

**Elpida Memory, Inc.**  
(Stock listing: Tokyo Stock Exchange, 6665)

**Consolidated Financial Report  
for the Period Ended June 30, 2005**

**1. Consolidated financial summary**

(Millions of Japanese Yen, except per share data)

(1) Condensed Statements of Operations (Three months period) unaudited

	Three months ended		Change
	June 30, 2005	June 30, 2004	
Net Sales	48,036	45,536	105.5%
Operating income /(loss)	(2,604)	3,088	-
Ordinary income /(loss)	(3,327)	2,132	-
Net income /(loss)	(3,304)	2,302	-
Net income /(loss) per share – basic	(34.25)	35.63	-
Net income /(loss) per share – diluted	-	-	-

(2) Condensed Balance Sheet

	As of		Change
	June 30, 2005 (unaudited)	March 31, 2005	
Total Assets	482,656	498,168	96.9%
Shareholders' equity	192,086	195,285	98.4%

**Notes:**

1. Regarding diluted net income per share for the first quarter of FY 2005, information is not available due to the booking of net losses.
2. Since Elpida Memory was an unlisted and unregistered company in the first quarter of FY 2004, diluted net income per share is unavailable.

## **Business Results**

### **(1) Overview of 1Q**

In the most recent quarter (April-June 2005), DRAMs for personal computers saw continuous rapid price declines from the Chinese New Year in February until May. But with June marking a turnaround in the balance of supply and demand, prices have been stabilizing. Also, given an end to inventory adjustments in the market for digital consumer electronics and mobile phones, there are indications of growing demand for DRAMs for these products.

Under these circumstances, we are fully executing our basic strategy of focusing strongly on Premier DRAM [note1] products and have taken additional steps to expand sales and improve productivity in order to minimize the impact of volatile DRAM prices. Consequently, our business results for the quarter (see below) were in line with the forecast we announced on 25 April.

Consolidated net sales for the quarter grew 5.5% year on year (YoY) to ¥48,036 million. One point to note is that lower sales of DRAMs for personal computers were offset by growth in sales for digital consumer electronics and mobile phones.

In the quarter, we experienced an operating loss of ¥2,604 million, as income dropped by ¥5,691 million from the ¥3,087 million recorded a year earlier. Some of the factors behind the loss were rapid price declines, especially in the personal computer area, and some ¥600 million in costs related to the start-up of the E300 Fab-Area2 (formerly known as the E300-Fab2), which was brought on line to increase production capacity.

Regarding ordinary income, a loss of ¥3,327 million was recorded. Income declined by ¥5,459 million from the year earlier figure of ¥2,132 million. Although the cheaper yen helped to reduce foreign exchange losses by ¥423 million YoY, interest expenses over the same period grew by ¥416 million to reach ¥1,089 million. Net income fell by ¥5,606 million from ¥2,302 million a year earlier, producing a net loss of ¥3,304 million for the quarter.

### **(2) The breakdown of sales by application market is as follows :**

(Billions of yen)

		Three months ended June 30, 2005 (unaudited)		Three months ended June 30, 2004 (unaudited)		Change %
	Servers*	10.3	21.5%	6.5	14.3%	58.5%
	Digital consumer electronics and mobile phones *	20.3	42.3%	12.2	26.8%	66.4%
	Premier DRAM (Note1)	30.6	63.8%	18.7	41.1%	63.6%
	Foundry services and others	5.0	10.4%	4.8	10.5%	4.2%
	Subtotal of Premier business (Note 2)	35.6	74.2%	23.5	51.6%	51.5%
	PCs	12.4	25.8%	22.0	48.4%	(43.6)%
	Total net sales	48.0	100.0%	45.5	100.0%	5.5%

\* Premier DRAM products [note1]

Note 1: Premier DRAM: Our proprietary name given to DRAM products used for servers, and digital consumer electronics and mobile phones. This type of DRAM usually requires higher technologies than commodity DRAMs, and the price per certain density tends to become higher in proportion to this value added.

Note 2: Premier business: Our proprietary name given to the total of the Premier DRAM and foundry services.

### **Servers**

Net sales for servers increased 58.5% YoY to ¥10.3 billion.

Despite the impact of lower prices for DRAMs for personal computers, DDR2 SDRAM-based high-density (1 gigabyte plus) high value-added module products were the main factor behind a big YoY jump in sales for the quarter.

### **Digital consumer electronics and mobile phones**

Net sales for digital consumer electronics and mobile phones rose 66.4% YoY to ¥20.3 billion.

On top of an end to inventory adjustments, higher demand for DRAMs in overseas mobile phone markets helps explain the big YoY jump in sales for the quarter. Furthermore, along with DRAMs for digital still cameras and DVD recorders, DRAMs for digital TVs and other digital consumer electronics and for 2.5 and 3rd generation mobile phones were important sales factors.

### **Foundry services and others**

In foundry services and others, an increase in manufacturing centering on Pseudo SRAMs lay behind a 4.2% YoY rise in net sales to ¥5 billion.

As part of our foundry services, we have a foundry business (contract manufacturing of semiconductor products based on customer-specified designs) engaged in making semiconductor products for domestic semiconductor makers, our major customers in this business area.

### **Personal computers**

Net sales for personal computers fell 43.6% YoY to ¥12.4 billion. This large drop in sales is partly attributable to a transfer of production to other areas to focus on Premier DRAM products and rapid declines in prices for DRAMs for personal computers since the Chinese New Year.

### **(3) Capital expenditures**

Capital expenditures for the quarter amounted to ¥24.6 billion. The main expense concerned the start-up of the E300 Fab- Area2.

## **Financial Condition**

Relative to the end of the previous quarter, total assets fell by ¥15.5 billion to ¥482.7 billion. One reason was a reduction in cash and cash equivalents related to payment for capital expenditures. Interest-bearing debt (including lease obligations) fell by ¥10.4 billion to ¥223.2 billion. Shareholders' equity decreased by ¥3.2 billion to ¥192.1 billion, attributable in part to the booking of net losses for the quarter. As a result, the shareholders' equity ratio improved by 0.6 points versus the end of the previous quarter to 39.8%.

## **Cash Flow**

At the end of the quarter, the balance of cash and cash equivalents stood at ¥156.7 billion, a drop of ¥33.1 billion compared with the end of the FY 2004.

Net cash provided by operating activities increased by ¥14.1 billion compared with a year ago to ¥8.2 billion, due mainly to an increase of ¥11.5 billion for depreciation and amortization.

Net cash used in investing activities increased by ¥11.1 billion compared with a year ago to ¥31 billion, mainly because of an increase in capital expenditures related to E300Fab-Area1 (formerly known as the E300- Fab1).

As a result, free cash flow (a combination of net cash provided by operating activities and net cash used in investing activities) was negative ¥22.8 billion, an increase of ¥3 billion compared with a year ago.

Also, net cash flow from financing activities decreased by ¥18.9 billion compared with a year ago to ¥10.4 billion. Repayments were made in regard to lease obligations and long-term debt

## FY 2005 Outlook

In regard to the outlook for the FY 2005 second quarter, we expect strong sales in the market for DRAMs for digital consumer electronics and mobile phones. Also, we look for prices to become more stable in the market for DRAMs for servers and personal computers. Furthermore, we now intend to advance the start of mass production at the E300 Fab-Area2 from December, which was our plan at the beginning of the business year, to October. Costs related to this are likely to be brought forward. Given the foregoing, our forecasts for the 2Q and for the first half are as shown in the chart that follows.

Regarding the full-term outlook, we have made no changes to our forecast since announcing FY 2004 results on 25 April 2005.

(Billions of yen)

	2 <sup>nd</sup> Quarter Forecast	1 <sup>st</sup> Half Forecast	FY2005 Forecast (April 25)
Net sales	52.0 – 57.0	100.0 – 105.0	260.0
Operating income	(3.5) – 0.5	(6.1) – (2.1)	18.6
Ordinary income	(4.6) – (0.6)	(7.9) – (3.9)	15.3
Net income	(4.0) – 0	(7.3) – (3.3)	14.0

Finally, we offer forecasts on a consolidated basis and do not present parent forecasts.

Note: This above forecasts are forward-looking statements that are based on management's view from the information available at the time of this Report. These statements involve risks and uncertainties. Actual results may be materially different from those discussed in the forward-looking statements. The factors that may affect Elpida include, but are not limited to, changes in the DRAM market and industry environment, changes in technologies and design, problems related to our supply of key material and equipment, loss of or decreased demand from key customers, changes in exchange rates, general economic conditions and natural disasters. We disclaim any obligation to update or, except in the limited circumstances required by the Tokyo Stock Exchange, announce publicly any revision to any of the forward-looking statements.

## Comparative Consolidated Balance Sheet

(Millions of yen)

	As of June 30, 2005 (unaudited)	As of March 31, 2005	Change	As of June 30, 2004 (unaudited)
<b>(Assets)</b>				
<b>I Current assets</b>				
1. Cash and cash equivalents	156,704	189,798	(33,094)	93,302
2. Notes and accounts receivable, trade	36,049	36,769	(720)	31,090
3. Inventories	35,403	32,795	2,608	26,422
4. Accounts receivable, other	6,446	6,393	53	5,568
5. Other current assets	4,780	5,419	(639)	2,615
6. Allowance for doubtful accounts	(32)	(31)	(1)	(32)
Total current assets	239,350	271,143	(31,793)	158,965
<b>II Fixed assets</b>				
1. Tangible fixed assets	229,208	213,138	16,070	134,603
2. Intangible fixed assets	7,732	7,787	(55)	6,976
3. Investments and other assets	6,366	6,100	266	1,573
Total fixed assets	243,306	227,025	16,281	143,152
Total assets	482,656	498,168	(15,512)	302,117
<b>(Liabilities)</b>				
<b>I Current liabilities</b>				
1. Accounts payable, trade	28,871	27,799	1,072	24,591
2. Short-term borrowings	-	-	-	2,000
3. Current portion of long-term debt	18,520	18,520	-	8,080
4. Current portion of obligation under capital leases	29,802	30,143	(341)	24,216
5. Accounts payable, other	27,340	31,255	(3,915)	57,248
6. Other current liabilities	7,838	7,183	655	6,130
Total current liabilities	112,371	114,900	(2,529)	122,265
<b>II Long-term liabilities</b>				
1. Bonds	80,000	80,000	-	10,000
2. Long-term debt	55,568	58,573	(3,005)	34,070
3. Obligation under capital leases	39,301	46,330	(7,029)	50,075
4. Other long-term liabilities	3,330	3,080	250	2,284
Total Long-term liabilities	178,199	187,983	(9,784)	96,429
Total liabilities	290,570	302,883	(12,313)	218,694
<b>(Shareholders' equity)</b>				
I Capital stock	87,234	87,234	-	46,625
II Additional paid in capital	98,334	98,334	-	33,042
III Retained earnings	6,448	9,752	(3,304)	3,841
IV Unrealized gains on investment securities	41	2	39	-
V Translation adjustments	29	(37)	66	(85)
VI Treasury stock	(0)	(0)	-	-
Total shareholders' equity	192,086	195,285	(3,199)	83,423
Total liabilities and shareholders' equity	482,656	498,168	(15,512)	302,117

## Comparative Consolidated Statements of Operations

(Millions of yen)

Account	Three months ended				Change Increase or decrease	Fiscal year ended	
	June 30, '05(unaudited)		June 30, '04(unaudited)			March 31, '05	
		Ratio (%)		Ratio (%)			Ratio (%)
I Net sales	48,036	100.0	45,536	100.0	2,500	207,028	100.0
II Cost of sales	40,487	84.3	34,973	76.8	5,514	156,620	75.7
Gross profit	7,549	15.7	10,563	23.2	(3,014)	50,408	24.3
III Selling, general and administrative expenses	10,153	21.1	7,476	16.4	2,677	35,292	17.0
Operating income/(loss)	(2,604)	(5.4)	3,087	6.8	(5,691)	15,116	7.3
IV Non-operating income							
1. Interest income	66		12		54	115	
2. Dividend income	247		—		247	—	
3. Foreign exchange gains	182		—		182	—	
4. Local government subsidy	—		—		—	145	
5. Others	53		87		(34)	209	
V Non-operating expenses							
1. Interest expense	1,089		673		416	3,079	
2. Foreign exchange losses	—		241		(241)	504	
3. Stock issuance costs	—		—		—	597	
4. Bonds issuance costs	—		—		—	313	
5. Others	182		140		42	408	
Ordinary income/(loss)	(3,327)	(6.9)	2,132	4.7	(5,459)	10,684	5.2
VI Extraordinary income	3	0.0	0	0.0	3	209	0.1
VII Extraordinary losses	32	0.1	—	—	32	1,947	0.9
Income/(loss) before income taxes	(3,356)	(7.0)	2,132	4.7	(5,488)	8,946	4.4
Income taxes	(52)	(0.1)	(170)	(0.4)	118	733	0.4
Net income/(loss)	(3,304)	(6.9)	2,302	5.1	(5,606)	8,213	4.0

Note: "Income taxes" is indicated after deducting tax adjustments.

## Comparative Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended		Change increase/ (decrease)	Fiscal year ended
	June 30, '05(unaudited)	June 30, '04(unaudited)		March 31, '05
I Operating activities				
Income (loss) before income taxes	(3,356)	2,132	(5,488)	8,946
Depreciation and amortization	11,503	6,644	4,859	35,944
Increase in allowance for doubtful accounts	—	—	—	(2)
Interest and dividend income	(313)	(12)	(301)	(115)
Interest expense	1,089	673	416	3,079
Gain on sale of tangible fixed assets	(3)	(0)	(3)	(2)
Losses on sale of tangible fixed assets	32	—	32	32
(Increase) /decrease in accounts receivable, trade	983	(5,146)	6,129	(10,558)
Increase in inventories	(2,551)	(1,969)	(582)	(8,334)
Increase in accounts receivable, other	(52)	(1,707)	1,655	(2,532)
Increase/(decrease) in accounts payable, trade	1,070	(495)	1,565	3,208
Increase/(decrease) in accounts payable, other	(366)	(282)	(84)	687
Other	1,151	(4,809)	5,960	(5,381)
Subtotal	9,187	(4,971)	14,158	24,972
Interest and dividends received	148	12	136	115
Interest paid	(604)	(583)	(21)	(3,004)
Income taxes paid	(516)	(361)	(155)	(1,096)
Net cash provided by (used in) operating activities	8,215	(5,903)	14,118	20,987
II Investing activities				
Purchase of investment securities	—	—	—	(2,049)
Purchase of tangible fixed assets	(30,485)	(19,818)	(10,667)	(152,114)
Proceeds from sale of tangible fixed assets	190	—	190	195
Purchase of intangible fixed assets	(619)	(389)	(230)	(3,138)
Increase in long-term prepaid expenses	(137)	—	(137)	(3,328)
Other	3	262	(259)	(130)
Net cash used in investing activities	(31,048)	(19,945)	(11,103)	(160,564)
III Financing activities				
Net decrease in short-term borrowings	—	(3,693)	3,693	(5,705)
Proceeds from long-term debt	—	—	—	41,000
Repayments of long-term debt	(3,005)	(250)	(2,755)	(6,307)
Proceeds from issuance of stock	—	—	—	105,305
Proceeds from issuance of bond	—	—	—	69,688
Proceeds from sale and lease-back transactions	—	18,041	(18,041)	40,667
Repayments of obligation under capital leases	(7,370)	(5,567)	(1,803)	(26,013)
Purchase of treasury stock	—	—	—	(0)
Net cash provided by (used in) financing activities	(10,375)	8,531	(18,906)	218,635
IV Effect of exchange rates changes on cash and cash equivalents	114	64	50	185
V Net increase/ (decrease) in cash and cash equivalents	(33,094)	(17,253)	(15,841)	79,243
VI Cash and cash equivalents at beginning of period	189,798	110,555	79,243	110,555
VII Cash and cash equivalents at end of period	156,704	93,302	63,402	189,798
Free cash flow (I+ II)	(22,833)	(25,848)	3,015	(135,592)

**Appendix (unaudited)**

1. Selected Quarterly Consolidated Statements of Operations

(Millions of yen)

Account	Three-month ended							
	Dec. 31, '04		Mar. 31, '05		Jun. 30, '05		Jun. 30, '04	
		Ratio (%)		Ratio (%)		Ratio (%)		Ratio (%)
Net sales	56,136	100.0	50,730	100.0	48,036	100.0	45,536	100.0
Gross profit	14,736	26.2	9,702	19.1	7,549	15.7	10,563	23.2
Selling, general and administrative expenses	9,097	16.2	8,560	16.9	10,153	21.1	7,476	16.4
Operating income	5,639	10.0	1,142	2.2	(2,604)	(5.4)	3,087	6.8
Income before income taxes	3,756	6.7	(1,846)	(3.6)	(3,356)	(7.0)	2,132	4.7
Net income	3,387	6.0	(1,678)	(3.3)	(3,304)	(6.9)	2,302	5.1

2. Selected Consolidated Financial Data

	Dec. 31, '04	Mar. 31, '05	Jun. 30, '05	Jun. 30, '04
Cash and cash equivalent	164.7 billion yen	189.8 billion yen	156.7 billion yen	93.3 billion yen
A/R collection period	66 days	65 days	68 days	61 days
Inventory holding period	64 days	72 days	79 days	68 days
Interest-bearing debt	165.2 billion yen	233.6 billion yen	223.2 billion yen	128.4 billion yen
Net D/E Ratio	0.00 times	0.22 times	0.35 times	0.42 times
Share holders' equity Ratio	43.4%	39.2%	39.8%	27.6%

	Three-month ended Dec. 31, '04	Three-month ended Mar. 31, '05	Three-month ended Jun. 30, '05	Three-month ended Jun. 30, '04
Cash flows from Operating activities	16.7 billion yen	7.1 billion yen	8.2 billion yen	(5.9 billion yen)
ROA	3.4%	(1.4%)	(2.7%)	3.1%
ROE	9.5%	(3.4%)	(6.8%)	11.2%

(Calculating formulas)

A/R collection period = Accounts receivable, trade / Average monthly net sales x 30 days

Inventory holding period = Inventories / Average monthly cost of sales x 30 days

Interest-bearing debt = Bonds + Long-term and short-term debt + Long-term and short-term lease obligation

Net D/E ratio = (Interest-bearing debt – cash and cash equivalents) / shareholders' equity

ROA (ROE) (Three-month period) = Quarterly Net income/(loss) x 4 / Average quarterly total assets (Average shareholders' equity)

3. Foreign exchange rate of yen for dollars in 2<sup>nd</sup> quarter assumption

	Exchange rate in assumption
Yen for U.S.\$	109.00