

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

Consolidated Financial Report
for the Period Ended December 31, 2005

Consolidated financial summary (unaudited)

(Millions of Japanese Yen, except per share data)

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

	Three months ended		YoY Change
	Dec. 31, 2005	Dec. 31, 2004	
			%
Net Sales	59,021	56,136	5.1
Operating income (loss)	645	5,639	(88.6)
Ordinary income (loss)	(693)	3,768	-
Net income (loss)	163	3,387	(95.2)
Net income (loss) per share – basic	1.68	42.38	(96.0)
Net income (loss) per share – diluted	1.67	41.77	(96.0)

(2) Condensed Statements of Operations (Nine months period) unaudited

	Nine months ended		YoY Change
	Dec. 31, 2005	Dec. 31, 2004	
			%
Net Sales	164,524	156,298	5.3
Operating income (loss)	(4,472)	13,974	-
Ordinary income (loss)	(7,705)	10,610	-
Net income (loss)	(6,179)	9,890	-
Net income (loss) per share – basic	(64.06)	141.86	-
Net income (loss) per share – diluted	-	139.51	-

Condensed Balance Sheet

	As of		QoQ Change
	Dec. 31, 2005 (unaudited)	Sep 30, 2005	
			%
Total Assets	580,133	505,963	14.7
Shareholders' equity	189,573	188,753	0.4

Note:

1. Regarding diluted net income per share for the third quarter of FY 2005, information is not available due to the booking of net losses.

[Overview of Business Results]

1. Overview of the three-month period ended December 31, 2005

In the 3Q (October-December 2005), because a supply shortage of chipsets in the PC DRAM market led to deterioration in the DDR2 SDRAM balance of supply and demand, DDR2 SDRAM prices plummeted. The spot market price (512Mb DDR2 SDRAM) recorded an approximate 25% decline. Also, affected by events in the PC DRAM market, the server DRAM market environment remained generally severe.

On the other hand, as more digital products consumer and mobile phone started to mount more DRAMs on them, the DRAM market for those products saw steady growth.

Based on these conditions, Elpida remains fully committed to its basic business strategy of focusing hard on Premier DRAMs [See Note 1 below] and minimizing the impact of price volatility on these products. As a result, consumer electronic and mobile phone-related net sales reached a record-breaking ¥31.7 billion in the 3Q. Also, production has seen a steady increase following the October 2005 start of operations in E300 Fab Area 2. In December, wafer input for the entire E300 Fab reached 50,000 wafers. Given the foregoing, Elpida achieved the following business results in the 3Q:

Consolidated net sales in the 3Q grew 5.1% YoY to ¥59,021 million. Contributing factors were, for the first time, production expansion at our E300 Fab Area2 and a substantial increase in supply from our foundry partner in Taiwan.

Operating income fell 88.6% YoY to ¥645 million. A drop in prices caused gross profit to decline, while SG&A expenses, particularly R&D costs, increased.

Ordinary income registered a loss of ¥693 million, as income fell by ¥4,461 million against the year-ago figure of ¥3,768 million. In addition to the drop in operating income, we booked interest expenses of about ¥900 million and bond issue expenses of about ¥200 million related to a December straight-bond issue.

An extraordinary loss of ¥1,104 million was booked, mainly in connection with sales of fixed assets (equipment for 200mm wafers).

As a result of the foregoing, net income fell 95.2% YoY to ¥163 million.

2. The breakdown of sales by application market

(Billions of yen)

	Three months ended December 31, 2005 (unaudited)		Three months ended December 31, 2004 (unaudited)		YoY Change %
Servers*	8.8	14.9%	13.7	24.4%	(35.8%)
Digital consumer electronics and mobile phones *	31.7	53.7%	18.5	33.0%	71.4%
Premier DRAM (Note1)	40.5	68.6%	32.2	57.4%	25.8%
Foundry services and others	5.4	9.2%	6.0	10.7%	(10.0%)
Subtotal of Premier business (Note 2)	45.9	77.8%	38.2	68.1%	20.2%
PCs	13.1	22.2%	17.9	31.9%	(26.8%)
Total net sales	59.0	100.0%	56.1	100.0%	5.2%

* Premier DRAM (Note 1)

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 and others.

(Servers)

Net sales of server DRAM products fell 35.8% YoY to ¥8.8 billion. Even though we are accelerating our move into even higher value-add 1GB (gigabyte) or greater high-density module products, this was not enough to offset the impact of a drop in market prices for DDR2 SDRAMs for PCs.

(Digital Consumer and Mobile Phones)

Net sales of digital consumer and mobile phone DRAM products posted a single quarter record of ¥31.7 billion (up 71.4% YoY). In the digital consumer electronics sub group, demand existed for a wide range of products. In the mobile phone-related sub group, growth was steady in both the domestic and overseas markets.

This product group as a whole includes Elpida products used in digital still cameras, digital TVs, DVD recorders and in other consumer electronics, as well as in 2.5G and 3G mobile phones.

(Foundry services and Others)

In foundry services and other operations, net sales, backed mostly by pseudo SRAM production, fell 10.0% YoY to ¥5.4 billion.

These operations handle contract production of semiconductor products. The main group of customers is domestic semiconductor makers.

(Personal Computers)

Net sales of personal computers DRAM products fell 26.8% YoY to ¥13.1 billion. Despite getting higher production from our Taiwan foundry partner, product price declines and an in-house production capacity switchover to promising digital consumer and mobile phone-related manufacturing resulted in a substantial net sales drop.

3. Capital Investment

Current fiscal year capital expenditures (calculated on a 9-month basis) thus far total ¥159.6 billion. E300 Fab Area 2 has been the main area of investment.

[Financial Conditions]

Compared with the end of the 2Q (end-September 2005), total assets increased by ¥74.2 billion to ¥580.1 billion. Due to a ¥40 billion straight bond issue in December, cash and cash equivalents grew by ¥27 billion compared with the end of the 2Q to ¥148.5 billion. Also, fixed assets increased by ¥31.6 billion, mainly because of E300 Fab Area 2 investments.

Due to the ¥40 billion straight bond issue, interest-bearing debt (including lease obligations) increased by ¥29.4 billion compared with the end of the 2Q to ¥240.4 billion. Shareholders' equity rose by ¥800 million to ¥189.6 billion based on net income in the 3Q and the booking of unrealized gains on marketable securities.

Consequently, the shareholders' equity ratio became 32.7%, a drop of 4.6 points compared with the end of the 2Q.

[Consolidated Cash Flow]

With regard to cash flow in the 3Q, operating activities provided net cash of ¥17.7 billion, an inflow increase of ¥1.0 billion YoY.

Investing activities used ¥39.5 billion, an outflow increase of ¥9.6 billion YoY. This was mostly due to an increase in purchases of fixed assets for E300 Fab Area 2.

As a result, free cash flow (a combination of net cash provided by operating activities and net cash used in investing activities) saw a net outflow of ¥21.9 billion, an outflow increase of ¥8.6 billion YoY.

With the December straight bond issue providing ¥39.8 billion, net cash provided by financing activities was ¥48.4 billion. However, given that our stock listing in the previous term provided ¥105.8 billion, net cash from financing was down by ¥55.4 billion YoY.

Based on these results, the balance of cash and cash equivalents fell ¥16.2 billion YoY to ¥148.5 billion.

[Outlook for Business Results]

In the 3Q, financial results fell below the forecast we issued on October 25, 2005. Also, we have revised our 4Q outlook based on the significant downward slide in prices that occurred in the 3Q. This is likely to cancel out the impact of an anticipated substantial increase (60-70 %) in the volume of bit shipments due to an expansion of E300 Fab Area 2 production and increasing procurement from our foundry partner. Given these factors, we have revised our FY 2005 forecast, as shown below.

(Billions of yen)

	Revised Forecast (A)	Previous forecast	Results of FY 2004 (B)	Change (A-B)	Change% ((A-B)/B)
Net sales	240.0-250.0	240.0-250.0	207.0	33.0-43.0	15.9% - 20.8%
Operating income (loss)	0-(4.0)	7.0-12.0	15.1	(15.1) -(19.1)	-
Ordinary income (loss)	(3.5)-(7.5)	4.5-9.5	10.7	(14.2) -(18.2)	-
Net income (loss)	(2.0)-(6.0)	5.0-10.0	8.2	(10.2) -(14.2)	-

[Risk Factors]

The following are the significant risk factors that may adversely affect our business, financial condition and results of operations.

- The cyclicity of the DRAM industry can result in volatile operating results.
- Increased worldwide production or lack of demand for DRAM products could lead to declines in selling prices for our products.
- We face intense competition in the DRAM industry.
- As regards sales, material supplies, outsourcing and other professional business activities, we work closely with set business partners. Any lessening or disruption of our working arrangements with these partners could harm our business performance.
- We may not respond quickly enough to rapid technological change and evolving standards in the semiconductor industry.
- We plan to make large investments in DRAM manufacturing facilities, but there can be no assurance that we will obtain sufficient funding, execute our expansion plan effectively or realize the expected return on our investment.
- We rely on other companies for all of our back-end processing.
- In the event of a conspicuous slowdown in the manufacture of DRAM products, interrupted production, or product defects, this may adversely affect our profit performance or our financial status.
- We may not be able to protect our proprietary intellectual property, and we may be accused of infringing the intellectual property rights of others.
- Allegations of anti-competitive practices in the DRAM industry may have a direct or indirect impact on our operations.
- Based on the strengthening of environmental laws and regulations in recent years, the emergence of new legal obligations may result in lower group asset values or may burden our business operations with additional costs.
- While attempting to develop business not only in Japan but also in North America, Asia and Europe, Elpida's business performance could be adversely affected in any of these regions by local political situations, domestic security disruptions, changes in laws or public policy or changes in business conditions caused by economic deterioration or other unfavorable factors.
- Currency fluctuations will affect our operating results and could result in exchange losses.

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 December 31, 2005 (unaudited)	As of September 30, 2004	Change	As of March 31, 2005
(Assets)				
I Current assets				
1. Cash and cash equivalents	148,516	121,485	27,031	189,798
2. Notes and accounts receivable, trade	42,529	41,865	664	36,769
3. Inventories	39,145	33,150	5,995	32,795
4. Accounts receivable, other	17,250	8,966	8,284	6,393
5. Other current assets	5,595	5,470	125	5,419
6. Allowance for doubtful accounts	(33)	(32)	(1)	(31)
Total current assets	253,002	210,904	42,098	271,143
II Fixed assets				
1. Tangible fixed assets	307,426	275,835	31,591	213,138
2. Intangible fixed assets	7,588	7,503	85	7,787
3. Investments and other assets	12,117	11,721	396	6,100
Total fixed assets	327,131	295,059	32,072	227,025
Total assets	580,133	505,963	74,170	498,168
(Liabilities)				
I Current liabilities				
1. Accounts payable, trade	43,432	32,631	10,801	27,799
2. Current portion of bond	10,000	10,000	—	—
3. Current portion of long-term debt	20,106	21,470	(1,364)	18,520
4. Current portion of obligation under capital leases	27,877	29,429	(1,552)	30,143
5. Accounts payable, other	94,281	60,683	33,598	31,255
6. Other current liabilities	7,863	7,867	(4)	7,183
Total current liabilities	203,559	162,080	41,479	114,900
II Fixed liabilities				
1. Bond	110,000	70,000	40,000	80,000
2. Long-term debt	45,472	47,113	(1,641)	58,573
3. Obligation under capital leases	26,914	32,925	(6,011)	46,330
4. Other long-term liabilities	4,615	5,092	(477)	3,080
Total fixed liabilities	187,001	155,130	31,871	187,983
Total liabilities	390,560	317,210	73,350	302,883
(Shareholders' equity)				
I Capital stock	87,234	87,234	—	87,234
II Additional paid-in capital	98,334	98,334	—	98,334
III Retained earnings	3,573	3,410	163	9,752
IV Unrealized gain (loss) on marketable securities	40	(363)	403	2
V Foreign currency translation adjustments	393	138	255	(37)
VI Treasury stock	(1)	(0)	(1)	(0)
Total shareholders' equity	189,573	188,753	820	195,285
Total liabilities and shareholders' equity	580,133	505,963	74,170	498,168

Comparative Consolidated Statements of Operations

(Millions of yen)

	Three months ended December 31				YoY Change
	2005 (unaudited)		2004 (unaudited)		
Account		Ratio (%)		Ratio (%)	Increase or decrease
I Net sales	59,021	100.0	56,136	100.0	2,885
II Cost of sales	48,435	82.1	41,400	73.8	7,035
Gross profit	10,586	17.9	14,736	26.2	(4,105)
III Selling, general and administrative expenses	9,941	16.8	9,097	16.2	844
Operating income	645	1.1	5,639	10.0	(4,994)
IV Non-operating income					
1. Interest income	72		29		43
2. Equity in earnings of affiliated company	26		—		26
3. Others	48		9		39
V Non-operating expenses					
1. Interest expense	924		928		(4)
2. Foreign exchange losses	193		488		(295)
3. Stock issuance costs	—		79		(79)
4. Bond issuance costs	177		—		177
5. Others	190		414		(224)
Ordinary income/(loss)	(693)	(1.2)	3,768	6.7	(4,461)
VI Extraordinary income	1,104	1.9	2	0.0	1,102
VII Extraordinary losses	39	0.1	14	0.0	25
Income before income taxes	372	0.6	3,756	6.7	(3,384)
Income taxes	209	0.3	369	0.7	(160)
Net income	163	0.3	3,387	6.0	(3,224)

Note: "Income taxes" is consists of corporate tax, inhabitant tax, business tax and deferred tax.

Comparative Consolidated Statements of Operations

(Millions of yen)

Account	Nine months ended December 31				YoY Change
	2005 (unaudited)		2004 (unaudited)		
		Ratio (%)		Ratio (%)	Increase or decrease
I Net sales	164,524	100.0	156,298	100.0	8,226
II Cost of sales	136,951	83.2	115,592	74.0	21,359
Gross profit	27,573	16.8	40,706	26.0	(13,133)
III Selling, general and administrative expenses	32,045	19.5	26,732	17.1	5,313
Operating income/(loss)	(4,472)	(2.7)	13,974	8.9	(18,446)
IV Non-operating income					
1. Interest income	192		62		130
2. Dividend income	247		—		247
3. Equity in earnings of affiliated company	17		—		17
4. Others	135		146		(11)
V Non-operating expenses					
1. Interest expense	3,035		2,324		711
2. Foreign exchange losses	23		621		(598)
3. Stock issuance costs	—		79		(79)
4. Bond issuance costs	177		—		177
5. Others	589		548		41
Ordinary income/(loss)	(7,705)	(4.7)	10,610	6.8	(18,315)
VI Extraordinary income	1,122	0.7	209	0.1	913
VII Extraordinary losses	85	0.1	27	0.0	58
Income/(loss) before income taxes	(6,668)	(4.1)	10,792	6.9	(17,460)
Income taxes	(489)	(0.3)	902	0.6	(1,391)
Net income/(loss)	(6,179)	(3.8)	9,890	6.3	(16,069)

Note: "Income taxes" is consists of corporate tax, inhabitant tax, business tax and deferred tax.

Comparative Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended December 31		Change
	2005 (unaudited)	2004 (unaudited)	increase or decrease
I Operating activities			
Income before income taxes	372	3,756	(3,384)
Depreciation and amortization	14,076	10,029	4,047
Interest and dividend income	(72)	(29)	(43)
Interest expense	924	928	(4)
Equity in earnings of affiliated company	(26)	—	(26)
Income from sale of tangible fixed assets	(1,104)	(2)	(1,102)
Losses on sale and disposal of tangible fixed assets	39	14	25
Increase in accounts receivable, trade	(32)	(1,908)	1,876
Increase in inventories	(5,912)	(51)	(5,861)
(Increase)decrease in accounts receivable, other	(59)	1,049	(1,108)
Increase in accounts payable, trade	10,776	2,446	8,330
Increase (decrease) in accounts payable, other	(13)	83	(96)
Others	(765)	1,400	(2,165)
Subtotal	18,204	17,715	489
Interest and dividends received	73	29	44
Interest paid	(424)	(692)	268
Income taxes paid	(171)	(345)	174
Net cash provided by operating activities	17,682	16,707	975
II Investing activities			
Purchase of tangible fixed assets	(38,521)	(29,492)	(9,029)
Proceeds from sale of tangible fixed assets	480	189	291
Purchase of intangible fixed assets	(1,410)	(401)	(1,009)
Acquisition of long-term prepaid expenses	(88)	—	(88)
Others	3	(200)	203
Net cash used in investing activities	(39,536)	(29,904)	(9,632)
III Financing activities			
Net decrease in short-term borrowings	—	(4)	4
Repayments of long-term debt	(3,005)	(2,114)	(891)
Proceeds from issuance of stocks	—	105,822	(105,822)
Proceeds from issuance of bonds	39,823	—	39,823
Proceeds from sale-and-leaseback transactions	19,154	6,924	12,230
Repayments of obligation under capital leases	(7,577)	(6,860)	(717)
Purchase of treasury stock	(1)	—	(1)
Net cash provided by financing activities	48,394	103,768	(55,374)
IV Effect of exchange rates changes on cash and cash equivalents	491	(406)	897
V Net increase in cash and cash equivalents	27,031	90,165	(63,134)
VI Cash and cash equivalents at beginning of period	121,485	74,554	(46,931)
VII Cash and cash equivalents at end of period	148,516	164,719	(16,203)
Free cash flow (I + II)	(21,854)	(13,197)	(8,657)

Comparative Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended December 31		Change
	2005 (unaudited)	2004 (unaudited)	increase or decrease
I Operating activities			
Income (loss) before income taxes	(6,668)	10,792	(17,460)
Depreciation and amortization	37,707	24,162	13,545
Interest and dividend income	(439)	(62)	(377)
Interest expense	3,035	2,324	711
Equity in earnings of affiliated company	(17)	—	(17)
Income from sale of tangible fixed assets	(1,122)	(2)	(1,120)
Losses on sale and disposal of tangible fixed assets	85	15	70
Increase in accounts receivable, trade	(4,617)	(15,423)	10,806
Increase in inventories	(6,201)	(5,094)	(1,107)
Increase in accounts receivable, other	(2,113)	(2,022)	(91)
Increase in accounts payable, trade	15,600	7,169	8,431
Increase (decrease) in accounts payable, other	(378)	801	(1,179)
Others	636	(5,901)	6,537
Subtotal	35,508	16,759	18,749
Interest and dividends received	275	63	212
Interest paid	(2,538)	(2,067)	(471)
Income taxes paid	(607)	(831)	224
Net cash provided by operating activities	32,638	13,924	18,714
II Investing activities			
Acquisition of investment securities	(3,700)	—	(3,700)
Purchase of tangible fixed assets	(93,358)	(107,686)	14,328
Proceeds from sale of tangible fixed assets	678	189	489
Purchase of intangible fixed assets	(2,390)	(2,733)	343
Acquisition of long-term prepaid expenses	(736)	—	(736)
Others	10	(397)	407
Net cash used in investing activities	(99,496)	(110,627)	11,131
III Financing activities			
Net decrease in short-term borrowings	—	(5,701)	5,701
Proceeds from long-term debt	—	41,000	(41,000)
Repayments of long-term debt	(11,515)	(4,102)	(7,413)
Proceeds from issuance of stocks	—	105,822	(105,822)
Proceeds from issuance of bonds	39,823	—	39,823
Proceeds from sale-and-leaseback transactions	19,154	32,793	(13,639)
Repayments of obligation under capital leases	(22,730)	(18,753)	(3,977)
Purchase of treasury stock	(1)	—	(1)
Net cash provided by financing activities	24,731	151,059	(126,328)
IV Effect of exchange rates changes on cash and cash equivalents	845	(192)	1,037
V Net increase (decrease) in cash and cash equivalents	(41,282)	54,164	(95,446)
VI Cash and cash equivalents at beginning of period	189,798	110,555	79,243
VII Cash and cash equivalents at end of period	148,516	164,719	(16,203)
Free cash flow (I + II)	(66,858)	(96,703)	29,845

Appendix (unaudited)

1. Selected Quarterly Consolidated Statements of Operations

(Millions of yen)

Account	Three months ended					
	Jun. 30, '05		Sept. 30, '05		Dec. 31, '05	
		Ratio (%)		Ratio (%)		Ratio (%)
Net sales	48,036	100.0	57,467	100.0	59,021	100.0
Gross profit	7,549	15.7	9,438	16.1	10,586	17.9
Selling, general and administrative expenses	10,153	21.1	11,951	21.0	9,941	16.8
Operating income	(2,604)	(5.4)	(2,513)	(4.9)	645	1.1
Income before income taxes	(3,356)	(7.0)	(3,684)	(6.6)	372	0.6
Net income	(3,304)	(6.9)	(3,038)	(6.0)	163	0.3

2. Selected Consolidated Financial Data

	Mar. 31, '05	Jun. 30, '05	Sept. 30, '05	Dec. 31, '05
Cash and cash equivalent	189.8 billion yen	156.7 billion yen	121.5 billion yen	148.5 billion yen
A/R collection period	65 days	68 days	66 days	65 days
Inventory holding period	72 days	79 days	62 days	73 days
Interest-bearing debt	233.6 billion yen	223.2 billion yen	210.9 billion yen	240.4 billion yen
Net D/E Ratio	0.22 times	0.35 times	0.47 times	0.48 times
Share holders' equity Ratio	39.2%	39.8%	37.3%	32.7%

	Twelve months ended Mar. 31, '05	Three months ended Jun. 30, '05	Three months ended Sept. 30, '05	Three months ended Dec. 31, '05
Cash flows from Operating activities	21.0 billion yen	8.2 billion yen	6.7 billion yen	17.7 billion yen
ROA	2.1%	(2.7%)	(2.5%)	0.1%
ROE	5.9%	(6.8%)	(6.4%)	0.3%

(Calculating formulas)

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

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

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

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

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

ROA (ROE) (Twelve-month period) = Net income / Average Total assets (Average share holders' equity)

3. Foreign exchange rate of yen for dollars in assumption

	Exchange rate in assumption
Yen for U.S.\$	110.00