INFINEON TECHNOLOGIES AG
Form 20-F/A
April 17, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2
TO
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report .

Commission file number: 1-15000
Infineon Technologies AG
(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

Am Campeon 1-12,
D-85579 Neubiberg
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing one ordinary share, notional value 2.00 per share	New York Stock Exchange
Ordinary shares, notional value 2.00 per share*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report. 749,728,635 ordinary shares, notional value 2.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer **þ** Accelerated filer **o** Non-accelerated filer **o**

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

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Explanatory Note

This Amendment No. 2 contains the separate audited consolidated financial statements of Inotera Memories, Inc. (Inotera) as of December 31, 2006 and 2007, and for each of the years in the three-year period ended December 31, 2007, along with the related audit report thereon of KPMG Certified Public Accountants, independent registered public accounting firm. Inotera met the significance test under Rule 3-09 of Regulation S-X for Infineon Technologies financial year ended September 30, 2007.

Item 18. *Financial Statements*

Reference is made to pages F-1 through F-71, incorporated herein by reference, of the Annual Report on Form 20-F of Infineon Technologies filed on December 7, 2007, which include the following consolidated financial statements of Infineon Technologies.

Reports of Independent Registered Public Accounting Firm.

Consolidated Statements of Operations for the years ended September 30, 2005, 2006 and 2007.

Consolidated Balance Sheets as of September 30, 2006 and 2007.

Consolidated Statements of Shareholders Equity for the years ended September 30, 2005, 2006 and 2007.

Consolidated Statements of Cash Flows for the years ended September 30, 2005, 2006 and 2007.

Notes to the Consolidated Financial Statements.

Separate balance sheets for Inotera as of December 31, 2006 and 2007 and the related statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007, including the report thereon of independent registered public accounting firm KPMG Certified Public Accountants, are filed herewith pursuant to Rule 3-09 of Regulation S-X.

Financial schedules have been omitted as they are either not required or the required information is included in the consolidated financial statements.

Item 19. *Exhibits*

The Exhibit Index is hereby incorporated herein by reference.

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INOTERA MEMORIES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2006 AND 2007
(With Report of Independent Registered Public Accounting Firm)

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Inotera Memories, Inc.

We have audited the accompanying balance sheets of Inotera Memories, Inc. (the Company) as of December 31, 2006 and 2007, and the related statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inotera Memories, Inc. as of December 31, 2006 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of China.

As more fully described in Note 3 to the financial statements, effective January 1, 2006, the Company adopted the Republic of China Statement of Financial Accounting Standard (SFAS) No. 34 Financial Instruments: Recognition and Measurement , SFAS No. 36 Financial Instruments: Disclosure and Presentation and newly amended SFAS No. 1 Conceptual Framework for Financial Accounting and Preparation of Financial Statements .

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As more fully described in Note 24(n), the Company did not have a minimum current ratio of 1:1 and a maximum debt to equity ratio of 1:1 at December 31, 2007, as required by its syndicated bank loan agreements. On March 31, 2008 the syndicated banks agreed to waive these two covenant requirements for 2007. The potential consequences if the Company is in violation of any of its covenants pursuant to its syndicated bank loan agreements in 2008 are described in Note 24(n).

Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 24 to the financial statements.

The accompanying financial statements as of and for the year ended December 31, 2007, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in Note 2(a) to the accompanying financial statements.

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 14, 2008

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INOTERA MEMORIES, INC.
BALANCE SHEETS
DECEMBER 31, 2006 AND 2007
(Expressed in thousands of New Taiwan Dollars and U.S. Dollars)

	December 31,		
	2006	2007	
	NTD	NTD	USD
Assets			
Current assets:			
Cash and cash equivalents (notes 4 and 16)	$ 21,704,854	6,023,517	185,739
Current portion of lease receivables (note 7)	4,912	5,209	160
Accounts receivable related parties (notes 16 and 17)	8,332,816	6,649,818	205,051
Other receivables	95,125	210,326	6,486
Inventories, net (note 6)	3,927,461	4,738,770	146,123
Prepayments	671,298	965,788	29,781
Deferred income tax assets current, net (note 13)	79,690	143,008	4,410
Financial assets reported at fair value through profit or loss (notes 5 and 16)	1,654,219	793,963	24,482
Total current assets	36,470,375	19,530,399	602,232
Property, plant and equipment (notes 7, 8, 9, 11, 17 and 18):			
Land	2,801,467	4,516,307	139,263
Buildings	2,523,511	5,416,606	167,025
Machinery and equipment	68,124,934	135,166,527	4,167,947
Vehicles	4,915	5,485	169
Leased assets	135,996	135,996	4,194
Miscellaneous equipment	6,942,453	15,546,736	479,394
	80,533,276	160,787,657	4,957,992
Less: accumulated depreciation	(21,743,083)	(42,245,250)	(1,302,660)
Construction in progress	41,597,511	5,326,948	164,260
Prepayment on land purchase	22,772		
Net property, plant and equipment	100,410,476	123,869,355	3,819,592
Other assets:			
Refundable deposits	79,219	28,432	877
Deferred charges	118,630	213,480	6,583
Lease receivables long-term (note 7)	333,876	328,668	10,134
Deferred income tax assets non-current, net (note 13)	270,624	165,469	5,102
Total other assets	802,349	736,049	22,696
Total Assets	**$ 137,683,200**	**144,135,803**	**4,444,520**

Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable (note 16)	21,110,779	7,798,323	240,466
Accounts payable related parties (notes 16 and 17)	405,917	112,755	3,477
Income tax payable	133,571	56,892	1,754
Accrued expenses (note 12)	941,403	1,404,049	43,295
Other payables related parties (notes 9 and 17)	65,539	69,867	2,154
Current portion of long-term loans (notes 11 and 16)	10,299,107	10,258,408	316,325
Other current liabilities	14,962	28,604	882
Current portion of lease payables (note 9)	3,544	3,705	114
Total current liabilities	32,974,822	19,732,603	608,467
Long-term liabilities:			
Bonds payable (notes 10 and 16)	6,000,000	20,000,000	616,713
Long-term loans (notes 11 and 16)	19,392,164	32,358,022	997,781
Lease payable long-term (note 9)	127,422	123,717	3,815
Total long-term liabilities	25,519,586	52,481,739	1,618,309
Other liabilities:			
Accrued pension liabilities (note 12)	46,746	39,347	1,213
Guarantee deposits	4,506	4,573	140
Total other liabilities	51,252	43,920	1,353
Total liabilities	58,545,660	72,258,262	2,228,129
Stockholders equity (note 14):			
Common stock	31,109,540	33,375,120	1,029,144
Capital surplus	29,317,836	29,317,836	904,034
Legal reserve	684,665	2,271,456	70,042
Special reserve	542,605	542,605	16,732
Unappropriated earnings	17,482,894	6,370,524	196,439
Total stockholders equity	79,137,540	71,877,541	2,216,391
Commitments and contingencies (note 19)			
Total Liabilities and Stockholders Equity	**$ 137,683,200**	**144,135,803**	**4,444,520**

See accompanying notes to financial statements.

INOTERA MEMORIES, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(Expressed in thousands of New Taiwan Dollars and U.S. Dollars, except for earnings per share)

	For the years ended December 31,			
	2005	2006	2007	
	NTD	NTD	NTD	USD
Operating revenues				
Sales revenue	$ 23,044,929	40,866,245	46,018,852	1,419,021
Sales returns	(3,133)	(7,049)	(37,590)	(1,159)
Sales allowances	(9,593)	(77,486)	(116,714)	(3,599)
Net operating revenues (note 17)	23,032,203	40,781,710	45,864,548	1,414,263
Cost of goods sold (notes 9 and 17)	(16,350,746)	(24,316,647)	(41,822,143)	(1,289,613)
Gross profit	6,681,457	16,465,063	4,042,405	124,650
Operating expenses:				
Administrative and general expenses	(283,853)	(321,675)	(391,227)	(12,064)
Research and development expenses	(658,134)	(254,923)	(487,131)	(15,021)
Total operating expenses	(941,987)	(576,598)	(878,358)	(27,085)
Operating income	5,739,470	15,888,465	3,164,047	97,565
Non-operating income and gains:				
Interest income (note 7)	309,821	981,826	306,983	9,466
Gain on disposal of investment	4,532			
Foreign exchange gain, net	676,797	796,785		
Valuation gain on financial instruments, net (note 5)		450,596	501,458	15,463
Others (notes 7, 8 and 17)	306,754	114,515	48,620	1,499
Total non-operating income and gains	1,297,904	2,343,722	857,061	26,428
Non-operating expenses and losses:				
Interest expenses (notes 8 and 9)	(760,618)	(1,655,085)	(1,709,072)	(52,700)
Foreign exchange loss, net			(184,664)	(5,694)
		(18,849)	(1,027,988)	(31,699)

Loss on inventory obsolescence and devaluation (note 6)				
Impairment loss (note 8)		(32,107)	(24,630)	(759)
Others (note 17)	(9,637)	(33,823)	(30,537)	(942)
Total non-operating expenses and losses	(770,255)	(1,739,864)	(2,976,891)	(91,794)
Income before income tax	6,267,119	16,492,323	1,044,217	32,199
Income tax expense (note 13)	(337,361)	(386,499)	(117,368)	(3,619)
Income before cumulative effect of change in accounting principle	5,929,758	16,105,824	926,849	28,580
Cumulative effect of change in accounting principle (net of income tax benefit of NT$79,305) (note 3)		(237,915)		
Net income	**$ 5,929,758**	**15,867,909**	**926,849**	**28,580**
Earnings per share retroactively adjusted (note 15)				
Before tax				
Income before cumulative effect of change in accounting principle	$ 2.33	5.26	0.31	0.01
Cumulative effect of change in accounting principle		(0.10)		
Basic earnings per share	**$ 2.33**	**5.16**	**0.31**	**0.01**
After tax				
Income before cumulative effect of change in accounting principle	$ 2.20	5.14	0.28	0.01
Cumulative effect of change in accounting principle		(0.08)		
Basic earnings per share	**$ 2.20**	**5.06**	**0.28**	**0.01**

See accompanying notes to financial statements.

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INOTERA MEMORIES, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(Expressed in thousands of New Taiwan Dollars and U.S. Dollars)

					Retained earnings		
		Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total
Balance as of January 1, 2005	NTD	$ 24,976,600	15,548,660	1,559		915,333	41,442,152
Appropriation and distribution:							
Appropriation for legal reserve				90,130		(90,130)	
Appropriation for special reserve					542,605	(542,605)	
Remuneration to directors and supervisors						(2,686)	(2,686)
Bonus to employees		8,057				(16,114)	(8,057)
Cash and stock dividends to stockholders		124,883				(249,766)	(124,883)
Net income for the year ended December 31, 2005						5,929,758	5,929,758
Balance as of December 31, 2005	NTD	25,109,540	15,548,660	91,689	542,605	5,943,790	47,236,284
Increase in capital		6,000,000	13,769,176				19,769,176
Appropriation and distribution:							
Legal reserve				592,976		(592,976)	
Remuneration to directors and supervisors						(3,736)	(3,736)
Bonus to employees						(298,866)	(298,866)
Cash dividends to stockholders						(3,433,227)	(3,433,227)
Net income for the year ended December 31, 2006						15,867,909	15,867,909

Balance as of December 31, 2006	NTD	31,109,540	29,317,836	684,665	542,605	17,482,894	79,137,540
Appropriation and distribution:							
Legal reserve				1,586,791		(1,586,791)	
Remuneration to directors and supervisors						(10,453)	(10,453)
Bonus to employees		399,008				(798,018)	(399,010)
Cash and stock dividends to stockholders		1,866,572				(9,643,957)	(7,777,385)
Net income for the year ended December 31, 2007						926,849	926,849
Balance as of December 31, 2007	**NTD**	**$ 33,375,120**	**29,317,836**	**2,271,456**	**542,605**	**6,370,524**	**71,877,541**
Balance as of December 31, 2006	USD	$ 959,283	904,034	21,112	16,732	539,096	2,440,257
Appropriation and distribution:							
Legal reserve				48,930		(48,930)	
Remuneration to directors and supervisors						(322)	(322)
Bonus to employees		12,304				(24,607)	(12,303)
Cash and stock dividends to stockholders		57,557				(297,378)	(239,821)
Net income for the year ended December 31, 2007						28,580	28,580
Balance as of December 31, 2007	**USD**	**$ 1,029,144**	**904,034**	**70,042**	**16,732**	**196,439**	**2,216,391**

See accompanying notes to financial statements.

INOTERA MEMORIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(Expressed in thousands of New Taiwan Dollars and U.S. Dollars)

	For the years ended December 31,			
	2005	2006	2007	
	NTD	NTD	NTD	USD
Cash flows from operating activities:				
Net income	$ 5,929,758	15,867,909	926,849	28,580
Adjustments to reconcile net income to net cash from operating activities				
Depreciation	8,099,551	11,633,379	20,524,929	632,899
Amortization of deferred charges	6,995	8,454	12,120	374
Amortization of deferred charges bank loan syndication and underwriter s charge on debt securities offering	29,170	29,012	56,417	1,740
Loss on inventory obsolescence and devaluation		18,849	1,027,988	31,699
Loss (gain) on disposal of property, plant and equipment		1,590	(833)	(26)
Impairment loss		32,107	24,630	759
Unrealized foreign currency exchange gain, net	(280,665)	(260,716)	(6,300)	(194)
Gain on disposal of short-term investments	(4,532)			
Amortization of deferred forward exchange premium	(287,851)			
Realized interest income from capital lease	(10,133)	(20,066)	(19,786)	(610)
Realized interest expense from capital lease	1,513	5,920	5,766	178
Cumulative effect of change in accounting principle for financial assets		237,915		
Valuation gain on financial instruments, net		(450,596)	(501,458)	(15,463)
(Increase) decrease in accounts receivable related parties	(2,554,838)	(3,310,868)	1,700,773	52,444
Net cash (paid on purchase) received from settlement on maturity of financial assets		(252,832)	1,361,714	41,989
Decrease (increase) in other receivables	106,119	(44,427)	(115,201)	(3,552)
Increase in inventories	(1,358,055)	(460,725)	(1,839,297)	(56,716)
Decrease (increase) in prepayments	395,049	(53,855)	(294,490)	(9,081)
Increase (decrease) in accounts payable	804,060	(266,255)	811,206	25,014
(Decrease) increase in accounts payable related parties	(71,320)	350,705	(293,162)	(9,040)
Increase (decrease) in income tax payable	124,357	9,269	(76,679)	(1,476)
Increase in accrued expenses	407,478	85,494	463,566	14,294
(Decrease) increase in other payables related parties	(198,268)	(20,714)	3,256	100
Increase in other current liabilities	5,255	874	13,222	408
Increase (decrease) in accrued pension liabilities	19,839	(3,848)	(7,399)	(228)

Decrease in deferred income tax assets, net	185,198	118,154	41,837	402
Net cash provided by operating activities	11,348,680	23,254,729	23,819,668	734,494
Cash flows from investing activities:				
Decrease in short-term investments	4,532			
Decrease in lease receivable	10,291	26,756	24,698	762
Proceeds from disposal of idle assets and property, plant and equipment		600	833	26
Purchases of property, plant and equipment	(28,313,919)	(28,446,514)	(58,192,125)	(1,794,392)
Increase in deferred charges	(52,728)	(22,000)	(163,387)	(5,038)
Decrease (increase) in refundable deposits	18,117	(50,675)	50,787	1,566
Net cash used in investing activities	(28,333,707)	(28,491,833)	(58,279,194)	(1,797,076)
Cash flows from financing activities:				
Decrease in short-term loans	(158,200)	(2,323,300)		
Repayment of long-term loans		(2,553,123)	(10,358,972)	(319,426)
Proceeds from long-term loans	17,285,096		23,300,000	718,471
Increase in bonds payable		6,000,000	14,000,000	431,699
Decrease in lease payables	(3,152)	(9,311)	(9,310)	(287)
Proceeds from capital increase		19,769,176		
Increase in guarantee deposits	1,114	2,815	67	2
Cash dividend to stockholders	(124,611)	(3,433,498)	(7,776,965)	(239,808)
Bonus to employees	(8,057)	(298,866)	(399,010)	(12,303)
Remuneration to directors and supervisors	(2,686)	(3,736)	(10,453)	(322)
Net cash provided by financing activities	16,989,504	17,150,157	18,745,357	578,026
Effect of foreign currency exchange translation on cash and cash equivalents	(162,098)	(30,767)	32,832	1,012
(Decrease) increase in cash and cash equivalents	(157,621)	11,882,286	(15,681,337)	(483,544)
Cash and cash equivalents at beginning of year	9,980,189	9,822,568	21,704,854	669,283
Cash and cash equivalents at end of year	**$ 9,822,568**	**21,704,854**	**6,023,517**	**185,739**
Supplemental cash flow information:				
Income tax paid	**$ 27,860**	**259,071**	**152,211**	**4,694**
Interest paid (excluding capitalized interest)	**$ 972,201**	**1,749,036**	**1,406,914**	**43,383**
Investing activities affecting both cash and non-cash items:				
Acquisition of property, plant, and equipment	$ 22,928,454	45,915,339	44,008,438	1,357,029
(Decrease) increase in payables to equipment suppliers	5,385,465	(17,468,825)	14,183,687	437,363

Cash paid	$ 28,313,919	28,446,514	58,192,125	1,794,392
Non-cash investing and financing activities:				
Current portion of lease receivables	$ 6,690	4,912	5,209	160
Current portion of lease payables	$ 3,390	3,544	3,705	114
Current portion of long-term loans	$ 6,431,636	10,299,107	10,258,408	316,325

See accompanying notes to financial statements.

INOTERA MEMORIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2006 AND 2007
(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars, except for per share information or unless otherwise specified)

(1) Organization and Principal Activities

Inotera Memories, Inc. (the Company) was legally established with the approval by the Taiwan Ministry of Economic Affairs on January 23, 2003. The Company s main operating activities are manufacturing and selling semiconductor products. In January 2006, the Company was granted approval of its application to list its shares on the Taiwan Stock Exchange (TSE). The Company s shares were initially listed on the TSE on March 17, 2006. On May 16, 2006, the Company listed its shares in the form of global depositary shares (GDSs) on the Luxembourg Stock Exchange (LSE).

As of December 31, 2006 and 2007, the Company had 2,898 and 3,421 employees, respectively.

(2) Summary of Significant Accounting Policies and Basis of Presentation

The accompanying financial statements are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Entity Accounting Act, Regulation on Handling Business Entity Accounting, and accounting principles generally accepted in the Republic of China (ROC).

The significant accounting policies followed by the Company are as follows:

(a) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan Dollars. Translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers, using the Federal Reserve exchange rate on December 31, 2007, of NT$32.43 to US$1 uniformly for all the financial statements accounts. The convenience translations should not be construed as representations that the New Taiwan Dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(b) Foreign currency transactions and translation

The Company s reporting currency is New Taiwan Dollar. Foreign currency transactions during the period are translated at the exchange rates on the transaction dates. Foreign currency-denominated assets and liabilities are translated into New Taiwan Dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses.

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INOTERA MEMORIES, INC.
NOTES TO FINANCIAL STATEMENTS
(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars, except for per share information or unless otherwise specified)

(c) Basis for classifying assets and liabilities as current or non-current

Current assets include cash, cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. Otherwise, other assets are classified as non-current. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. Otherwise, other liabilities are classified as non-current.

(d) Asset impairment

In accordance with ROC SFAS No. 35 Impairment of Assets , the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(e) Cash equivalents

Government and corporate bonds with agreements to repurchase, commercial paper and corporate notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

(f) Financial assets reported at fair value through profit or loss

Effective January 1, 2006, the Company adopted the ROC SFAS No. 34 Financial Instruments: Recognition and Measurement see note 3. In accordance with the SFAS No. 34, the Company classifies its financial assets and financial liabilities as financial assets or financial liabilities reported at fair value through profit or loss only as it does not have any other types of financial assets or financial liabilities.

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the net effect of the fair market valuation of derivatives is positive, the derivative is recognized as a financial asset; but when the net effect is negative, the derivative is recognized as a financial liability.

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Prior to January 1, 2006, some of the investments held by the Company were classified, according to the Company s intention for holding them, as short-term investments, including open-end mutual funds. These short-term investments were evaluated at the lower of cost or market value. Market value of open-end mutual funds was determined based on the net asset value of the mutual funds at the balance sheet date. The aggregate cost of these short-term investments was determined by the weighted-average method. Devaluation losses resulting from a decline in market value were recognized in the income statement.

Prior to January 1, 2006, interest rate swaps and foreign currency forward contracts were accounted for as follows:

(i) Foreign exchange forward contracts

Foreign exchange forward contracts, which were entered into for the purpose of hedging the risks of exchange rate fluctuation on foreign currency receivables and payables, were translated into New Taiwan Dollars using spot rates on the balance sheet date. The resulting translation difference was recorded as an exchange gain or loss in the accompanying statements of income. The difference between the forward rate and spot rate at the contract date was amortized over the contract period.

(ii) Interest rate swaps

Because there is no physical transfer of principal, only memo entries of notional principals were made for interest rate swaps. For trading swaps, the differences between the present and market values of interest receivables or payables arising thereon were reported as unrealized gains or losses on derivative instruments. For non-trading swaps, interest was accrued based on contract terms, with interest revenue and expense recognized in the same period that the hedged items affect earnings.

(g) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value. The market value of raw materials and supplies are determined on the basis of replacement cost. The market value of finished goods and work in process are determined on the basis of net realizable value.

(h) Property, plant and equipment / Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Regular maintenance and repairs are expensed when incurred; major addition, improvement and replacement expenditures are capitalized.

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Depreciation of property, plant and equipment is provided over their estimated useful lives by using the straight-line method. Assets still in service after reaching the end of their estimated useful lives are depreciated based on the residual value over their re-estimated useful lives. The useful lives of the assets are as follows:

(i) Buildings: 8 to 50 years.
(ii) Vehicles: 5 years.
(iii) Machinery and equipment: 3 to 5 years.
(iv) Leased assets: 23.7 years.
(v) Miscellaneous equipment: 3 to 15 years.

Gains or losses on disposal of property, plant and equipment are recorded as non-operating income or expenses.

(i) Leases

A lease is deemed to be a capital lease if it conforms to any one of the following classification criteria:

(i) the lease transfers ownership of the leased assets to the lessee by the end of the lease term;

(ii) the lease contains a bargain purchase option;

(iii) the lease term is equal to 75% of or more of the total estimated economic life of the leased assets; this criterion should not be applied to leases in which the leased asset has been used for more than 75% of its estimated economic life before the lease begins; or

(iv) the present value of the rental plus the bargain purchase price or the guaranteed residual value is at least 90% of the fair market value of the leased assets at the inception date of the lease.

For the lessor, a capital lease must also conform to any one of the four classification criteria specified above and both of the following two further criteria:

(i) collectibility of the lease payments is reasonably predictable; and

(ii) no important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

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Under a capital lease, the Company, as the lessee, capitalizes the leased assets based on (a) the present value of all future installment rental payments (minus executory cost born by lessor) plus bargain purchase price or lessee s guaranteed residual value or (b) the fair market value of leased assets at the lease inception date, whichever is lower. The depreciation period is restricted to the lease term, rather than the estimated useful life of the assets, unless the lease provides for transfer of title or includes a bargain purchase option.

Under a capital lease, the Company, as the lessor, records all installments plus bargain purchase price or guaranteed residual value as the lease receivables. The implicit interest rate is used to calculate the present value of lease receivables as the cost of leased assets transferred. The difference between the total amount of lease receivables and the cost of leased assets transferred is recognized as unrealized interest income and is then recognized as realized interest income using the interest method over the lease term.

(j) Employee retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (the Plan) covering full-time employees in the Republic of China. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on years of service and the average salary for the last six months before the employee s retirement. Each employee gets 2 months salary for each service year for the first 15 years, and 1 month s salary for each service year thereafter. A lump-sum retirement benefit is paid through the retirement fund.

Starting from July 1, 2005, the enforcement of the newly enacted Labor Pension Act (the New Act) stipulates those employees covered by the defined contribution plan as follows:

(i) employees who were covered by the Plan and opt to be subject to the pension mechanism under the New Act;

(ii) employees who are employed after the enforcement date of the New Act.

In accordance with the New Act, the Company contributes to an individual labor pension fund account per month at the rate of not less than 6% of the worker s monthly wages. The Plan has not been modified to conform to the New Act. For those provisions of the New Act not currently included in the Plan, the Company follows the New Act.

The Company adopts the SFAS No. 18 Accounting for Pensions for its defined benefit retirement plan. SFAS No. 18 requires an actuarial calculation of the Company s pension obligation at the end of each year. Based on the actuarial calculation, the Company recognizes a minimum pension liability and net periodic pension costs.

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(k) Employee stock option plans

Employee stock option plans with a grant date on or after January 1, 2004 are accounted for under the interpretations issued by the Accounting Research and Development Foundation (ARDF). The Company adopted the intrinsic value method, under which, compensation cost is recognized on a straight-line basis over the vesting period.

(l) Deferred charges

(i) Bank charges related to syndicated loans are deferred and amortized over the terms of the loans.

(ii) Power line installation costs and royalty paid to the Industrial Technology Research Institute are deferred and amortized over the estimated useful lives or the agreement terms.

(iii) Underwriter handling charges on bonds payable are deferred and amortized over the term of the bond.

(m) Revenue recognition

Revenue is generally recognized when it is realized or realizable and earned when all of the following criteria are met:

(i) persuasive evidence of an arrangement exists,

(ii) shipment has occurred or services have been rendered,

(iii) the seller s price to the buyer is fixed or determinable, and

(iv) collectibility is reasonably assured.

Rental income is recognized when services are provided.

(n) Income tax

The Company has adopted the SFAS No. 22 Income Taxes . Income taxes are accounted for using the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects of taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

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The classification of deferred income tax assets and liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of the asset or liability.

The 10% surtax on current year s undistributed earnings, computed according to the ROC Income Tax Law, is charged to current income tax expense in the year when the shareholders decided not to distribute those earnings during their meeting.

(o) Earnings per share

Earnings per common share are computed by dividing net income by weighted-average number of outstanding shares during the year.

The Company has issued employee stock options, which are potential common shares. Both basic and diluted earnings per share are disclosed if those potential common shares are dilutive, otherwise, only basic earnings per share are disclosed. Diluted earnings per share are computed by taking basic earnings per share into consideration, plus the additional common shares that would have been outstanding if the potentially dilutive shares are issued.

The number of outstanding shares is retroactively adjusted for common stock issued through the distribution of stock dividends out of unappropriated earnings and capital surplus.

(3) Reasons for and Cumulative Effect of Accounting Principle Change

(a) As the Company adopted the SFAS No. 34 Financial Instruments: Recognition and Measurement , SFAS No. 36 Financial Instruments: Disclosure and Presentation , and newly amended SFAS No. 1 Conceptual Framework for Financial Accounting and Preparation of Financial Statements effective January 1, 2006, the net income and earnings per share (after tax) for the year ended December 31, 2006, were affected as follows:

Nature of change in accounting principle	**Decrease in net income**	**Decrease in earnings per share**
Accounting for financial instruments	$ 27,600	0.01

The financial instruments are recorded in accordance with the SFAS No. 34 and No. 36. The effects of the adoption of these new accounting principles are discussed further in note 5 to the financial statements.

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(b) The Company adopted SFAS No. 34 Financial Instruments: Recognition and Measurement effective January 1, 2006. Accordingly, the Company measured and reclassified the financial assets based on fair value at the beginning of financial year 2006. As of January 1, 2006, the cumulative effect of this change in accounting principle amounted to NT$237,915 net of tax benefit.

(4) Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2006 and 2007, consisted of the following:

	December 31,		
	2006	2007	
	NTD	NTD	USD
Cash on hand petty cash	$ 230	210	6
Cash in bank checking account	19,386	20,644	637
Cash in bank demand deposit account	287	230	7
Cash in bank foreign currency account	1,523,104	3,238,712	99,868
Time deposit	500,000		
Time deposit foreign currency	3,944,973	2,701,721	83,309
Cash equivalents commercial paper	360,385		
Cash equivalents repurchase agreements collateralized by corporate bonds	15,356,489	62,000	1,912
	$ 21,704,854	**6,023,517**	**185,739**

(5) Financial Assets Reported at Fair Value through Profit or Loss Current

Financial assets reported at fair value with changes in fair value recorded through profit or loss as of December 31, 2006 and 2007, consisted of the following:

	December 31,				
	2006		2007		
	Carrying amount NTD	Notional amount USD	Carrying amount NTD	Carrying amount USD	Notional amount USD
For trading purposes Financial assets					
Foreign exchange forward contracts	$ 941,480	520,000	776,995	23,959	334,000
Interest rate swaps	52,255	92,857	16,968	523	55,714
Mutual bond fund	660,484				
	$ 1,654,219		**793,963**	**24,482**	

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(a) The Company entered into foreign exchange forward contracts with several banks to hedge the risk from foreign currency exchange rate fluctuations for foreign currency long-term loans. If the Company had continued adopting the accounting treatment for forward contracts under the old SFAS No. 14, which was effective prior to January 1, 2006, amortization of deferred forward exchange premium and unrealized foreign currency exchange gain would have amounted to NT$267,216, and net income would have decreased by NT$38,552 (after tax) for the year ended December 31, 2006.

(b) The Company entered into several interest rate swaps agreements (IRS) with banks to hedge the risk from fluctuations of interest rates for foreign long-term loans. If the Company had continued adopting the old accounting treatment for IRS which was effective prior to January 1, 2006, there would have been no gain or loss based on mark-to-market revaluation of IRS, and net income would have increased by NT$10,214 (after tax) for the year ended December 31, 2006.

(c) In 2006, the Company purchased 197,396.36 units of a mutual bond fund for NT$659,500; the fund was disposed in 2007.

(d) For the years ended December 31, 2006 and 2007, the Company recognized net gain on valuation of financial instruments as follows:

	December 31,					
	2006		2007			
	Realized NTD	Unrealized NTD	Realized NTD	Realized USD	Unrealized NTD	Unrealized USD
Foreign exchange forward contracts	$ 217,335	215,813	338,356	10,433	171,774	5,297
Interest rate swaps	2,846	13,618	9,687	299	(24,836)	(766)
Mutual bond fund		984	6,477	200		
	$ 220,181	**230,415**	**354,520**	**10,932**	**146,938**	**4,531**

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INOTERA MEMORIES, INC.
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(6) Inventories, net

As of December 31, 2006 and 2007, inventories consisted of the following:

	December 31,		
	2006	2007	
	NTD	NTD	USD
Raw materials	$ 736,290	944,318	29,119
Supplies	579,913	1,023,301	31,554
Work in process	2,624,819	3,811,242	117,522
Finished goods	5,288	5,228	161
Materials and supplies in transit		1,518	47
	3,946,310	5,785,607	178,403
Less: allowance for inventory obsolescence and devaluation	(18,849)	(1,046,837)	(32,280)
	$ 3,927,461	**4,738,770**	**146,123**

(7) Lease Receivables

(a) The Company signed a long-term lease agreement with Nanya Technology Corp. (NTC) to lease out a portion of the building and land (including supplemental equipment) located at No. 667, Fuhsing 3rd Road, Hwa-Ya Technology Park, Kueishan Valley, Taoyuan County. The lease took effect on July 1, 2005, and remains effective until December 31, 2034 (including the period when the lease is automatically extended), a total of 354 months. The lease agreement for the building is treated as a capital lease because the present value of the periodic rental payments at inception date was at least 90% of the market value of the leased assets. The rental for the land is treated as an operating lease. The monthly rentals for the lease of building and land were NT$2,058 and $310, respectively.

(b) The initial total amount of lease receivables for the capital lease of the building was NT$728,587; the implicit interest rate was 5.88%. The cost of leased assets transferred was NT$345,637 (including the net book value of the building and miscellaneous equipment of NT$277,372 and NT$68,265, respectively). The difference between the total amount of lease receivables and the cost of leased assets transferred amounted to NT$382,950, which was recognized as unrealized interest income and is amortized over the lease period. Interest income (classified under non-operating income and gains interest income) of NT$10,133, NT$20,066 and NT$19,786 was recognized for the years ended December 31, 2005, 2006 and 2007, respectively.

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(c) The details of lease receivables as of December 31, 2006 and 2007, were as follows:

	December 31,					
	2006		2007			
	Current NTD	Non-current NTD	Current NTD	Current USD	Non-current NTD	Non-current USD
Gross lease receivables	$ 24,698	666,842	24,698	761	642,144	19,800
Less: unrealized interest income	(19,786)	(332,966)	(19,489)	(601)	(313,476)	(9,666)
Net lease receivables	**$ 4,912**	**333,876**	**5,209**	**160**	**328,668**	**10,134**

(d) For the years ended December 31, 2005, 2006 and 2007, the rent revenues (classified under non-operating income and gains others) from the operating lease of the land were NTT$1,859, NT$3,719 and NT$3,719, respectively.

(e) As of December 31, 2006 and 2007, the uncollected rent revenues (classified under non-operating income and gains others) were NT$310 and NT$0, respectively.

(f) Future gross lease receivables for leases classified as capital lease or operating lease as of December 31, 2007, were as follows:

	December 31, 2007			
Duration	**Capital lease NTD**	**Capital lease USD**	**Operating lease NTD**	**Operating lease USD**
2008.1.1~2008.12.31	$ 24,698	762	3,719	115
2009.1.1~2009.12.31	24,698	762	3,719	115
2010.1.1~2010.12.31	24,698	762	3,719	115
2011.1.1~2011.12.31	24,698	762	3,719	115
2012.1.1~2034.12.31	568,050	17,516	85,525	2,637
Total	**$ 666,842**	**20,564**	**100,401**	**3,097**

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(8) Property, Plant and Equipment

(a) In March 2005, the Company purchased two parcels of land numbered 350 and 351 located in Hwa-Ya, Kueishan, Taoyuan County, for NT$28,465 from the Land Readjustment Committee in Kueishan, Taoyuan County. As of December 31, 2006, the Company had prepaid NT$22,772 of the total purchase price, which was recorded as a prepayment on land purchase. As of December 31, 2007, the Company has fully paid the total purchase price, completed the process of registering the transfer of ownership, and recorded the land.

(b) In March 2007, the Company has secured the approval to purchase two parcels of land numbered 21 and 33 located in Taoyuan Hi-Tech Industrial Park Tang Wei District, for NT$1,686,190 from the Taoyuan County Government. Asia Pacific Development Co. was engaged by the Taoyuan County Government to handle the sale of the land in this industrial park. As of December 31, 2007, the Company has fully paid the total purchase price, completed the process of registering the transfer of ownership, and recorded the land.

(c) The Company assessed the related assets for any impairment. Fixed assets not used in operation were transferred to idle assets based on book value and were provided with a 100% impairment loss provision thereon. The details of idle assets as of December 31, 2006 and 2007, were as follows:

	December 31,		
	2006	**2007**	
	NTD	**NTD**	**USD**
Original cost of machinery and equipment	$ 52,182	96,329	2,970
Less: accumulated depreciation	(20,075)	(41,485)	(1,279)
accumulated impairment	(32,107)	(54,844)	(1,691)
	$		

For the years ended December 31, 2005, 2006 and 2007, the impairment loss provided for idle assets amounted to NT$0, NT$32,107 and NT$24,630, respectively. Also, the Company sold part of the idle assets and received cash of NT$833, which was accounted for as non-operating income and gains others in 2007.

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(d) Capitalized interests for the years ended December 31, 2005, 2006 and 2007, were as follows:

	For the years ended December 31,			
	2005	2006	2007	
	NTD	NTD	NTD	USD
Total interest expenses	$ 1,156,119	1,776,473	2,152,910	66,386
Capitalized interest (charged to construction in progress)	395,501	121,388	443,838	13,686
Capitalized interest rates	3.20%~5.20%	4.90%~6.12%	3.65%~4.96%	

(e) The property, plant and equipment pledged to secure bank loans are described in note 11.

(9) Leased Assets and Lease Payables

(a) The Company signed a long-term lease agreement with NTC to lease a portion of the building and land located on the land numbered 348, 348-2 and 348-4, Hwa-Ya Section, Kueishan Valley, Taoyuan County. The lease took effect on July 1, 2005, and remains effective until February 28, 2029 (including the period when the agreement can be automatically extended), a total of 284 months. The lease agreement for the building is treated as a capital lease because (a) the present value of the periodic rental payments made at inception date was at least 90% of the market value of the leased assets and (b) the lease term was equal to 75% or more of the total estimated economic life of the leased assets at inception of the lease. The land is treated as an operating lease. The monthly rentals for the leased building and land were NT$775 and NT$357, respectively. Total interest expenses of NT$1,513, NT$5,920 and NT$5,766 were recognized for the years ended December 31, 2005, 2006 and 2007, respectively.

(b) The total present value of lease payables from the capital lease of the building was NT$135,996; the implicit interest rate was 4.46%. The fair value of the leased assets at the beginning of the lease period was NT$135,996.

(c) As of December 31, 2006 and 2007, the details of these lease payables were as follows:

	December 31,		
	2006	2007	
	NTD	NTD	USD
Lease payables	$ 130,966	127,422	3,929
Less: current portion of lease payables	(3,544)	(3,705)	(114)
Lease payables long-term	**$ 127,422**	**123,717**	**3,815**

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(d) For the years ended December 31, 2005, 2006 and 2007, the lease expenses for the operating lease of the land (classified under manufacturing overhead) were NT$2,141, NT$4,282 and NT$4,282, respectively.

(e) As of December 31, 2006 and 2007, the unpaid rent expenses (classified under other payables related parties) were NT$357 and NT$0, respectively.

(f) Future lease payments (excluding interest component) classified as capital lease or operating lease as of December 31, 2007, were as follows:

	December 31, 2007			
	Capital lease		Operating lease	
Duration	NTD	USD	NTD	USD
2008.1.1~2008.12.31	$ 3,705	114	4,282	132
2009.1.1~2009.12.31	3,874	119	4,282	132
2010.1.1~2010.12.31	4,050	125	4,282	132
2011.1.1~2011.12.31	4,235	131	4,282	132
2012.1.1~2029.02.28	111,558	3,440	73,504	2,267
Total	**$ 127,422**	**3,929**	**90,632**	**2,795**

(10) Bonds Payable

Bonds payable as of December 31, 2006 and 2007, consisted of the following:

	December 31,		
	2006	2007	
	NTD	NTD	USD
Domestic unsecured corporate bonds	**$ 6,000,000**	**20,000,000**	**616,713**

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The details of bonds payable were as follows:

	The first domestic unsecured corporate bond in 2006	The second domestic unsecured corporate bond in 2006	The first domestic unsecured corporate bond in 2007	The second domestic unsecured corporate bond in 2007
Principal	NTD 6,000,000	4,000,000	5,000,000	5,000,000
Par value	1,000	1,000	1,000	1,000
Duration	2006.12.19 ~ 2011.12.19	2007.01.05 ~ 2012.01.05	2007.03.30 ~ 2012.03.30	2007.05.09 ~ 2012.05.09
Coupon rate and interest payment	Interest payable annually at 2.20%	Interest payable annually at 2.23%	Interest payable annually at 2.17%	Interest payable annually at 2.20%
Repayment term	Repayable in three annual installments: at the rate of 33%, 33%, and 34%, respectively; starting from 3 years after the issuance date.	Repayable on maturity date	Repayable on maturity date	Repayable on maturity date

(11) Long-term Loans

Long-term loans as of December 31, 2006 and 2007, consisted of the following:

Bank		Duration	Nature	Interest rate	December 31, 2006 NTD
Taiwan Cooperative Bank (the managing bank)	(1)	February 2, 2004 ~ February 2, 2009	Machinery loan	4.6214%~6.3352%	$ 6,030,260
Mega International Commercial Bank (the managing bank)	(2)	November 15, 2004 ~ November 15, 2009	Machinery loan	5.3488%~6.2090%	18,775,296
Mega International Commercial Bank	(2)	November 15, 2004 ~	Machinery loan	2.426%~2.6184%	4,885,715

(the managing bank)	November 15, 2009		
			29,691,271
Less: current portion of long-term loans			(10,299,107)
		$	**19,392,164**

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Bank		Duration	Nature	Interest rate	December 31, 2007 NTD	December 31, 2007 USD
Taiwan Cooperative Bank (the managing bank)	(1)	February 2, 2004~ February 2, 2009	Machinery loan	6.0914%~6.3352%	$ 3,601,173	111,045
Mega International Commercial Bank (the managing bank)	(2)	November 15, 2004~ November 15, 2009	Machinery loan	6.1945%~6.2371%	12,458,112	384,154
Mega International Commercial Bank (the managing bank)	(2)	November 15, 2004~ November 15, 2009	Machinery loan	2.6184%~3.7833%	3,257,145	100,436
Mega International Commercial Bank (the managing bank)	(3)	March 30, 2007~ March 30, 2012	Machinery loan	2.314%~2.9158%	23,300,000	718,471
					42,616,430	1,314,106
Less: current portion of long-term loans					(10,258,408)	(316,325)
					$ 32,358,022	**997,781**

(1) The Company signed a syndicated loan agreement with Taiwan Cooperative Bank, the managing bank of this syndicated loan, and 15 other banks on January 16, 2004. The details of this loan are as follows:
   (a) Credit line: US$260,000.
   (b) Interest rate: USD 3-month or 6-month London Inter-bank Offered Rate (LIBOR) plus margin.
   (c) Duration: 5 years.
   (d) Repayment: The principal is payable in 7 semi-annual installments starting from 24 months after the first drawing date.
   (e) The long-term loan is secured by buildings and machinery. As of December 31, 2006 and 2007, the net book value of the pledged assets amounted to NT$7,657,438 and NT$5,865,960, respectively.
   (f) The Company has issued a promissory note for the syndicated loan.
   (g) As of December 31, 2007, the Company repaid US$149,000.

(2) The Company signed a syndicated loan agreement with Mega International Commercial Bank (formerly I.C.B.C.) the managing bank of the syndicated loan, and 23 other banks on October 14, 2004 (as of December 31, 2007, the actual number of banks had increased to 31). The details of this loan are as follows:
   (a) Credit line: US$672,000 and NT$5,700,000.
   (b) Interest rate for Tranche A: USD 3-month or 6-month London Inter-bank Offered Rate plus margin.

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(c) Interest rate for Tranche B: 90-day or 180-day commercial paper rate in the primary market which appears on Moneyline Telerate, plus margin.

(d) Duration: 5 years.

(e) Repayment: The principal is payable in 7 semi-annual installments starting from 24 months after the first drawing date.

(f) This long-term debt is secured by buildings and machinery. As of December 31, 2006 and 2007, the net book value of the pledged assets amounted to NT$24,272,894 and NT$19,185,045, respectively.

(g) The Company has issued a promissory note for this syndicated loan.

(h) As of December 31, 2007, the Company repaid US$288,000 and NT$2,442,855.

(3) The Company signed a syndicated loan agreement with Mega International Commercial Bank, the managing bank of the syndicated loan, and 24 other banks on March 5, 2007 (as of December 31, 2007, the actual number of banks had decreased to 24 in total). The Company applied for drawings of NT$23,300,000 from March 30, 2007, to December 31, 2007. The details of this loan are as follows:

(a) Credit line: US$400,000 and NT$27,000,000.

(b) Interest rate for Tranche A: USD 3-month or 6-month London Inter-bank Offered Rate plus margin.

(c) Interest rate for Tranche B: 90-day or 180-day commercial paper rate in the secondary market which appears on Moneyline Telerate, plus margin.

(d) Duration: 5 years.

(e) Repayment: The principal is payable in 6 semi-annual installments starting from 30 months after the first drawing date.

(f) The Company has issued a promissory note for this syndicated loan.

(g) The long-term loan is secured by machinery. As of December 31, 2007, the net book value of the pledged assets amounted to NT$30,472,144.

The above three long-term loan agreements contain undertakings and restrictive covenants requiring the Company to maintain certain financial ratios. In addition, the long-term loan agreements require that (i) no material adverse change shall be made to the off-take sales arrangements signed by the Company, Nanya Technology Corporation (NTC), and Qimonda AG (Qimonda), (ii) that NTC and Infineon and/or Qimonda and their affiliates, taken as a whole,

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directly or indirectly, shall remain the largest shareholders of the Company and retain control over the Company.

The Company received confirmation letters from the syndicated banks indicating therein that they had no information regarding the Company's inability to meet two of its financial covenants under the syndicate loan agreements as of December 31, 2007. On March 31, 2008, the syndicated banks agreed to waive those covenant requirements for 2007.

(12) Accrued Pension Liabilities

(a) The pension costs and related information for the years ended December 31, 2005, 2006 and 2007, were as follows:

	For the years ended December 31,			
	2005	2006	2007	
	NTD	NTD	NTD	USD
Balance of the retirement fund	$29,192	44,428	60,692	1,871
Periodic pension costs				
Defined benefit plan cost	35,317	11,372	7,384	228
Defined contribution plan cost	23,482	61,083	89,773	2,768
Accrued pension liabilities defined benefit plan	50,594	46,746	39,347	1,213
Accrued expenses defined contribution plan	12,265	20,099	25,682	792

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(b) The funded status was reconciled to accrued pension liability as of December 31, 2006 and 2007, as follows:

	December 31,		
	2006	2007	
	NTD	NTD	USD
Benefit obligation:			
Vested benefit obligation	$ (3,504)	(5,609)	(173)
Non-vested benefit obligation	(61,546)	(43,444)	(1,340)
Accumulated benefit obligation	(65,050)		