

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

**Consolidated Financial Report  
for the Period Ended June 30, 2006**

**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, 2006      | June 30, 2005 |        |
| Net Sales                              | 92,098             | 48,036        | 91.7%  |
| Operating income /(loss)               | 9,138              | (2,604)       | -      |
| Ordinary income /(loss)                | 7,375              | (3,327)       | -      |
| Net income /(loss)                     | 6,605              | (3,304)       | -      |
| Net income /(loss) per share – basic   | 68.39              | (34.25)       | -      |
| Net income /(loss) per share – diluted | 67.24              | -             | -      |

(2) Condensed Balance Sheet

|                      | As of                        |                | Change |
|----------------------|------------------------------|----------------|--------|
|                      | June 30, 2006<br>(unaudited) | March 31, 2006 |        |
| Total Assets         | 536,582                      | 568,120        | (5.6%) |
| Shareholders' equity | 197,961                      | 190,783        | 3.8%   |

**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.

## **Business Results**

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

In the FY 2006 1Q (April 2006 to June 2006) prices of DRAMs for PCs held steady as an insufficient supply capacity caused tight supply-demand conditions for DDR2 SDRAMs. For this reason, spot market prices for the 512Mb DDR2 SDRAM at the end of March and June were the same. Given tightening in the PC DRAM market, DRAM prices for servers experienced moderate declines. Also, demand for DRAMs used in digital consumer electronics and mobile devices continued to expand.

Given this business environment, we continue with our basic strategy in the DRAM market of focusing strongly on DRAMs used in the high-growth areas of digital consumer electronics and mobile devices.

As a result, 1Q consolidated net sales posted a single-quarter record of ¥92,098 million, up 91.7% year-on-year (YoY). The sales jump is explained by expansion in our production capacity and increase of product procurement from our overseas foundry partners, which pushed up the sales bit volume by 23% quarter-on-quarter (QoQ). Average selling prices fell 3% QoQ.

Consolidated operating profit was ¥9,138 million, an improvement of ¥11,742 million over the year ago loss of ¥2,604 million, and a single-quarter record. The main reason for the better performance is that a drop in the cost of sales margin from 84.3% to 76.7% enabled gross profit to rise ¥13,868 million, which more than offset an increase of ¥2,126 million in SG&A expenses caused mainly by higher R&D costs.

Ordinary income was ¥7,375, an improvement of ¥10,702 million over the loss of ¥3,327 million a year earlier. Despite a foreign exchange loss of ¥859 million on the back of yen appreciation which started at the end of April, higher operating income helped produce a positive outcome.

We also booked extraordinary losses of approximately ¥800 million on the disposal of fixed assets and approximately ¥300 million on losses caused by an earthquake which struck Hiroshima on June 12.

We recorded net income of ¥6,605 million following a loss of ¥3,304 million a year earlier, an improvement of ¥9,909 million.

In sum, the results for net sales, operating income, ordinary income and net income represented record-breaking amounts for a single quarter.

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

(Billions of yen)

|                                       |   | Three months ended<br>June 30, 2006<br>(unaudited) |        | Three months ended<br>June 30, 2005<br>(unaudited) |        | Change % |
|---------------------------------------|---|--|--------|--|--------|----------|
|                                       | Servers*  | 10.2   | 11.1%  | 10.3   | 21.5%  | -1.0%    |
|                                       | Digital consumer electronics<br>and mobile phones * | 42.2   | 45.8%  | 20.3   | 42.3%  | 107.9%   |
|                                       | Premier DRAM (Note1)                                | 52.4   | 56.9%  | 30.6   | 63.8%  | 71.2%    |
|                                       | Foundry services and others                         | 4.9  | 5.3%   | 5.0  | 10.4%  | -2.0%    |
| Subtotal of Premier business (Note 2) |   | 57.3   | 62.2%  | 35.6   | 74.2%  | 61.0%    |
| PCs                                   |   | 34.8   | 37.8%  | 12.4   | 25.8%  | 180.6%   |
| Total net sales                       |   | 92.1   | 100.0% | 48.0   | 100.0% | 91.7%    |

\* 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 DRAMs for servers were ¥10.2 billion, down 1.0% YoY. Demand for high-density module products greater than 1GB (gigabit) was strong, but constraints on manufacturing capacity limited the level of shipments to roughly the same amount seen in the 1Q a year earlier.

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

Net sales for DRAMs for digital consumer electronics and mobile device came to ¥42.2 billion, up 107.9% YoY and a record for a single quarter. In the digital consumer electronics area, broad demand was witnessed on the back of various application needs. In the mobile devices area, rapid growth was made possible by, in particular, vigorous demand for overseas mobile phone markets.

In this product area, we include DRAM products used in digital still cameras, digital TV & DVD recorders and other digital consumer electronics as well as in 2.5G and 3G mobile phones.

## **Foundry services and others**

In the area of foundry services and others, net sales fell 2.0% YoY to ¥4.9 billion. Main products we produced were pseudo SRAMs and LCD drivers.

Our foundry service and other operations feature a foundry business which undertakes outsourced production of semiconductor products mainly on behalf of domestic semiconductor makers.

## **Personal computers**

Net sales for PC DRAMs jumped 180.6% YoY to ¥34.8 billion. Behind this result was an increase in procurement from our Taiwan-based foundry partner Powerchip Semiconductor, which managed to achieve improved wafer processing capacity and the development of more advanced process technology. Also, market prices held steady.

## **(3) Capital expenditures**

1Q capital spending was ¥16.3 billion, mainly in relation to our investment in Area 2 of the E300 fab.

## **Financial Condition**

Total assets fell by ¥31.5 billion compared to the end of FY 2005 (March 31, 2006) to ¥536.6 billion. The main reasons for the decline was accounts payable payments of ¥24.1 billion related to capital investment and a reduction of ¥37.9 billion in cash and cash equivalents compared with the end of FY 2005 triggered by the maturing of a ¥10.0 billion corporate bond issued in 2003. Interest-bearing debt (including lease obligations) fell ¥20.0 billion compared with the end of FY 2005 to ¥255.4 billion, mainly on account of the matured corporate bond and repayment of ¥10.0 billion stemming from long-term borrowings and lease obligations. Also, shareholders' equity, which came to ¥198.0 billion, included the additions of ¥6.6 billion from net income and ¥427million in capital and paid-in capital following the exercise of stock options. As a result of the foregoing, the shareholders' equity ratio gained 3.3 points compared with the end of FY 2005 to finish at 36.9%.

## **Cash Flow**

Regarding cash flow for the quarter, operating activities provided net cash of ¥17.7 billion, an inflow increase of ¥9.5 billion YoY.

Investing activities used ¥38.3 billion, an outflow increase of ¥7.2 billion YoY. This was mostly due to an increase in the acquisition of fixed assets in connection with investment in 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 ¥20.6 billion, an outflow decrease of ¥2.3 billion YoY.

Net cash used in financing activities was ¥17.2 billion, an increase of ¥6.8 billion YoY. Among the important financing activities was the maturing of a ¥10.0 billion corporate bond and ¥10.0 billion in repayments on long-term borrowings and lease obligations.

The balance of cash and cash equivalents fell ¥37.9 billion compared with the end of FY 2005 to ¥73.5 billion.

## **Global Offering**

In connection with the execution of a global offering, Elpida issued 30 million new shares in July 19, 2006. ¥124.6 billion was received as net proceeds for the new shares issued (excluding exercise of over allotment options through third party allotment) on July 19. As a result, Elpida's financial position has improved substantially.

## **FY 2006 Outlook**

We believe that in FY 2006 the DRAM market will enjoy growth which is driven by a continuation from last year of rising DRAM use in digital consumer electronic and mobile devices. Also, in the PC market, which is where DRAMs see the largest volume of applications, we continue to believe moderate growth will occur owing to increased DRAM density per PC unit in anticipation of the release of Microsoft's new operating system, Windows VISTA™.

According to a survey by DRAM eXchange, the current spot market price for 512Mb DDR2 SDRAMs (533MHz), which are the leading DRAM product for PCs, is between US\$4.50 and US\$5.00. This product price is lower than the approximate US\$8.50 price at the beginning of April 2005, but it has recovered considerably relative to the US\$4.00 price at the end of December, swinging as high as US\$5.00 in March. Because this kind of market pricing fluctuation is extremely difficult to predict, we are not offering any earnings assumptions for FY 2006. Instead, as shown below, we are presenting several key estimates.

## **Quarterly & Consolidated Results and Expectations**

(Billions of yen)

|   | 1Q/FY05 | 2Q/FY05 | 3Q/FY05 | 4Q/FY05 | 1Q/FY06 | 2Q/FY06 Est.<br>(Approx.) |
|---|---------|---------|---------|---------|---------|---------------------------|
| QoQ bit growth rate   | 12%     | 23%     | 11%     | 63%     | 23%     | 10%-20%                   |
| QoQ ASP change  | -15%    | -6%     | -7%     | -17%    | -3%)    | n/a                       |
| Depreciation cost   | 11.5    | 12.1    | 14.1    | 15.7    | 17.2    | 19.0                      |
| SG&A  | 10.2    | 12.0    | 9.9     | 10.4    | 12.3    | 13.0                      |
| DRAM sales ratio<br>for mobile and<br>digital consumer<br>electronics | 42%     | 49%     | 54%     | 46%     | 46%     | 45%-50%                   |
| Outsourced sales<br>ratio   | 12%     | 12%     | 12%     | 20%     | 23%     | 30%                       |

Furthermore, we believe the change in our average selling price for FY 2006 2Q relative to the previous quarter will consist of a gradual decline.

## **Risk Factors**

Below is a description of some of the primary factors that could materially and adversely affect our business, financial condition and results of operations.

### **The cyclical nature of market conditions**

The cyclical nature of market conditions in the DRAM industry could have a negative effect on the Group. Historically, the long lead times for capital investment and increases in manufacturing capabilities have in some cases resulted in mismatches with market conditions, which has led to cyclical nature in the balance of supply and demand. If demand greatly exceeds supply it may result in downward price pressure.

### **Decline in selling prices**

A production volume increase or drop-off in demand for DRAM products on a global basis could cause selling prices to decline. The timing of particular events can lead to changes in supply and demand, such as the market conditions that can prevail in the aftermath of major events like the Olympics. A decline in the selling prices of DRAM products could have a material and adverse effect on our business, financial condition and results of operations.

### **Market competition**

The DRAM market is highly competitive on a global scale. Some of our competitors may have product quality and functionality, manufacturing and technology capacities and other competitive advantages which are superior to ours, which could at some point place us at a relatively lower position in the DRAM market. Any inability on the part of our Group to maintain an adequate competitive posture in the DRAM market could have a material and adverse effect on our business, financial condition and results of operations.

### **Customer dependability**

At present the operation of the Group's business is centered on major electronics makers as our primary customers. In the event one or more of these customers reduces purchases of DRAM products from our Group or a customer makes a change to the configuration of its business for some particular reason, this could have a material and adverse effect on our business, financial condition and results of operations.

### **Raw materials, parts and equipment**

If we are unable to acquire the planned amounts of raw materials, parts and equipment necessary for our business, or if acquisition is possible but at substantially higher prices, the Group's manufacturing activities could be placed in jeopardy, a condition that could materially and adversely affect our business, financial condition and results of operations.

### **Changes in technology or technology standards**

The semiconductor industry is characterized by rapidly changing technology and increasingly demanding technology standards. Our commitments for the development of new products must be made well in advance of the introduction of those products into the market, and technology and industry standards or customer demands may change during the development process, rendering our products outdated or uncompetitive. Also, market trends could shift to the advantage of products which use new non-DRAM technology. Our failure to anticipate demand trends or to respond quickly to changes in the DRAM market may materially and adversely affect our business, financial condition and results of operations.

### **Securing access to capital and return on investment**

We are regularly formulating plans for making substantial investments in our DRAM manufacturing facilities. There is no guarantee we will have access to capital or be able to execute expansion plans, or that returns on our investments will match the amounts expected. In that event, an inadequate return on investment spending on facilities or other problems could have a material and adverse effect on our business, financial condition and results of operations.

## **Outsourcing**

Among the semiconductor manufacturing processes handled by our Group, we entrust the wafer inspection process and all back-end processes as well as some front-end processes to outside companies. In the event those companies experience a lapse in product quality, business interruptions, insufficient manufacturing capacity or any other problem, our Group may experience difficulty in manufacturing or delivering certain products, which could have a material adverse effect on our business, financial condition and results of operations. Our strategic relationships with outside companies include foundry partners, Powerchip Semiconductor Corp. in Taiwan and Semiconductor Manufacturing International Corporation in China. We continue to outsource a portion of our research & development and business activities to NEC, Hitachi and other third parties. There can be no assurance that these companies will continue to provide us with the level of support we require to satisfy our research and development needs, that the cost of their services will not increase or that the quality of their services will not decline in the future. Any discontinuation, increase in cost or decline in quality of their research and development services may have a material and adverse effect on our overall research and development activities and could otherwise materially and adversely affect our business, financial condition and results of operations.

## **DRAM products contain defects or the manufacturing process is delayed or disrupted**

If the technology or processes we use for the manufacture of DRAM products experience problems which delay, disrupt or limit our production capacity, this could materially and adversely affect our business, financial condition and results of operations. Also, if actual or perceived problems with nonconforming, defective or incompatible products occur after we have shipped products, we could have direct liability for providing replacements or otherwise compensating customers and also suffer from long-term damage to our relationship with important customers or to our reputation in the industry generally, which could materially and adversely affect our business, financial condition and results of operations.

## **Attracting, training and retaining qualified personnel**

There is significant competition for highly qualified management, technical, marketing, sales and other specialized employees in the semiconductor industry. Competition for employees with excellent technical skills or experience in the fields of electronics engineering, device physics and process machinery engineering is particularly intense. If we do not succeed in attracting, training and motivating qualified personnel, our business may be materially and adversely affected.

## **Proprietary intellectual property**

The Group has pending patent applications and there can be no assurance that they will be granted on a timely basis or that the patents, trademarks and other intellectual property rights we currently hold will be sufficient to protect our proprietary rights. Also, in technology-led industries lawsuits and disputes concerning patents and other intellectual property rights are a frequent occurrence. There is a possibility that a third party will claim that our Group has infringed on an intellectual property right.

## **Allegations of anti-competitive practices**

In January 2006 we entered into a plea agreement with the United States Department of Justice to resolve alleged antitrust violations and paid related fines during FY 2005. As a separate but related matter, other parties have filed class action lawsuits and taken other legal action against both Elpida and Elpida Memory (USA) relating to the alleged antitrust violations. Also, other investigations by the European Commission and Canada are ongoing and their outcome is uncertain. Although we have established a reserve in the amount of ¥2,024 million in FY 2005 relating to some but not all of the above matters, our business, financial condition and results of operations could be materially and adversely affected depending on the outcome of the lawsuits, investigations and other legal actions.

## **Natural disasters**

Earthquakes, typhoons and other natural disasters, accidents and other events that our Group cannot control could materially and adversely affect our business, financial condition and results of operations. In particular, our manufacturing facilities, especially those located in the Hiroshima area, could experience business interruption or other troubles that result in substantial losses in the event of a serious natural disaster. Also, while we do have insurance protection, not all potential losses are insured. Moreover, there is no guarantee

that all of the losses the Group might suffer will be covered by insurance.

### **Environmental laws and regulations**

Our business operations and products are subject to a variety of domestic and overseas environmental laws and regulations. In some cases our operations have become subject to particular environmental requirements described in written agreements we have entered into with local governments. In the event of new or amended environmental restrictions in the future, our Group may suffer a decline in the value of our assets or additional costs associated with mandatory compliance, which could materially and adversely affect our business, financial condition and results of operations.

### **Overseas developments**

In addition to Japan, our Group has business operations in North America, other parts of Asia and Europe. Our local operations in these countries or regions could be materially and adversely affected by instability resulting from political or domestic security developments, or by changes in the law or political policies that could materially and adversely affect trading activities, employment or other local business conditions.

### **Currency fluctuations**

Changes in foreign exchange rates could materially and adversely affect our business, financial condition and results of operations. For example, because a substantial portion of our overseas revenues are denominated in foreign currency while at the same time we have few foreign exchange-denominated expense payments relative to sales, a noticeable foreign exchange fluctuation could adversely affect our overseas revenues and earnings or the revenues and earnings at particular overseas sales and marketing locations.

### **Interest rate fluctuations**

Our Group issue bonds or enter into borrowing agreements with financial institutions to fund our operations and capital expenditures. As a result, an increase in yen interest rates or some other interest rate event could materially and adversely affect our business, financial condition and results of operations.

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,<br>2006 (unaudited) | As of March 31,<br>2006 | Change   | As of June 30,<br>2005 (unaudited) |
|---|------------------------------------|-------------------------|----------|------------------------------------|
| <b>(Assets)</b>   |                                    |                         |          |                                    |
| <b>I Current assets</b>                                   |                                    |                         |          |                                    |
| 1. Cash and cash equivalents                              | 73,507                             | 111,443                 | (37,936) | 156,704                            |
| 2. Notes and accounts receivable, trade                   | 65,300                             | 55,272                  | 10,028   | 36,049                             |
| 3. Inventories  | 42,762                             | 39,187                  | 3,575    | 35,403                             |
| 4. Accounts receivable, other                             | 12,427                             | 16,764                  | (4,337)  | 6,446                              |
| 5. Other current assets                                   | 6,189                              | 6,270                   | (81)     | 4,780                              |
| 6. Allowance for doubtful accounts                        | (91)                               | (92)                    | 1        | (32)                               |
| Total current assets                                      | 200,094                            | 228,844                 | (28,750) | 239,350                            |
| <b>II Fixed assets</b>                                    |                                    |                         |          |                                    |
| 1. Tangible fixed assets                                  | 309,284                            | 313,019                 | (3,735)  | 229,208                            |
| 2. Intangible fixed assets                                | 8,210                              | 7,702                   | 508      | 7,732                              |
| 3. Investments and other assets                           | 18,994                             | 18,555                  | 439      | 6,366                              |
| Total fixed assets  | 336,488                            | 339,276                 | (2,788)  | 243,306                            |
| Total assets  | 536,582                            | 568,120                 | (31,538) | 482,656                            |
| <b>(Liabilities)</b>                                      |                                    |                         |          |                                    |
| <b>I Current liabilities</b>                              |                                    |                         |          |                                    |
| 1. Accounts payable, trade                                | 46,473                             | 41,201                  | 5,272    | 28,871                             |
| 2. Current portion of bond                                | —                                  | 10,000                  | (10,000) | —                                  |
| 3. Current portion of long-term debt                      | 37,828                             | 39,692                  | (1,864)  | 18,520                             |
| 4. Current portion of obligation under capital leases     | 22,407                             | 25,605                  | (3,198)  | 29,802                             |
| 5. Accounts payable, other                                | 22,570                             | 46,632                  | (24,062) | 27,340                             |
| 6. Other current liabilities                              | 9,391                              | 7,874                   | 1,517    | 7,838                              |
| Total current liabilities                                 | 138,669                            | 171,004                 | (32,335) | 112,371                            |
| <b>II Long-term liabilities</b>                           |                                    |                         |          |                                    |
| 1. Bond   | 110,000                            | 110,000                 | —        | 80,000                             |
| 2. Long-term debt   | 67,490                             | 68,381                  | (891)    | 55,568                             |
| 3. Obligation under capital leases                        | 17,715                             | 21,717                  | (4,002)  | 39,301                             |
| 4. Other long-term liabilities                            | 4,747                              | 6,235                   | (1,488)  | 3,330                              |
| Total long-term liabilities                               | 199,952                            | 206,333                 | (6,381)  | 178,199                            |
| Total liabilities   | 338,621                            | 377,337                 | (38,716) | 290,570                            |
| <b>(Shareholders' equity)</b>                             |                                    |                         |          |                                    |
| <b>I Capital stock</b>                                    | 87,447                             | 87,239                  | 208      | 87,234                             |
| <b>II Additional paid-in capital</b>                      | 98,548                             | 98,339                  | 209      | 98,334                             |
| <b>III Retained earnings</b>                              | 11,649                             | 5,044                   | 6,605    | 6,448                              |
| <b>IV Unrealized gain (loss) on marketable securities</b> | (6)                                | (195)                   | 189      | 41                                 |
| <b>V Foreign currency translation adjustments</b>         | 324                                | 357                     | (33)     | 29                                 |
| <b>VI Treasury stock</b>                                  | (1)                                | (1)                     | (0)      | (0)                                |
| Total shareholders' equity                                | 197,961                            | 190,783                 | 7,178    | 192,086                            |
| <b>Total liabilities and shareholders' equity</b>         | 536,582                            | 568,120                 | (31,538) | 482,656                            |

## Comparative Consolidated Statements of Operations

(Millions of yen)

| Account   | Three months ended           |              |                              |              | Change<br>Increase or<br>decrease | Fiscal year ended |              |
|---|------------------------------|--------------|------------------------------|--------------|-----------------------------------|-------------------|--------------|
|   | June 30, 2006<br>(unaudited) |              | June 30, 2005<br>(unaudited) |              |                                   | March 31, 2006    |              |
|   |                              | Ratio<br>(%) |                              | Ratio<br>(%) |                                   |                   | Ratio<br>(%) |
| I Net sales   | 92,098                       | 100.0        | 48,036                       | 100.0        | 44,062                            | 241,554           | 100.0        |
| II Cost of sales                                    | 70,681                       | 76.7         | 40,487                       | 84.3         | 30,194                            | 198,964           | 82.4         |
| Gross profit  | 21,417                       | 23.3         | 7,549                        | 15.7         | 13,868                            | 42,590            | 17.6         |
| III Selling, general and<br>administrative expenses | 12,279                       | 13.4         | 10,153                       | 21.1         | 2,126                             | 42,446            | 17.5         |
| Operating income/(loss)                             | 9,138                        | 9.9          | (2,604)                      | (5.4)        | 11,742                            | 144               | 0.1          |
| IV Non-operating income                             |                              |              |                              |              |                                   |                   |              |
| 1. Interest income                                  | 112                          |              | 66                           |              | 46                                | 279               |              |
| 2. Dividend income                                  | —                            |              | 247                          |              | (247)                             | 247               |              |
| 3. Foreign exchange gains                           | —                            |              | 182                          |              | (182)                             | —                 |              |
| 4. Equity in earnings of<br>affiliated company      | 12                           |              | —                            |              | 12                                | 20                |              |
| 5. Local government subsidies                       | —                            |              | —                            |              | —                                 | 1,150             |              |
| 6. Others   | 188                          |              | 53                           |              | 135                               | 347               |              |
| V Non-operating expenses                            |                              |              |                              |              |                                   |                   |              |
| 1. Interest expense                                 | 1,076                        |              | 1,089                        |              | (13)                              | 4,098             |              |
| 2. Foreign exchange losses                          | 859                          |              | —                            |              | 859                               | 145               |              |
| 3. Stock issuance costs                             | —                            |              | —                            |              | —                                 | 0                 |              |
| 4. Bond issuance costs                              | —                            |              | —                            |              | —                                 | 177               |              |
| 5. Others   | 140                          |              | 182                          |              | (42)                              | 843               |              |
| Ordinary income/(loss)                              | 7,375                        | 8.0          | (3,327)                      | (6.9)        | 10,702                            | (3,076)           | (1.3)        |
| VI Extraordinary income                             | 5                            | 0.0          | 3                            | 0.0          | 2                                 | 2,125             | 0.9          |
| VII Extraordinary losses                            | 1,145                        | 1.2          | 32                           | 0.1          | 1,113                             | 4,543             | 1.9          |
| Income (loss) before income taxes                   | 6,235                        | 6.8          | (3,356)                      | (7.0)        | 9,591                             | (5,494)           | (2.3)        |
| Income taxes  | (370)                        | (0.4)        | (52)                         | (0.1)        | (318)                             | (786)             | (0.4)        |
| Net income/(loss)                                   | 6,605                        | 7.2          | (3,304)                      | (6.9)        | 9,909                             | (4,708)           | (1.9)        |

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

## Comparative Consolidated Statements of Cash Flows

(Millions of yen)

|  | Fiscal year ended            |                              | increase or decrease | Fiscal year ended |
|--|------------------------------|------------------------------|----------------------|-------------------|
|  | June 30, 2006<br>(unaudited) | June 30, 2005<br>(unaudited) |                      | March 31, 2006    |
| <b>I Operating activities</b>                                    |                              |                              |                      |                   |
| Income (loss) before income taxes                                | 6,235                        | (3,356)                      | 9,591                | (5,494)           |
| Depreciation and amortization                                    | 17,181                       | 11,503                       | 5,678                | 53,368            |
| Increase in allowance for doubtful accounts                      | 0                            | —                            | 0                    | 56                |
| Interest and dividend income                                     | (112)                        | (313)                        | 201                  | (526)             |
| Interest expense   | 1,076                        | 1,089                        | (13)                 | 4,098             |
| Equity in earnings of affiliated company                         | (12)                         | —                            | (12)                 | (20)              |
| Income from sale of tangible fixed assets                        | (5)                          | (3)                          | (2)                  | (1,122)           |
| Losses on sale and disposal of tangible fixed assets             | 853                          | 32                           | 821                  | 751               |
| (Increase)/decrease in accounts receivable, trade                | (10,398)                     | 983                          | (11,381)             | (16,830)          |
| Increase in inventories  | (3,587)                      | (2,551)                      | (1,036)              | (6,211)           |
| (Increase)/decrease in accounts receivable, other                | 4,595                        | (52)                         | 4,647                | (10,294)          |
| Increase in accounts payable, trade                              | 5,312                        | 1,070                        | 4,242                | 13,312            |
| Increase/(decrease) in accounts payable, other                   | (3,117)                      | (366)                        | (2,751)              | 5,467             |
| Others   | 299                          | 1,151                        | (852)                | 1,299             |
| Subtotal   | 18,320                       | 9,187                        | 9,133                | 37,854            |
| Interest and dividends received                                  | 112                          | 148                          | (36)                 | 361               |
| Interest paid  | (649)                        | (604)                        | (45)                 | (3,894)           |
| Income taxes paid  | (82)                         | (516)                        | 434                  | (456)             |
| Net cash provided by operating activities                        | 17,701                       | 8,215                        | 9,486                | 33,865            |
| <b>II Investing activities</b>                                   |                              |                              |                      |                   |
| Purchase of investment securities                                | (70)                         | —                            | (70)                 | (3,702)           |
| Purchase of tangible fixed assets                                | (37,045)                     | (30,485)                     | (6,560)              | (175,505)         |
| Proceeds from sale of tangible fixed assets                      | 86                           | 190                          | (104)                | 707               |
| Purchase of intangible fixed assets                              | (1,274)                      | (619)                        | (655)                | (3,221)           |
| Collection of investment in leases                               | 522                          | —                            | 522                  | 1,045             |
| Acquisition of long-term prepaid expenses                        | (506)                        | (137)                        | (369)                | (1,993)           |
| Others   | 4                            | 3                            | 1                    | 16                |
| Net cash used in investing activities                            | (38,283)                     | (31,048)                     | (7,235)              | (182,653)         |
| <b>III Financing activities</b>                                  |                              |                              |                      |                   |
| Proceeds from long-term debt                                     | —                            | —                            | —                    | 50,000            |
| Repayments of long-term debt                                     | (2,755)                      | (3,005)                      | 250                  | (19,020)          |
| Proceeds from issuance of stocks                                 | 417                          | —                            | 417                  | 10                |
| Proceeds from issuance of bonds                                  | —                            | —                            | —                    | 39,823            |
| Payments for redemption of bonds                                 | (10,000)                     | —                            | (10,000)             | —                 |
| Proceeds from sale-and-leaseback transactions                    | 2,377                        | —                            | 2,377                | 28,836            |
| Repayments of obligation under capital leases                    | (7,200)                      | (7,370)                      | 170                  | (30,198)          |
| Purchase of treasury stock                                       | (0)                          | —                            | (0)                  | (1)               |
| Net cash provided by (used in) financing activities              | (17,161)                     | (10,375)                     | (6,786)              | 69,450            |
| IV Effect of exchange rates changes on cash and cash equivalents | (193)                        | 114                          | (307)                | 983               |
| V Net decrease in cash and cash equivalents                      | (37,936)                     | (33,094)                     | (4,842)              | (78,355)          |
| VI Cash and cash equivalents at beginning of period              | 111,443                      | 189,798                      | (78,355)             | 189,798           |
| VII Cash and cash equivalents at end of period                   | 73,507                       | 156,704                      | (83,197)             | 111,443           |

|                           |          |          |       |           |
|---------------------------|----------|----------|-------|-----------|
| Free cash flow ( I + II ) | (20,582) | (22,833) | 2,251 | (148,788) |
|---------------------------|----------|----------|-------|-----------|

**Appendix (unaudited)**

1. Selected Quarterly Consolidated Statements of Operations

(Millions of yen)

| Account                                      | Three-month ended |           |              |           |              |           |              |           |
|--|-------------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|
|  | Dec. 31, '05      |           | Mar. 31, '06 |           | Jun. 30, '06 |           | Jun. 30, '05 |           |
|  |                   | Ratio (%) |              | Ratio (%) |              | Ratio (%) |              | Ratio (%) |
| Net sales                                    | 59,021            | 100.0     | 77,030       | 100.0     | 92,098       | 100.0     | 48,036       | 100.0     |
| Gross profit                                 | 10,586            | 17.9      | 15,017       | 19.1      | 21,417       | 23.3      | 7,549        | 15.7      |
| Selling, general and administrative expenses | 9,941,            | 16.8      | 10,401       | 13.5      | 12,279       | 13.4      | 10,153       | 21.1      |
| Operating income                             | 645               | 1.1       | 4,616        | 6.0       | 9,138        | 9.9       | (2,604)      | (5.4)     |
| Income before income taxes                   | 372               | 0.6       | 1,174        | 1.5       | 6,235        | 6.8       | (3,356)      | (7.0)     |
| Net income                                   | 163               | 0.3       | 1,471        | 1.9       | 6,605        | 7.2       | (3,304)      | (6.9)     |

2. Selected Consolidated Financial Data

|                             | Three-month ended Dec. 31, '05 | Three-month ended Mar. 31, '06 | Three-month ended Jun. 30, '06 | Three-month ended Jun. 30, '05 |
|-----------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Cash and cash equivalent    | 148.5 billion yen              | 111.4 billion yen              | 73.5 billion yen               | 156.7 billion yen              |
| A/R collection period       | 65 days                        | 65 days                        | 64 days                        | 68 days                        |
| Inventory holding period    | 73 days                        | 57 days                        | 54 days                        | 79 days                        |
| Interest-bearing debt       | 240.4 billion yen              | 275.4 billion yen              | 255.4 billion yen              | 223.2 billion yen              |
| Net D/E Ratio               | 0.48 times                     | 0.86 times                     | 0.92 times                     | 0.35 times                     |
| Share holders' equity Ratio | 32.7%                          | 33.6%                          | 36.9%                          | 39.8%                          |

|                                      | Three-month ended Dec. 31, '05 | Three-month ended Mar. 31, '06 | Three-month ended Jun. 30, '06 | 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)