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## Consolidated Financial Report for the Year Ended March 31, 2009

English translation based on the Japanese-language report

Note: This release is a revised version of the financial report released on May 12, 2009. Revisions are underlined.

### I. Business Results

#### (1) Overview of Consolidated Business Results

##### (i) FY 2008 full term (April 1, 2008 – March 31, 2009)

(Billions of yen)

	12 mo. ended Mar 31, 2009 (FY2008)	12 mo. ended Mar 31, 2008 (FY2007)	YoY Change (%)
Premier DRAM	141.0	223.8	-37.0
Computing DRAM	190.0	181.7	+4.6
Net sales	331.0	405.5	-18.4
Gross profit (loss)	(86.1)	33.3	-
Operating income (loss)	(147.4)	(24.9)	-
Ordinary income (loss)	(168.8)	(39.6)	-
Net income (loss)	(178.9)	(23.5)	-

*Note: Computing DRAM sales consist of DRAMs used in servers and personal computers. Premier DRAM sales consist of DRAMs used in digital consumer electronics & mobile devices and other sales.*

In the FY 2008 consolidated fiscal year (April 1, 2008 to March 31, 2009) the global economy witnessed a decline in business confidence, mainly in advanced countries, as a result of the world-wide financial crisis triggered by the US subprime loan problem. Global business conditions worsened in the second half of the fiscal year when the "Lehman shock" rapidly led to a slump in the real economy.

In the DRAM industry, the continuation of excess product supply since the beginning of 2007 and a significant drop in demand as a result of a rapid downturn in global economic conditions had negative consequences. Overall, the industry suffered an unprecedented level of stagnation. In response DRAM makers have resorted to production cuts since September 2008, but selling prices have remained depressed due to the failure of market inventories to adjust to appropriate levels.

Given this environment, Elpida worked to further reduce costs by accelerating the shift to 65nm process production at

the Hiroshima Plant and Rexchip Electronics Corporation, a Taiwan-based DRAM manufacturing joint venture. Also, capital investment and other spending priorities were revised and such personnel-related cost-cutting measures as reducing director compensation and employee salaries and bonuses were taken. However, because DRAM price declines were larger than expected Elpida was unable to avoid recording a significant loss.

As a result, FY 2008 net sales fell 18.4% YoY to 331.0 billion yen. The main factors were PC DRAM price declines, which led to a sharp 52% drop in average selling prices, and yen appreciation of roughly 10% with the previous quarter. These factors outweighed 90% YoY bit shipment growth, a result of process migration leading to increased chip production, and higher market share. A gross loss of 86.1 billion yen (compared with a 33.3 billion yen profit in the previous business year) and an operating loss of 147.4 billion yen (a 24.9 billion yen loss in the previous business year) were largely due to a sharp decline in net sales and the inability of cost cuts to catch up with the rapid drop-off in selling prices. An ordinary loss of 168.8 billion yen (a 39.6 billion yen loss in the previous business year) was partly due to equity-method investment losses of 15.6 billion yen and a net loss of 178.9 billion yen (a 23.5 billion yen loss in the previous business year) resulted after factoring in such extraordinary losses as 2.0 billion yen of loss on revaluation of investment securities, 5.0 billion yen for legal settlements, a 3.1 billion yen provision for loss settlements and litigation and 2.6 billion yen of impairment loss.

From the 4Q of FY 2008 Elpida changed the estimated useful lives applied to property, plant and equipment for which the remaining estimated useful lives based on the original lifespan schedule found to be different from the forecasted period based on future economic use of the assets. As a result of this change, the operating loss, ordinary loss and loss before income taxes for FY 2008 decreased by 5.6 billion yen, 5.7 billion yen and 5.7 billion yen, respectively, as compared with the amount that would have been recorded under the previous estimated useful lives for property, plant and equipment..

#### **□ Premier DRAMs**

Because of the global economic slowdown, DRAMs used in digital consumer electronics experienced strong downward pricing pressure. Also, following the "Lehman shock" demand for consumer electronics saw a sharp drop, which led to inventory adjustments causing plunging demand for these DRAMs. In regard to DRAMs used in mobile equipment, business conditions in the first half were steady due in part to demand from new customers, but a freeze in consumer spending led to a drastic decline in shipment volumes in the second half.

As a result, Premier DRAM sales fell 37.0% YoY to 141.0 billion yen for the full term and accounted for 42.6% of overall net sales.

#### **□ Computing DRAMs**

In the first half of the fiscal year bit supply exceeded demand and PC DRAM prices remained at low levels. In the second half rapid deterioration in the global economy triggered a massive drop in PC shipments, leading to a significant drop in PC DRAM demand and prices.

Elpida moved forward with the shift to 65nm process production in order to reduce manufacturing costs per product. As a result, Computing DRAM shipment volumes increased, allowing sales to rise 4.6% YoY to 190.0 billion yen (57.4% of total net sales).

## Reference of 4Q-FY08 (January 1 – March 31, 2009)

(Billions of yen)

	3 mo. ended Mar 31, 2009 (4Q-FY 08)	3 mo. ended Dec 31, 2008 (3Q-FY 08)	QoQ Change (%)	3 mo. ended Mar 31, 2008 (4Q-FY 07)	YoY Change (%)
Premier DRAM	17.5	27.1	-35.4	44.4	-60.6
Computing DRAM	29.0	34.7	-16.4	46.0	-36.9
Net sales	46.5	61.8	-24.8	90.4	-48.6
Gross profit (loss)	(34.2)	(42.9)	-	(9.1)	-
Operating loss	(49.4)	(57.9)	-	(25.9)	-
Ordinary loss	(57.0)	(66.1)	-	(30.7)	-
Net loss	(60.9)	(72.3)	-	(29.2)	-

Note: Computing DRAM sales consist of DRAMs used in servers and personal computers. Premier DRAM sales consist of DRAMs used in digital consumer electronics & mobile devices and other sales.

In the FY 2008 4Q (January 1, 2009 to March 31, 2009) adjustments in inventories of electronics products in response to a global consumer spending slowdown and seasonal factors caused weaker DRAM demand and continued market sluggishness. However, as a result of production cuts among DRAM makers prices started to show signs of a recovery in late March.

Elpida's bit shipment growth was 3% QoQ. Its average selling prices slid 18% QoQ largely due to a drop in shipments of Premier DRAMs (DRAMs for mobile equipment and digital consumer electronics). These factors and roughly 10% yen appreciation compared with the previous quarter resulted in 4Q net sales declining by 24.8% QoQ to 46.5 billion yen.

Gross losses amounted to 34.2 billion yen, an 8.7 billion yen decrease compared with the previous quarter. The main reasons for the decrease in the quarter were cost-cutting benefits made possible by 65nm generation products and reduced depreciation costs due to a change in depreciation years for tangible fixed assets\*<sup>1</sup>. Operating losses were 49.4 billion yen, a decrease of 8.5 billion less QoQ. Ordinary losses totaled 57.0 billion yen (a 9.1 billion yen decrease QoQ), partly due to equity-method investment losses of 5.2 billion yen. Extraordinary losses of 2.1 billion yen from a provision for a lawsuit settlement and a 2.6 billion yen from impairment loss contributed to a net loss of 60.9 billion yen, an 11.5 billion yen decrease QoQ.

### □ Premier DRAMs

Premier DRAM sales fell 35.4% QoQ to 17.5 billion yen (37.6% of total net sales) because of a sharp decline in demand. Adjustments in inventories of digital consumer electronics and mobile devices continued from the 3Q but appeared to wane by the end of the 4Q, which suggests that demand hit bottom.

### □ Computing DRAMs

Cuts in production among DRAM makers brought down overall supply in the DRAM market in the 4Q. However, an apparent excess of DRAM inventory in the market blocked any price gains. As a result, Computing DRAM sales decreased 16.4% QoQ to 29.0 billion yen (62.4% of total net sales).

<sup>1</sup> From the 4Q of FY 2008 Elpida changed the estimated useful lives applied to property, plant and equipment for which the remaining estimated useful lives based on the original lifespan schedule found to be different from the forecasted period based on future economic use of the assets. As a result of this change, the operating loss, ordinary loss and loss before income taxes for 4Q of FY 2008 decreased by 5.6 billion yen, 5.7 billion yen and 5.7 billion yen, respectively, as compared with the amount that would have been recorded under the previous estimated useful lives for property, plant and equipment..

## (ii) 1Q of FY 2009 and Full-Term Outlook

An imbalance in supply and demand in the PC DRAM market can result in extreme price volatility. Also, a precise forecast of future PC DRAM prices is quite difficult. Since extreme price volatility can strongly affect business results, Elpida is not presenting earnings forecasts. Instead, as shown below, the company is presenting several estimates relevant to the 1Q and full term of FY 2009 that can be used as a general guideline.

### [Quarterly estimates]

	4Q-FY 08		1Q-FY 09
	Estimate as of Feb 6, 2009	Actual	Estimate
QoQ bit growth	Single-digit minus	3%	Single digit %
QoQ ASP change	N/A	-18%	N/A
Depreciation & amortization <sup>[1]</sup>	¥26.0 bn.	¥16.0 bn.	¥30.0 bn.
SG&A <sup>[1]</sup>	¥15.0 bn.	¥15.2 bn.	¥17.0 bn.

[1] From 1Q-FY 2009, depreciation & amortization and SG&A now include expenses generated by Rexchip and Tera Probe.

### [Yearly estimates]

	FY 2008		FY 2009
	Estimate as of Feb 6, 2009	Actual	Estimate
YoY bit growth	80-90%	90%	20%
Depreciation & amortization <sup>[2]</sup>	¥105.0 bn.	¥94.8 bn.	¥120.0 bn.
SG&A <sup>[2]</sup>	¥61.0 bn.	¥61.3 bn.	¥67.0 bn.
Capital expenditures <sup>[2]</sup>	¥95.0 bn.	¥88.6 bn.	¥40.0 bn.
Investment in Rexchip	¥3.0 bn. <sup>[3]</sup>	¥3.0 bn. <sup>[3]</sup>	-

[2] From FY2009 depreciation & amortization, SG&A and capital expenditures now include expenses generated by Rexchip and Tera Probe.

[3] Value of additional shares of Rexchip acquired for consolidation.

## **(2) Financial Conditions**

### **(i) Assets, Liabilities and Shareholders' Equity**

Total assets at the end of FY 2008 were 965.3 billion yen, an increase of 210.9 billion yen compared to the end of FY 2007. The main reason for the increase was the conversion of equity-method affiliates Rexchip and Tera Probe into consolidated subsidiaries.

Interest-bearing debt rose 278.4 billion yen compared to the end of FY 2007 to 567.4 billion yen. Partial repayment of debt and lease obligations was outweighed by such factors as the use of a credit facility of 110 billion yen consisting of term loans with a commitment period and the recording of the debt and lease obligations connected to the consolidation of Rexchip and Tera Probe.

Net assets were 266.5 billion yen at the end of the FY 2008, a decline of 81.4 billion yen compared to the end of FY 2007. The combination of a 45.8 billion yen private placement of shares of consolidated subsidiaries EBS, Inc. and ECM, Inc. with Elpida's business partners and the consolidation of Rexchip and Tera Probe resulted in the booking of minority interests in consolidated subsidiaries. However, the foregoing was exceeded by such factors as a significant drop in retained earnings, a result of net losses in FY 2008 brought on by the slumping DRAM market.

### **(ii) Cash Flows**

The balance of cash and cash equivalents at the end of FY 2008 rose 16.7 billion yen versus end-FY 2007 to 113.7 billion yen. Each cash flow for the business year and relevant cash flow factors are discussed below.

(Net cash used in operating activities)

Operating activities used net cash of 48.4 billion yen (versus an inflow of 83.1 billion yen in FY 2007). The key factors were that losses before income taxes increased by 159.7 billion yen to 180.8 billion yen and inventory assets went from an increase of 19.3 billion yen in the previous term to a decline of 16.3 billion yen.

(Net cash used in investing activities)

Investing activities used net cash of 75.5 billion yen, mainly for payments on property, plant and equipment valued at 79.7 billion yen. Compared with FY 2007, investment cash outflow was reduced by 184.9 billion yen. The main reasons for the reduction were that cash used to acquire property, plant and equipment fell 114.3 billion yen in FY 2008 and an 81.8 billion yen acquisition of investment securities was booked in FY 2007.

(Net cash provided by financing activities)

Financing activities in FY 2008 provided net cash of 140.3 billion yen. The key factors were the exercise of a long-term commitment line of 110 billion yen, 50.0 billion yen in proceeds from the issuance of convertible bonds, sale and leaseback transactions that provided 32.8 billion yen and capital investment of 45.8 billion yen in Elpida's consolidated subsidiaries, EBS and ECM, provided by Elpida's business partners. On the other hand, repayment of long-term borrowings used 40.2 billion yen, redemption of convertible bonds used 44.0 billion yen and lease payments used 14.2 billion yen.

### Consolidated Cash Flow-related Indicators (Reference)

	FY ended Mar 31, 2005 (FY 2004)	FY ended Mar 31, 2006 (FY 2005)	FY ended Mar 31, 2007 (FY 2006)	FY ended Mar 31, 2008 (FY 2007)	FY ended Mar 31, 2009 (FY 2008)
Shareholders' equity ratio (%) <sup>*1</sup>	39.2	33.6	49.7	46.1	17.3
Market value equity ratio (%) <sup>*2</sup>	79.0	71.7	77.5	57.1	10.0
Ratio of interest-bearing debt to cash flow (years) <sup>*3</sup>	11.1	8.1	2.3	3.5	-
Interest coverage ratio (times) <sup>*4</sup>	6.8	8.3	23.3	19.4	-

<sup>\*1</sup> Shareholders' equity ratio (%) = Shareholder's equity / Total assets x 100

<sup>\*2</sup> Market value equity ratio (%) = (FY-end closing stock price x (Total number of shares outstanding – treasury stock)) / Total assets x 100

<sup>\*3</sup> Ratio of interest-bearing debt to cash flow = Interest-bearing debt / Net cash provided by operating activities

<sup>\*4</sup> Interest coverage ratio = Net cash provided by operating activities / Interest payments

The ratio of interest-bearing debt to cash flow and interest coverage ratio are not shown for FY 2008 because Elpida had negative operating cash flow.

### (3) Basic Dividend Policy

Elpida places the highest importance on returns to shareholders and achieving a higher return on equity. The company's corporate earnings-driven dividend policy is based on balancing such factors as its earnings performance and financial condition with maintaining an adequate amount of internal capital reserves for future business development. Unfortunately, the net loss recorded in the FY 2008 business period means that Elpida is unable to provide a dividend.

Looking forward, Elpida will examine dividend policy matters including the frequency of dividend payments during the course of the business year while giving due consideration to the adequacy of capital reserves and the stability of business operations.

### (4) Business risk

One feature of the semiconductor industry is that earnings can experience significant fluctuation depending on activity along the business cycle (which in the semiconductor industry is generally known as the "silicon cycle"). In the DRAM business, of which the Elpida Group is a part, this feature is particularly evident with respect to the severe global competition that surrounds DRAMs used in personal computers. This can adversely affect Elpida's business, financial condition and operations. Also, the ability of a DRAM company to survive in the DRAM business is critically dependent on a large scale of investment in both research & development and manufacturing equipment.

Therefore, DRAM companies must adopt certain measures to handle business and other kinds of risks.

Listed below are the major risk factors Elpida has identified from among the variety of business and other forms of risk. The company has constructed a risk management system to address these risks. This system is used to either avoid risk or minimize the impact of any apparent risk.

- Cyclical changes in the DRAM market.
- Price declines caused by an imbalance of supply and demand.
- Lower competitiveness in regard to product functionality, quality, costs, manufacturing capabilities and technology.
- Loss of or decreased demand from key customers.
- Problems related to the supply of key materials or higher prices for materials.
- The possibility of a wrong response to a rapid changes in technology or to a higher level of technology.
- The possibility that capital investment spending may not deliver a sufficient return because of worsening market conditions or other reasons.

- The possibility that needed capital procurement may fall short of capital investment plans.
- A decline in the quality of products procured from outsourcing partners, disruptions of business arrangements with these partners or insufficient capacity at partners to respond to product orders.
- A slowdown in the manufacture of DRAM products or interrupted production caused by problems in the manufacturing process, with manufacturing equipment or other reasons.
- Severe competition with other companies in the hiring of trained or experienced semiconductor engineers.
- Litigation relating to intellectual property rights and anti-trust disputes.
- An inability to protect proprietary intellectual property and the rejection of a patent application.
- Damage to facilities, supply arrangements or the company's market position caused by earthquakes or other natural disasters, terrorist attacks, epidemics, civil disturbances, changes in laws or regulations that may adversely affect the company's business or other events beyond the company's control.
- Emergence of new legal obligations caused by the strengthening or amending of national or local environmental laws and regulations.
- Changes in the US dollar or Euro currency exchange rates.
- Significant changes in interest rates.
- Conflicts over business strategy with strategic business partners.
- Major adverse changes in general economic conditions.
- Deterioration of finances

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### **Forward-looking Statements**

Forecasts included in this document 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 its supply of key material and equipment, loss of or decreased demand from key customers, changes in exchange rates, general economic conditions and natural disasters. Elpida disclaims any obligation to update or, except in the limited circumstances required by the Tokyo Stock Exchange, announces publicly any revision to any of the forward-looking statements.

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## II. Group Management

The Elpida Group consists of the Elpida parent company, four Japanese subsidiaries and nine overseas subsidiaries. The Group's main business operations are DRAM product development and design, manufacturing (front-end and back-end) and sales.

### (1) Development and design

Development and design are mainly handled by Elpida and its subsidiaries, but in some fields the company outsources to and collaborates with other companies and external organizations.

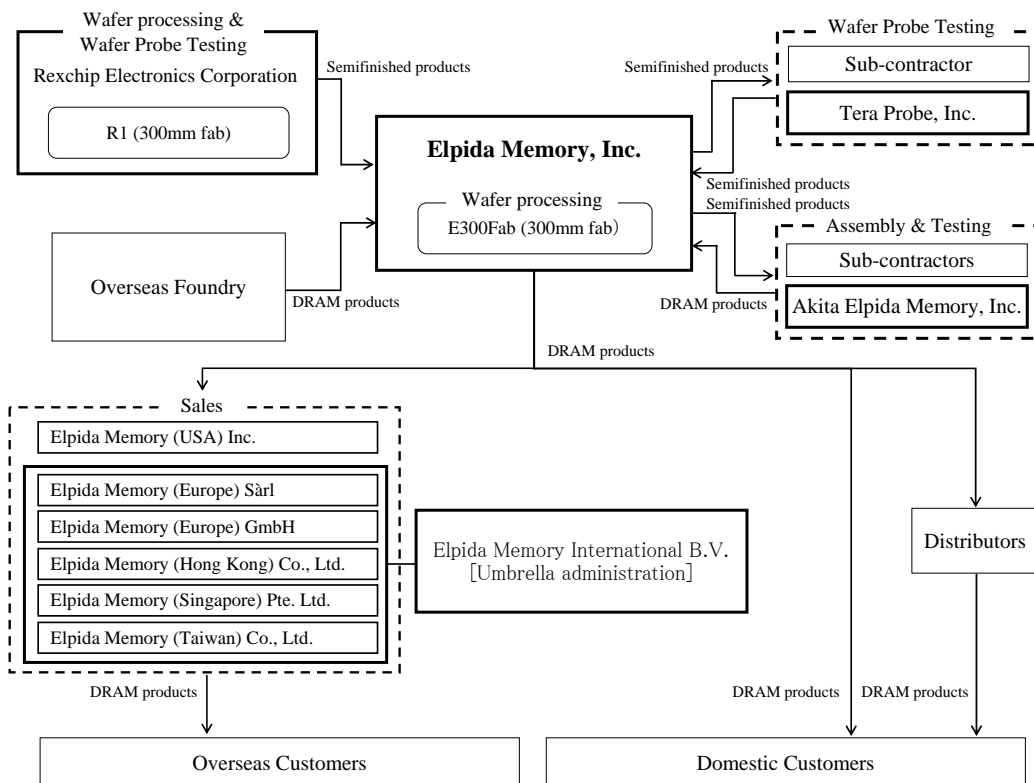
### (2) Manufacturing

Front-end process: Among front-end processes wafer processing is handled by the Hiroshima Plant and Rexchip while wafer probe testing is conducted by Tera Probe and Rexchip. Elpida converted Rexchip and Tera Probe into consolidated subsidiaries in March 2009 as a result of acquiring additional shares of each company.

Back-end process: Back-end processes (package assembly and final testing) are generally outsourced to overseas companies but some advanced package assembly is handled by Akita Elpida Memory, Inc.

### (3) Sales

Elpida handles sales to Japanese customers and supplies products to sales subsidiaries and sales distributors. In addition, seven overseas sales subsidiaries handle regional product sales to overseas customers in the United States, Europe and Asia.



Note 1: The company's subsidiaries in Japan consist of Akita Elpida Memory, Inc. and Tera Probe, Inc., both of which handle parts of the core business, as well as EBS, Inc. and ECM, Inc. in supporting business roles.

Note 2: The company's overseas subsidiaries consist of Rexchip Electronics Corporation, Elpida Memory (USA) Inc., and Elpida Memory International B.V. as well as the following five overseas companies under the umbrella supervision of Elpida Memory International B.V.: Elpida Memory (Europe) Sàrl, Elpida Memory (Europe) GmbH, Elpida Memory (Hong Kong) Co., Ltd., Elpida Memory (Singapore) Pte. Ltd. and, lastly, Elpida Memory (Taiwan) Co., Ltd., which handle some core business operations. TeraPower Technology Inc. (51% held by Tera Probe) is also a subsidiary.

### **III. Management Policies**

#### **(1) Basic Management Policy**

Elpida Memory's business operations are based on the following three management policies:

- (i) Elpida will create value added ideas with its customers by providing them world class leading edge technology and products.
- (ii) Elpida must demonstrate trust in the eyes of its employees, customers, shareholders, business partners and stakeholders.
- (iii) Elpida must construct a working environment which has a completely "open door" policy which enables each of its employees to develop and implement their original ideas.

#### **(2) Business Performance Indicators**

The Elpida Group is focused on maximizing shareholder value and achieving high levels of satisfaction among all Elpida's stakeholders as part of its drive to become the world's No. 1 DRAM supplier. To achieve these aims the company is seeking to achieve growth at a pace that exceeds the growth rate in the DRAM market. In managing the growth of its business Elpida uses various financial performance indicators, such as the operating margin and ROE to track profitability and the net debt-to-equity ratio to monitor financial stability.

#### **(3) Medium to Long-Term Management Strategy**

The Elpida Group aims to maximize corporate value by becoming the "World's No. 1 DRAM Supplier." The main advantage of holding the No. 1 position is that the company could leverage large-scale product supply capabilities to be price competitive. The company believes this would lead to growth, better position it to achieve higher earnings and deliver steady returns to Elpida's stakeholders.

To achieve this objective the Elpida Group is pursuing the measures listed below.

##### **(i) Building enduring relationships with customers**

To insure business stability even when the DRAM market is in a slump Elpida believes it is important to build and maintain long-term customer business relationships.

Depending on the application, the functionality, technical support, pricing and other features demanded by customers are different for each DRAM product. For this reason Elpida's domestic and overseas sales operations generally function as direct sales in order to shrink the distance between Elpida and customers and more accurately grasp customer needs. Also, Elpida has fielded technology marketing teams in different product areas to deliver DRAM solutions and quickly provide precision support for customer product development.

##### **(ii) Strengthening technology development**

In the DRAM industry, outperforming competitors in responding to customer needs and reducing production costs require having the highest possible level of advanced technology capabilities. For this reason Elpida is focusing its resources on research & development of advanced, high-performance core technology, especially in regard to finer process geometries, higher densities, lower power consumption and faster speeds for DRAMs.

On the other hand, the growth in R&D costs that comes with advances in technology is an issue that directly concerns every DRAM maker in the industry. Given the importance of this issue Elpida has streamlined product development to contain rising development costs. The company has also created research partnerships with other semiconductor makers for the purpose of shortening development time periods and sharing the burden of development costs.

### **(iii) Enhancing manufacturing system**

Semiconductor manufacturing is an industry that requires large-scale capital investment. For this reason the Elpida Group focuses its capital and human resources on front-end processes, which requires the highest degree of technology sophistication. The company is also working to strengthen the Group's internal manufacturing systems and striving for greater business efficiencies. For back-end processes, with the exception of high value-added areas the company outsource to overseas companies.

The Elpida Group's front-end process operations are handled by its Hiroshima Plant and by Rexchip, its joint venture with Powerchip Semiconductor Corporation (PSC). The Hiroshima Plant focuses on production of high value-added Premier DRAMs for digital consumer electronics and mobile devices. The Rexchip JV manufactures PC DRAMs that need to be more cost competitive. All Elpida manufacturing locations continuously work to improve productivity by migrating to more advanced process technologies and attaining higher yields. By taking this approach the company intends to achieve higher production volumes and lower costs.

In addition, the company is outsourcing the production of PC DRAMs to PSC in order to minimize price volatility risks and expand manufacturing volume without increasing fixed costs.

### **(iv) Increasing worker motivation**

As Elpida moves forward with the measures described above investment not only in capital equipment and technology development but also in human resources is vital. In addition to providing an attractive working environment the company believes in offering incentives linked to a work ethic devoted to boosting corporate value. Elpida believes this will enhance employee motivation and aid recruitment of self-achieving new employees. Thus, the company has introduced stock options, business performance-related bonuses and other kinds of employee incentives.

## **(4) Company Issues to Be Addressed**

The current DRAM market is intensely competitive. In the interest of achieving a stronger position in the industry and achieving earnings growth Elpida is focusing on the following issues:

### **(i) Manufacturing costs cuts**

The need to reduce manufacturing costs is a major topic of concern at all times in the semiconductor manufacturing industry. In the DRAM market, which is still in the midst of a prolonged slump that has lasted more than two years, the topic has reached the highest level of importance. Lowering semiconductor manufacturing costs involves large-scale investment in manufacturing equipment for advanced processes. In FY 2008, Elpida managed to bring down costs by migrating to 65nm shrink version production using most of the equipment dedicated to 70nm process manufacturing, which limited needed capital expenditures.

For the future, productivity will get a further boost in order to achieve an even more streamlined cost base. Among the measures planned are yield improvements and shorter cycle times for 65nm products and for the new 50nm products that entered in mass production in FY 2008.

## **(ii) A stronger business base**

More than half of DRAM demand comes from the PC-related market. But since PC DRAMs are commodity products, changes in the balance of supply and demand affect prices and have significant impact on corporate profits. Also, it is generally expected that as chip manufacturing technology becomes more advanced greater investment in more sophisticated DRAM business-related equipment is necessary. In the face of an extended slump in the DRAM market, these two factors create the risk that investment in the expansion of production capacity in anticipation of an eventual market recovery and technology migration to enable lower costs will both be inadequate.

Given this risk Elpida believes that is important to have a fundamentally strong business base. One way the company is accomplishing this is by strengthening ties with its Taiwan business partner so as to achieve more highly efficient manufacturing operations in its technology group and diversify business risk. Also, Elpida has intensified its focus on its core Premier DRAM business and moved forward with its foundry business in the interest of an efficient return on capital investment and added business stability.

## **(iii) A stronger financial base**

Elpida saw a 24,940 million yen operating loss and a 23,542 million yen net loss in FY 2007 and a 147,389 million yen operating loss and 178,870 million yen net loss in FY 2008. Also, operating cash flow fell by 48,365 million yen in FY 2008, which may result in concerns over debt repayments and other matters in FY 2009.

To eliminate these concerns Elpida is working to improve its earnings performance by raising productivity and achieving further yield gains as well as reducing labor costs and making R&D more efficient. From a financial viewpoint the company, while monitoring DRAM price activity, will consider various capital acquisition methods to strengthen its financial position.

## **(iv) Advanced technology R&D**

In semiconductor memory production, making chip sizes smaller is the source of corporate profits. Reducing chip size is achieved through the advanced manufacturing processes and innovative memory cell layout that flow from technology development. Elpida's goal is to be the industry leader in these two development areas. Furthermore, the company is focused on the development of phase-change memory or PRAM, a candidate for next-generation memory. In fact, PRAM has become a core R&D mission because of its potential to someday become an alternative to DRAM technology.

These advanced technology developments will depend on new technology breakthroughs achieved by having work teams of highly skilled engineers. Also, creating an efficient technology development structure will play a critical role both in containing the rising cost of R&D caused by increasingly sophisticated technology development and in elevating technology strengths to higher levels.

Elpida will attempt to resolve these issues by leveraging its technology partnerships with leading overseas semiconductor companies and R&D institutes to enhance its development capabilities and lighten its cost burden. As always, opportunities for new and strategically appropriate tie-ups with companies and research institutes in important technology areas will be considered.

## IV. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2008	As of March 31, 2009	Change
(Assets)			
I Current assets			
1. Cash and deposits	97,564	113,847	16,283
2. Notes and accounts receivable, trade	69,442	53,894	(15,548)
3. Inventories	74,354	—	(74,354)
Finished goods	—	35,872	<u>35,872</u>
Semi-finished goods	—	5,349	5,349
Work in process	—	20,227	<u>20,227</u>
Raw materials	—	2,158	2,158
Supplies	—	2,406	<u>2,406</u>
4. Deferred tax assets	656	2,800	2,144
5. Accounts receivable, other	21,381	21,904	523
6. Consumption taxes receivable	5,466	5,499	33
7. Other current assets	3,162	18,877	15,715
8. Allowance for doubtful accounts	(2,454)	(4,541)	(2,087)
Total current assets	269,571	<u>278,292</u>	<u>8,721</u>
II Noncurrent assets			
1. Property, plant and equipment	387,871	667,445	279,574
Buildings and structures	71,581	92,708	21,127
Machinery, equipment and vehicles	265,834	516,195	250,361
Tools, furniture and fixtures	24,995	21,949	(3,046)
Land	4,206	4,362	156
Construction in process	21,255	32,231	10,976
2. Intangible assets	8,205	8,681	476
Goodwill	1,944	1,418	(526)
Software	5,090	5,663	573
Software in progress	249	622	373
Others	922	978	56
3. Investments and other assets	88,732	10,871	(77,861)
Investment securities	80,690	2,317	(78,373)
Long-term prepaid expenses	6,536	7,432	896
Deferred tax assets	1,028	562	(466)
Others	478	560	82
Total noncurrent assets	484,808	686,997	202,189
Total assets	754,379	<u>965,289</u>	210,910

**(1) Consolidated Balance Sheets (continued)**

(Millions of yen)

	As of March 31, 2008	As of March 31, 2009	Change
<b>(Liabilities)</b>			
<b>I Current liabilities</b>			
1. Accounts payable, trade	56,260	48,301	(7,959)
2. Short-term loans payable	—	2,880	2,880
3. Current portion of bonds	—	55,000	55,000
4. Current portion of long-term loans payable	38,400	110,048	71,648
5. Current portion of lease obligations	7,020	21,869	14,849
6. Accounts payable, other	30,999	50,551	19,552
7. Income taxes payable	996	649	(347)
8. Provision for bonuses	2,270	2,343	73
9. Provision for loss on inventory valuation	561	6,290	5,729
10. Others	17,872	12,692	(5,180)
<b>Total current liabilities</b>	<b>154,378</b>	<b>310,623</b>	<b>156,245</b>
<b>II Noncurrent liabilities</b>			
1. Bonds payable	160,000	105,000	(55,000)
2. Long-term loans payable	81,800	222,008	140,208
3. Lease obligations	1,841	50,629	48,788
4. Long-term accounts payable, other	1,052	1,931	879
5. Deferred tax liabilities	3,986	2,272	(1,714)
6. Provision for retirement benefits	868	1,557	689
7. Provision for directors' retirement benefits	75	136	61
8. Provision for loss on settlements and litigations	2,319	4,303	1,984
9. Other noncurrent liabilities	185	361	176
<b>Total noncurrent liabilities</b>	<b>252,126</b>	<b>388,197</b>	<b>136,071</b>
<b>Total liabilities</b>	<b>406,504</b>	<b>698,820</b>	<b>292,316</b>
<b>(Net assets)</b>			
<b>I Shareholders' equity</b>			
1. Capital stock	155,611	158,665	3,054
2. Capital surplus	166,653	169,707	3,054
3. Retained earnings	34,445	(144,862)	(179,307)
4. Treasury stock	(3)	(5)	(2)
<b>Total shareholders' equity</b>	<b>356,706</b>	<b>183,505</b>	<b>(173,201)</b>
<b>II Valuation and translation adjustments</b>			
1. Valuation difference on available-for-sale securities	(1,329)	(453)	876
2. Deferred gains or losses on hedges	(545)	<u>(300)</u>	<u>245</u>
3. Foreign currency translation adjustments	(7,105)	<u>(15,457)</u>	<u>(8,352)</u>
<b>Total valuation and translation adjustments</b>	<b>(8,979)</b>	<b>(16,210)</b>	<b>(7,231)</b>
<b>III Stock subscription rights</b>	148	242	94
<b>IV Minority interests</b>	—	98,932	98,932
<b>Total net assets</b>	<b>347,875</b>	<b>266,469</b>	<b>(81,406)</b>
<b>Total liabilities and net assets</b>	<b>754,379</b>	<b>965,289</b>	<b>210,910</b>

## (2) Consolidated Statements of Operations

(Millions of yen)

Account	Fiscal year ended				Change Increase or decrease
	March 31, 2008		March 31, 2009		
		Ratio (%)		Ratio (%)	
I Net sales	405,481	100.0	331,049	100.0	(74,432)
II Cost of sales	372,141	91.8	417,127	126.0	44,986
Gross profit (loss)	33,340	8.2	(86,078)	(26.0)	(119,418)
III Selling, general and administrative expenses	58,280	14.4	61,311	18.5	3,031
Operating loss	(24,940)	(6.2)	(147,389)	(44.5)	(122,449)
IV Non-operating income					
1. Interest income	1,483		957		(526)
2. Dividend income	287		—		(287)
3. Foreign exchange gains	—		2,343		2,343
4. Subsidy income	300		328		28
5. Gain on valuation of interest-rate swaps	484		196		(288)
6. Others	351		321		(30)
V Non-operating expenses					
1. Interest expense	4,292		6,366		2,074
2. Stock issuance cost	1		21		20
3. Bond issuance cost	94		15		(79)
4. Foreign exchange loss	4,455		—		(4,455)
5. Equity in losses of affiliates	6,613		15,550		8,937
6. Depreciation of inactive noncurrent assets	—		1,182		1,182
7. Maintenance costs for idle assets	—		1,260		1,260
8. Others	2,133		1,119		(1,014)
Ordinary loss	(39,623)	(9.8)	(168,757)	(51.0)	(129,134)
VI Extraordinary income					
1. Gain on sale of property, plant and equipment	21,179		136		(21,043)
2. Settlement received	—		621		621
3. Compensation income	—		579		579
4. Compensation for damage received	335		—		(335)
5. Gain on change in equity	—		742		742
VII Extraordinary losses					
1. Loss on valuation of investment securities	—		1,988		1,988
2. Loss on sales of property, plant and equipment	201		6		(195)
3. Loss on retirement of property, plant and equipment	2,146		<u>742</u>		<u>(1,404)</u>
4. Loss on retirement of intangible assets	141		<u>32</u>		<u>(109)</u>
5. Loss on abandonment of inventories	360		575		215
6. Settlement package	—		4,958		4,958
7. Provision for loss on settlements and litigations	110		3,136		3,026
8. Impairment loss	—		2,638		2,638
Loss before income taxes	(21,067)	(5.2)	(180,754)	(54.6)	(159,687)
Income taxes-current	1,355		1,258		(97)
Income taxes for prior periods	—		320		320
Refund of income taxes for prior periods	(196)		—		196
Income taxes-deferred	1,316		(3,453)		(4,769)
Total income taxes	2,475	0.6	(1,875)	(0.6)	(4,350)
<u>Minority interests in loss</u>	—	—	(9)	(0.0)	(9)
Net loss	(23,542)	(5.8)	(178,870)	(54.0)	(155,328)

### (3) Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2008

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	155,009	166,051	57,987	(2)	379,045
Changes					
New shares issuance for execution of stock option	602	602			1,204
Net loss			(23,542)		(23,542)
Purchase of treasury stock				(1)	(1)
Net changes of items other than shareholders' equity					—
Net changes	602	602	(23,542)	(1)	(22,339)
Balance as of March 31, 2008	155,611	166,653	34,445	(3)	356,706

(Millions of yen)

	Valuation and translation adjustments				Stock subscription rights	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2007	(90)	(652)	631	(111)	43	378,977
Changes						
New shares issuance for execution of stock option				—		1,204
Net loss				—		(23,542)
Purchase of treasury stock				—		(1)
Net changes of items other than shareholders' equity	(1,239)	107	(7,736)	(8,868)	105	(8,763)
Net changes	(1,239)	107	(7,736)	(8,868)	105	(31,102)
Balance as of March 31, 2008	(1,329)	(545)	(7,105)	(8,979)	148	347,875

### (3) Consolidated Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2009

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008	155,611	166,653	34,445	(3)	356,706
Changes					
Conversion of convertible bond-type bonds with subscription rights to shares	3,000	3,000			6,000
New shares issuance for execution of stock option	54	54			108
Net loss			(178,870)		(178,870)
Effect of changes in accounting policies applied to foreign subsidiaries			(437)		(437)
Purchase of treasury stock				(2)	(2)
Net changes of items other than shareholders' equity					—
Net changes	3,054	3,054	(179,307)	(2)	(173,201)
Balance as of March 31, 2009	158,665	169,707	(144,862)	(5)	183,505

(Millions of yen)

	Valuation and translation adjustments				Stock subscription rights	Minority interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance as of March 31, 2008	(1,329)	(545)	(7,105)	(8,979)	148	—	347,875
Changes							
Conversion of convertible bond-type bonds with subscription rights to shares				—			6,000
New shares issuance for execution of stock option				—			108
Net loss				—			(178,870)
Effect of changes in accounting policies applied to foreign subsidiaries				—			(437)
Purchase of treasury stock				—			(2)
Net changes of items other than shareholders' equity	876	<u>245</u>	<u>(8,352)</u>	(7,231)	94	98,932	91,795
Net changes	876	<u>245</u>	<u>(8,352)</u>	(7,231)	94	98,932	(81,406)
Balance as of March 31, 2009	(453)	<u>(300)</u>	<u>(15,457)</u>	(16,210)	242	98,932	266,469

**(4) Consolidated Statements of Cash Flows**

(Millions of yen)

	Fiscal year ended		Change
	March 31, 2008	March 31, 2009	increase or decrease
<b>I Operating activities</b>			
Loss before income taxes	(21,067)	(180,754)	(159,687)
Depreciation and amortization	94,081	94,763	682
Impairment loss	—	2,638	2,638
Increase (decrease) in provision	3,569	10,423	6,854
Interest and dividend income	(1,770)	(957)	813
Interest expense	4,292	6,366	2,074
Foreign exchange losses (gains)	4,149	3,501	(648)
Equity in (earnings) losses of affiliates	6,613	15,550	8,937
Loss (gain) on change in equity	—	<u>(742)</u>	<u>(742)</u>
Gain on sale of property, plant and equipment	(21,179)	(136)	21,043
Loss on retirement of property, plant and equipment	2,146	<u>742</u>	<u>(1,404)</u>
Loss on retirement of intangible assets	141	<u>32</u>	<u>(109)</u>
Loss on sale of property, plant and equipment	201	6	(195)
Loss (gain) on valuation of investment securities	—	1,988	1,988
Decrease (increase) in notes and accounts receivable, trade	33,423	32,833	(590)
Decrease (increase) in inventories	(19,342)	16,327	35,669
Decrease (increase) in accounts receivable, other	3,004	(15,875)	(18,879)
Decrease (increase) in consumption taxes refund receivable	1,602	(33)	(1,635)
Increase (decrease) in notes and accounts payable, trade	(8,555)	(16,372)	(7,817)
Increase (decrease) in accounts payable, other	(868)	(2,502)	(1,634)
Others	8,369	<u>(3,210)</u>	<u>(11,579)</u>
Subtotal	88,809	(35,412)	(124,221)
Interest and dividend received	1,393	1,124	(269)
Interest expenses paid	(4,144)	(6,423)	(2,279)
Proceeds from subsidy	376	328	(48)
Settlements paid	—	(6,146)	(6,146)
Income taxes paid	(3,332)	(1,516)	1,816
Income taxes paid for prior periods	—	(320)	(320)
Net cash provided by (used in) operating activities	83,102	(48,365)	(131,467)
<b>II Investing activities</b>			
Payments into time deposits	(703)	(705)	(2)
Proceeds from withdrawal of time deposits	1,131	1,167	36
Purchase of investment securities	(81,831)	—	81,831
Purchases of property, plant and equipment	(194,004)	(79,667)	114,337
Proceeds from sales of property, plant and equipment	18,725	17,301	(1,424)
Purchases of intangible assets	(1,968)	(2,002)	(34)
Purchase of long-term prepaid expenses	(1,758)	(2,008)	(250)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	<u>6,345</u>	<u>6,345</u>
Payments of loans receivable	—	(15,942)	(15,942)
Others	14	19	5
Net cash used in investing activities	(260,394)	<u>(75,492)</u>	<u>184,902</u>

**(4) Consolidated Statements of Cash Flows (Continued)**

(Millions of yen)

	Fiscal year ended		Change increase or decrease
	March 31, 2008	March 31, 2009	
<b>III Financing activities</b>			
Proceeds from long-term loans payable	80,000	110,000	30,000
Repayments of long-term loans payable	(28,181)	(40,200)	(12,019)
Proceeds from issuance of common stock	1,203	108	(1,095)
Proceeds from issuance of bonds	19,906	—	(19,906)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	—	49,985	49,985
Redemption of convertible bond-type bonds with subscription rights to shares	—	(44,000)	(44,000)
Proceeds from sale-and-leaseback transactions	50,513	32,831	(17,682)
Repayments of lease obligation	(12,786)	<u>(14,188)</u>	<u>(1,402)</u>
Purchases of treasury stock	(1)	<u>(2)</u>	<u>(1)</u>
Proceeds from stock issuance to minority shareholders	—	45,810	45,810
Net cash provided by financing activities	110,654	140,344	29,690
IV Effect of exchange rates changes on cash and cash equivalents	(1,953)	(1,505)	448
V Net increase (decrease) in cash and cash equivalents	(68,591)	<u>14,982</u>	<u>83,573</u>
VI Cash and cash equivalents at beginning of the period	165,546	96,955	(68,591)
<u>VII Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation</u>	<u>—</u>	<u>1,762</u>	<u>1,762</u>
VIII Cash and cash equivalents at end of the period	96,955	113,699	16,744
Free cash flow (I+II)	(177,292)	<u>(123,857)</u>	<u>53,435</u>

**Elpida Memory, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2009**

**[Notes on Going Concern Assumption]**

Not applicable

**[Basic important matters for preparation of consolidated financial statements]**

1. Scope of consolidation

Consolidated all subsidiaries

Number of the consolidated subsidiaries : 13

Name of the consolidated subsidiaries: Akita Elpida Memory, Inc.

Rexchip Electronics Corporation

Elpida Memory (USA) Inc.

Elpida Memory International B.V.

Elpida Memory (Europe) Sàrl

Elpida Memory (Europe) GmbH

Elpida Memory (Taiwan) Co., Ltd.

Elpida Memory (Hong Kong) Co., Ltd.

Elpida Memory (Singapore) Pte. Ltd.

Tera Probe, Inc.

TeraPower Technology Inc.

EBS Inc.

ECM Inc.

For the fiscal year ended March 31, 2009, the number of the Company's consolidated subsidiaries has increased by one (Rexchip Electronics Corporation) through an additional acquisition of its shares, two (Tera Probe, Inc and its subsidiary, TeraPower Technology Inc) through acquisition of its common shares through an exchange of the Company's holding of Tera Probe class A shares (non-voting stock), and by two (EBS Inc. and ECM Inc.) through incorporation in March, 2009. Also there was a decrease of one subsidiary (Hiroshima Elpida Memory, Inc.) due to the merger with the Company in April, 2008.

2. Application of equity method

Not applicable

For the fiscal year ended March 31, 2009, the number of affiliated companies accounted for by the equity method has decreased by one (Rexchip Electronics Corporation) because of becoming a consolidated subsidiary through an additional acquisition of its shares and by one (Tera Probe) because of becoming a consolidated subsidiary through an acquisition of its common shares through an exchange of its holding of Tera Probe class A shares (non-voting stock) in March, 2009.

3. The fiscal year end date for the consolidated subsidiaries

Among consolidated subsidiaries, the fiscal year end date of Rexchip Electronics Corporation and TeraPower Technology Inc is December 31. The accompanying consolidated financial statements are prepared based on their financial statements after conducting provisional closing procedures in accordance with normal closing procedures as of the Company's fiscal year end date (March 31, 2009).

#### 4. Accounting principles

##### 4-1. Valuation principles and method for assets.

###### (1) Investment securities

Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method. Other securities with no fair value are stated at moving average cost.

###### (2) Derivatives

Derivatives are stated based on a market value method.

###### (3) The cost of inventories

###### Finished goods

Cost method based on the first-in, first-out method (amount shown on the balance sheet is stated by writing down based on their decrease in profitability).

###### Semi-finished goods

Cost method based on the first-in, first-out or aggregate average method (amount shown on the balance sheet is stated by writing down based on their decrease in profitability).

###### Work in process

Cost method based on the first-in, first-out or aggregate average method (amount shown on the balance sheet is stated by writing down based on their decrease in profitability).

###### Raw materials

Cost method based on the first-in, first-out or aggregate average method (amount shown on the balance sheet is stated by writing down based on their decrease in profitability).

###### Supplies

Cost method based on individual method or the most recent purchase price method (amount shown on the balance sheet is stated by writing down based on their decrease in profitability).

###### (Change in accounting policy)

Effective for the fiscal year beginning on or after April 1, 2008, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued by ASBJ (the Accounting Standards Board of Japan) on July 5, 2006). There is no effect of this adoption on operating result.

#### 4-2. Depreciation method of fixed assets

##### (1) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives of the assets.

Buildings and structures:	2 to 50 years
Machinery, equipment and vehicles:	2 to 22 years
Tools, furniture and fixtures:	2 to 25 years

(Change in useful lives of tangible fixed assets)

Since the fourth quarter of the year ended March 31, 2009, the Company changed estimated useful lives applied to property, plant and equipment of which remaining estimated useful lives based on original schedule revealed to be different from the forecasted period based on future economic use of the assets.

Before this change, the Company reviewed the estimated useful lives for property, plant and equipment since mainly the following facts had occurred,

- Five years have passed since Hiroshima Elpida Memory, Inc. (currently the Company's Hiroshima plant) fully started mass production of DRAM in 300mm manufacturing facilities
- Investments at Hiroshima plant to expand its capacity have almost completed
- The Company fully commenced foundry business using 300mm manufacturing facilities at Hiroshima plant in October, 2008.

As a result, there were some property, plant and equipment of which remaining estimated useful lives based on original schedule revealed to be different from the forecasted period based on future economic use of the assets. Therefore, the Company conducted an analysis on the actual use and expected usable period for all the property, plant and equipment. And from the fourth quarter of this fiscal year ended March 31, 2009, just after completing the analysis, the Company decided to change the estimated useful lives for property, plant and equipment of which remaining estimated useful lives based on original schedule were different from the forecasted period based on future economic use of the assets.

As a result of this change in useful lives, operating loss, ordinary loss and loss before income taxes for the year ended March 31, 2009 decreased by ¥5,580 million, ¥5,676 million, and ¥5,675 million respectively, as compared with the amount that would have been recorded under the previous estimated useful lives for property, plant and equipment.

##### (2) Intangible fixed assets

Certain costs incurred to obtain internal use computer software are capitalized and amortized on a straight-line basis over the estimated useful lives (2 or 5 years) at maximum.

##### (3) Leased assets

Leased assets under capital lease transactions which transfer substantially all the risks and rewards of ownership of the assets: A same method is applied as that of tangible fixed assets the Company owns

Leased assets under capital lease transactions which do not transfer ownership of the assets at the end of the lease term: Amortized on a straight-line basis over the lease terms.

#### 4-3. Principles for Provision

##### (1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based on credit loss history for general accounts receivables and an evaluation of collectability for any specific doubtful receivables.

##### (2) Provision for bonuses

Provision for bonuses is provided for the estimated amounts, which the company will pay based on the service provided during the current period.

(3) Provision for loss on inventory valuation

Following purchase of inventories from consignment factories, the company set provision for loss on inventory valuation, which the company expects to bear.

(4) Provision for retirement benefits

Pension and severance costs were accrued based on the benefit obligations and pension plan assets at the end of the current fiscal year.

Unrecognized prior service cost and actuarial loss are amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan, which is currently 15years.

(5) Provision for directors' retirement benefits

Severance costs were accrued based on the benefit obligations at end of period.

(6) Provision for loss on settlements and litigations

The Company has set provisions for settlements and litigation relating to anti-trust disputes and litigation in northern America and in preparation of charges incurred as a result of investigation for anti-trust law by European commission.

#### 4-4. Foreign currency translation

Foreign currency receivables and payables are translated into Japanese yen at effective period-end exchange rates and the resulting transaction gains or losses are taken into the consolidated results. The balance sheet accounts of foreign consolidated subsidiaries and an affiliated company are translated into Japanese yen at effective period-end exchange rates, except for the components of shareholders' equity which are translated at their historical exchange rates, and all income and expense accounts are translated at the average exchange rate in effect during the period. The resulting translation differences are recorded in a separate component of shareholders' equity as foreign exchange translation adjustments.

#### 4-5. Hedge accounting

(i) Hedge accounting

The company has adopted deferral hedge accounting for its derivative transactions.

(ii) Derivative instruments and subject

The interest rate swap is as the derivative instruments and the long-term bond is subject to hedge.

(iii) Policy of derivative transactions

The Company has entered into interest rate swap agreements in order to manage certain risks arising from adverse fluctuation in interest rates.

(iv) Evaluation of Hedge effectiveness

Hedge effectiveness is determined by comparing the cumulative changes in cash flows or fair values from the hedging instruments with those from the hedged items.

#### 4-6. Consumption tax and other

Accounted exclusive of consumption taxes and local consumption taxes.

#### 5. Valuation of assets and liabilities of consolidated subsidiaries

The Company adopts the partial fair value method.

#### 6. Amortization of Goodwill

Goodwill is amortized on a straight-line method over 5 years or 15years.

#### 7. Change in basic important matters for preparation of consolidated financial statements

(1) Change in accounting policy for lease transaction

Effective for the fiscal year beginning on or after April 1, 2008, the Company and its domestic subsidiaries have adopted "Accounting Standards for Lease Transactions" (ASBJ Statement No.13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by ASBJ on March 30, 2007) and "Implementation Guidance for Accounting Standards for Lease Transactions" (ASBJ Guidance No.16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by ASBJ on March 30, 2007). There is no effect of this adoption on operating result.

(2) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective for the fiscal year beginning on or after April 1, 2008, the Company has adopted the Practical Issues Task Force No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements," issued by the ASBJ on May 17, 2006. The effect of this adoption on operating result is inconsequential.

(3) Change in presentation

(Consolidated balance sheets)

As "Cabinet Office Ordinance Partially Revising Regulation for Terminology, Forms and Preparation Methods of Financial Statements" (Cabinet Office Ordinance No.50, August 7, 2008) has applied, the amount recorded as "inventories" in the consolidated balance sheet is divided into five categories, finished goods, semi-finished goods, work-in process, raw materials, supplies as of March 31, 2009. As of March 31, 2008, finished goods, semi-finished goods, work-in process, raw materials, supplies included in "inventories" (¥74,354) million are ¥34,304million, ¥16,682million, ¥19,699million, ¥2,089million, ¥1,580million, respectively.

(Consolidated statements of operations)

“Depreciation of inactive fixed assets” and “Maintenance costs for idle assets” are independently presented for the year ended March 31, 2009 because their importance has increased. These accounts were presented as “Others” in non-operating expenses for the year ended March 31, 2008. “Depreciation of inactive fixed assets” and “Maintenance costs for idle assets” were ¥412 million and ¥323 million respectively for the year ended March 31, 2008.

#### 8. Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(Notes to Consolidated balance sheets)

Assets pledged as collateral and obligations collateralized

Assets pledged as collateral and obligations collateralized at Rexchip Electronics Corporation as of March 31, 2009 are as follows,

##### (1) Assets pledged as collateral

Buildings and structures	¥ <u>17,796</u> million
Machinery, equipment and vehicles	¥134,925 million
Total	¥152,721 million

##### (2) Obligation collateralized

Long-term loans payable (including current portion of long-term loans payable)	¥141,233 million
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(Notes to Consolidated statements of operations)

Impairment loss

For the year ended March 31, 2009, the Company has recognized impairment loss for the following asset group.

Location	Use	Category
Higashi Hiroshima city, Hiroshima prefecture	Assets to be disposed of	Machinery, equipment and vehicles Tools, furniture and fixtures

The company assesses impairment based on a place of business as a fundamental unit, and important “idle assets & assets to be disposed of “is a unit of asset group for impairment assessment.

Assets to be disposed of were originally scheduled to be used depending on the conditions of market demands. However, these assets were unlikely to be used due to the change in market conditions. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized corresponding impairment loss of ¥2,638 million as “extraordinary losses” in consolidated statements of operations.

The breakdown of impairment loss is as follows,

Machinery, equipment and vehicles	¥1,156 million
Tools, furniture and fixtures	¥1,398 million
Total	¥2,554 million

Impairment loss (2,638 million yen) stated in “extraordinary losses” in consolidated statements of operations includes removal costs of ¥84 million.

(Notes to Consolidated statements of changes in net assets)

For the year ended March 31, 2008

1. Type and number of shares outstanding and treasury stock

	Number of shares as of March 31, 2007	Number of shares increased in the current period	Number of shares decreased in the current period	Number of shares as of March 31, 2008
Outstanding shares				
Common stock	129,288,900	481,500	—	129,770,400
Total	129,288,900	481,500	—	129,770,400
Treasury stocks				
Common stock	526	314	—	840
Total	526	314	—	840

\*1. Increase in the number of shares outstanding of 481,500 shares was due to the execution of stock options.

2. Increase in the number of treasury stock of 314 common stocks was due to purchase of less-than-one-unit shares.

2. Stock subscription rights

	Breakdown of stock subscription rights	Type of shares	Objective and Number of Shares Applicable to Share				Balance of shares as of March 31, 2008 (millions of yen)
			Number of shares as of March 31, 2007	Increase in the number of shares during the current period	Decrease in the number of shares during the current period	Number of shares as of March 31, 2008	
Issuing company	Stock subscription rights as stock option	Common stock	—	—	—	—	148

For the year ended March 31, 2009

1. Type and number of shares outstanding and treasury stock

	Number of shares as of March 31, 2008	Number of shares increased in the current period	Number of shares decreased in the current period	Number of shares as of March 31, 2009
Outstanding shares				
Common stock	129,770,400	11,831,019	—	141,601,419
Total	129,770,400	11,831,019	—	141,601,419
Treasury stocks				
Common stock	840	475	—	1,315
Total	840	475	—	1,315

\*1. Increase in the number of shares outstanding of 11,831,019 shares was due to the execution of stock options.

2. Increase in the number of treasury stock of 475 common stocks was due to purchase of less-than-one-unit shares.

2. Stock subscription rights

	Breakdown of stock subscription rights	Type of shares	Objective and Number of Shares Applicable to Share				Balance of shares as of March 31, 2009 (millions of yen)
			Number of shares as of March 31, 2008	Increase in the number of shares during the current period	Decrease in the number of shares during the current period	Number of shares as of March 31, 2009	
Issuing company	Stock subscription rights as stock option	Common stock	—	—	—	—	242

(Notes to Consolidated statements of cash flow)

1. Cash and cash equivalents at March 31, 2008 and 2009 are reconciled to the account reported in the consolidated balance sheet as follows :

	As of March 31, 2008 (Millions of yen)	As of March 31, 2009 (Millions of yen)
Cash on hand and in banks	97,564	113,847
Less : Time deposits due over three months	609	148
Cash and cash equivalents	96,955	113,699

2. Significant non-cash transactions

	As of March 31, 2008 (Millions of yen)	As of March 31, 2009 (Millions of yen)
(1)Purchase of assets by finance lease transaction	415	34,193
(2) Capital stock increase due to conversion of convertible bond-type bonds with subscription rights to shares	—	3,000
Capital surplus increase due to conversion of convertible bond-type bonds with subscription rights to shares	—	3,000
Decrease in bond-type bonds with subscription rights to shares due to the conversion of convertible bond-type bonds with subscription rights to shares	—	6,000

(Lease transactions)

At March 31, 2008 and 2009, the Company had operating leases with minimum rental commitments as follows:

	As of March 31, 2008 (Millions of yen)	As of March 31, 2009 (Millions of yen)
Due within 1 year	22,426	18,972
Due over 1 year	27,064	8,730
Total	49,490	27,702

(Marketable securities)

(1) Other marketable securities

(Millions of yen)

	Fiscal year ended March 31, 2008			Fiscal year ended March 31, 2009		
	Cost	Fair Value	Variance	Cost	Fair Value	Variance
Securities of which fair value below cost						
Marketable securities	2,441	1,305	(1,136)	445	445	—

(2) Securities with no fair value

(Millions of yen)

	Book value
Other securities Unlisted bonds	1,872
Total	1,872

(3) Redemption schedule of securities with maturity and held-to-maturity bonds of other securities

(Millions of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Bonds	—	1,872	—	—
Total	—	1,872	—	—

## (Derivative Financial Instruments)

## Notional Amounts, Fair Value and Unrealized Gain or Loss of Derivatives

## 1. Currencies

(Millions of yen)

Classification	Description	March 31, 2008				March 31, 2009			
		Notional amount	Notional amount more than 1 year	Fair value	Gain (loss)	Notional amount	Notional amount more than 1 year	Fair value	Gain (loss)
Transactions other than market transactions	Forward foreign exchange contract								
	Selling:								
	U.S. dollar	17,561	–	16,196	1,365	16,284	–	16,213	71
	Taiwan dollar	–	–	–	–	<u>32,026</u>	–	<u>32,242</u>	(216)
	Buying								
	Taiwan dollar	–	–	–	–	<u>137</u>	–	<u>135</u>	(2)
Total		–	–	–	1,365	–	–	–	<u>(147)</u>

Note: The fair values are based on market quotations.

## 2. Interest Rates

(Millions of yen)

Classification	Description	March 31, 2008				March 31, 2009			
		Notional amount	Notional amount more than 1 year	Fair value	Gain (loss)	Notional amount	Notional amount more than 1 year	Fair value	Gain (loss)
Transactions other than market transactions	Interest rate swap								
	Fixed to floating	50,000	50,000	(184)	484	50,000	10,000	12	<u>196</u>
Total		<u>50,000</u>	<u>50,000</u>	<u>(184)</u>	484	<u>50,000</u>	<u>10,000</u>	<u>12</u>	<u>196</u>

Note:

(1) The fair values are based on quotations from financial institutions.

(2) The above information excludes derivatives accounted for as hedge instruments.

(3) In the fiscal year ended March 31, 2009, the interest rate swaps shown above have become inapplicable for hedge accounting and therefore the deferred gains or losses are recognized in the income statement as adjustment to interests over the maturity period of the underlying transactions. The fair value is included in the Other Long-term Liabilities on the consolidated balance sheet.

(Retirement benefits)

Omitted since the necessity of disclosure is not high in earnings releases

(Stock option)

Omitted since its disclosure is not so much needed in earnings releases

(Deferred tax)

Omitted since its disclosure is not so much needed in earnings releases

(Segment Information)

[Business Segment Information]

During the year ended March 31, 2008 and the year ended March 31, 2009, our group was operating a single segment of the semiconductor business centering on DRAM, so the information by business segment is omitted.

[Geographical segment information]

For the fiscal year ended March 31, 2008

	Japan (MY)	Asia (MY)	Europe (MY)	North America (MY)	Total (MY)	Offset or corporate total (MY)	Consoli- d ated (MY)
Sales							
(1)Sales to third parties	220,100	84,508	30,425	70,448	405,481	—	405,481
(2)Inter-segment sales and transfers	176,909	52	16	48	177,025	(177,025)	—
Total	397,009	84,560	30,441	70,496	582,506	(177,025)	405,481
Operating expenses	422,103	85,317	30,753	69,273	607,446	(177,025)	430,421
Operating income (loss)	(25,094)	(757)	(312)	1,223	(24,940)	0	(24,940)
Assets	752,687	22,559	6,529	14,761	796,536	(42,157)	754,379

Note 1: Countries and regions are grouped according to the geographical closeness.

2: Major countries and regions other than Japan are as follows:

- (1) Asia: Hong Kong, Singapore and Taiwan
- (2) Europe: Germany and Switzerland
- (3) North America: the United States

For the fiscal year ended March 31, 2009

	Japan (MY)	Asia (MY)	Europe (MY)	North America (MY)	Total (MY)	Offset or corporate total (MY)	Consoli- d ated (MY)
Sales							
(1) Sales to third parties	152,662	99,752	21,032	57,603	331,049	—	331,049
(2) Inter-segment sales and transfers	160,642	59	41	70	160,812	(160,812)	—
Total	313,304	99,811	21,073	57,673	491,861	(160,812)	331,049
Operating expenses	470,188	96,877	21,433	50,739	639,237	(160,799)	478,438
Operating income	(156,884)	2,934	(360)	6,934	(147,376)	(13)	(147,389)
Assets	758,822	<u>329,084</u>	5,003	13,359	<u>1,106,268</u>	<u>(140,979)</u>	965,289

Note 1: Countries and regions are grouped according to the geographical closeness.

2: Major countries and regions other than Japan are as follows:

- (1) Asia: Hong Kong, Singapore and Taiwan
- (2) Europe: Germany and Switzerland
- (3)North America: the United States

3: Assets for consolidated subsidiaries (five companies) which were consolidated in March, 2009 are included in above assets according to countries and regions in which they are located.

[Overseas sales]

For the fiscal year ended March 31, 2008

	North America	Asia	Europe	Total
I Overseas sales (MY)	71,672	146,534	30,428	248,634
II Consolidated sales (MY)				405,481
III Ratio of overseas sales over consolidated sales (%)	17.7	36.1	7.5	61.3

Note 1: Countries and regions are grouped according to the geographical closeness.

2: Major countries and regions other than Japan are as follows:

North America: the United States

Asia: Taiwan, Singapore and Hong Kong

Europe: Whole area

3: The amount of overseas sales is the amount of sales made by the Company and its consolidated subsidiaries in countries and regions outside Japan.

For the fiscal year ended March 31, 2009

	North America	Asia	Europe	Total
I Overseas sales (MY)	70,285	108,497	48,576	227,358
II Consolidated sales (MY)				331,049
III Ratio of overseas sales over consolidated sales (%)	21.2	32.8	14.7	68.7

Note 1: Countries and regions are grouped according to the geographical closeness.

2: Major countries and regions other than Japan are as follows:

North America: the United States

Asia: Taiwan, Singapore and Hong Kong

Europe: Whole area

3: The amount of overseas sales is the amount of sales made by the Company and its consolidated subsidiaries in countries and regions outside Japan.

(Business Combinations)

For the fiscal year ended March 31, 2008

1. Outline of the business combination

(1) Business operations subject to business combination

DRAM wafer processing

(2) Legal structure of business combination

Formation of a joint venture

(3) Name of the joint venture

Rexchip Electronics Corporation (Rexchip)

(4) Outline of the transaction

Under the joint venture agreement with Powerchip Semiconductor Corp. (PSC), the Company has made an investment in Rexchip on May 25, 2007 in order to increase its production capacity.

2. Outline of the accounting

The Company and PSC have entered into an agreement under which the two independent companies acquire shares of voting stock of Rexchip solely in exchange for their contributions and jointly control Rexchip. There is no certain fact that indicates other controlling relationships. Based on these, the business combination is considered to be a formation of a joint venture and is accounted for under the pooling of interests method of accounting for business combinations.

The Company's investment in Rexchip is shown as investment securities on its consolidated balance sheets.

For the fiscal year ended March 31, 2009

Omitted since the necessity of disclosure is not high in earnings releases

(Related party transaction)

Omitted since the necessity of disclosure is not high in earnings releases

(Amounts Per Share)

For the year ended March 31, 2008		For the year ended March 31, 2009	
Shareholders' equity per share	¥2,679.57	Shareholders' equity per share	¥1,181.45
Net loss per share	¥ 181.58	Net loss per share	¥1,349.11
Diluted net income per share	—	Diluted net income per share*	—

(yen)

\*Diluted net income per share is not shown because the Company had a net loss per share during the period.

Basis for calculation of net income (loss) per share is as follow:

(Millions of yen)

	For the year ended March 31, 2008	For the year ended March 31, 2009
Net loss	(23,542)	(178,870)
Amount not attributable to common stock	—	—
Net loss attributable to common stock	(23,542)	(178,870)
Average number of shares outstanding during the year (thousand shares)	129,648	132,584
Increase in number of shares outstanding during the year (thousand shares)	—	—
( Stock options (thousand shares) )	(—)	(—)
Securities that could potentially dilute basic EPS in the future that were not included in the fully diluted computation because they would have been anti-dilutive	Stock options (number of options: 31,114)	Stock options (number of options: <u>31,635</u> )

## Appendix (Unaudited)

### 1. Selected Quarterly Consolidated Statements of Operations

(Millions of yen)

	Jan-Mar 2008 (4Q-FY 07)		Apr-Jun 2008 (1Q-FY 08)		Jul-Sep 2008 (2Q-FY 08)		Oct-Dec 2008 (3Q-FY 08)		Jan-Mar 2009 (4Q-FY 08)	
		%		%		%		%		%
Net sales	90,397	100.0	109,221	100.0	113,582	100.0	61,770	100.0	46,476	100.0
Gross profit (loss)	(9,059)	-10.0	(1,018)	-0.9	(8,024)	-7.1	(42,857)	-69.4	(34,179)	-73.5
Selling, general and administrative expenses	16,824	18.6	14,604	13.4	16,460	14.5	15,035	24.3	15,212	32.7
Operating loss	(25,883)	-28.6	(15,622)	-14.3	(24,484)	-21.6	(57,892)	-93.7	(49,391)	-106.3
Loss before income taxes	(31,690)	-35.1	(16,783)	-15.4	(31,707)	-27.9	(71,788)	-116.2	(60,476)	-130.1
Net loss	(29,241)	-32.3	(13,769)	-12.6	(31,873)	-28.1	(72,349)	-117.1	(60,879)	-131.0
EBITDA <sup>[1]</sup>	(5,506)	-6.1	10,047	9.2	(3,992)	-3.5	(42,924)	-69.5	(42,756)	-92.0
Average exchange rate (Yen to a U.S. Dollar)	109.12		102.56		107.70		101.41		91.46	

### 2. Selected Consolidated Financial Data

(Figures in millions of yen otherwise specified)

	Mar 31, 2008 (4Q-FY 07)	Jun 30, 2008 (1Q-FY 08)	Sep 30, 2008 (2Q-FY 08)	Dec 31, 2008 (3Q-FY 08)	Mar 31, 2009 (4Q-FY 08)
Cash and time deposits	97,564	96,922	78,183	207,465	113,847
A/R collection period <sup>[2]</sup>	69 days	76 days	69 days	74 days	104 days
Inventory holding period <sup>[3]</sup>	67 days	59 days	54 days	62 days	74 days
Interest-bearing debt <sup>[4]</sup>	289,061	317,326	302,945	456,073	567,434
Net D/E ratio <sup>[5]</sup>	0.55 times	0.65 times	0.74 times	1.13 times	2.71 times
Shareholders' equity ratio <sup>[6]</sup>	46.1%	44.6 %	41.2 %	27.1 %	17.3 %

### 3. Selected Consolidated Statements of Cash Flows

(Millions of yen)

	Jan-Mar 2008 (4Q-FY 07)	Apr-Jun 2008 (1Q-FY 08)	Jul-Sep 2008 (2Q-FY 08)	Oct-Dec 2008 (3Q-FY 08)	Jan-Mar 2009 (4Q-FY 08)
Net cash provided by (used in) operating activities	(13,883)	(16,024)	26,494	(6,863)	<u>(51,972)</u>
Net cash used in investing activities	(48,902)	(13,906)	(29,417)	(14,281)	<u>(17,888)</u>
Net cash provided by (used in) financing activities	64,701	28,334	(14,367)	153,097	(26,720)
Free cash flow	(62,785)	(29,930)	(2,923)	(21,144)	<u>(69,860)</u>

<sup>[1]</sup> EBITDA = Income (loss) before income taxes + Interest expense + depreciation and amortization

<sup>[2]</sup> A/R collection period (days) = Accounts receivable, trade / Average monthly net sales x 30 days

<sup>[3]</sup> Inventory holding period (days) = Inventories / Average monthly cost of sales x 30 days

<sup>[4]</sup> Interest-bearing debt = Bond + Short-term debt + Long-term debt + Obligation under capital leases

<sup>[5]</sup> Net D/E ratio (times) = (Interest-bearing debt – Cash and time deposits) / shareholders' equity\*

<sup>[6]</sup> Shareholders' equity ratio (%) = Shareholders' equity\* / Total Assets x 100

\* Shareholders' equity = Total net assets – Share subscription rights – Minority interests