AI technology is installed in everything. In response to these changing times, there is an increasing need for high performance and multifunctionality in the electronic components used in the devices surrounding us in various fields. As such, demand for LSI products is expected to increase as key devices that contribute to, among others, high performance, multifunctionality, downsizing, and low-power consumption.

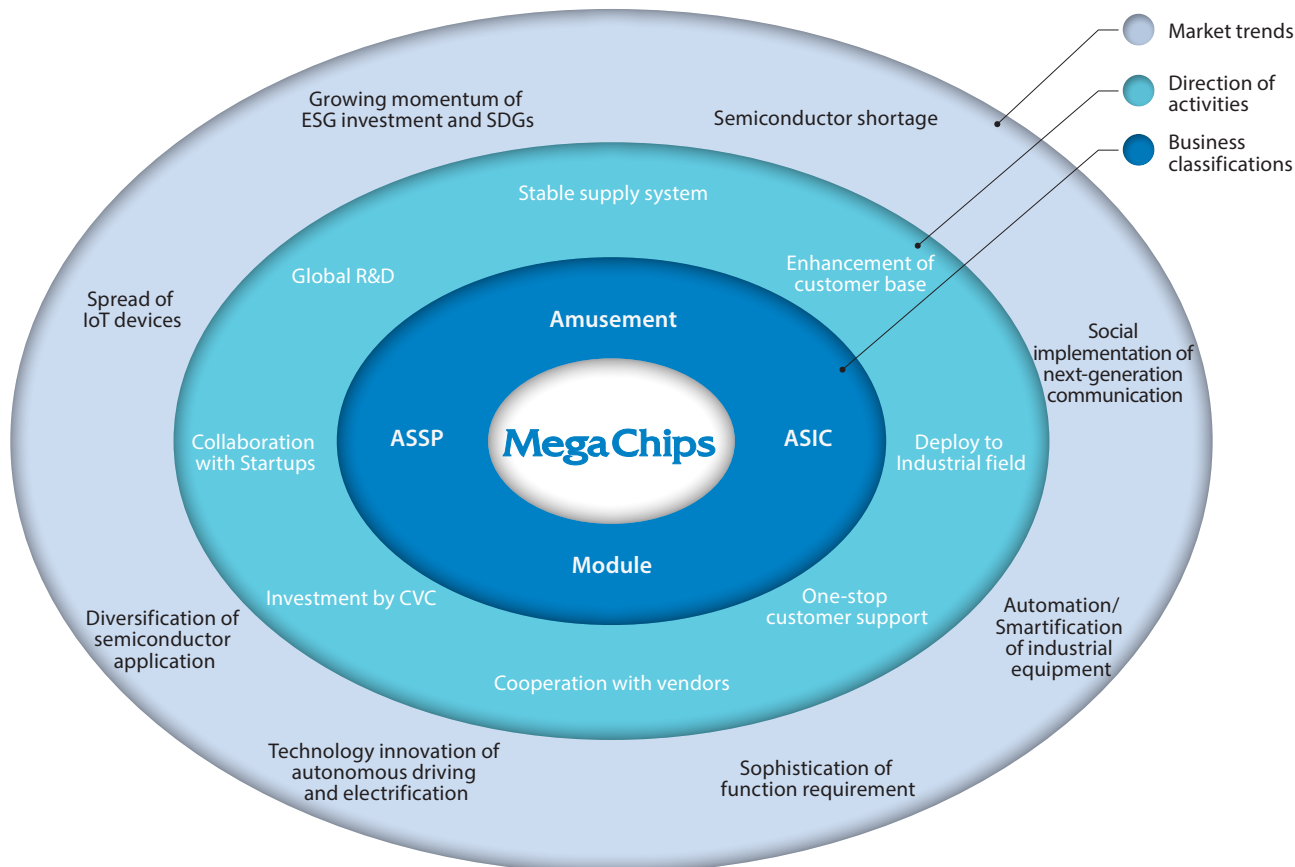
Against this backdrop, the MegaChips Group has

formulated a medium- to long-term vision for the next three to five years in order to fulfill its role in the LSI field and take part in the development of the industry.

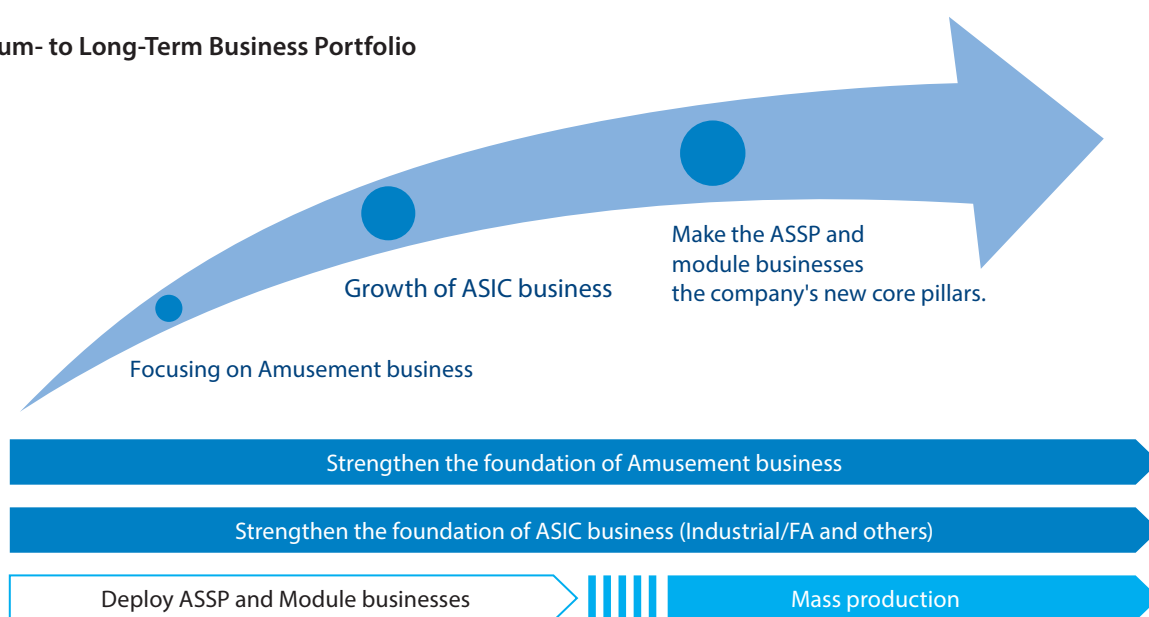
In the current fiscal period, while continuing to strengthen the business foundations of our mainstay Amusement and ASIC businesses, we intend to realize medium-to long-term growth by investing management resources in the ASSP and Module businesses for the growing fields of telecommunications, AI, robotics, and others.

In addition, we will promote business expansion in new fields and long-term business restructuring, while continuing to strengthen our financial position to withstand changes in the business environment and support long-term growth.

Business Environment Surrounding MegaChips



Medium- to Long-Term Business Portfolio



■ Measures to Establish New Business Pillars

MegaChips intends to expand its Amusement, ASIC, ASSP, and Module businesses. The measures and progress in the medium- to long-term management plan are as follows.

• Amusement Business

In the amusement field, which is one of our core businesses, we are strengthening our sales force by aggressively promoting customer-oriented and proposal-based marketing and are striving to develop new technologies and improve quality. Further, we are strengthening our business foundation by focusing on, among other things, information sharing and ensuring production systems to fulfill our responsibility as part of the supply chain to provide a stable supply of products and optimal solutions that meet our customers' needs.

• ASIC Business (Industrial/FA and others)

In addition to the business field of LSI for office automation (OA) equipment that we have been focusing on, we are making an effort to cultivate new areas by expanding our businesses including LSI for industrial and factory automation (FA) fields, where we have stepped up our order taking efforts in recent years. In terms of technology, MegaChips is working toward providing even better

solutions, such as promoting the development of intellectual property that achieves low-power consumption.

We also have our own analog design technology and have provided many digital/analog mixed ASICs. In the future, we will also expand the analog custom LSI in the areas that need high voltage resistance.

• ASSP Business

In the telecommunications field, in order to meet the needs of the IoT era, the development of communications technology is progressing apace, including the realization of higher transmission speeds, reduced time lags, and multi-connection capable of connecting many devices simultaneously. In particular, the IoT for industrial applications is used in various fields, such as the automation of logistics and manufacturing and electric power smart grids, and is expected to revolutionize the industrial world. In addition to the communications technology that enables the high-speed wired networking, with wireless communications technology we have through strategic alliances, as the core, MegaChips intends to expand the provision of optimal solutions combining not only LSI, but also modules and software, targeting such markets as industrial equipment including robots, agriculture, and public infrastructure.

• **Module Business**

As one of the ways to support our customers' needs, MegaChips provides user-friendly or value-added modules to our customers, by combining technology and LSI products with our partner companies. MegaChips offers optimal solutions by maximizing the use of our semiconductor technology, knowledge, and systems know-how, to build an integrated support system from product concept design to circuit diagram design, physical design, production, and quality assurance. Looking to a future where various devices in different fields will be equipped with technologies of learning, inference, and AI functions, we also componentize edge AI functions and provide services as solutions. We aim to expand our business and acquire new customers by proving solutions with edge AI.

■ **Creation of New Businesses**

To launch new projects with a view toward long-term growth, MegaChips is striving to create new businesses by strengthening the structure of its North American base, promoting joint research and development of cutting-edge technologies with universities, and involvement with strategic alliances and business investments with startups with advanced technologies and ideas, primarily in the U.S., through the Corporate Venture Capital fund (CVC).

Specifically, in the AI field, MegaChips concluded strategic partnership agreements with BrainChip in Australia in November 2021 and Quadric in the United States in January 2022 to develop our business. In September 2022, we entered into a partnership with Morse Micro, an Australian company with the world's leading technology in "Wi-Fi HaLow™", a new wireless communication standard with lowest power and long range, and started business development of wireless communications technology.

Toward the Realization of a Sustainable Society

Initiatives for Challenges in the Preservation of the Global Environment and Supply Chain

As a fabless manufacturer that outsources the manufacture of all its products, MegaChips continues to work toward building a sustainable supply chain for our contract manufacturing foundries, as well as it promotes eco-office activities, including reduction of office energy consumption and waste matter, such as requiring compliance with guidelines on the use of hazardous chemical substances and standards for the emission of CO₂. In addition, MegaChips will analyze and consider the risks and opportunities related to climate change in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework and will work toward disclosure of information.

Promoting Diversity and Fostering Engineers in the Electronics Field

With the thought of supporting the creation of an environment where young researchers, the future leaders of Japan, can fully devote themselves to research, we have been making donations to universities since March 2021. In order to surmount the current situation in Japanese electronics fields in which the

majority of engineers are male, we are proactively involved in efforts to mentor and support women engineers.

The key to increasing global competitiveness is acquiring excellent human resources, regardless of gender, race, ethnicity, religion, disability, and other diverse backgrounds, and providing a place where such staff can grow and play an active role through their work. Going forward, MegaChips will continue to develop sustainability by nurturing many talented engineers.

Creating a Diverse Organization and Workplace

MegaChips promotes diversity not only among its employees, but among its core workforce as well, in the belief that creating an environment where employees can work with peace of mind and that accommodating varied work styles can minimize business continuity risks and contribute to our customers' business continuity. As part of those efforts, we conduct fair and impartial personnel evaluations that support a merit-based approach and a performance-based system that enables diverse human resource to demonstrate their abilities and have built a working environment that allows many different work styles,

including complete flex-time, a telecommuting system, and a childcare leave system. We are working to make a comfortable working environment for all employees and to promote the

human resource development, including educational programs by lecturers in various fields of expertise, language training, and training based on job level.

Supply Chain

Creating a Trust Relationship with Corporate Partners that Value Mutual Understanding

The companies to which MegaChips outsources the manufacture of its products are extremely important business partners for us, as a fabless company. We are deepening the trust relationships with these corporate partners by not pursuing one-sided benefits on either side,

but by sincerely aiming for optimal solutions based on a deep mutual understanding. We will also continue to address the current global issue of the difficulty in procuring semiconductor materials in terms of both delivery time and cost.

To All of Our Stakeholders

We will strive to improve equity value and capital efficiency, achieve sustainable growth, and return profits to our stakeholders.

Thanks to the tremendous support of all our stakeholders, we have been able to continue to grow to this day. Going forward, MegaChips will strive to improve its corporate value and capital efficiency, in the belief that achieving both sustainable and stable return of profits and corporate growth is the most important measure to meet the expectations of our stakeholders.

For the fiscal year ended March 31, 2022, MegaChips paid an ordinary dividend of 40 yen per share which was funded from the profits from our business. In addition, a

special dividend based on the gain on the partial sale of shares of SiTime (a U.S. affiliate company) held by the Company was set at 50 yen per share, which together with the ordinary dividend amounted to a dividend of 90 yen per share.

In order to return profits to shareholders, the Company repurchased 2,613,200 shares and cancelled 1,070,700 shares of treasury stock. We will continue to strive for sustainable growth in profits and return of profits to meet the expectations of our stakeholders.

In Conclusion

From April 2022, MegaChips has belonged to the Prime Market of the Tokyo Stock Exchange. As a result, this involves strong requirements for market capitalization (i.e., liquidity) on a scale sufficient to become a target for investment, higher standards of governance, and increased corporate value over the medium-to long-term to achieve sustainable growth. We will continue to achieve extended growth by faithfully meeting society's expectations with creative, high-tech technologies, and as a leading fabless manufacturer in Japan, we will fulfill our

responsibilities by persisting to develop technologies that protect the global environment and are useful to society.

Going forward, we will strive to improve our corporate value so that we can contribute to the sustainable development of society while maintaining good communication with shareholders, customers, production contractors, suppliers, employees, and local communities.



ASIC Services

Proposing the best customized solutions for our customers through collaboration with the world's most advanced companies, using MegaChips' technology and expertise and knowledge of systems

ASIC (Application Specific Integrated Circuit) is an LSI designed exclusively for a particular application.

Many ASICs are used in various electronic products and devices as well as in infrastructure systems such as wired and wireless communication networks. MegaChips has built an integrated support system from development of product specifications and logic design to physical design, production, and quality, which is capable of quickly responding to customers' needs.

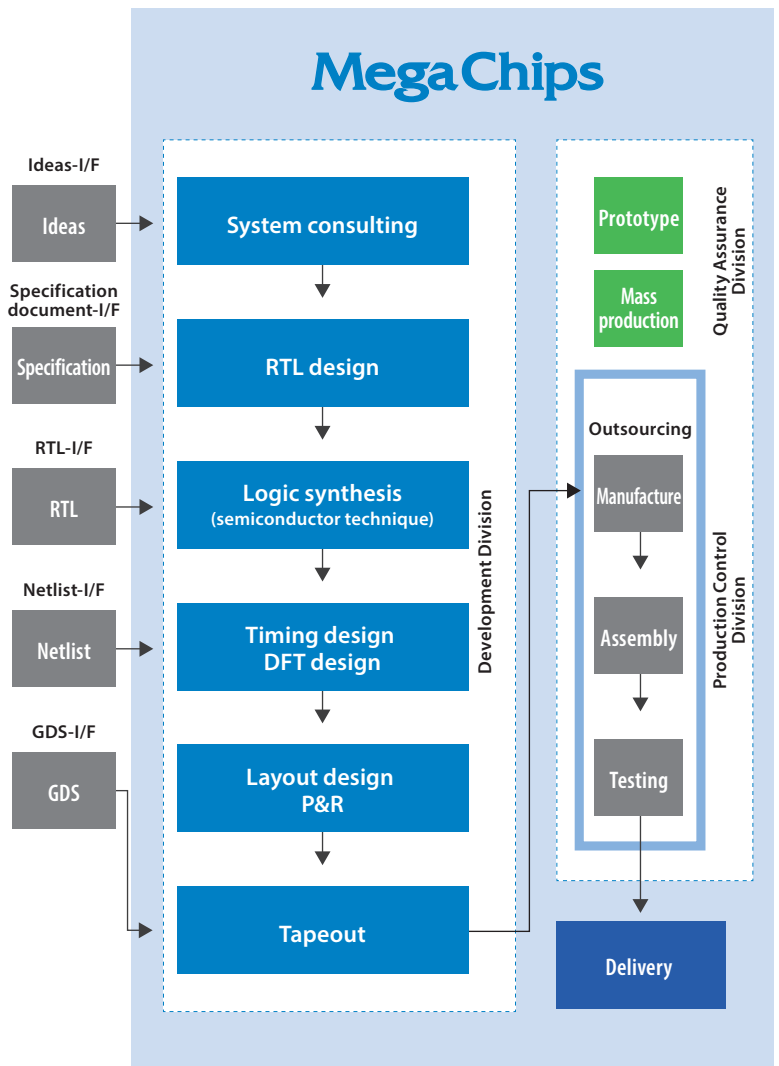
Main Features

01 As a fabless semiconductor manufacturer, building strong partnerships with our outside foundries

02 A wide range of selections of the best customized fabs in Japan and overseas suited for features and functions of products to be manufactured

03 Achieving high-quality product supply under a strict quality assurance system in cooperation with outside foundries

ASIC Development Flow



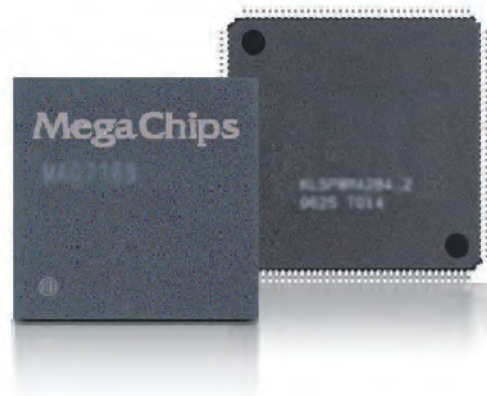
Review of FY2021

Supply of Large-Volume Products

Due to the impact of various social conditions, the global shortage of semiconductor production capacity, that has been apparent for the past 2 years, is continuing. Although MegaChips has also been affected by this, sales of ASIC products exceeded that of the previous fiscal year owing to our efforts to ensure production capacity, with the cooperation of our customers. In addition to the core applications for game machines, office automation, and communication equipment, the shipments for industrial and factory automation (FA) applications, which we have been focusing on in recent years, are gradually increasing.

New ASIC Developments

In FY2021, we acquired a greater number of new development projects than in the previous fiscal year. Among these, we have embarked on R&D for 5G communication networks, which we have been promoting as a new initiative, as well as development in fields that are new to us, such as edge AI and high-voltage resistance analog.



Future Initiatives

Targeted Expansion Areas

Pursuit of Low-Power Consumption for Industrial/FA, 5G Communications, OA Equipment

MegaChips will continue to focus on proposing optimal LSI solutions for office automation equipment, which is our conventional business field, LSI for industrial and factory automation (FA), with respect to which we have been strengthening our business activities in recent years, and LSI for 5G communications, which is a new endeavor for us. In particular, low-power consumption of the entire system including LSI is a major issue common to all fields, while at the same time, we will select manufacturing processes dedicated to low-power consumption from foundries throughout the world, and promote the development of low-energy consumption intellectual property.

Expanding High-Voltage Resistance Analog Products

MegaChips has been providing many kinds of digital/analog mixed ASICs with our own analog design technology. In the future, MegaChips will also expand the analog custom LSI in

the areas that need high-voltage resistance (power supply voltage of 10V and above). Specifically, MegaChips targets motor control, LED control, AC/DC power peripheral circuits to contribute to the fields of industrial and FA, infrastructure, and IoT.

Strengthening Specifications Design and Upstream Design / Customer-Oriented Development

MegaChips believes that, as an ASIC vendor, it should contribute to society by highlighting the capabilities of semiconductors to the greatest extent possible. To achieve this, MegaChips aims to go even one step further by deepening its understanding of customers' products and systems and participating in specifications design and upstream design. Specifically, the first steps include optimizing the functions integrated into the ASIC and "eliminating waste in specifications." Looking beyond that, MegaChips will continue to develop products that provide new value to the environment, society, and people's lives.

Telecommunication LSI

Enhance high-speed wired and wireless communication technology
and provide communication solutions to achieve high performance network society

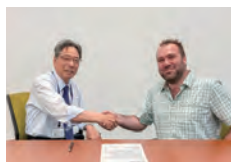
The demand for communication LSI products is rapidly increasing due to the advancement in the development of communication infrastructure for the IoT era, swift progress of the automation and smart technologies of industrial equipment, and the development of connected cars equipped with communication functions.

MegaChips will contribute to the transformation of the industrial world by meeting the needs of the equipment sector taking advantage of our product development capabilities through collaboration with startup companies.

Capital and Business Alliance with Morse Micro

MegaChips pursues a strategic partnership and business investment with startups that have cutting-edge technology and innovative ideas and are actively working to launch new businesses.

We have formed a strategic alliance with Morse Micro in Australia and are working to drive market growth, create new solutions, and accelerate the go-to-market strategy of the fastest, smallest, lowest power, and longest range Wi-Fi HaLow™ solutions available today.



Products of Morse Micro

Morse Micro (www.morsemicro.com) is a rapidly growing fabless semiconductor company developing Wi-Fi HaLow™; the low-power, long-range wireless communication standard designed for IoT environments.

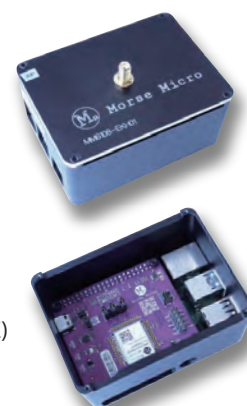
The company is pushing the boundaries of IoT connectivity with a roadmap of silicon and platforms that satisfy the scalability, robustness and security demands required to address the most challenging IoT environments.

What is Wi-Fi HaLow™

Wi-Fi HaLow™ is a low-power, wide-range wireless communication standard mainly targeting the IoT. It uses 920 MHz band to realize "long-distance", "high-speed", and "low-power" Wi-Fi that conventional products could not achieve. Wi-Fi HaLow™ is expected to be adopted in a wide range of areas in the future.

Feature of Wi-Fi HaLow™

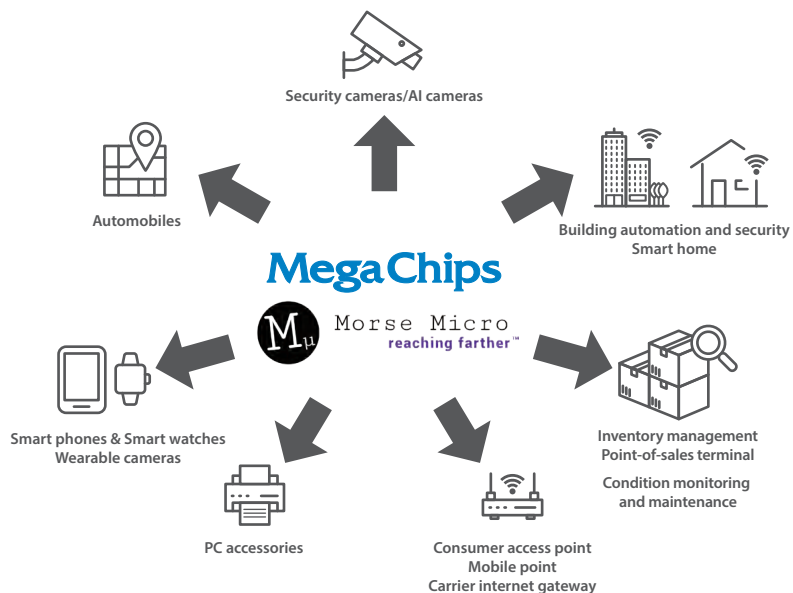
- 1) Expanded Wi-Fi transmission area, both long-range and greater penetration through obstacles
- 2) Battery-operable and low power consumption
- 3) High connectivity due to superior transmission and good diffraction of 900MHz band
- 4) High data rate and adaptability to other IoT wireless standard
- 5) No license for a station or monthly usage fees like mobile networks
- 6) High blocking performance that makes easy coexistence with different wireless standards (e.g. : LTE)
- 7) Leverages market-proven WPA3 security protocol to ensure the wireless link is secured



Target applications

Wi-Fi HaLow™'s applications are endless. We aim to integrate them into various industrial equipment.

Target applications include video, home & building automation, retail and logistics, access point and home gateway, consumer IoT, and mobile devices.



We will expand business areas through collaboration with Morse Micro.

Through joint promotion with Morse Micro of LSI products, development and sales of wireless modules, we will spread Wi-Fi HaLow™ across Japan and develop new markets and customers.

Use Cases



Smart city



Factory automation



Home network

We will expand business fusing technologies of Morse Micro and MegaChips

Morse Micro is a company with excellent diversity and inclusion, with engineers from all over the world and has a dynamic atmosphere while each and every one of them has excellent skills, and the entire company has an efficient and systematic design and development flow.

Morse Micro's Wi-Fi HaLow™ solutions are expected to be adopted in a wide range of fields including factory and building automation and security cameras. Wi-Fi HaLow™ has a high affinity with industrial IoT applications, and it is mutually complementary to our wired communication products. Also, we believe we can broaden our product range and deliver solutions that satisfy more customers through the combination of our module and patterned antenna technologies that we have been working on in the past couple of years.



We will continuously work with Morse Micro and strive to promote Wi-Fi HaLow™ more widely to grow our telecommunications business.

Keishi Kajiwaru Telecommunication Division

Module Service

Provide high-added-value solutions capable of reducing time-to-market and development costs

A module is a single package that contains electronic components on a circuit board to suit the application.

Designers can save time and effort in designing and assembling electronic circuits from scratch and reduce the number of parts, which results in smaller, lighter equipment, thereby achieving cost reduction. MegaChips provides modular products that meet customers' needs and applications with an integrated support system we have built from product concept design to circuit diagram design, physical design, production, and quality.

Main Features

01 Comprehensive Support System

Integrated support from examining concept and module specifications based on the customer's product image and idea through to manufacturing

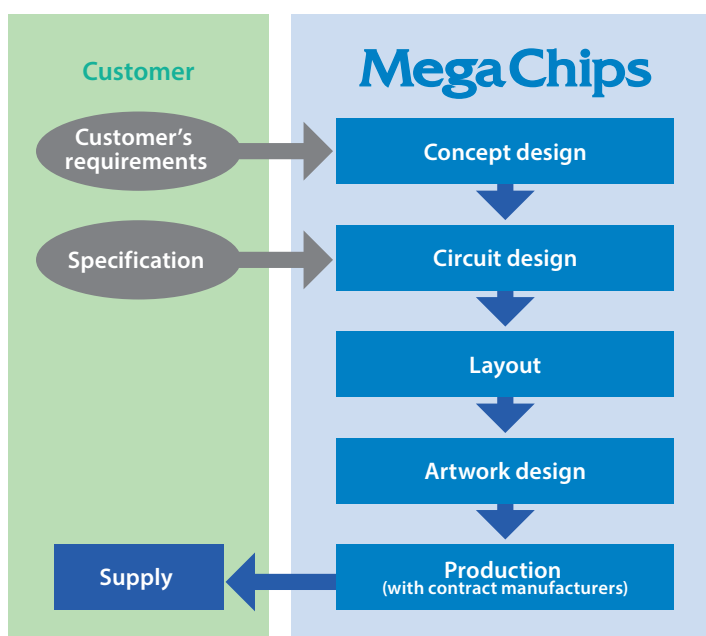
02 Modularization of In-house and Partners' Semiconductor Products

Commercialization of modules using Ethernet PHY or wireless communication LSI that we have been working on to date and provision of module products to customers for immediate use

03 Customization

Customization when changes or additions to specifications or peripheral module boards are required for module products sold by MegaChips as standard products

Flow of Module Service



Future Development

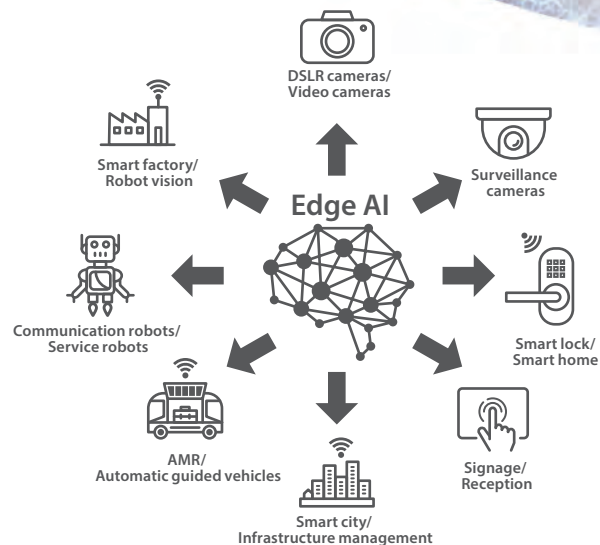
MegaChips conducts module prototyping of our own semiconductor products and those of our partners in advance and completes them as its own module core technology. By customizing modules to meet the form of customer's requirements based on that core technology, MegaChips achieves services that correspond to production with short delivery times, low volume and high-mix production.

Edge AI

Provide one-stop solutions to customer's edge AI challenges

Edge AI is a technology that performs learning and making inferences using terminals, such as devices and sensors. With a declining workforce due to the declining birth rate and aging society, various devices are expected to be equipped with edge AI that enables autonomous operation in the future.

We will componentize edge AI functions that are commonly needed in a broad range of edge AI application fields, such as medical and nursing care, construction, infrastructure inspection, logistics and transportation, offices and stores, agriculture, and provide services as solutions.



Main Features

01

Provision of various solutions that integrate modules and SW technology with semiconductors as core technology

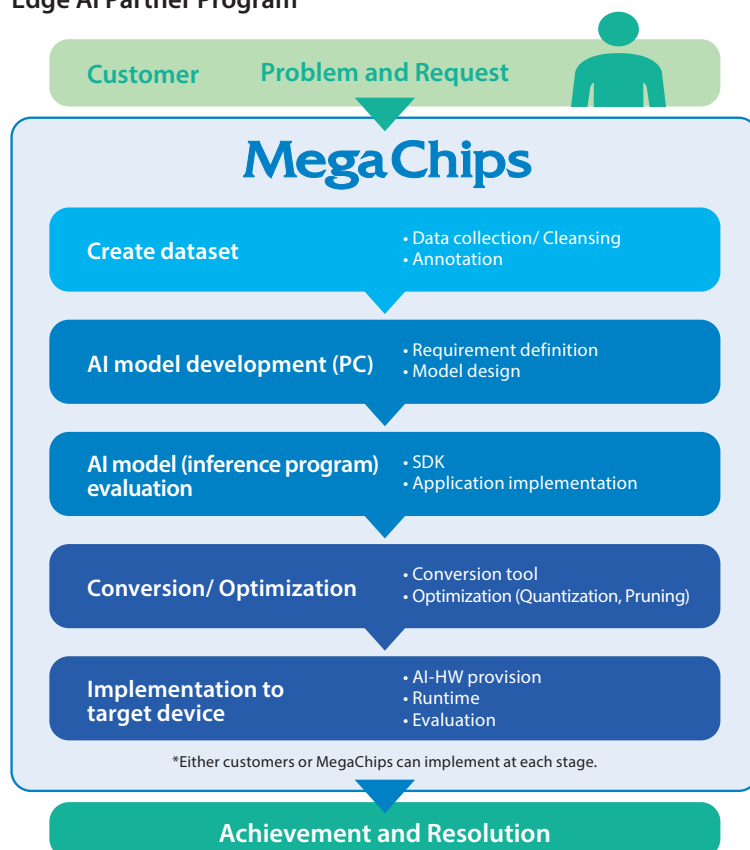
02

Collaboration with leading edge AI partners in Japan and overseas, with a focus on the U.S.

03

Full one-stop support system by an expert edge AI team

Edge AI Partner Program



R&D

Creating Unique Products by Fusing Analog and Digital Technologies

MegaChips meets customers' needs based on its proprietary technologies and puts all its effort into the research and development of application technologies to distinguish our own 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 LSI and solutions with our unique analog and digital technologies

Major Achievements in R&D for FY2021

Game software storage LSI

LSI for wired (twisted pair cable, coaxial cable and power cable) multi-hop communications

Intellectual property and LSI for optical communications

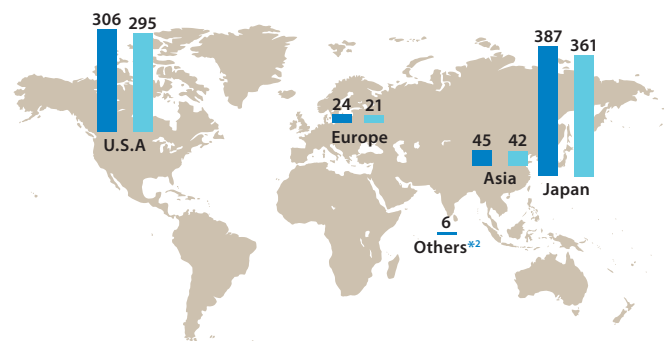
Intellectual Property Strategy

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 is vital to enhance competitiveness and raise growth.

In FY2021, we filed patent applications such as performance enhancement technology for LSI in game consoles, OVP (Over Voltage Protection) technology for wired communication LSI, and detection signal circuit for communication LSI. A patent application was also submitted for security technology for IoT devices as basic/application technology.

Patent Applications and Registrations by Region^{*1}

■ Total number of Applications: ■ Total number of Registrations:



^{*1} The number of cases shown are the cumulative total as of the end of March 2022.

^{*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.

About Corporate Venture Capital Fund (CVC)

We have established Corporate Venture Capital Fund (CVC) funded by MegaChips LSI USA Corporation (MLU) to transfer the management structure by centralizing managerial resources to growth market including industrial equipment, telecommunication, energy, robot, and AI.

We will develop a new market and provide new solutions through investments in the startups that drive innovation with advanced technology and aim for sustainable growth for mid-long term by accelerating a launch of new business.



MLU Office

Joint Project with Santa Clara University (SCU)

Partner with Santa Clara University Research Institute in the heart of Silicon Valley

MegaChips is moving toward launching new businesses through collaborations with companies and universities with cutting-edge technologies and ideas, mainly in the United States.

As part of this initiative, we have launched a joint project in the field of robotics with the SCU Robotic Systems Laboratory (SCU), a research institute at Santa Clara University, in anticipation of the coming era in which robots will be utilized.

Preparation of Environment Dedicated to Research and Development with the Latest Equipment

SCU promotes research and development of functional materials, devices, and systems of 100 nm or less, including the possession of a high-resolution electron scanning microscope. In addition, SCU offers a supportive environment for researchers, with such things, as a newly constructed STEM building equipped with tools and machines to create the equipment and instruments necessary for conducting research and development.



Prof. Kitts' Lab Mentors Engineers through "Hands-on Development"

The laboratory of Dr. Kitts, a professor at Santa Clara University and director of the SCU, emphasizes hands-on development that not only develops prototypes with a development concept and target, but also keeps the deadlines and quality required by companies. By mastering the development process at the company in this way, students will gradually evolve as full-fledged engineers.



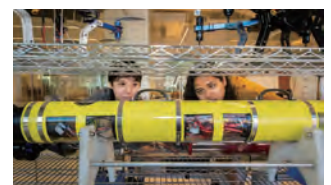
Prof. Kitts

Joint Research with SCU on Recognition and Control Technology

In collaboration with Professor Kitts' laboratory, MegaChips has embarked on the development of the basic technology for "Cobot", a robot that supports human work at factories, construction sites, farms, livestock farms, and other production sites. Currently, as a control technology for "Cobot", we are developing a system utilizing AI technology that allows robots to recognize human gestures and perform corresponding actions.

Development of "Cobot" Control Platform to Launch New Businesses

In the future, MegaChips plans to increase the components of the basic technology for "Cobot" and offer our own platform populated with a library of "Cobot" controls. By allowing customers in the robotics industry to use this platform, we will generate a wide range of new businesses by expanding not only the ASIC/ASSP business, but also by developing embedded modules and application software.



Collaborative Projects with Japanese Universities

Achieving Innovations that Create New Value through Collaborative Research

MegaChips is also collaborating with universities in Japan to take on the challenge of achieving new innovations.

This is an initiative for MegaChips' mid- to long-term sustainable growth, which will contribute to the resolution of regional and social issues through collaboration with universities.

Collaborative Project with Nara Institute of Science and Technology



国立大学法人
奈良先端科学技術大学院大学
NARA INSTITUTE of SCIENCE and TECHNOLOGY

Purpose of Research

MegaChips is promoting the edge AI business as a new business to achieve a sustainable society. We have embarked on collaborative research with the Nara Institute of Science and Technology concerning "high-speed robot controls" by applying Spiking Neural Network (SNN) to high-rate 3D sensors.

Background of Project Launch

The edge AI that MegaChips is working on aims AI branded sensors that directly connect the sensor to AI process. The data is then processed by the edge device into information required for the robotic system, which is passed on to the controller. By doing so, the entire system's transmission volume can be reduced, resulting in an overall improvement of the entire system's speed and latency. Especially in the industrial/FA field, high-speed and low-latency systems are desired for use cases, such as robotic arms and automated guided vehicles. In the industrial/FA field, we are starting research about AI-based action planning and high-speed control design of robots, with the aim of contributing to improved safety and work efficiency of robotic and other systems.

Research Initiatives

Our goal is to establish technology for high-speed control (reflexive motion) of robots and provide technical feedback to our products to improve the superiority of our business.

- Application of low power consumption and high-speed processing AI HW by SNN to robots
- Investigation of quantization algorithm for model reduction and its application to reinforcement learning

Collaborative Project with Tokyo Metropolitan University



TOKYO METROPOLITAN UNIVERSITY
東京都立大学

Purpose of Research

We are promoting business expansion in the growing markets of AI, robotics, and other fields. In collaboration with Tokyo Metropolitan University, we have commenced research on initiatives related to "Robot Intelligence Innovation Based on Local 5G for Super Real-Time Tracking" to realize a highly advanced, networked society in which everything is connected to the Web and equipped with AI technology.

Background of Joint Research

The high-performance, compact, and ultra-low power consumption technology of edge AI that we are working on can contribute to the automation and autonomy of robots, such as personal mobility and automated guided vehicles. MegaChips is also participating in a consortium for a local 5G project. We aim to strategically launch and grow new businesses by building trust with new partners through proactive communication and the acquisition of new knowledge in the robotics field, where the market is expected to expand.

Research Initiatives

In collaboration with the consortium members, we will identify issues and study prototyping for social implementation. MegaChips is responsible for the systematization infrastructure and will take on the challenge of achieving a society in which intelligent technology and robotic technology are integrated.

ESG Initiatives

26	Approach to Sustainability
28	Quality Initiatives
29	Employee-Related Initiatives
30	Environmental Initiatives
32	Climate Change Initiatives
34	Supply Chain Initiatives
36	Corporate Governance
38	Board of Directors and Auditors

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.

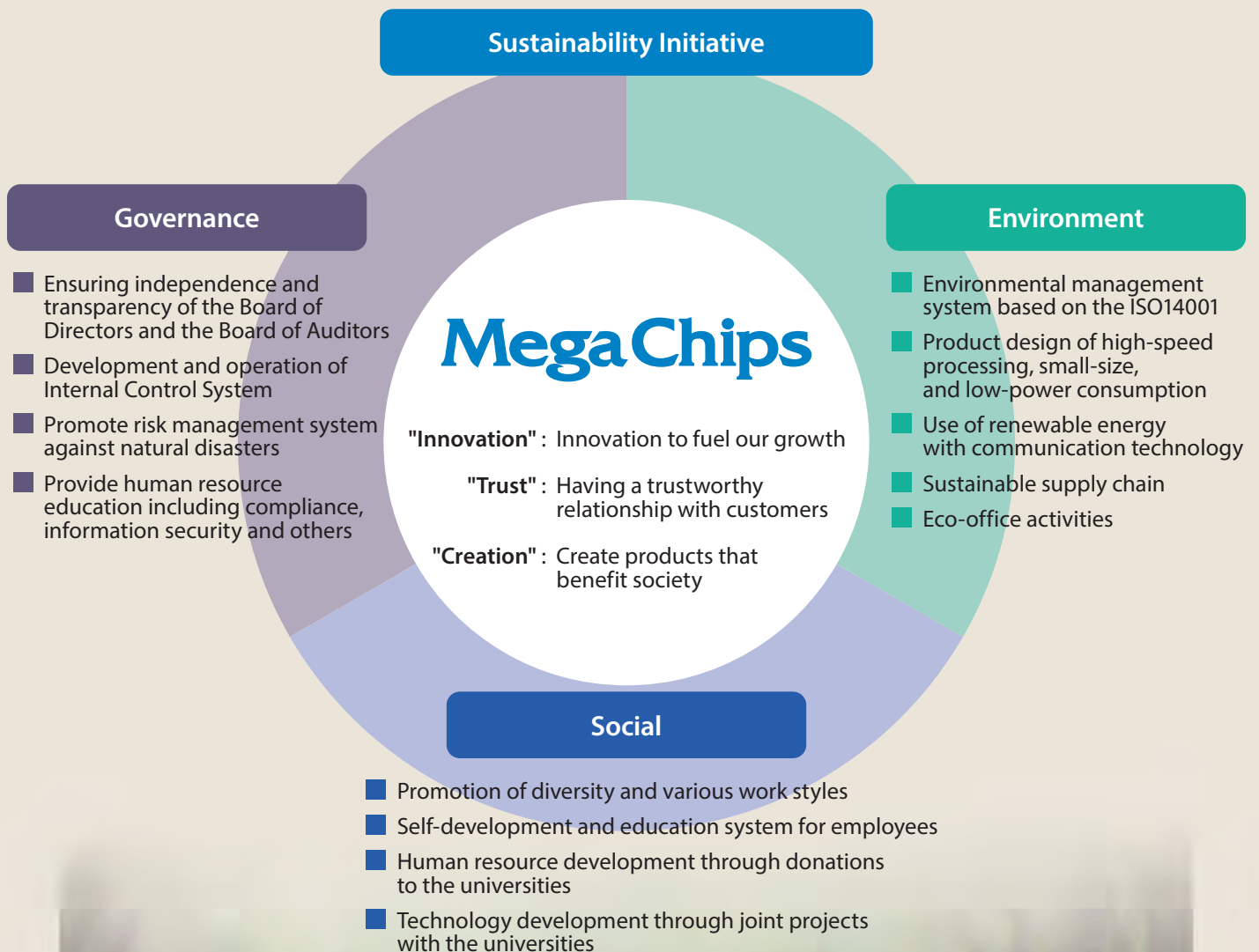
5. Respect for stakeholders

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

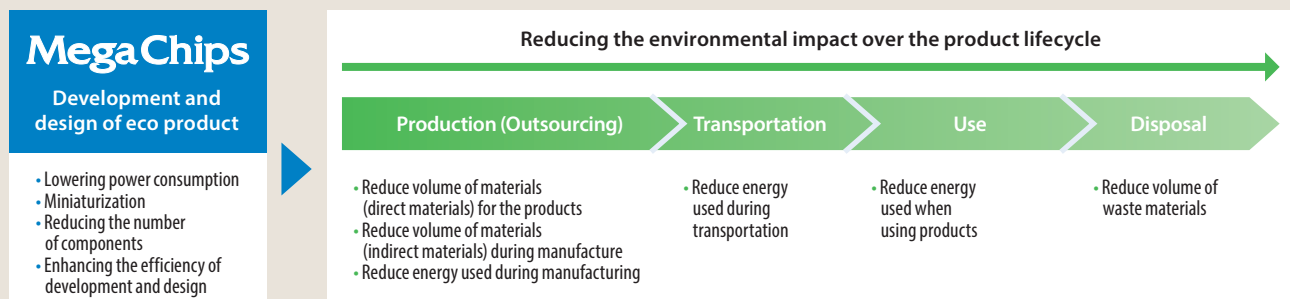
ISO 14001 is an international standard for environmental management systems. It has been created for the purpose of minimizing the environmental impact of corporate activities. MegaChips has established an environmental management system based on the ISO 14001 standard, as part of its ongoing commitment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

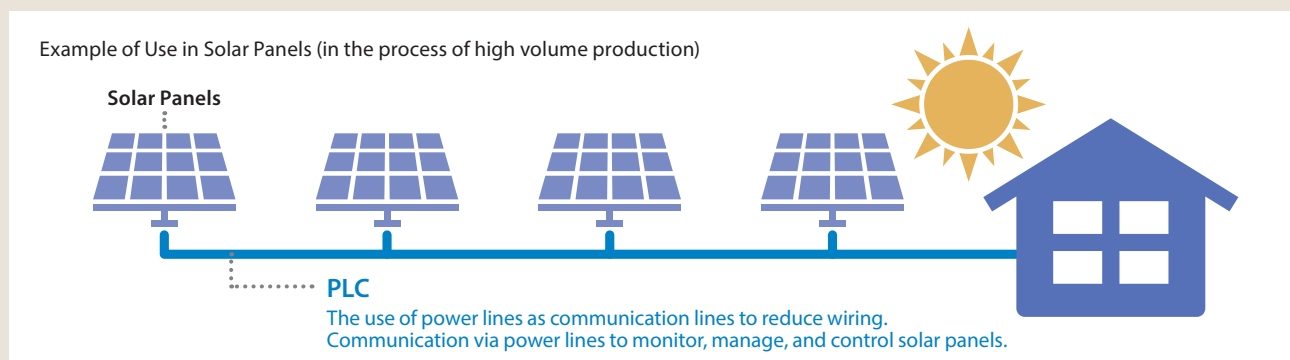
1) ASIC Design for Lower Power Consumption

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

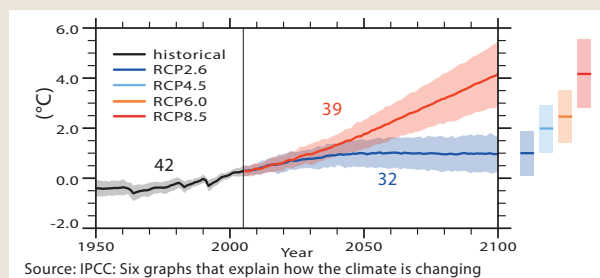
MegaChips' corporate governance system (P36) involves the review and analysis of the financial impact of climate change on the Company and related responses by a team formed with representatives from the relevant divisions.

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.

Global average surface temperature change



Risk and Opportunity

1. Risk Recognition and Response

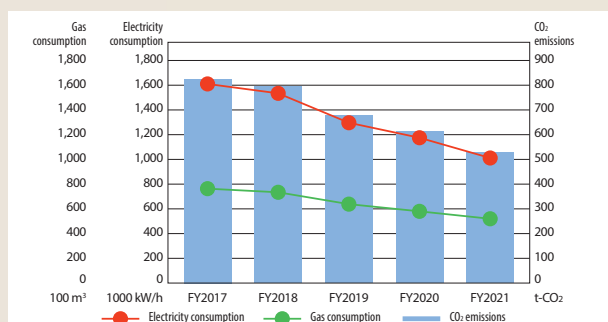
Risk of transitioning to a low-carbon economy and financial impact in response to climate change

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)	CO ₂ emissions (t-CO ₂)
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 Board of Directors.

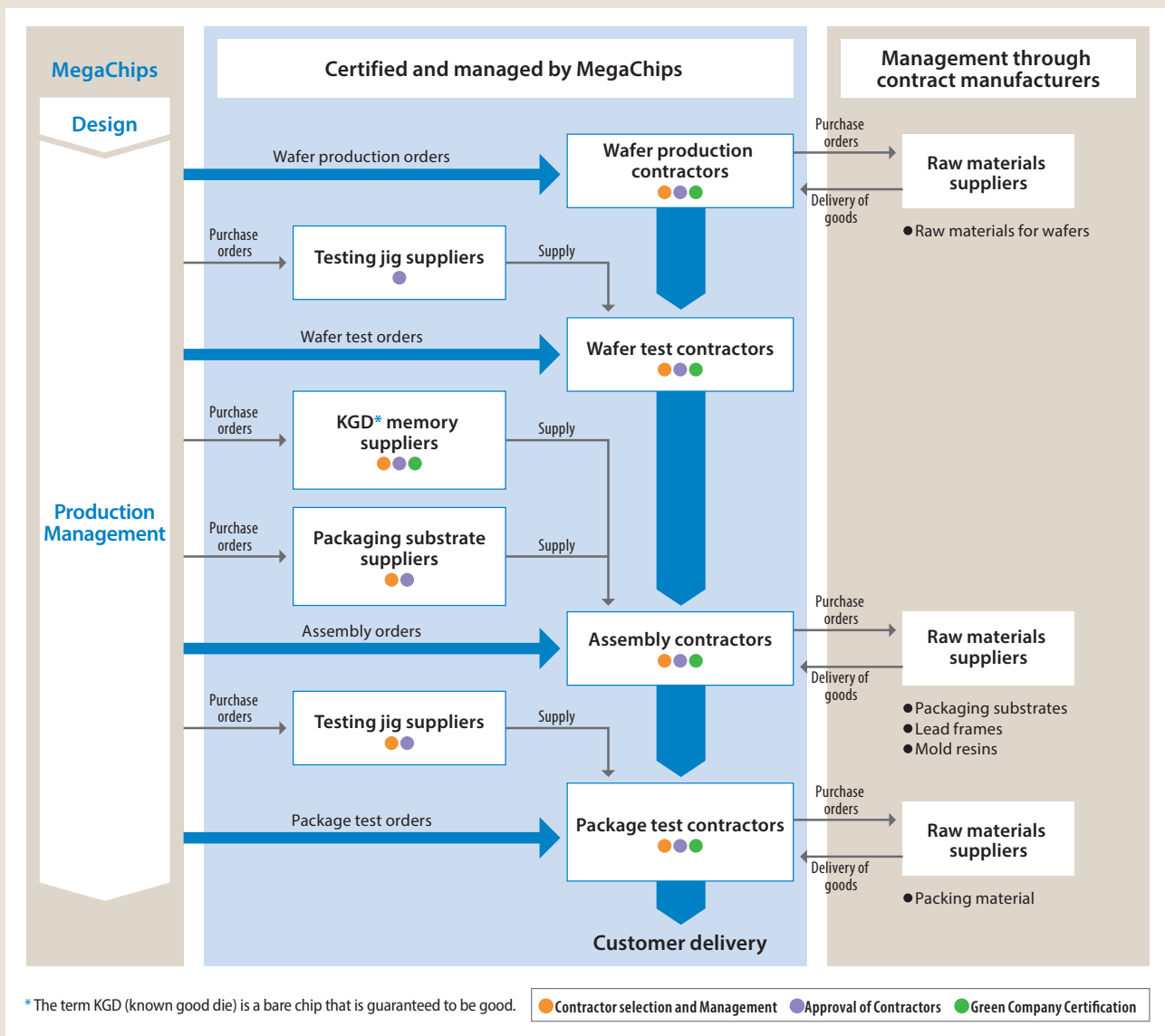
Supply Chain Initiatives

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.

Supply chain management



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.



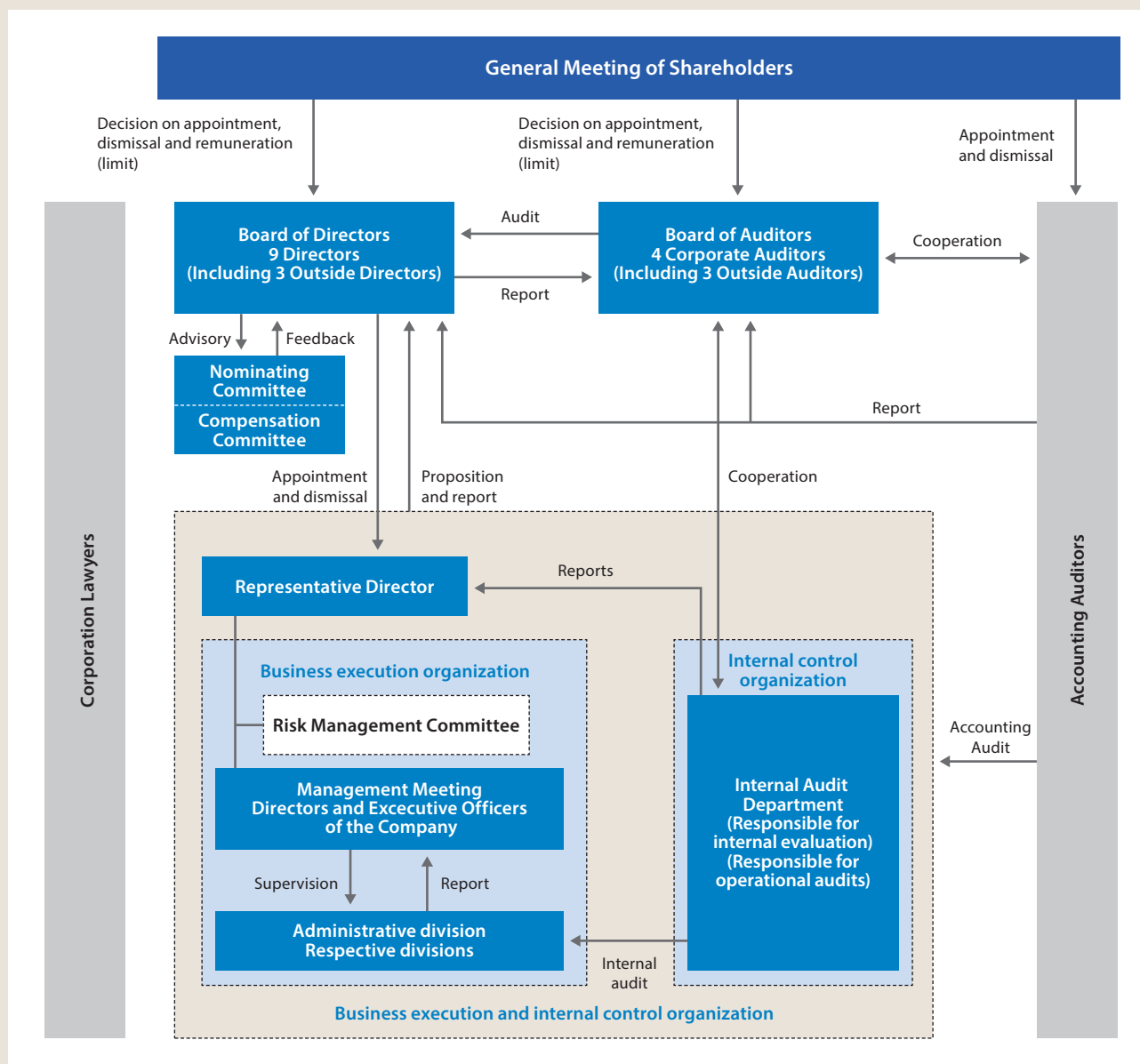
Understanding that sustainable growth requires us to have the confidence of our stakeholders, we continuously work to improve corporate governance to maintain sound corporate management with greater transparency and efficiency.

Our Basic View

We place considerable importance on the legal compliance, timely disclosure of significant information, development of high-quality products that make full use of our original technology, thorough quality control, and environmental protection, and other social responsibilities to sincerely respond to the expectations of society with original high-tech technology and earn the trust of society as the management and all employees recognize that it will lead to the continuous growth of MegaChips Group.

Based on this vision, we seek to continuously enhance our corporate governance to ensure appropriate decisions, management transparency and efficiency, and a demonstrate accountability.

Corporate Governance Structure



Board of Directors

The Board of Directors consists of nine directors elected at the Annual General Meeting of Shareholders, three of whom are outside directors* to ensure objectivity and transparency in management.

The Board of Directors is positioned as a supervisory body for decision-making of business strategies and business execution, and stipulates the term of office of directors to be one year in the Articles of Incorporation in order to quickly respond to changes in the business environment.

In addition, we have introduced an executive officer system in order to revitalize the Board of Directors by separating the decision-making and supervision from business execution.

Auditors and the Board of Auditors

The Company has a Board of Auditors. Three* of the Company's four Auditors appointed at General Meetings of Shareholders are outside auditors and we emphasize the independence of auditors from directors.

Each Auditor audits to determine whether or not the Board of Directors makes decisions on basic management policies and important matters for the Company, and executes 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. Each of the Auditors decides on the division of roles through discussions, and conducts audits from a professional perspective, with their respective roles covering legal and intellectual property, taxation and finance, and general management.

Internal Control System

MegaChips has developed and operates an internal control system based on the "MegaChips Basic Policy on Internal Control System" determined by the Board of Directors. The Board of Directors periodically checks and monitors the operational status of the internal control system. In the execution of business, we are moving forward with management that emphasizes corporate governance by thoroughly developing and implementing internal rules and enhancing the internal audit system.

The President and CEO is responsible for the development, operation and supervision of the internal control system based on the "MegaChips Basic Policy on Internal Control System" and reports to stakeholders in accordance with legal requirements.

We strive to ensure the appropriateness of its operations by applying its internal control system to the entire MegaChips Group, including its subsidiaries. Each subsidiary periodically reports to the Company on the status of its business execution, financial conditions, and the like, and the Company's Board of Directors and Management Meeting confirm the appropriateness of the business operations. In addition, the Internal Auditing Dept. conducts operational audits on a regular basis and strives to identify compliance issues and problems from the perspective of business efficiency.

In accordance with the internal control reporting system based on the Financial Instruments and Exchange Act, the Company evaluates the developmental and operational condition of the internal control system and, when necessary, recommends operational improvements to those responsible for each operation. The status and results of these activities are reported to the President and CEO. For FY2021, the Company has received from its Accounting Auditors an internal control audit report with an unqualified opinion for the same fiscal year.

* No Outside Directors nor 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.

Board of Directors and Auditors

(as of June 24, 2022)

Directors

**Tetsuo Hikawa**

President and CEO

[Areas of expertise]

Corporate management,
Financial affairs and Accounting,
Legal • Risk management • Governance

[Attendance at Board of Directors meetings]

93% (14/15)

As President / CEO since 2019, Mr. Hikawa has demonstrated strong leadership in managing the MegaChips Group, and by tackling management issues such as business structural reforms from a medium- to long-term perspective and implementing the managerial reforms consistently, he contributes to enhancement of the corporate value of the MegaChips Group.

**Masahiro Shindo**

Chairman

[Areas of expertise]

Corporate management,
Technology • Product development/Innovation,
Human resources development • Diversity

[Attendance at Board of Directors meetings]

100% (15/15)

As the founder of MegaChips, Japan's first fabless semiconductor manufacturing company, Mr. Shindo has shown great leadership over many years from listing the company on JASDAQ in 1998 and having it listed on the First Section of the Tokyo Stock Exchange in 2000 until his resignation as a director in 2002 and has been the company's driving force. Since 2002, he has been proactively engaged both at and outside the company, including mentoring talented personnel with entrepreneurial training, and since assuming the position of director in 2019, he went back to the managerial philosophy and has committed to building a solid management foundation for future growth.

**Yoshimasa Hayashi**

Executive Vice President

[Areas of expertise]

Corporate management,
Sales strategy • Marketing,
Human resources development • Diversity

[Attendance at Board of Directors meetings]

100% (15/15)

As a founding member, Mr. Hayashi has contributed to the growth of the company for many years as the person responsible for operations in various fields ranging from Product Development Business Unit to the Human Relations Department and the Sales Department, while simultaneously contributing to the expansion and development of the company as a member of the management team. Currently, as the head of the Planning Department, he is responsible for projecting and promoting management plan, while at the same time, he makes a strong contribution to expanding the company's business domain.

**Yasuto Shimomae**

Director

[Areas of expertise]

Legal • Risk management • Governance,
Manufacturing • Quality management

[Attendance at Board of Directors meetings]

100% (15/15)

Since joining the company, Mr. Shimomae has played an instrumental role using his high degree of expertise to contribute to strengthening the company's business base by enhancing its compliance and risk management functions as the person responsible for the management of wide-ranging areas, such as legal and intellectual property matters, human resources, and information systems, while at the same time, promoting various projects, including customer-based strategies.

**Ikuo Yamaguchi**

Director

[Areas of expertise]

Technology • Product development/Innovation,
Sales strategy • Marketing

[Attendance at Board of Directors meetings]

100% (15/15)

Mr. Yamaguchi has been engaged in semiconductor development for many years, and since joining the company, he has been involved in product development in the amusement industry which is our core business. In addition, he has contributed to the company's growth and business expansion over many years as the person in charge of the business division. Currently, he is concentrating on the development of LSI technologies and products for particular customers as the General Manager of ASIC Memory Division, and making strong contributions to the customer acquisition.

**Ikuo Iwama**

Director

[Areas of expertise]

Technology • Product development/Innovation,
Sales strategy • Marketing

[Attendance at Board of Directors meetings]

100% (15/15)

Mr. Iwama has broad expertise in management based on his extensive knowledge and experience in semiconductor-related fields over many years, including semiconductor technology and manufacturing process as well as his experience in overseas business operations. Currently he is involved in the launch and operations of a corporate venture capital in the U.S. and promotes creation of new business.



Junko Nagata

Outside Director

Outside Director

Independent Officer

[Areas of expertise]

Legal • Risk management • Governance,
Human resources development • Diversity

[Attendance at Board of Directors meetings]
100% (15/15)

Ms. Nagata entered the Japan Coast Guard Academy as the first female student when it opened its doors to women for the first time. Following the graduation, she worked for Japan Coast Guard and became the first female captain of "Matsunami", a patrol boat. She became one of the pioneers to open the careers for women. She researched and studied policy analysis, decision making, and management to develop leadership in organizations. She proactively provides advice from diversified and objective perspectives as an outside director.



Hirofumi Nagai

Outside Director

Outside Director

Independent Officer

[Areas of expertise]

Financial affairs and Accounting,
Legal • Risk management • Governance

[Attendance at Board of Directors meetings]
100% (15/15)

As a certified public accountant and tax accountant, Mr. Nagai provides advice based on his extensive expertise in finance, accounting and auditing as well as a rich career and high degree of insight, he contributes to prompt fair decision-making in the Board of Directors and strengthen supervisory function of the management.



Heihachi Matsumoto

Outside Director

Outside Director

Independent Officer

[Areas of expertise]

Technology • Product development/Innovation,
Manufacturing • Quality management

Mr. Matsumoto contributes to the enhancement of management structure from a supervisory perspective with a wealth of semiconductor knowledge and his achievements and insight with respect to technical specialties that he has cultivated as a university professor.

*The attendance at the Board of Directors meetings by Kunihiro Yamada, the former outside director who resigned on June 24, was 100% (12/12).

Auditors



Makiko Yamakawa

Standing Statutory Auditor

[Areas of expertise]

Legal • Risk management • Governance,
Human resources development • Diversity

[Attendance at Board of Directors meetings]
100% (15/15)

Ms. Yamakawa has taken the initiative in recruiting excellent personnel and conducting personnel training since joining the company. As the person in charge of the Internal Auditing Department, she has contributed to the enhancement of corporate governance through the design and operation of internal control system. She has conducted highly effective audits for the company through years of experience and knowledge.



Keiichi Kitano

Outside Auditor

Outside Auditor

Independent Officer

[Areas of expertise]

Financial affairs and Accounting,
Legal • Risk management • Governance

[Attendance at Board of Directors meetings]
100% (15/15)

Mr. Kitano contributes to the enhancement of our auditing system by providing advice on the company's overall management including taxation and accounting matters by utilizing his professional knowledge and expertise as a tax accountant.



Tomoyoshi Furukawa

Outside Auditor

Outside Auditor

Independent Officer

[Areas of expertise]

Financial affairs and Accounting,
Legal • Risk management • Governance

[Attendance at Board of Directors meetings]
100% (15/15)

Mr. Furukawa reflects his extensive experience and high degree of knowledge about corporate and international legal matters as a lawyer into our audit function. He oversees the appropriateness of business judgement from a compliance perspective while at the same time, contributing to improving society's trust in the company.



Akira Matsushima

Outside Auditor

Outside Auditor

Independent Officer

[Areas of expertise]

Technology • Product development/Innovation,
Manufacturing • Quality management

[Attendance at Board of Directors meetings]
100% (12/12)

Mr. Matsushima has been engaged in business management, building production systems, and sales management in the semiconductor fields for many years, and has broad insight into management based on his experience in business operations, including the planning of medium- to long-term management strategies. He contributes to the strengthening of our auditing functions by providing advice on the company's business and overall management.

Financial Section

- 41 Five-Year Summary
 - 42 Analysis of Sales and Financial Status
 - Analysis of Business Results
 - High Liquidity and Outstanding Reserves
 - Financial Position
 - R&D, Patents, and Other Intellectual Property Rights
 - Business and Other Risks
 - 48 Financial Statements
 - Consolidated Balance Sheet
 - Consolidated Statement of Income and Comprehensive Income
 - Consolidated Statement of Changes in Net Assets
 - Consolidated Statement of Cash Flows
 - 53 Corporate Data
-

Five-Year Summary

MegaChips Corporation and Consolidated Subsidiaries

	Millions of yen				Millions of U.S. dollars*	
	2018	2019	2020	2021	2022	2022
Operating Results:						
Net sales	¥89,029	¥95,145	¥65,764	¥83,814	¥75,256	\$614
Operating income (before amortization of goodwill)	5,520	3,152	3,449	5,608	—	—
Operating income	2,709	573	972	5,025	7,030	57
Profit attributable to owners of parent	1,948	(1,727)	(1,792)	20,920	27,544	225
R&D expenses	6,253	7,843	6,581	3,058	2,537	20
Financial Position						
Total assets	¥94,633	¥91,977	¥72,347	¥74,627	¥89,842	\$734
Net assets	31,184	26,223	31,031	50,043	67,428	550
Other Information						
Employees (Number of people)	883	719	588	379	343	
Stock Information						
Net income per share (Yen / U.S. dollars)	¥90.05	¥(79.40)	¥(82.35)	¥961.28	¥1,349.01	\$11.02
Net assets per share (Yen / U.S. dollars)	1,435.37	1,204.98	1,289.72	2,299.49	3,517.30	28.74
Cash dividends per share (Yen / U.S. dollars)	34	17	17	80	90	0.74
Stock price at March 31 (Yen / U.S. dollars)	3,830	1,699	1,555	3,530	3,780	31
PER (Times)	42.53	(21.40)	(18.88)	3.67	2.80	
Market capitalization	¥88,237	¥39,142	¥35,824	¥81,325	¥83,037	\$678
Indicators						
Operating income to sales (%)	3.0	0.6	1.5	6.0	9.3	
ROE (%)	6.6	(6.0)	(6.6)	53.6	46.9	
ROA (%)	2.2	(1.9)	(2.2)	28.5	33.5	
Equity-to-asset ratio (%)	33.0	28.5	38.8	67.1	75.1	
Sales to total assets ratio (Times)	1.02	1.02	0.80	1.14	0.92	
EBITDA	¥7,100	¥6,138	¥6,334	¥6,022	¥8,181	\$49

*The U.S. dollar amounts are provided solely for the convenience of the readers at the rate of ¥122.39 US\$1, the rate prevailing on March 31, 2022.

Analysis of Sales and Financial Status

MegaChips Corporation and Consolidated Subsidiaries

Analysis of Business Results

Net Sales

MegaChips recorded the net sales of ¥75,256 million for the current consolidated fiscal year (a decrease of 10.2% from the previous consolidated fiscal year), mainly due to the decrease in net sales of SiTime Corporation in connection with it becoming an associated company from the second quarter of the previous fiscal year and the decrease in net sales of timing controller LSI for LCD panels whose orders had ceased in the third quarter of the previous fiscal year, on the other hand, there was a steady demand primarily in the ASIC business for LSI for storing game software (customized memories).

Cost of Sales, SG&A Expenses, and Operating Profit

The cost of sales for the current consolidated fiscal year was ¥61,641 million. The cost of sales ratio for the current consolidated fiscal year was 81.9%, an increase of 2.2 percentage points from the previous consolidated fiscal year, due to changes in the product mix of sales, and the gross profit amounted to ¥13,614 million (an increase of 2.3% from the previous consolidated fiscal year).

Selling, general, and administrative (SG&A) expenses were ¥6,584 million, a decrease of ¥1,700 million from the previous consolidated fiscal year, reflecting a decrease in selling, general and administrative expenses of SiTime Corporation in connection with it becoming an associated company from the second quarter of the previous fiscal year and the progress in improving business efficiency, while making future-oriented research and development investments into growth areas. These expenses mainly consist of personnel expenses, including employees' salaries and provisions for bonuses, of ¥2,450 million (a decrease of 20.3% from the previous consolidated fiscal year), R&D expenses of ¥2,537 million (a decrease of 17.0% from the previous consolidated fiscal year).

As a result, MegaChips saw the operating profit of ¥7,030 million (an increase of 39.9% from the previous consolidated fiscal year).

Profit before Income Taxes

MegaChips had dividend income of ¥112 million, a share of profit of entities accounted for using equity method of ¥420 million, and foreign exchange gain of ¥367 million, resulting

in an income of ¥827 million between non-operating income and non-operating expenses.

While posting ¥29,251 million for a gain on sales of shares of subsidiaries and associates due to the partial sale of SiTime Corporation's shares and its capital increase by issuing new shares as an extraordinary income, MegaChips posted extraordinary losses, consisting of a loss on retirement of non-current assets of ¥690 million, a loss on valuation of other investment securities of ¥205 million, resulting in a profit of ¥28,503 million between extraordinary profits and extraordinary losses.

As a result, a profit before income taxes for the current consolidated fiscal year was ¥36,361 million (an increase of 35.5% from the previous consolidated fiscal year).

Profit (Loss) Attributable to Owners of Parent

As a result of income taxes - current of ¥8,111 million (an increase of 23.6% from the previous consolidated fiscal year) and income taxes - deferred of positive ¥705 million (compared to negative ¥398 million in the previous consolidated fiscal year), a profit attributable to owners of parent was ¥27,544 million (an increase of 31.7% from the previous consolidated fiscal year).

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 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 treasury 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 mid- 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 dividends of surplus for the current consolidated fiscal year, MegaChips has decided to pay an annual dividend of ¥90 per share consisting of ¥40 per share as an ordinary dividend and ¥50 per share as a special dividend (compared to an annual dividend of ¥80 per share in the previous consolidated fiscal year) to those who are MegaChips' shareholders as of March 31, 2022 based on the basic policies for profit sharing discussed above.

High Liquidity and Outstanding Reserves

Cash Flow

Cash and cash equivalents ("Capital") were recorded at ¥25,769 million at the end of the current consolidated fiscal year, an increase of ¥4,361 million from the previous consolidated fiscal year (compared to an increase of ¥4,188 million in the previous consolidated fiscal year). The status of cash flows in the consolidated fiscal year was as follows.

Cash flows from operating activities acquired as capital amounted to ¥195 million (compared to ¥5,513 million used as capital in the previous consolidated fiscal year). This was mainly due to a profit before income taxes of ¥36.361 million, a loss on retirement of non-current assets of ¥690 million, a ¥29,251 million gain on sales of shares of subsidiaries and associates, and a ¥1,384 million decrease in trade payables, and income taxes paid of ¥6,884 million.

Cash flows from investing activities acquired as capital reached ¥20,018 million (compared to ¥17,022 million acquired as capital in the previous consolidated fiscal year). This was mainly due to ¥24,491 million in proceeds from sales of shares of subsidiaries and associates and ¥1,602 million for the purchase of investment securities.

As a result, free cash flow, the sum of cash flow from operating activities and cash flow from investing activities amounted to ¥19,823 million acquired as capital (compared to ¥22,536 million acquired as capital in the previous consolidated fiscal year).

Cash flows from financing activities used as capital amounted to ¥16,534 million (compared to ¥18,807 million used as capital in the previous consolidated fiscal year). This

was mainly due to a net decrease in short-term borrowings of ¥2,000 million, while there were repayments of long-term borrowings of ¥2,790 million, the purchase of treasury shares of ¥10,000 million, and dividends paid of ¥1,737 million.

Capital Requirements and Financial Policy

MegaChips borrows funds from financial institutions to raise ordinary 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 sales, sales expenses as well as selling, general and administrative expenses, with the contract manufacturing expenses for the LSI products as the major operating cost.

MegaChips strives to maintain its sound asset structure and financial condition and believes it can raise the funds it needs for growth by selling accounts receivable on hand, borrowing from financial institutions, and increasing its capital.

In the current consolidated fiscal year, ¥24,491 million acquired as capital due to the partial sale of shares of SiTime Corporation, an associated company. A portion of these capital are used for dividends of surplus, purchase of treasury shares, and investments for the purpose of launching new businesses.

Interest bearing debt decreased by ¥4,790 million from the end of the previous consolidated fiscal year, and there was no balance at the end of the current consolidated fiscal year.

Financial Position

Total assets at the end of the current consolidated fiscal year amounted to ¥89,842 million (an increase of ¥15,215 million from the end of the previous consolidated fiscal year). Current assets, mainly for cash and deposits, notes, accounts receivable-trade, and contract assets, and accounts receivable - other amounted to ¥57,481 million (an increase of ¥6,615 million from the end of the previous consolidated fiscal year). Comparing major assets with the end of the previous consolidated fiscal year, notes, accounts receivable-trade, and contract assets decreased by ¥15,120 million, and inventories decreased by ¥374 million, while cash and deposits increased by ¥4,361 million and accounts receivable increased by ¥18,697 million. Among non-current assets, investment securities increased by ¥2,078 million and shares of subsidiaries and associates increased by ¥7,147 million respectively.

MegaChips' asset structure is characterized by its high liquidity and current assets accounted for 64.0% of total assets. The current ratio was 269.0% as a result of current liabilities of ¥21,368 million (a decrease of ¥2,457 million from the end of the previous consolidated fiscal year). The asset amount, obtained by deducting inventories of ¥3,621 million from current assets, was ¥53,860 million, accounted for 59.9% of total assets. This asset structure is due to the fact that MegaChips has been conducting business as a fabless manufacturer who does not have any production facilities or assets that immobilize funds for a long period of time. Going forward, MegaChips will continue

to strive to improve its liquidity and maintain a balance sheet with a sound asset structure.

Total liabilities at the end of the current consolidated fiscal year were ¥22,413 million (a decrease of ¥2,170 million from the end of the previous consolidated fiscal year). They mainly consist of trade payables of ¥8,101 million, primarily comprising outstanding payments to contracted manufacturers of LSI. Comparing major liabilities with the end of the previous consolidated fiscal year, while income taxes payable increased by ¥1,229 million and the "other" in current liabilities increased by ¥1,413 million, respectively, notes and accounts payable - trade decreased by ¥1,384 million, short-term borrowings decreased by ¥2,000 million, and the current portion of long-term borrowings decreased by ¥2,790 million, respectively.

Net assets were ¥67,428 million (an increase of ¥17,385 million from the end of the previous consolidated fiscal year). The profit attributable to owners of parent was ¥27,544 million, dividends of surplus were ¥1,741 million, valuation difference on available-for-sale securities increased by ¥401 million, and foreign currency translation adjustment increased by ¥2,174 million.

As a result, MegaChips' equity was ¥67,428 million and equity-to-asset ratio was 75.1% (up 8.0 percentage points from the end of the previous consolidated fiscal year) due to MegaChips' efforts to reduce interest bearing debt. MegaChips will continue to strive to strengthen its financial base to respond flexibly to changes in the business environment.

Research and Development, Patents, and Other Intellectual Property Rights

MegaChips invested a consolidated total of ¥2,537 million in R&D expenses for the current consolidated fiscal year.

MegaChips sets its policy to provide System LSI and solutions based on analog/digital technologies, and actively promotes research and development activities.

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, 2022)

	Patents	Trademarks	Total
Issued	719	36	755
Applied for	49	1	50
Total	768	37	805

Patents by Country (As of March 31, 2022)

	Japan	North America	Asia (excluding Japan)	EU	Other	Total
Issued	361	295	42	21	—	719
Applied for	26	11	3	3	6	49
Total	387	306	45	24	6	768

Business and Other Risks

MegaChips has identified the following risks pertaining to its operations and other matters that may have a material impact on the financial position and the cash flow of the Group.

Forward-looking statements in this section represent the judgment of MegaChips as of March 31, 2022.

Dependence on specific customers

(1) Purchasers

MegaChips principally sells LSI for a game software storage (custom memory) for the amusement field; LSI for game consoles and peripheral devices; LSI for digital cameras and other image processing; and LSI for OA equipment. The percentage of net sales involving LSI for storing game software (custom memory) to Nintendo Co., Ltd. ("Nintendo") is increasing and accounts for 87.8% of the sales for the current fiscal year.

Therefore, the performance of the Company could fluctuate depending on the sales trend of the game consoles and software that use our LSI products, and the market of LSI.

The risk is not something that can be completely eliminated, we have the good and close relationship with Nintendo and aim to meet customer satisfaction with our products by providing ideal solution and stable supply and minimize the possible risks. Besides, we focus on the development of the new business in the fields including industrial equipment, telecommunications, AI, energy control and robotics as well as improving the business portfolio in the mid- to long-term.

(2) Contract manufacturers (outsourced process)

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 manufacturers, percentage of outsourced process to Macronix International Co., Ltd. ("Macronix"), which manufactures LSI for storing game software (custom memory) supplied to our major customer, Nintendo, and LSI for game consoles and peripheral devices is becoming higher, and accounts for 67.8% in the current fiscal year.

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

Currently, there is no sign that the said risk would become apparent. 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 established the network with major foundries in Japan and overseas such as Taiwan, and outsource the manufacturing of LSI products depending on the customer demand.

Therefore, the demand and supply balance in the semiconductor market may affect the delivery, 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 LSI products are used in state-of-the-art digital devices, since the pace of technological innovation is rapid, there is no guarantee that our Group's products will continue to be used. Moreover, demand fluctuates due to the effect of fierce competition as well as the spread of CSR Procurement Policy to which our end products using our LSI are subject.

To deal with the risks, our Group aims to minimize risks by flexibly providing optimal production technology along with working on optimization of purchase cost, production quantity and production schedule while assuming the competitive price that differentiates with the products of other companies.

(2) 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 lies in our uniqueness leveraging analog and digital technology.

Currently MegaChips Group focuses its management resources in the growth areas such as in-vehicle device, industrial equipment, telecommunication infrastructure,

energy control and robotics and working on the research and development to provide state-of-the-art technology and products to the customers. The R&D expenditures totaled ¥2,537 million and accounted for 3.4% of consolidated sales.

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. Also, when other companies have an advantage in the competition of the technology development, the share of our Group would drop and causes an impact on the performance.

MegaChips makes every effort to develop cutting-edge technologies based on our unique analog and digital technology and continuously provides attractive products in the market, and to maintain a competitive edge in its technologies and products.

(3) Ensuring skilled personnel

MegaChips is expanding operations based on its technological development capabilities leveraging unique analog and digital technology and its business growth depends heavily on skilled personnel. Therefore, we recognize that it is an extremely major challenge of our personnel policy to secure and retain excellent skilled personnel, as well as to determine how to treat and train these skilled personnel.

If we cannot maintain, hire, develop and globalize skilled personnel in Japan or overseas in the future, it might have an impact on MegaChips' corporate value and competitiveness.

To cope with these issues, MegaChips Group will streamline a personnel treatment system and implement a personnel policy based on the development plan according to investment in human resources for mid- to long-term new business development. We put an effort in measures including language education, new employee training, and diversity promotion to develop human resources that can display personnel abilities in various environment and maximize company's outcome.

Management

(1) Valuation of Goodwill, etc. included in stock of subsidiaries and associates

MegaChips owns shares of SiTime Corporation (listed on the NASDAQ Global Market) (SiTime), which was acquired in

November 2014, and currently is an equity-method associate of the Company. These investments, including intangible assets, primarily goodwill (Goodwill, etc.) are posted in the consolidated balance sheet as "shares of subsidiaries and associates". As of the end of the current consolidated fiscal year, the balance of the shares of subsidiaries and associates was ¥19,105 million, accounting for 21.3% of consolidated total assets.

Although, as a listed company, SiTime operates based on its own policies and strategies, the deterioration of its business performance and financial position may affect MegaChips' business performance.

Goodwill, etc. included in the aforementioned shares of subsidiaries and associates are evaluated based on the net realizable value using the market value of the shares. However, if the net realizable value falls below the carrying amount due to a decline in the share price of SiTime, the MegaChips' business performance may be affected by impairment losses.

At present, the Company has determined that it is not necessary to recognize impairment in the evaluation of Goodwill, etc.

(2) Risks in strategic investment

MegaChips Group may make investments in alliance partners and startups with cutting-edge technologies and ideas, when we determine that it will contribute to the enhancement of our corporate value through business collaboration with other companies and strategic alliances that aim for purposes such as information gathering. The balance of investment securities for the current fiscal year is ¥5,668 million and accounts for 6.3% of consolidated total assets.

In the strategic collaboration including investment to accelerate business growth, it may not be possible to achieve the results expected by the Company in building complementary relationships and expanding business results. It also might have an impact on the Group's performance due to the appraisal loss from the drop in the book value of the investment shares or a sharp decline of the net asset value.

The meeting structure consisting of directors and outside experts decides these strategic investments, comprehensively considering business collaboration, information gathering status and a future revenue, verifying effects and risks and implement it with the approval of the BOD meeting.

(3) Exchange rate fluctuations

MegaChips owns overseas subsidiaries and other entities as the

business bases and a portion of our business transactions are denominated in currencies other than Japanese yen, notably US dollars and Taiwan dollars. The figures in the financial statement of the overseas subsidiaries are converted into Japanese yen for the consolidated financial statement, consequently, exchange rate varies, especially fluctuations in the yen/dollar rate, may affect our operating results. If the foreign exchange rate moves in the direction of the yen's appreciation, it has negative effect on the performance, and the greater the fluctuation range, the greater the possibility of the risk becoming apparent.

MegaChips uses forward currency contracts as needed to reduce foreign exchange risk.

(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.

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.

MegaChips Group enhances an intellectual property-related internal system and a collaboration with a patent firm and actively files and registers patents and trademark to secure our products and services, while thoroughly investigates right of other companies to minimize risks of the possibility of infringement of a third party's intellectual property rights.

(5) Risk factors associated with an accident or natural disaster

A natural hazard such as a large-scale earthquake, the widespread outbreak of serious infectious disease, acts of terrorism have the potential to become risks for the Group's businesses and could affect the Group's business bases, the foundries and manufacturers, or customers. Also, such an event can cause suspension of business activities of the

Group and might have substantial impact on the fiscal situation of the Group.

The Group has formulated a Business Continuation Plan (BCP) and prepared a Crisis Management Manual to prevent a secondary disaster and minimize damage and losses of the disaster.

(6) In Response to the COVID-19

Our response to the COVID-19 is to ensure the physical and life safety of executives and employees and temporary employees who work at our Group's offices, as well as the safety of related parties of our business partners with the highest priority. We take various measures to prevent the infection, though will continue to take necessary measures promptly according to the information from the government and future infection circumstances and strive to reduce the risk.

Consolidated Balance Sheet

As of March 31, 2021 and 2022

	Millions of yen		Millions of U.S. dollars
	2021	2022	2022
Assets			
Current assets			
Cash and deposits	¥21,407	¥25,769	\$210
Notes and accounts receivable-trade	23,071	—	—
Notes, accounts receivable-trade, and contract assets	—	7,950	64
Merchandise and finished goods	3,116	2,345	19
Work in progress	650	951	7
Raw materials and supplies	227	324	2
Accounts receivable	4	18,702	152
Other	2,388	1,439	11
Allowance for doubtful accounts	(1)	(1)	(0)
Total current assets	50,866	57,481	469
Non-current assets			
Property, plant and equipment			
Buildings	2,431	1,686	13
Accumulated depreciation	(2,107)	(1,363)	(11)
Buildings (net)	324	323	2
Land	116	116	0
Construction in progress	631	675	5
Other	6,604	6,684	54
Accumulated depreciation	(6,178)	(6,041)	(49)
Other (net)	426	643	5
Total property, plant and equipment	1,498	1,758	14
Intangible assets			
Software	551	416	3
Other	6	6	0
Total intangible assets	558	423	3
Investment and other assets			
Investment securities	3,590	5,668	46
Shares of subsidiaries and associates	11,958	19,105	156
Long-term prepaid expenses	1,247	1,246	10
Deferred tax assets	1,864	1,621	13
Other	3,044	2,537	20
Total investment and other assets	21,704	30,179	246
Total non-current assets	23,761	32,361	264
Total assets	¥74,627	¥89,842	\$734

	Millions of yen		Millions of U.S. dollars
	2021	2022	2022
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥9,486	¥8,101	\$66
Short-term loans payable	2,000	—	—
Current portion of long-term loans payable	2,790	—	—
Accounts payable-other	1,572	2,443	19
Income taxes payable	6,762	7,991	65
Provision for bonuses	664	850	6
Provision for loss on construction contracts	16	33	0
Other	533	1,947	15
Total current liabilities	23,825	21,368	174
Non-current liabilities			
Other	758	1,045	8
Total non-current liabilities	758	1,045	8
Total liabilities	24,583	22,413	183
Net equity			
Shareholders' equity			
Capital stock	¥4,840	¥4,840	\$39
Capital surplus	9,362	9,359	76
Earned surplus	34,446	56,013	457
Treasury stock	(1,609)	(8,364)	(68)
Total shareholders' equity	47,039	61,849	505
Other accumulated comprehensive equity			
Valuation difference on available-for-sale securities	3,054	3,455	28
Foreign currency translation adjustment	(50)	2,123	17
Total other accumulated comprehensive equity	3,003	5,579	45
Total net assets	50,043	67,428	550
Total liabilities and net assets	¥74,627	¥89,842	\$734

Consolidated Statement of Income and Comprehensive Income

For the fiscal years ended March 31, 2021 and 2022

	Millions of yen		Millions of U.S. dollars
	2021	2022	2022
Net sales	¥83,814	¥75,256	\$614
Cost of sales	70,504	61,641	503
Gross profits	13,310	13,614	111
Selling, general and administrative expenses	8,285	6,584	53
Operating income	5,025	7,030	57
Non-operating income			
Interest income	10	6	0
Dividends earned	99	112	0
Receipt of dispatching fees	33	70	0
Share of profit of entities accounted for using equity method	—	420	3
Gain on investment in partnerships	6	13	0
Foreign exchange gains	—	367	3
Miscellaneous income	8	25	0
Total non-operating income	157	1,017	8
Non-operating expenses			
Interest expenses	208	23	0
Commission loan payable	0	—	—
Loss on sales of accounts receivable	43	44	0
Acquisition of treasury stock	—	74	0
Share of loss of entities accounted for using equity method	899	—	—
Foreign exchange losses	53	—	—
Miscellaneous losses	63	47	0
Total non-operating expenses	1,269	190	1
Ordinary income	3,912	7,857	64
Extraordinary income			
Gain on sales of shares of subsidiaries and associates	26,387	29,251	239
Gain on change in equity	117	147	1
Gain on transfer of business	41	—	—
Total extraordinary income	26,546	29,399	240
Extraordinary losses			
Loss on retirement of non-current assets	2,543	690	5
Impairment loss	703	—	—
Loss on liquidation of subsidiaries and associates	26	—	—
Loss on valuation of other investments	—	205	1
Loss on liquidation of business	160	—	—
Loss on transfer of leasehold contracts	191	—	—
Total extraordinary losses	3,625	895	7
Net income (loss) before taxes	26,834	36,361	297
Income taxes - current	6,564	8,111	66
Income taxes deferred	(398)	705	5
Total income taxes	6,166	8,816	72
Profit (loss)	¥20,668	¥27,544	\$225
(Breakdown)			
Profit (loss) attributable to owners of parent	¥20,920	¥27,544	\$225
Profit (loss) attributable to non-controlling members	(252)	—	—
Other comprehensive income			
Valuation difference on available-for-sale securities	¥467	¥401	\$3
Foreign currency translation adjustment	1,004	722	5
Share of other comprehensive income of entities accounted for using equity method	(107)	1,451	11
Total other comprehensive income	1,364	2,575	21
Comprehensive income	¥22,032	¥30,120	\$246
(Breakdown)			
Comprehensive income attributable to owners of parent	¥22,300	¥30,120	\$246
Comprehensive income attributable to non-controlling members	(267)	—	—

Consolidated Statement of Changes in Net Assets

For the fiscal years ended March 31, 2021 and 2022

Millions of yen

	2021										
	Shareholders' equity					Other accumulated comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Foreign currency translation adjustment	Total other comprehensive income	Gain on reversal of subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥4,840	¥9,318	¥13,896	¥(1,609)	¥26,445	¥2,586	¥(964)	¥1,622	¥118	¥2,844	¥31,031
Cumulative effects of changes in accounting policies											
Restated balance	4,840	9,318	13,896	(1,609)	26,445	2,586	(964)	1,622	118	2,844	31,031
Changes during period											
Dividends of surplus			(369)		(369)						(369)
Profit (loss) attributable to owners of parent			20,920		20,920						20,920
Purchase of treasury shares				(0)	(0)						(0)
Disposal of treasury shares					—						—
Cancellation of treasury shares					—						—
Change in ownership interest of parent due to transactions with non-controlling interests		44			44						44
Net changes of items other than shareholders' equity						467	913	1,381	(118)	(2,844)	(1,581)
Total changes in items during period	—	44	20,550	(0)	20,594	467	913	1,381	(118)	(2,844)	19,012
Balance at the end of the period	¥4,840	¥9,362	¥34,446	¥(1,609)	¥47,039	¥3,054	¥(50)	¥3,003	¥—	¥—	¥50,043

Millions of yen

	2022										
	Shareholders' equity					Other accumulated comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Foreign currency translation adjustment	Total other comprehensive income	Gain on reversal of subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥4,840	¥9,362	¥34,446	¥(1,609)	¥47,039	¥3,054	¥(50)	¥3,003	—	—	¥50,043
Cumulative effects of changes in accounting policies			(1,063)		(1,063)						(1,063)
Restated balance	4,840	9,362	33,383	(1,609)	45,976	3,054	(50)	3,003	—	—	48,980
Changes during period											
Dividends of surplus			(1,741)		(1,741)						(1,741)
Profit (loss) attributable to owners of parent			27,544		27,544						27,544
Purchase of treasury shares				(10,000)	(10,000)						(10,000)
Disposal of treasury shares		26		42	69						69
Cancellation of treasury shares		(29)	(3,172)	3,201	—						—
Change in ownership interest of parent due to transactions with non-controlling interests					—						—
Net changes of items other than shareholders' equity						401	2,174	2,575	—	—	2,575
Total changes in items during period	—	(2)	22,630	(6,755)	15,872	401	2,174	2,575	—	—	18,448
Balance at the end of the period	¥4,840	¥9,359	¥56,013	¥(8,364)	¥61,849	¥3,455	¥2,123	¥5,579	¥—	¥—	¥67,428

Millions of U.S. dollars

	2022										
	Shareholders' equity					Other accumulated comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation differences on available-for-sale securities	Foreign currency translation adjustment	Total other comprehensive income	Gain on reversal of subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of the period	\$39	\$76	\$281	\$(13)	\$384	\$24	\$(0)	\$24	—	—	\$408
Cumulative effects of changes in accounting policies			(8)		(8)						(8)
Restated balance	39	76	272	(13)	375	24	(0)	24	—	—	400
Changes during period											
Dividends of surplus			(14)		(14)						(14)
Profit (loss) attributable to owners of parent			225		225						225
Purchase of treasury shares				(81)	(81)						(81)
Disposal of treasury shares		0		0	0						0
Cancellation of treasury shares		(0)	(25)	26	—						—
Change in ownership interest of parent due to transactions with non-controlling interests					—						—
Net changes of items other than shareholders' equity						3	17	21	—	—	21
Total changes in items during period	—	(0)	184	(55)	129	3	17	21	—	—	150
Balance at the end of the period	\$39	\$76	\$457	\$(68)	\$505	\$28	\$17	\$45	\$—	\$—	\$550

Consolidated Statement of Cash Flows

As of March 31, 2021 and 2022

	Millions of yen		Millions of U.S. dollars
	2021	2022	2022
Cash flows from operating activities			
Profit (loss) before taxes	¥26,834	¥36,361	\$297
Depreciation	1,514	307	2
Amortization of goodwill	396	—	—
Amortization of long-term prepaid expenses	730	689	5
Increase (decrease) in allowance for doubtful accounts	(8)	0	0
Increase (decrease) in reserves for bonus payments	234	185	1
Increase (decrease) in reserves for loss on construction contracts	(34)	17	0
Interest and dividend income	(109)	(119)	(0)
Interest expenses	208	23	0
Share of (profit) loss of entities accounted for using equity method	899	(420)	(3)
Loss (gains) on investments in partnerships	(6)	(13)	(0)
Foreign exchange gain (loss)	(268)	(609)	(4)
Loss on retirement of non-current assets	2,543	690	5
Impairment loss	703	—	—
Loss (gain) on sales of shares of subsidiaries and associates	(26,387)	(29,251)	(239)
Loss (gain) on change in equity	(117)	(147)	(1)
Loss (gain) on liquidation of subsidiaries and associates	18	—	—
Loss on valuation of other investments	—	205	1
Loss on liquidation of business	160	—	—
Decrease (increase) in notes and accounts receivable-trade	(1,151)	(18)	(0)
Decrease (increase) in inventories valuation	(2,141)	411	3
Increase (decrease) in notes and accounts payable - trade	2,581	(1,384)	(11)
Decrease (increase) in other assets	(1,314)	(544)	(4)
Decrease (increase) in other liabilities	114	229	1
Other	269	(15)	(0)
Subtotal	5,669	6,597	53
Interest and dividend income received	109	119	0
Interest expenses paid	(185)	(29)	(0)
Extra retirement payments	(26)	—	—
Corporate and other income tax refunds	173	1	0
Corporate and other income taxes (paid)	(225)	(6,884)	(56)
Cash flows from operating activities	5,513	(195)	(1)
Cash flows from investing activities			
Proceeds from withdrawal of time deposits	38	—	—
Purchase of property, plant and equipment	(649)	(788)	(6)
Purchase of intangible assets	(378)	(492)	(4)
Purchase of investment securities	(55)	(1,602)	(13)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	225	—	—
Proceeds from sales of shares of subsidiaries and associates	19,151	24,491	200
Purchase of shares of subsidiaries and associates	—	(367)	(3)
Purchase of long-term prepaid expenses	(738)	(601)	(4)
Collection of loans receivable	5	1	0
Proceeds from collection of guarantee deposits	10	1	0
Payments for guarantee deposits	(16)	(14)	(0)
Proceeds from transfer of business	—	228	1
Payments for transfer of business	(226)	—	—
Other	(344)	(837)	(6)
Cash flows from investing activities	17,022	20,018	163
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	2,979	(2,000)	(16)
Repayments of long-term loans payable	(21,210)	(2,790)	(22)
Purchase of treasury shares	(347)	(10,000)	(81)
Cash dividends paid	(369)	(1,737)	(14)
Other	(207)	(7)	(0)
Cash flows from financing activities	(18,807)	(16,534)	(135)
Effect of exchange rate change on cash and cash equivalents	459	1,072	8
Net increase (decrease) in cash and cash equivalents	4,188	4,361	35
Balance at the beginning of the period of cash and cash equivalents	17,219	21,407	174
Balance at the end of the period of cash and cash equivalents	¥21,407	¥25,769	\$210

Corporate Data

(as of March 31, 2022)

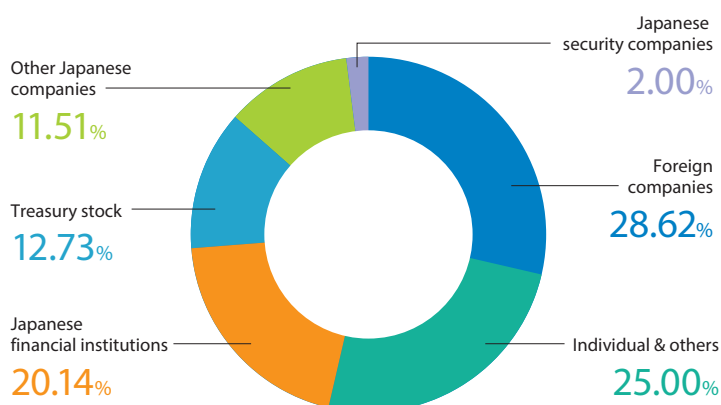
Corporate Profile

Company Name	MegaChips Corporation
Business Activities	Research, design, development, manufacturing, and sales of semiconductor related products
Corporate Headquarter	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
Establishment	April 4, 1990
Capital Stock	¥4,840 million
President and CEO	Tetsuo Hikawa
Settlement Date	March 31
Number of Employees	343 (consolidated)

Stock Information

Authorized Stock	100,000,000	General Shareholders' Meeting	June
Shares Outstanding	21,967,700	Dividend Closing Date	March 31
Number of Shareholders	11,534	Share Trading Unit	100
Listing of Stock	Prime Market	Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
Securities Code	6875		

Status by Owners

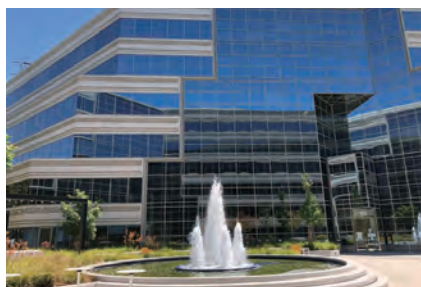


Overseas Group Companies

United States

MegaChips LSI USA Corporation

910 E Hamilton Ave, Suite 120, Campbell, CA 95008 U.S.A.



SiTime Corporation (Associated company)

5451 Patrick Henry Drive, Santa Clara, CA 95054 U.S.A.



Taiwan

MegaChips Taiwan Corporation

RM612, 6F, No.160, Section2, Nanjing East Road, Zhongshan District, Taipei 104, Taiwan



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