

MegaChips

MegaChips Corporation

**Interim Review
2013**

Six Months Ended September 30, 2013





Financial Highlight

For the First Half of the Fiscal Year Ending in March 2014

Net sales



Operating income



Net income



POINT 1

New MegaChips started at the beginning of the term through a merger with Kawasaki Microelectronics, Inc. ("Kawasaki Microelectronics"), a consolidated subsidiary.

POINT 2

Achieved higher sales and income year on year, given the strong performance of LSIs for liquid crystal panels and LSIs for office equipment, in addition to the contribution from new products: LSIs for digital cameras

POINT 3

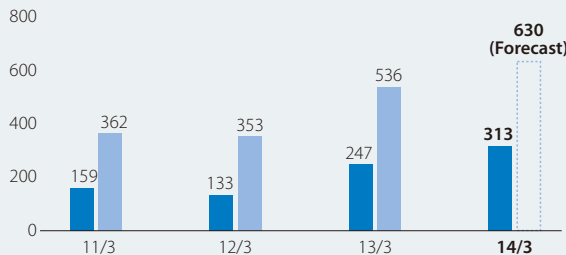
The rate of growth of net income exceeded that of operating income, reflecting the occurrence of a tax adjustment (income) of ¥2,450 million as a result of the recording of deferred tax assets following the merger with Kawasaki Microelectronics.

POINT 4

Expecting to continue to record higher sales and income in full-year results for the fiscal year ending March 2014

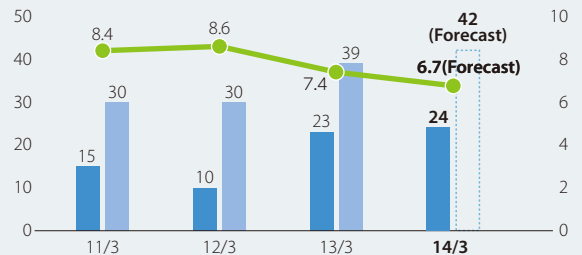
Net sales

■ First half ■ Full-year (¥100 million)



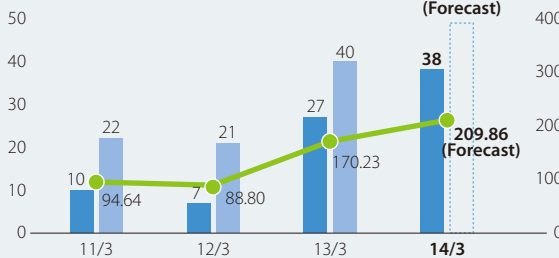
Operating income / Operating income margin

■ First half ■ Full-year ● Operating income margin (Full-year) (¥100 million) (%)



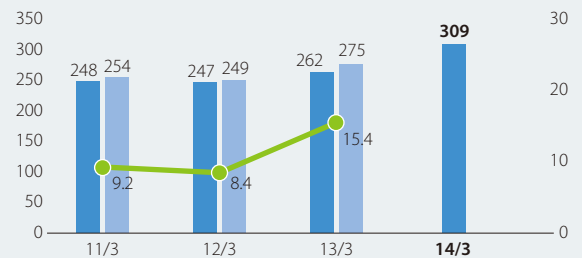
Net income / Net income per share

■ First half ■ Full-year ● Net income per share (Full-year) (¥100 million) (¥)



Net assets / ROE

■ First half ■ Full-year ● ROE (Full-year) (¥100 million) (%)



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Note on forecast:

In this report, non-historical statements are future forecasts based on future expectations and plans. These future forecasts include risks, uncertainties and other factors, and actual performance and results may differ from the forecasts presented in the report.



MegaChips aims to achieve sustainable growth by striving to improve its value as a global company.

President and CEO **Akira Takata**

MegaChips achieved higher sales and income on a year-on-year basis, despite the continued sluggishness of the overall market environment.

During the first half of the fiscal year ending March 2014, in the electronic machinery and equipment industry, demand in the overall market declined from the same period of the previous fiscal year, although that of certain electronic parts and devices increased year on year, reflecting the effects of stimulus packages and other measures.

The Company, meanwhile, merged with Kawasaki Microelectronics, Inc., its consolidated subsidiary, on April 1, 2013. Through this business integration, the Company will aim to establish a foundation for a global company that can effectively respond to changes in the business environment for the medium to long terms by efficiently leveraging the management resources of the two companies. The Company, the reborn MegaChips, has now taken the new first step with all its employees sharing the same values and establishing common missions and goals.

In this business environment, in the first half of the fiscal year ending March 2014, with the strong performance of LSIs for liquid crystal panels and LSIs for office equipment, in addition to contributions from new products, LSIs for digital cameras, the Company recorded higher sales and income with net sales of ¥31,352 million,

up 26.8% from the previous fiscal year, operating income of ¥2,485 million, an increase of 4.8%, and ordinary income of ¥2,616 million, rising 11.9%. Net income came to ¥3,817 million, up 37.6%, mainly reflecting the occurrence of a tax adjustment (income) of ¥2,450 million as a result of the recording of deferred tax assets.

The Company kept its forecast of consolidated full-year operating results for the fiscal year ending March 2014 unchanged from the previous forecast. Specifically, the Company expects net sales of ¥63 billion, up 17.5% from the previous fiscal year, operating income of ¥4.2 billion, an increase of 6.0%, ordinary income of ¥4.2 billion, rising 1.9%, and net income of ¥4.9 billion, up 21.2%.

The Company actively sought to globalize its business and took measures based on three growth strategies.

In its Three-year Medium-term Management Plan starting from the fiscal year under review and ending in the fiscal year ending March 2016, the Company has clarified its approach to making itself recognized as a "global company creating new applications and continuing to provide system solutions," and has adopted three growth strategies.

The first strategy is "Strengthen the foundation of the domestic consumer market business." Under this strategy, the Company will aim to maintain and expand long-term

business relationships founded on trust with customers in the Company's mainstay businesses related to home-use game consoles, digital home appliances, office equipment, home network equipment and security systems. In particular, as a result of the active presentation of proposals to customers in the business of multifunction peripherals and other office equipment, the Company successfully obtained new development projects that will drive growth in the future. The Company will continue to enhance its technological and

developmental capabilities so that it can deal with a range of products in the future, from system LSIs to software. It will also aim to bolster its business by reinforcing a structure in which it can support customers in a comprehensive manner, from planning, development, production, and quality assurance to supply, earning the trust of customers.

Under the second strategy, "Develop new businesses in domestic growth industries," the Company has been focusing on planning solutions and developing



TOPICS MegaChips Establishes a Subsidiary in Taiwan.

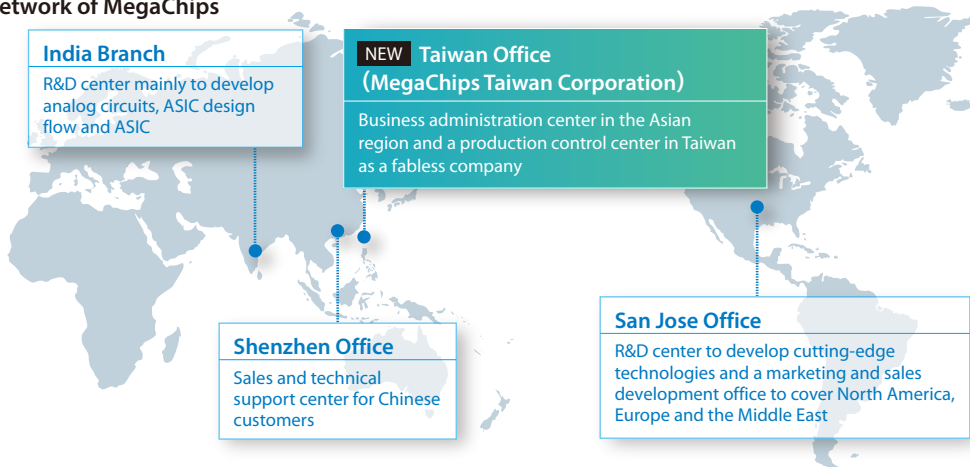
MegaChips established its wholly owned subsidiary, MegaChips Taiwan Corporation in Taipei, Taiwan in September 2013.

The Company has been operating in Taiwan, centered on LSIs for liquid crystal panels through the Taiwan Branch. However, it has established a subsidiary that will sell products of the MegaChips Group, manage production and provide support and other services in

order to accelerate its operations in the Asian region in the future.

The new company is positioned as the headquarters in the Asian regions, and is expected to strengthen each function of sales and marketing, development, FAE and production management. The new company is expected to begin operations on January 1, 2014.

Global network of MegaChips



Glossary

Consumer market

The consumer market, a market for general consumers, is a term particularly used by the Company as a market mainly related to home-use game consoles, digital cameras and LCD televisions.

System LSI

The system LSI is an LSI that creates a number of functions with one chip. For example, the Company develops system LSIs with the functions of video processing, sound processing, telecommunications processing and memory.

FAE

FAE stands for a Field Application Engineer who is in sales or sales support and has specialized technological expertise.

technologies targeting markets that require a variety of advanced technologies, such as the environmental, energy, automobile and infrastructure sectors. At present, the Company is taking steps to develop businesses in these areas, likely to become its mainstay operations in the future, by focusing on increasing the scale of intellectual property (IP) centered on image processing and telecommunications technologies, developing applications, and stepping up marketing activities.

Under the third strategy, "Strengthen the structure for entering the global market," the Company has been taking steps to establish a structure through which it will be able to actively develop overseas operations. As part of these initiatives, it has first established a new wholly owned subsidiary in Taiwan to expand its businesses in the Asian region. (Refer to TOPICS on page 3.) Moreover, the Company has been building offshore development structures and improving the production procurement structure in its other overseas bases in the United States, China and India to strengthen its sales structure and streamline development. By developing and strengthening global networks, the Company will strive to actively develop its businesses both in Japan and overseas.

With the three initiatives described above, the Company will endeavor to create unique and appealing solutions and enhance its value as a global company. Further, it will flexibly respond to the rapidly evolving needs of the market, and aim to contribute to the realization of an affluent society and achieve sustainable growth.

While the Company will strive to return profits to its shareholders, it will also make an effort to improve the stock value and the capital efficiency.

The Company positions the return of profits to its shareholders as an important management initiative. Consequently, it has adopted a basic policy in which it pays dividends to its shareholders for the highest amount

of either a dividend payout ratio of approximately 30% or a consolidated dividend on equity (DOE) ratio of approximately 2%, excluding special accounting and settlement factors. Accordingly, it is the Company's policy to pay dividends once a year by taking into account its consolidated results, financial situation, investment plans and other factors.

Although the Company has not determined the amount of the next annual dividends per share for the fiscal year ending March 2014, it plans to pay dividends in accordance with the policies described above. When the amount is finalized, the Company will issue a release and make an announcement on its website. Moreover, with respect to buying back shares from the market (acquiring treasury stock), the Company will issue a release and make an announcement on its website about the acquisition before it begins the buyback.

The Company is determined to maintain its dividend policies in the future, and will flexibly acquire treasury stock in an appropriate manner by mainly taking into comprehensive account the medium-term growth potential, the business environment, the market environment and investment plans in an effort to enhance its stock value and capital efficiency.

We hope that we will be able to continue to count on the support and guidance of our shareholders.



President and CEO

Intellectual property (IP)

The intellectual property comprise the functional circuits that make up system LSIs and embedded software that functions on the circuits. Because the intellectual property determines the performance of final products, it is considered an asset and its manufacturers are in the process of establishing rights over that asset.

Offshore development

Offshore development means outsourcing development to overseas subsidiaries and operators. It is attracting attention for its ability to cut costs and shorten the work period given effective use of the time difference and for other advantages. The Company is carrying out development in the United States and India.

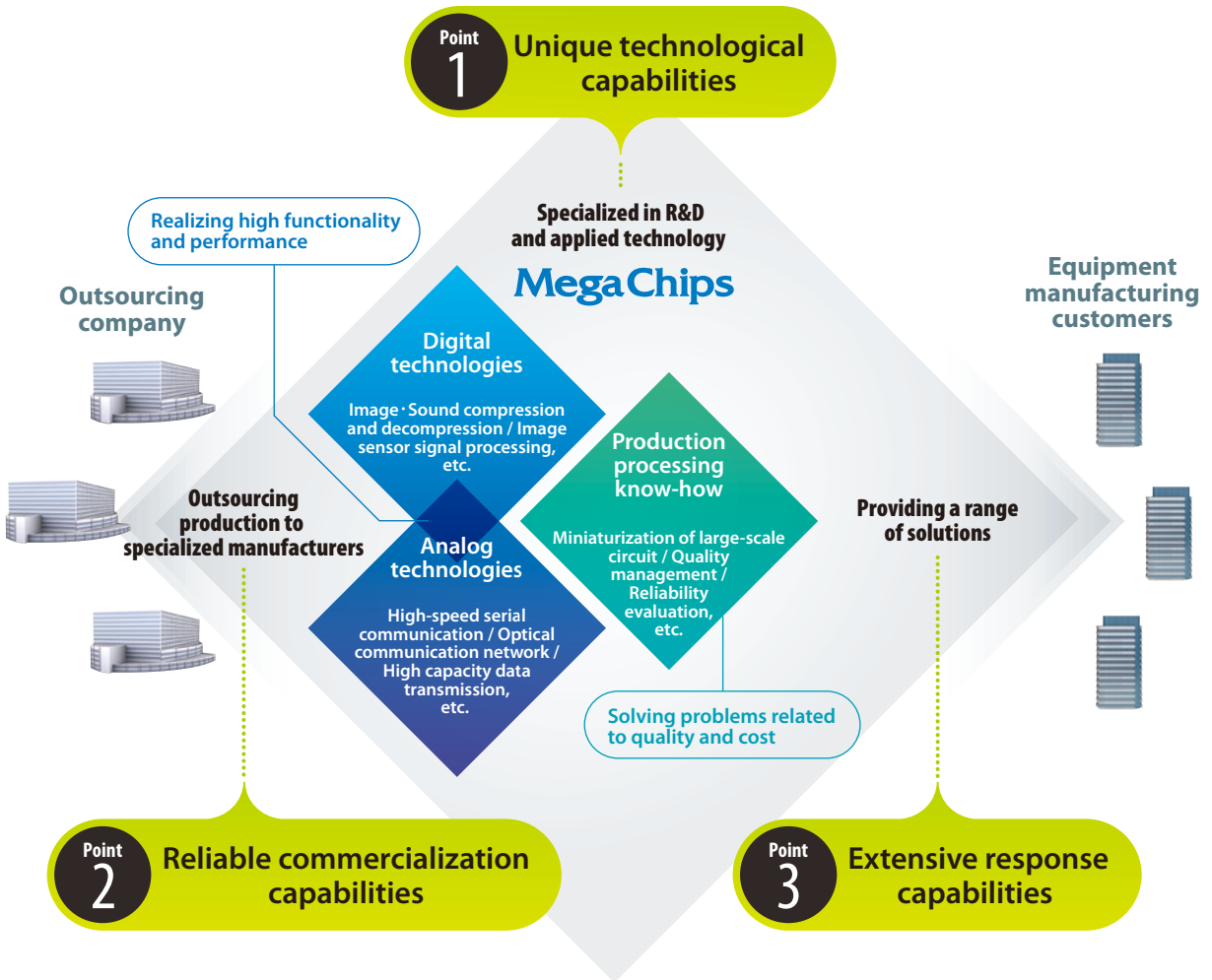
Buying back shares from the market (acquiring treasury stock)

Acquiring treasury stock means buying back the company's own shares from the stock market. It increases earnings per share by reducing the total number of shares outstanding. For this reason, the Company values this activity as a way to return profits to its shareholders.

This is ! MegaChips

Introducing MegaChips' business model and characteristics

We are a fabless manufacturer supporting customers' manufacturing through the development and provision of system LSIs.



A history of development

MegaChips creates high value-added products by integrating digital and analog technologies in the image, sound and telecommunication segments.

LSIs for game consoles

MegaChips provides LSIs for video compression and decompression processing used in video game consoles, LSIs for storing game software (custom memories) used in hand-held games, and other products.



* Wii U and Nintendo 3DS are the trademarks of Nintendo Co., Ltd.

LSIs for digital cameras

MegaChips achieves the world's most advanced technologies, including high-speed and high-quality image processing, noise reduction and backlight correction.



LSIs for LCD panels

MegaChips provides data transmission interface LSIs embedded in LCDs. It maintains an impressive 25% share in the global market for liquid crystal televisions.



MegaChips develops and provides unique LSIs and system equipment using its advanced technologies in the segments of images, sound and communications. MegaChips has adopted the fabless business mode, in which it does not own production facilities. It not only takes advantage of the general merits of that model, namely concentration and specialization in R&D and the possession of superior development and design

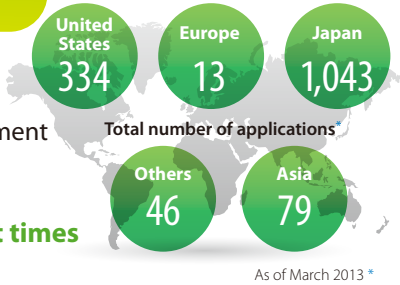
technologies; it also possesses strong production processing know-how (product miniaturization, quality management and cost cutting). Harnessing these strengths, MegaChips is helping to solve product development and production issues for manufacturing customers, for instance by enhancing product functions and performance, improving quality, cost and production speeds, and responding to environmental issues.



Point 1 Unique technological capabilities

Focusing management resources on technological development

Introducing unique technologies and products at the right times

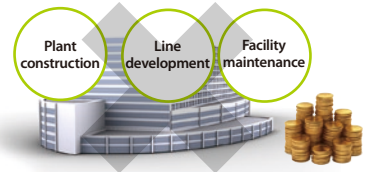


Point 2 Reliable commercialization capabilities

Selecting the world's best manufacturing facilities

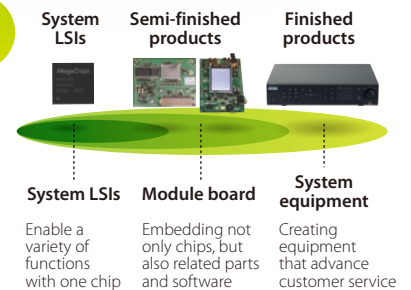
Rapidly developing high-quality products

The elimination of the need for large capital investments is another significant merit.



Point 3 Extensive response capabilities

Providing not only LSIs, but also a broad range of solutions



LSIs for optical networks

MegaChips has established a leading position in the global market for LSI products that achieve ultrahigh-speed digital data transmission.



LSIs for office equipment

MegaChips offers analog digital hybrid LSIs that achieve high-speed and high-capacity data transmission.



System equipment

MegaChips provides recorders and cameras that achieve high-definition security monitoring, real-time automatic power measurement systems that visualize electric power consumption, and other products.



Video monitoring system equipment



Real-time automatic power measurement systems



Corporate Data / Directors and Auditors

Corporate Data (as of the end of September 2013)

Company Name	MegaChips Corporation	Domestic bases	
Business Activities	Design, development and sales of systems LSIs, and electronic devices and systems products with LSIs manufactured by the Company	Tokyo Office	17-6, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan
Establishment	April 4, 1990	Makuhari Office	1-3 Nakase, Mihama-ku Chiba 261-8501
Capital Stock	¥4.84 billion	Overseas bases	
Corporate Headquarters	1-1-1, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan Phone: +81-6-6399-2884 FAX: +81-6-6399-2886	MegaChips Taiwan Corporation	
Representative	Akira Takata, President and CEO	MegaChips Technology America Corporation	
Number of Employees	Consolidated: 717 employees	MegaChips Shenzhen Corporation	
		India Branch	

Directors and Auditors



Akira Takata
President and CEO



Shigeki Matsuoka
Executive Vice President



Masayuki Fujii
Senior Managing Director



Tetsuo Hikawa
Director



Gen Sasaki
Director



Kyoichi Kissei
Director



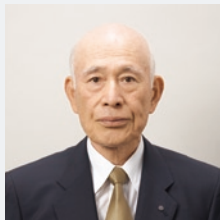
Keiichiro Akahoshi
Outside Director



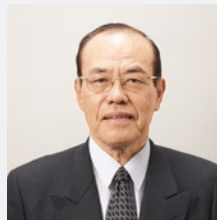
Dang-Hsing Yiu
Outside Director



Tadashi Sumi
Standing Statutory Auditor



Hisakazu Nakanishi
Outside Auditor



Nozomu Ohara
Outside Auditor



Keiichi Kitano
Outside Auditor

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