

INFINEON TECHNOLOGIES AG

Form 20-F/A

April 17, 2008

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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
- p 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 No

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 No

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 No

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 Accelerated filer Non-accelerated filer

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

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 No

(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 No

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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)

| | 2006 | December 31, | 2007 | USD |
|---|-----------------------|---------------------|-------------|------------------|
| | NTD | NTD | | |
| 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.

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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 NTD | 2006 NTD | 2007 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 | | (18,849) | (184,664) | (5,694) |
| | | | (1,027,988) | (31,699) |

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| | | | | |
|---|---------------------|--------------------|--------------------|-----------------|
| 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)

| | | Common stock | Capital surplus | Legal reserve | Special reserve | Retained earnings 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.

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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 | USD |
| | NTD | NTD | NTD | |
| 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) |

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| | | | | |
|---|---------------------|---------------------|---------------------|--------------------|
| 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.

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**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 depository 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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**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)**

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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**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)**

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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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)

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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**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)**

(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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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)**

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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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)

- (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 NTD | 2007 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:

| | 2006 | | December 31, | | |
|---------------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------------|---------------------------|
| | Carrying amount NTD | Notional amount USD | Carrying amount NTD | 2007 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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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)

- (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:

| | 2006 | | December 31, | | | |
|------------------------------------|-------------------|-------------------|-----------------|-----------------|-------------------|-------------------|
| | 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.**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)

(6) Inventories, net

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

| | 2006 | December 31, | |
|--|---------------------|---------------------|----------------|
| | NTD | 2007 | 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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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) The details of lease receivables as of December 31, 2006 and 2007, were as follows:

| | 2006 | | December 31, | | 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:

| Duration | December 31, 2007 | | | |
|---------------------|-------------------------|-------------------------|---------------------------|---------------------------|
| | 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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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)

(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:

| | 2006 | December 31, | |
|--|-------------|---------------------|------------|
| | NTD | 2007 | 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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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)

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

| | For the years ended December 31, | | | USD |
|--|----------------------------------|-------------|-------------|--------|
| | 2005 NTD | 2006 NTD | 2007 NTD | |
| 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, | | USD |
|---|-------------------|----------------|--------------|
| | 2006 NTD | 2007 NTD | |
| 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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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)

- (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:

| Duration | December 31, 2007 | | | |
|---------------------|-------------------|--------------|-----------------|--------------|
| | Capital lease | | Operating lease | |
| | 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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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)

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

Less: current portion of
long-term loans

29,691,271
(10,299,107)

\$ 19,392,164

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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)

| Bank | Duration | Nature | Interest rate | December 31, 2007 | |
|---|---|----------------|-----------------|----------------------|----------------|
| | | | | NTD | 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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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) 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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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)

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 | USD |
| | NTD | NTD | |
| 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) | (49,053) | (1,513) |
| Projected compensation increase | (70,459) | (44,833) | (1,382) |
| Projected benefit obligation | (135,509) | (93,886) | (2,895) |
| Fair value of plan assets | 46,963 | 63,142 | 1,947 |
| Funded status | (88,546) | (30,744) | (948) |
| Unamortized pension gain or losses | 41,800 | (8,603) | (265) |
| Accrued pension liability | \$ (46,746) | (39,347) | (1,213) |

(c) As of December 31, 2006 and 2007, the actuarial present value of the vested benefits for the Company's employees in accordance with the retirement benefit plan was approximately NT\$4,112 and NT\$6,292, respectively.

(d) Major assumptions used to determine the pension plan funded status and accrued pension liability for the years ended December 31, 2005, 2006 and 2007, were as follows:

| | For the years ended December 31, | | |
|--|----------------------------------|-------|-------|
| | 2005 | 2006 | 2007 |
| Discount rate | 3.00% | 2.75% | 2.75% |
| Rate of increase in compensation | 3.00% | 3.00% | 3.00% |
| Expected long-term rate of return on plan assets | 3.00% | 2.75% | 2.75% |

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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)

(13) Income Tax

- (a) The Company's earnings are subject to income tax at a statutory rate of 25%. Effective January 1, 2006, the Company also adopted the requirements of the Income Basic Tax Act in calculating the basic tax. For the years ended December 31, 2005, 2006 and 2007, the components of income tax expense were as follows:

| | | For the years ended December 31, | | | |
|--------------------|----------|----------------------------------|-------------------|----------------|--------------|
| | | 2005 | 2006 | 2007 | |
| | | NTD | NTD | NTD | USD |
| Income tax expense | current | \$ 152,162 | \$ 268,345 | 75,531 | 2,329 |
| Income tax expense | deferred | 185,199 | 118,154 | 41,837 | 1,290 |
| Income tax expense | | \$ 337,361 | \$ 386,499 | 117,368 | 3,619 |

- (b) The details of deferred income tax expenses 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 |
| Newly applied and unused investment tax credit | | \$ (2,917,497) | (963,916) | (4,206,348) | (129,705) |
| Difference in depreciation expense for tax purposes and financial accounting purposes | | 1,260 | 1,260 | 747 | 23 |
| Allowance for inventory obsolescence and devaluation | | | (4,712) | (256,997) | (7,925) |
| Decrease in provision for pension expense in excess of tax limit | | (4,634) | 962 | 1,850 | 56 |
| Operating expenses accrued in prior but paid this year | | 2,138 | 14,308 | 622 | 19 |
| Impairment loss provision on idle asset | | | (8,027) | (2,104) | (65) |
| Utilized loss carryforwards | | 47,414 | | | |
| Valuation allowance for deferred income tax assets | | 3,123,694 | 1,220,105 | 4,381,638 | 135,111 |
| (Increase) decrease in unrealized foreign exchange gain or loss | | (67,177) | (152,808) | 20,814 | 642 |
| Increase in valuation gain on financial instruments | | | 10,982 | 64,425 | 1,987 |
| Unrealized valuation gain in 2006 realized in 2007 | | | | 37,190 | 1,147 |
| Deferred income tax expense | | \$ 185,199 | 118,154 | 41,837 | 1,290 |

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INOTERA MEMORIES, INC.
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(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars,
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- (c) The income tax on pretax financial income calculated at a statutory income tax rate of 25% was reconciled with the actual income tax as reported in the accompanying statements of income for the years ended December 31, 2005, 2006 and 2007, as follows:

| | For the years ended December 31, | | | USD |
|---|----------------------------------|----------------|----------------|--------------|
| | 2005 NTD | 2006 NTD | 2007 NTD | |
| Income tax calculated on pretax financial income | \$ 1,566,770 | 4,123,070 | 261,044 | 8,049 |
| Tax effect of tax-free income from company tax holiday | (1,269,720) | (3,967,622) | (207,353) | (6,394) |
| Increase in income tax credit on purchase machinery and equipment | (3,090,641) | (1,188,138) | (4,701,631) | (144,978) |
| Under accrual of income tax in 2005 and 2006 | | 40,089 | 480 | 15 |
| Tax-exempt securities | (985) | (5,147) | (114) | (3) |
| Increase in valuation allowance for deferred income tax assets | 3,123,694 | 1,220,105 | 4,381,638 | 135,111 |
| 10% surtax on undistributed earnings | 7,862 | 160,095 | 382,869 | 11,806 |
| Income tax levied separately | 381 | 4,034 | 303 | 9 |
| Prior year income tax adjustment | | | 132 | 4 |
| Permanent differences | | 13 | | |
| Income tax expense | \$ 337,361 | 386,499 | 117,368 | 3,619 |

- (d) Deferred income tax assets and tax liabilities as of December 31, 2006 and 2007, were as follows:

| | December 31, | | USD |
|--|---------------------|-------------------|----------------|
| | 2006 NTD | 2007 NTD | |
| Current: | | | |
| Deferred income tax assets | \$ 116,396 | 353,151 | 10,890 |
| Valuation allowance for deferred income tax assets | | (115,253) | (3,554) |
| Deferred income tax liabilities | (36,706) | (94,890) | (2,926) |
| Current deferred income tax (liabilities) assets, net | \$ 79,690 | 143,008 | 4,410 |
| Non-current: | | | |
| Deferred income tax assets | \$ 8,086,962 | 12,248,192 | 377,681 |
| Valuation allowance for deferred income tax assets | (7,816,338) | (12,082,723) | (372,579) |
| Non-current deferred income tax assets, net | \$ 270,624 | 165,469 | 5,102 |
| Total deferred income tax assets | \$ 8,203,358 | 12,601,343 | 388,571 |

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| | | | |
|--|--------------|------------|---------|
| Total deferred income tax liabilities | \$ 36,706 | 94,890 | 2,926 |
| Total valuation allowance for deferred income tax assets | \$ 7,816,338 | 12,197,976 | 376,133 |

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

(e) As of December 31, 2006 and 2007, the components of deferred income tax assets or liabilities were as follows:

| | 2006 | December 31, | |
|---|---------------------|---------------------|----------------|
| | NTD | 2007 | USD |
| | | NTD | |
| Deferred income tax assets: | | | |
| Unused investment tax credit | 7,987,293 | 12,193,641 | 375,999 |
| Allowance for inventory obsolescence and devaluation | 4,712 | 261,709 | 8,070 |
| Provision for pension expense in excess of tax limit | 11,687 | 9,837 | 304 |
| Unrealized foreign exchange loss | 108,366 | 81,311 | 2,507 |
| Unrealized loss on valuation of financial instruments | 79,305 | 42,115 | 1,299 |
| Allowance for impairment loss on idle asset | 8,027 | 10,131 | 312 |
| Others | 3,968 | 2,599 | 80 |
| Deferred income tax assets, gross | \$ 8,203,358 | 12,601,343 | 388,571 |
| | | | |
| Deferred income tax liabilities: | | | |
| Unrealized foreign exchange gain | 25,724 | 19,483 | 601 |
| Unrealized valuation gain on financial instruments | 10,982 | 75,407 | 2,325 |
| Deferred income tax liabilities, gross | \$ 36,706 | 94,890 | 2,926 |

(f) Under the ROC Statute for Upgrading Industries, the Company's unused investment tax credits as of December 31, 2007, were as follows:

| Year | Purchasing machinery | | Personnel training and | | Expiry |
|-------------|-----------------------------|----------------|-------------------------------|--------------|---------------|
| | and equipment | | research | | |
| | NTD | USD | NTD | USD | Year |
| 2004 | \$ 3,053,806 | 94,166 | | | 2008 |
| 2005 | 3,843,681 | 118,523 | | | 2009 |
| 2006 | 1,509,467 | 46,545 | 47,635 | 1,469 | 2010 |
| 2007 | 3,739,052 | 115,296 | | | 2011 |
| | \$12,146,006 | 374,530 | 47,635 | 1,469 | |

ROC Income Tax Law allows companies to avail of an investment tax credit on their purchase of certain types of equipment and machinery. Such tax credit can be used to reduce by up to 50% of income tax liability arising from the Company's products produced using such machinery for four years starting from the year of equipment purchase, and can be used to reduce by up to 100% such income tax liability in the fifth year.

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(g) The Company's income tax returns have been examined by the ROC tax authority through 2005.

(h) Undistributed earnings, imputation credit account (ICA) and creditable ratio

| | December 31, | | | |
|-----------------------------------|--------------|------------|-----------|-------------|
| | 2005 | 2006 | 2007 | |
| | NTD | NTD | NTD | USD |
| Undistributed earnings after 1997 | \$ 5,943,790 | 17,482,894 | 6,370,524 | 196,439 |
| Imputation credit account | \$ 27,822 | 146,489 | 104,715 | 3,229 |
| | | | | |
| | | 2005 | 2006 | 2007 |
| | | (Actual) | (Actual) | (Projected) |
| Creditable ratio | | 3.24% | 1.61% | 2.54% |

(i) The stockholders approved a resolution during their meetings on June 29, 2005, and October 18, 2004, to allow the Company to avail of the Income Tax Holiday for investment projects under Article 9 of the Statute for Upgrading Industries. The Company has availed of the five-year Income Tax Holiday commencing from January 1, 2005, June 1, 2005, and January 1, 2006, respectively, for the taxable income that is derived only from the sale of products produced from its Fab-1 Phases 1, 2, and 3 investment project.

On June 29, 2007, the stockholders approved a resolution during their meeting to allow the Company to avail of the Income Tax Holiday for its investment projects, Fab-1 Phase 4 and Fab-2 under Article 9 of the Statute for Upgrading Industries. The related registration has not yet been applied to the Industrial Development Bureau as of December 31, 2007.

| | | Duration of Income Tax Holiday |
|---------------|---------|---------------------------------------|
| Inotera Fab-1 | Phase 1 | January 2005 ~ December 2009 |
| Inotera Fab-1 | Phase 2 | June 2005 ~ May 2010 |
| Inotera Fab-1 | Phase 3 | January 2006 ~ December 2010 |

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**INOTERA MEMORIES, INC.
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(14) Stockholders Equity

(a) Common stock

On October 23, 2007, the board of directors approved to increase the Company's capital through the issuance of 250 million to 300 million Company shares for cash. This capital increase was approved by the Securities and Futures Bureau (SFB) on December 10, 2007. On March 14, 2008, the Company formally notified the SFB of its decision to stop its capital increase plan because it was unable to carry out its capital increase plan three months after receipt of the said SFB approval. For this reason, the SFB formally revoked on March 25, 2008 its approval of the Company's application to increase capital, in accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

During their meeting on June 29, 2007, the stockholders approved a resolution allowing the Company to further increase its capital by NT\$2,265,580, divided into 226,558 thousand Company shares with NT\$10 par value per share, by capitalizing the stock dividends to stockholders of NT\$1,866,572 and bonus to employees of NT\$399,008. This capital increase was approved by the SFB on July 18, 2007. The related registration processes were completed.

On February 6, 2006, the board of directors approved the Initial Public Offering of the Company's shares through the issuance of 200 million Company shares for cash at initial price offering of NT\$33 per share on the Taiwan Stock Exchange (TSE). The Company approved a resolution to set March 14, 2006, as the effective date for issuing new shares. This capital increase was approved by the SFB on April 11, 2006.

Effective May 16, 2006, the Company sold for cash 40 million GDSs, representing 400 million common shares of the Company, at a price of US\$10.53 per share and subsequently listed its GDSs on the LSE. Total issuance of GDSs amounted to US\$421,200, and each GDS offers the holder the right to receive 10 shares of the Company. The offering was approved by the SFB on May 1, 2006. On May 16, 2006, the Company issued 400 million of its shares, and net proceeds were US\$416,114, or NT\$13,169,176 (after deducting commissions and offering expenses payable by the Company). The net proceeds exceeded the par value by NT\$9,169,176, which was recorded as capital surplus—paid-in capital in excess of par value.

As of December 31, 2006 and 2007, the Company's total authorized capital both amounted to NT\$40,000,000, and total issued common stock amounted to NT\$31,109,540 and NT\$33,375,120, respectively, with NT\$10 par value per share.

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(b) Capital surplus

As of December 31, 2005, 2006 and 2007, the capital surplus consisted of the following:

| | December 31, | | | USD |
|--|---------------|-------------|-------------|---------|
| | 2005 NTD | 2006 NTD | 2007 NTD | |
| Paid-in capital in excess of par value | \$ 15,548,660 | 29,317,836 | 29,317,836 | 904,034 |

According to the ROC Company Law, realized capital surplus can be transferred to common stock after deducting the accumulated deficit, if any. Realized capital surplus includes the additional paid-in capital from issuance of common stock in excess of the common stock's par value, donation from others, and additional paid-in capital treasury stock.

(c) Earnings appropriation and distribution

The Company's annual net profit, after providing for income tax and covering the losses of previous years, shall be first set aside for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital. The remaining net profit, if any, after providing for any special reserves or reserving certain undistributed earnings for business purposes shall be distributed as follows:

- (i) 0.1% to 1% as remuneration to directors and supervisors.
- (ii) 1% to 8% as bonus to employees.
- (iii) The remainder as dividends to stockholders, distributed in the form of cash dividends and/or stock dividends.

As it belongs to a highly capital-intensive industry with strong growth potential, the Company adopts a dividend distribution policy which is in line with its capital budget and long-term financial plans. This policy requires that the distribution of cash dividends shall be at least fifty percent (50%) of the Company's total dividend distribution every year.

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Based on the resolutions approved by the stockholders during their meeting on June 7, 2006, and June 29, 2007, the Company's stockholders approved to distribute the Company's 2005 earnings and 2006 earnings as follows:

| | Earnings distribution | | Distribution per share | |
|---|-----------------------|-------------------|------------------------|-------------|
| | 2005 NTD | 2006 NTD | 2005 NTD | 2006 NTD |
| Dividends to stockholders cash | \$ 3,433,227 | 7,777,385 | 1.1036 | 2.5 |
| Dividends to stockholders stock | | 1,866,572 | | 0.6 |
| Bonus to employees cash | 298,866 | 399,010 | | |
| Bonus to employees stock | | 399,008 | | |
| Remuneration to directors and supervisors | 3,736 | 10,453 | | |
| | \$ 3,735,829 | 10,452,428 | 1.1036 | 3.1 |

If the remuneration to directors and supervisors and the employees' bonus were recorded as compensation expense, the non-retroactively adjusted earnings per share in 2005 and 2006 would decrease from NT\$2.36 and NT\$5.43 to NT\$2.24 and NT\$5.15, respectively. Stock dividends distributed to employees represented 1.28% of the outstanding common shares in 2006.

The appropriation of the Company's 2007 earnings is subject to a resolution to be passed and approved by the Company's directors and stockholders during their regular meetings. Following the approval of those resolutions, related information can be obtained from the Market Observation Post System website of the Taiwan Stock Exchange.

(d) Employee stock option plans

On August 29, 2007 and December 13, 2007, 98,000 and 2,000 stock options, respectively, were granted to qualified full-time employees of the Company. Each option entitles the holder to subscribe for one thousand common shares of the Company when exercisable. The exercise price is NT\$31.05 and NT\$26.50 per share, respectively. The options granted are valid for 8 years and exercisable at certain percentages after the second anniversary year from the grant date. 50%, 75% and 100% of these stock options are vested after the second, third and fourth anniversary dates, respectively. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange Corporation on grant date. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options will be adjusted accordingly. Also, the exercise price of the option shall be adjusted according to the related regulation if a cash dividend is paid on the underlying shares.

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(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars,
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The details of these employee stock option plans for the year ended December 31, 2007, were as follows:

| | Number of options (Units) | Weighted-average exercise price (NTD) |
|--|---------------------------------|---|
| Options granted | 100,000 | \$ 30.96 |
| Options forfeited | (4,826) | 31.05 |
| Outstanding at December 31, 2007 | 95,174 | 30.95 |
| Options exercisable at December 31, 2007 | | |
| Weighted-average fair value of options granted | \$ 12.45 | |

As of December 31, 2007, the details of the Company's outstanding stock options accounted for as a compensatory plan were as follows:

| Range of exercise price (NTD) | Options outstanding | | | Options exercisable | |
|----------------------------------|-------------------------|----------------------|-------------------------|-------------------------|-------------------------|
| | Number of options | Remaining periods | Exercise price (NTD) | Number of options | Exercise price (NTD) |
| \$ 31.05 | 93,174 | 7.66 | \$ 31.05 | | |
| \$ 26.50 | 2,000 | 7.95 | \$ 26.50 | | |

Compensation cost recognized under the intrinsic value method was zero because the market price on grant date is equal to the exercise price. Had the Company recognized compensation cost based on the fair value method using the Black-Scholes pricing model, the assumptions and pro forma results of the Company for the year ended December 31, 2007, would have been as follows:

| | For the year ended December 31, 2007 | |
|-------------------------|---|--|
| | The first batch of the stock option plan | The second batch of the stock option plan |
| Assumptions | | |
| Expected dividend yield | % | % |
| Expected volatility | 40.23% | 38.41% |
| Risk-free interest rate | 2.5317% | 2.4820% |
| Expected term | 5.375 years | 5.375 years |

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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)

Pro forma and actual operating results of the Company for the year ended December 31, 2007, were as follows:

| | Employee stock options in 2007 | |
|---|--------------------------------|--------|
| | NTD | USD |
| Net income | | |
| As reported (in thousands) | \$926,849 | 28,580 |
| Pro forma (in thousands) | \$820,516 | 25,301 |
| Basic after income tax earnings per share | | |
| As reported | \$ 0.28 | 0.009 |
| Pro forma | \$ 0.25 | 0.008 |

(15) Earnings Per Share retroactively adjusted

For the years ended December 31, 2005, 2006 and 2007, the weighted-average number of outstanding common shares and the common stock equivalents for calculating the basic EPS consisted of the following:

| | For the year ended December 31, 2005 | | | | |
|--|--|-----------------------------|---|-----------------------|----------------------|
| | Amount | | | Earnings per share | |
| | Income before income tax NTD | Income after income tax NTD | Total weighted-average outstanding shares | Before income tax NTD | After income tax NTD |
| | Basic earnings per share retroactively adjusted | \$ 6,267,119 | 5,929,758 | 2,693,816 | 2.33 |

| | For the year ended December 31, 2006 | | | | |
|---|--|-----------------------------|---|-----------------------|----------------------|
| | Amount | | | Earnings per share | |
| | Income before income tax NTD | Income after income tax NTD | Total weighted-average outstanding shares | Before income tax NTD | After income tax NTD |
| | Basic earnings per share retroactively adjusted | | | | |
| Income before cumulative effect of change in accounting principle | \$ 16,492,323 | 16,105,824 | 3,136,467 | 5.26 | 5.14 |
| Cumulative effect of change in accounting principle | (317,220) | (237,915) | 3,136,467 | (0.10) | (0.08) |
| Basic earnings per share retroactively adjusted | \$ 16,175,103 | 15,867,909 | | 5.16 | 5.06 |

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

| | For the year ended December 31, 2007 | | | | | | | | | |
|--|--------------------------------------|---------------|----------------------------|---------------|--|----------------------|--------------|---------------------|--------------|--|
| | Amount | | | | | Earnings per share | | | | |
| | Income before income tax | | Income after income tax | | Total weighted-average outstanding shares | Before income tax | | After income tax | | |
| | NTD | USD | NTD | USD | | NTD | USD | NTD | USD | |
| Basic earnings per share retroactively adjusted | \$ 1,044,217 | 32,199 | 926,849 | 28,580 | 3,337,512 | 0.31 | 0.010 | 0.28 | 0.009 | |

(16) Financial Instrument Information

(a) Fair value of financial instruments

As of December 31, 2006 and 2007, the fair value of the Company's financial assets and liabilities were as follows:

| Financial instruments | 2006 | | December 31, | | | |
|---|-------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | Book value NTD | Fair value NTD | Book value NTD | Book value USD | Fair value NTD | Fair value USD |
| Financial assets: | | | | | | |
| Cash and cash equivalents | \$21,704,854 | 21,704,854 | 6,023,517 | 185,739 | 6,023,517 | 185,739 |
| Accounts receivable related parties | 8,332,816 | 8,332,816 | 6,649,818 | 205,051 | 6,649,818 | 205,051 |
| Interest rate swap | 52,255 | 52,255 | 16,968 | 523 | 16,968 | 523 |
| Foreign exchange forward contracts | 941,480 | 941,480 | 776,995 | 23,959 | 776,995 | 23,959 |
| Mutual bond fund | 660,484 | 660,484 | | | | |
| Financial liabilities: | | | | | | |
| Current portion of long-term loans | 10,299,107 | 10,299,107 | 10,258,408 | 316,325 | 10,258,408 | 316,325 |
| Accounts payable (including accounts payable related parties) | 21,516,696 | 21,516,696 | 7,911,078 | 243,943 | 7,911,078 | 243,943 |
| Bonds payable | 6,000,000 | 5,988,672 | 20,000,000 | 616,713 | 19,223,496 | 592,769 |
| Long-term loans | 19,392,164 | 19,392,164 | 32,358,022 | 997,781 | 32,358,022 | 997,781 |

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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)**

- (b) The methods and assumptions used to estimate the fair value of each class of financial instruments were as follows:
- (i) The book value of short-term financial instruments is believed to be not materially different from the fair value because the maturity dates of short-term financial instruments are within one year from the balance sheet date. Therefore, their book value is adopted as a reasonable basis for determining their fair value. This principle is applied in estimating the fair value of short-term financial instruments including cash and cash equivalents, account receivables/ payables (including related parties).
 - (ii) The fair value of financial instruments traded in active markets is based on quoted market prices. If the financial instruments are not in an active market, then the fair value is determined by certain valuation techniques, using assumptions under existing market conditions.
 - (iii) The discounted present value of anticipated cash flows is adopted as the fair value of long-term debt. Such present value approximates the carrying value of the Company's existing long-term loans.
 - (iv) Fair value of bond payable was determined by using broker's quote. This quote is tested for reasonableness by discounting the estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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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) As of December 31, 2006 and 2007, the fair values of the financial instruments, were based on market values in an active market or determined by using broker quotes / carrying values, as follows:

| Financial instruments | Market value in active market NTD | December 31, | | Value determined by using broker quote / carrying value NTD | Value determined by using broker quote / carrying value NTD | USD |
|---|---|---|---|--|--|---------|
| | | 2006 | 2007 | | | |
| | | Market value in active market NTD | Market value in active market NTD | | | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | \$ 21,704,854 | | | 6,023,517 | | 185,739 |
| Accounts receivable related parties | | | | 8,332,816 | 6,649,818 | 205,051 |
| Interest rate swap | | | | 52,255 | 16,968 | 523 |
| Foreign exchange forward contracts | | | | 941,480 | 776,995 | 23,959 |
| Mutual bond fund | | | | 660,484 | | |
| Financial liabilities: | | | | | | |
| Current portion of long-term loans | | | | 10,299,107 | 10,258,408 | 316,325 |
| Accounts payable (including accounts payable related parties) | | | | 21,516,696 | 7,911,078 | 243,943 |
| Bonds payable | | | | 5,988,672 | 19,223,496 | 592,769 |
| Long-term loans | | | | 19,392,164 | 32,358,022 | 997,781 |

(d) Financial risk information

(i) Market risk

All derivative financial instruments are intended as hedges for fluctuations in foreign exchange rates and interest rates. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items. Thus, market price risks are believed to be low.

(ii) Credit risk

The Company signed a Product Purchase and Capacity Reservation Agreement with NTC and Qimonda AG, as described in notes 17(b) and 23(a)(viii). Under this agreement, these entities are each entitled to a contracted percentage of the Company's production capacity. Under the agreement, the sales of the Company were derived 100% from NTC and Qimonda AG. The sales are an indication that the Company has concentration of credit risk. Because these customers are both reputable listed companies, the accounts receivable from NTC and Qimonda AG are collectible. Management believes its exposure related to the potential payment default by NTC and Qimonda is low.

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INOTERA MEMORIES, INC.
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(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars,
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Credit risks of financial instrument transactions represent the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss to the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.

(iii) Cash flow risk

The Company has sufficient operating capital to meet the cash requirements for the derivative financial instrument transactions. In addition, additional cash inflow is expected to meet the cash outflow. Therefore, the cash flow risk is low.

(iv) Interest rate risk

Interest rate risk arises from short-term and long-term loans. Loans issued at variable rates expose the Company to cash flow interest rate risk. If the market interest rate increases by 1%, the cash outflow of the Company would increase by NT\$296,913 and NT\$426,164 for the years ended December 31, 2006 and 2007, respectively. The Company manages its cash flow interest rate risk by using floating-to-fixed interest-rate swaps. Such interest rate swaps have the economic effect on conversion of loans with floating rates to loans with fixed rates.

(17) Related-party Transactions

(a) Names and relationship of related parties

| Name | Relationship with the Company |
|--------------------------------------|--|
| Nan Ya Plastics Corp. (NPC) | Common chairman |
| Nanya Technology Corp. (NTC) | One of major stockholders |
| Qimonda AG | One of major stockholders |
| Infineon Technologies AG (IFX) | Immediate parent company of Qimonda AG |
| Qimonda Technologies Suzhou Co., Ltd | Subsidiary of Qimonda AG |
| Qimonda Richmond, LLC | Subsidiary of Qimonda AG |

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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)

- (b) Significant related-party transactions
(i) Sales revenue and accounts receivable

Significant sales to related parties for the years ended December 31, 2005, 2006 and 2007, were as follows:

| | 2005 | | For the years ended December 31, 2006 | | 2007 | | % of net sales |
|---------------------------------------|----------------------|----------------|--|----------------|-------------------|------------------|----------------|
| | Amount NTD | % of net sales | Amount NTD | % of net sales | Amount NTD | USD | |
| NTC | \$ 11,502,292 | 49.94 | 20,477,214 | 50.21 | 22,984,160 | 708,731 | 50.11 |
| Qimonda AG | | | 13,615,363 | 33.39 | 22,880,388 | 705,532 | 49.89 |
| IFX | 9,180,137 | 39.86 | 3,994,116 | 9.79 | | | |
| Qimonda Technologies Suzhou Co., Ltd. | 2,347,571 | 10.19 | 2,695,017 | 6.61 | | | |
| Qimonda Richmond, LLC | 2,203 | 0.01 | | | | | |
| | \$ 23,032,203 | 100.00 | 40,781,710 | 100.00 | 45,864,548 | 1,414,263 | 100.00 |

The balances of accounts receivable resulting from the above transactions as of December 31, 2006 and 2007, consisted of the following:

| | 2006 | | December 31, 2007 | | % of accounts receivable related parties |
|------------|---------------------|--|----------------------|----------------|--|
| | Amount NTD | % of accounts receivable related parties | Amount NTD | USD | |
| NTC | \$ 4,325,897 | 51.91 | 3,282,276 | 101,211 | 49.36 |
| Qimonda AG | 4,006,919 | 48.09 | 3,367,542 | 103,840 | 50.64 |
| | \$ 8,332,816 | 100.00 | 6,649,818 | 205,051 | 100.00 |

The normal credit term with the related parties above is 60 days from delivery date. Selling price is calculated using the transfer pricing formula in accordance with the Product Purchase and Capacity Reservation Agreement .

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INOTERA MEMORIES, INC.
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(ii) Purchases and accounts payable

Significant purchases from related parties for the years ended December 31, 2005, 2006 and 2007, were as follows:

| | 2005 | | For the years ended December 31, 2006 | | 2007 | | % of net purchases |
|------------|-------------------|--------------------|--|--------------------|------------------|---------------|--------------------|
| | Amount NTD | % of net purchases | Amount NTD | % of net purchases | Amount NTD | USD | |
| NPC | \$ 49,827 | 0.17 | 680,957 | 6.11 | 25,151 | 776 | 0.13 |
| NTC | | | 70,039 | 0.63 | 166,696 | 5,140 | 0.83 |
| IFX | 464,481 | 1.56 | 217,230 | 1.95 | | | |
| Qimonda AG | | | 252,285 | 2.26 | 971,653 | 29,962 | 4.83 |
| | \$ 514,308 | 1.73 | 1,220,511 | 10.95 | 1,163,500 | 35,878 | 5.79 |

The balances of accounts payable resulting from the above transactions as of December 31, 2006 and 2007, were as follows:

| | 2006 | | December 31, 2007 | | % of total accounts payable |
|------------|-------------------|-----------------------------|----------------------|--------------|-----------------------------|
| | Amount NTD | % of total accounts payable | Amount NTD | USD | |
| NPC | \$ 346,304 | 1.61 | 1,786 | 55 | 0.02 |
| NTC | | | 750 | 23 | 0.01 |
| Qimonda AG | 59,613 | 0.28 | 110,219 | 3,399 | 1.39 |
| | \$ 405,917 | 1.89 | 112,755 | 3,477 | 1.42 |

The Company pays NPC and NTC on the 15th of the month following the month of purchase, and pays IFX and Qimonda AG within 30 days of the invoice date. Purchases from NPC included miscellaneous equipment.

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INOTERA MEMORIES, INC.
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(iii) Acquisition and disposal of property, plant and equipment

Disposal of machinery and equipment:

| | December 31, 2006 | | |
|-----|--|-------------------------------|--|
| | Proceeds from disposal of PPE NTD | Book value NTD | Loss on disposal of PPE NTD |
| NTC | \$ 600 | 2,142 | 1,542 |

Loss on disposal of property, plant and equipment was recorded under non-operating expenses and losses - others.

(iv) Training expense

NTC transferred some of its employees to the Company to enable the Company to have a sufficient number of high quality and loyal staff. Consequently, the Company is required to reimburse NTC for the loss of their experienced employees in an amount equal to 6 months' salary of those employees. The Company booked this expenditure as training expenses (classified under administrative and general expenses) of NT\$5,180 for the year ended December 31, 2005. As of December 31, 2005, the Company fully paid these training expenses.

(v) Lease contracts

Commencing from July 1, 2005, the Company signed lease contracts with NTC. Refer to notes 7 and 9 for details.

(vi) Other significant transactions

Other payables - related parties arising from other transactions were as follows:

| | December 31, | | |
|--------------------------------|---------------------|---------------|--------------|
| | 2006 | 2007 | |
| | NTD | NTD | USD |
| Qimonda AG (IT services, etc.) | \$ 36,511 | 49,510 | 1,527 |
| NTC (utility expenses, etc.) | 24,932 | 20,062 | 618 |
| NPC (dormitory expenses, etc.) | 4,096 | 295 | 9 |
| | \$ 65,539 | 69,867 | 2,154 |

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**INOTERA MEMORIES, INC.
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except for per share information or unless otherwise specified)**

The Company rented out Probe cards to Qimonda Richmond, LLC. For the year ended December 31, 2007, the rental revenue amounted to NT\$988, which was accounted for as non-operating income and gains others.

(vii) Contracts with related parties

The Company signed a Product Purchase and Capacity Reservation Agreement with NTC and IFX. Under this agreement, these entities are each entitled to a contracted percentage of the Company's production capacity. The Company is committed to sell its production to these entities at a transfer price calculated in accordance with the formula stated in the agreement. This agreement took effect on July 15, 2003, and will continue to be in effect until terminated by either party with cause or when the Joint Venture Agreement and/or the License and Technical Cooperation Agreement between NTC and IFX are terminated.

The Company signed a Know-How Transfer Agreement with NTC and IFX. Under this agreement, these entities allowed the Company to utilize their know-how in the semiconductor manufacturing process. This contract took effect on July 15, 2003, and it will continue to be in effect until either of the following conditions has been fulfilled: 1) both corporations decide to terminate their Joint Venture Agreement or 2) three years after the completion of the know-how transfer.

IFX has completed the carve-out of its memory product business group effective on May 1, 2006. Accordingly, IFX's memory products business, including substantially all of the related assets and liabilities and personnel were transferred to a wholly owned subsidiary named Qimonda AG. Also, IFX assigned the rights and obligations under the Product Purchase and Capacity Reservation Agreement and Know-How Transfer Agreement to Qimonda AG effective on May 1, 2006.

The Company signed a service contract with NTC. Under this contract, NTC provides transaction support in the following areas: human resources, finance, engineering and construction, raw material, inventory, etc. The service fee is charged based on the actual type of service rendered. The contract took effect on July 15, 2003, and will continue to be in effect until terminated mutually by both parties.

(18) Pledged Properties

Refer to note 11 for information on the Company's assets pledged to secure loans.

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INOTERA MEMORIES, INC.
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(All amounts are expressed in thousands of New Taiwan Dollars and U.S. Dollars,
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(19) Commitments and Contingencies

As of December 31, 2006 and 2007, in addition to those described in the financial statements and accompanying notes, the balance of outstanding letters of credit were as follows:

| Currency (thousand) | December 31, | |
|---------------------|--------------|---------|
| | 2006 | 2007 |
| USD | \$ 65,308 | 51,419 |
| JPY | \$ 2,099,273 | 629,965 |
| EUR | \$ 50,907 | 2,822 |

(20) Significant Disaster Loss: None.**(21) Subsequent Events: Refer to Note 11.****(22) Others**

(a) The Company's personnel, depreciation, and amortization expenses were as follows:

| | For the year ended December 31, 2005 | | |
|----------------------------|--------------------------------------|------------------------------|--------------|
| | Cost of goods sold NTD | Operating expenses NTD | Total NTD |
| Personnel expenses | | | |
| Salaries | 1,048,967 | 192,903 | 1,241,870 |
| Labor and health insurance | 63,796 | 8,084 | 71,880 |
| Pension expenses | 48,974 | 9,825 | 58,799 |
| Other personnel expenses | 29,724 | 3,628 | 33,352 |
| Depreciation expenses | 8,049,957 | 49,594 | 8,099,551 |
| Amortization expenses | 6,995 | | 6,995 |

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**INOTERA MEMORIES, INC.
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except for per share information or unless otherwise specified)**

| | For the year ended December 31, 2006 | | |
|----------------------------|---|---------------------------------------|----------------------|
| | Cost of goods sold NTD | Operating expenses NTD | Total NTD |
| Personnel expenses | | | |
| Salaries | 1,369,465 | 205,154 | 1,574,619 |
| Labor and health insurance | 90,656 | 8,267 | 98,923 |
| Pension expenses | 61,163 | 11,292 | 72,455 |
| Other personnel expenses | 41,019 | 4,037 | 45,056 |
| Depreciation expenses | 11,571,260 | 62,119 | 11,633,379 |
| Amortization expenses | 8,454 | | 8,454 |

| | For the year ended December 31, 2007 | | |
|----------------------------|---|---------------------------------------|----------------------|
| | Cost of goods sold NTD | Operating expenses NTD | Total NTD |
| Personnel expenses | | | |
| Salaries | 2,010,249 | 232,129 | 2,242,378 |
| Labor and health insurance | 130,576 | 8,722 | 139,298 |
| Pension expenses | 85,937 | 11,220 | 97,157 |
| Other personnel expenses | 59,739 | 4,779 | 64,518 |
| Depreciation expenses | 20,445,457 | 79,472 | 20,524,929 |
| Amortization expenses | 12,120 | | 12,120 |

| | For the year ended December 31, 2007 | | |
|----------------------------|---|---------------------------------------|----------------------|
| | Cost of goods sold USD | Operating expenses USD | Total USD |
| Personnel expenses | | | |
| Salaries | 61,987 | 7,158 | 69,145 |
| Labor and health insurance | 4,026 | 269 | 4,295 |
| Pension expenses | 2,650 | 346 | 2,996 |
| Other personnel expenses | 1,842 | 147 | 1,989 |
| Depreciation expenses | 630,448 | 2,451 | 632,899 |
| Amortization expenses | 374 | | 374 |

- (b) As discussed in note 17(b)(vi) to the financial statements, the Company signed a service contract with NTC, under which, the General Administrative Office of the Formosa Group is entrusted to provide certain administrative services. For the years ended December 31, 2005, 2006 and 2007, the service expenses paid to the General Administrative Office of the Formosa Group amounted to NT\$25,631, NT\$28,278 and NT\$40,558, respectively.

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

(c) Stock purchase plan

The Board of Directors of the Company approved a resolution to adopt a Deferred Stock Purchase Plan (the Plan). Under this Plan, the employees of the Company are allowed to purchase the Company's shares which are being held by Hwa-Keng Investment Corp., a corporate stockholder of the Company, following the approval thereof by the board of directors and stockholders of Hwa-Keng Investment Corp.

The Plan requires that its actual implementation shall be made within 4 weeks after the approval of the Company's stock listing by the SFB. The purchase price is the higher of NT\$15 per share or the net book value per share of the Company at the time of the Plan's execution plus 10% premium thereof. There were 73,124 thousand Company shares being held by Hwa-Keng Investment Corp., which were made available for purchase by the employees. On January 6, 2006, the Company received the approval from the SFB for the listing of its stock, and implemented the Plan on the same day. On February 9, 2006, Hwa-Keng Investment Corp. sold 64,032,908 Company shares at NT\$20.07 per share to the employees of the Company, following the Company's implementation of the Plan.

Under the International Financial Reporting Standards (IFRS), share-based payments are normally accounted for as current expenses. If IFRS would be applied to account for the share-based payment under this Plan, the Company would recognize compensation expense of approximately NT\$826,025 in current results of operations. The ROC SFAS No. 39 Share-Based Payment, however, simply requires disclosing the details of the Plan in the financial statements when the Plan is consummated before this new accounting standard takes effect on January 1, 2008, without recognizing any expense. For this reason, the Company simply disclosed the details of the Plan to conform with the requirement for disclosure.

(d) Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2006, have been reclassified to conform with the presentation of the financial statements as of and for the year ended December 31, 2007, for purposes of comparison. These reclassifications have not materially affected the financial statements.

(23) Segment Information

(a) Industrial information

The Company's main operating activities are to manufacture and to sell semiconductor product, which belong to a single industrial segment.

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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)****(b) Geographic information**

The Company has no foreign operation segment; thus, no geographic information is provided.

(c) Export sales information

Export sales to geographic areas in 2005, 2006 and 2007 were summarized as follows:

| Destination Area | For the years ended December 31, | | | | | | % of net sales |
|------------------|----------------------------------|----------------------|-------------------|----------------------|-------------------|----------------|----------------|
| | 2005 | | 2006 | | 2007 | | |
| | Amount NTD | % of net sales | Amount NTD | % of net sales | Amount NTD | USD | |
| Europe | \$ 9,180,137 | 39.86 | 17,609,479 | 43.18 | 22,880,388 | 705,532 | 49.89 |
| Asia | 2,347,571 | 10.19 | 2,695,017 | 6.61 | | | |
| North America | 2,203 | 0.01 | | | | | |
| Total | \$ 11,529,911 | 50.06 | 20,304,496 | 49.79 | 22,880,388 | 705,532 | 49.89 |

(d) Major clients

The major clients of the Company in 2005, 2006 and 2007, were as follows:

| Client | For the years ended December 31, | | | | | | % of net sales |
|---|----------------------------------|----------------------|-------------------|----------------------|-------------------|------------------|----------------|
| | 2005 | | 2006 | | 2007 | | |
| | Amount NTD | % of net sales | Amount NTD | % of net sales | Amount NTD | USD | |
| NTC | \$ 11,502,292 | 49.94 | 20,477,214 | 50.21 | 22,984,160 | 708,731 | 50.11 |
| Qimonda AG | | | 13,615,363 | 33.39 | 22,880,388 | 705,532 | 49.89 |
| IFX | 9,180,137 | 39.86 | 3,994,116 | 9.79 | | | |
| Qimonda Technologies Suzhou Co., Ltd. | 2,347,571 | 10.19 | 2,695,017 | 6.61 | | | |
| Total | \$ 23,030,000 | 99.99 | 40,781,710 | 100.00 | 45,864,548 | 1,414,263 | 100.00 |

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

**(24) Summary of Significant Differences between Accounting Principles Followed by the Company and
Generally**

Accepted Accounting Principles in the United States of America

(a.) Derivative financial instrument transactions

Prior to January 1, 2006, under ROC GAAP, there were no specific rules related to accounting for derivative financial instruments, nor criteria for hedge accounting. Therefore, companies had flexibility in choosing when to recognize derivative financial instruments and when to follow hedge accounting versus fair value accounting for such instruments. In practice, derivative contracts including foreign currency forward contracts and interest rate swaps 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 swap

As 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.

Effective January 1, 2006, however, the accounting for derivative financial instrument transactions is principally equivalent to U.S. GAAP.

U.S. GAAP contains comprehensive guidance as to when hedge accounting is appropriate. As a consequence, certain derivative contracts such as foreign currency forward contracts and interest rate swaps included in the Company's balance sheet would be recorded at the derivatives contract's market rate as of the reporting date, resulting in a decrease in other receivables as reported under the ROC GAAP balance sheet.

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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)**

(b.) Bonuses to employees, directors and supervisors

Under the ROC regulations and the Company's Articles of Incorporation, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or shares or both. All of these appropriations, including share bonuses which are valued at par value of NT\$10, are charged against retained earnings, after such appropriations are formally approved by the shareholders in the following year.

Under U.S. GAAP, bonuses and remuneration are generally expensed as services are rendered. Also under U.S. GAAP, bonuses which are paid in the form of Company shares are recorded within equity at fair market value, with a corresponding charge to earnings for the difference between the fair value of the shares at the date of grant and the price paid by the employee, if any.

(c.) Undistributed earnings surtax

Companies in the ROC are subject to a 10% surtax on undistributed profits earned after December 31, 1997. If the undistributed earnings are distributed in the following year, the 10% surtax is not due. Under ROC GAAP, income tax expense is recorded in the statement of operations only in the following year when the shareholders decide not to distribute the earnings.

Under U.S. GAAP, the 10% surtax leviable on the undistributed earnings is recorded in the statement of income in the year when the profits were earned. The income tax expense, including the tax effects of temporary differences, in such year is measured by using the rate that includes this 10% surtax.

(d.) Capital contribution

Under ROC GAAP, the expatriate employees payroll cost paid by a foreign joint venture partner/shareholder is not recorded nor treated as the shareholder's capital contribution in the Company.

Under U.S. GAAP, the expatriate employees payroll cost paid by a foreign joint venture partner would be recorded as expense and treated as capital contribution in the Company.

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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)**

(e.) Lease

Under ROC GAAP, the estimated fair value of a partially leased building used in evaluating the lease classification described under Note 2 (h) to the financial statements can be based on the proportionate fair value of the entire building.

Under U.S. GAAP, the fair value of a partially leased building used in determining the lease classification must be based on the specific fair value of the leased asset. In the event that the fair value of the partially leased building can not be determined, the lease of a partial building should be treated as an operating lease. As a result, the leased asset described in Note 7 to the financial statements, which was treated as a capital lease under ROC GAAP would be treated as an operating lease under U.S. GAAP.

(f.) Related party

Under ROC GAAP, the transaction with the Formosa Group as described in Note 22(b) is not treated as a related party transaction. Under U.S. GAAP, the transaction would be considered a related party transaction.

(g.) Earnings per share

Under ROC GAAP, earnings per share are calculated based on the weighted average number of outstanding shares. The weighted average number of outstanding shares is retroactively adjusted for common stock issued arising from the distribution of stock dividends through unappropriated earnings and capital surplus.

Under U.S. GAAP, when a simple capital structure exists, basic earnings per share are calculated using the weighted average number of common shares outstanding. The weighted average number of outstanding shares is not retroactively adjusted for stock dividends.

(h.) Stock purchase plan

Under ROC GAAP, no compensation cost is recognized for the deferred stock purchase plan because there are no specific accounting principles or declaratory statutes announced by the Accounting Research and Development Foundation (the ARDF) in the Republic of China.

Under U.S. GAAP, compensation cost is recognized for the deferred stock purchase plan based on the difference between the fair value of the shares at the date of grant and the price paid by the employee.

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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)**

(i.) Pension

Under ROC GAAP, the Company's unrecognized actuarial gains and losses are not recognized as pension liabilities until the accumulated unrecognized amounts exceed certain thresholds.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158 – Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in the balance sheet and to recognize changes in that funded status in other comprehensive income in the year in which the changes occur. Retrospective application of SFAS 158 is not permitted. The Company has adopted SFAS 158 for purposes of its US GAAP reconciliation with effect as of December 31, 2006.

(j.) Statement cash flows

Under ROC GAAP, bonus to employees and remuneration to directors and supervisors are considered financing activities. Also, deferred charges arising from bank charges on syndicate loans and underwriter handling charges are classified as investing activities.

Under US GAAP, bonus to employees and remuneration to directors and supervisors are considered operating activities. Also, bank charges on syndicate loans and underwriter handling charges are classified as financing activities.

(k.) Employee Stock Options

Under ROC GAAP, share-based payment transaction can be accounted for using either the fair value method or intrinsic value method. Entities electing to adopt the intrinsic value method must make pro forma disclosures of net income as if the fair value based method of accounting had been applied.

Under U.S. GAAP SFAS No. 123(Revised 2004) – Share-Based Payment, employee stock options granted can only be accounted for using the fair value based method of accounting.

(l.) Stock dividends paid to stockholders

Under ROC GAAP, stockholders stock dividends paid are recorded at par value, with a charge to retained earnings.

Under US GAAP, generally if the ratio of distribution is less than 25% of the same class of shares outstanding, the fair value of the shares issued should be charged to retained earnings.

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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)**

(m.) Write-down allowances for the inventory

Under ROC GAAP, inventory is valued at the lower of cost or market. Market is determined on the basis of replacement cost or net realizable value. Any write-down to market value is recognized as non-operating expenses and losses. Reversals of previous write-downs are recognized in profit or loss in the period in which the reversal occurs.

Under US GAAP, inventory is valued at the lower of cost or market, with market limited to an amount that is not more than net realizable value nor less than net realizable value less a normal profit margin. Any write-down to market value must be recognized as cost of goods sold. Reversals of previous write-downs are not permitted.

(n.) Classification of loans with covenants

Based on calculations performed by management, 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. Provisions of the loan agreements specify that the syndicated bank will perform calculations to determine if the Company is in violation of any of its covenants upon receipt of the audited annual and semi-annual financial statements of the Company. Consequently, if the syndicated banks, upon obtaining the audited interim financial statements as of and for the six-month period ended June 30, 2008, determine that the Company is in violation of any of its covenants pursuant to its syndicated bank loan agreement at June 30, 2008, they may notify the Company that it is in default of its syndicated loan agreements. If the Company is in default of its syndicated loan agreements, the syndicated banks have the right to call the loans and demand immediate repayment. In such case, the Company expects to fully pay its outstanding syndicate loan with funds generated from operating cash flows, financial assistance from its major shareholders and their affiliates and available bank credit facilities.

- i) The creditor has waived or subsequently lost the right to demand repayment for more than one year from the balance sheet.
- ii) For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

(o.) Uncertain tax positions

Under ROC GAAP, uncertain tax positions are recognized based on the more likely than not criterion although for deferred tax assets, a valuation allowance is provided if it is more likely than not that all or some portion of the asset will not be realized.

Under US GAAP, recognition of uncertain tax positions prior to 2007 was based on the probable criterion, which provided a higher threshold than the more likely than not criterion, although a valuation allowance was also provided if it was more likely than not that all or some portion of the deferred tax asset would not be realized. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48,

Accounting for Uncertainty in income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions. FIN 48 requires that an entity recognizes in the financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. The Company's accounting policy is to accrue interest and penalties related to unrecognized tax benefits, if and when required, as a component of general and administrative expenses in the consolidated statements of income. The adoption of FIN 48 as of January 1, 2007 did not have any effect on the Company's financial statements.

(p.) Loss on impairment of long-lived assets

Under ROC GAAP, the loss on impairment of long-lived assets is classified as non-operating expenses and losses.

Under US GAAP, the loss on impairment of long-lived assets is classified as operating expense.

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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)

The following reconciles net income and stockholders' equity under ROC GAAP as reported in the audited financial statements to the net income and stockholders' equity amounts determined under U.S. GAAP, giving effect to adjustments for the differences listed above.

| | For the years ended December 31, | | | |
|--|----------------------------------|-------------------|----------------|---------------|
| | 2005 NTD | 2006 NTD | 2007 NTD | USD |
| Net income | | | | |
| Net income based on ROC GAAP | \$ 5,929,758 | 15,867,909 | 926,849 | 28,580 |
| Adjustments: | | | | |
| a. Foreign currency forward contracts marked to market | (355,857) | | | |
| a. Interest rate swaps marked to market | 75,943 | | | |
| a. Cumulative effect of change in accounting principle | | 317,220 | | |
| b. Bonuses to employees | (298,866) | (799,742) | (924,934) | (28,521) |
| b. Remuneration to directors and supervisors | (3,736) | (9,997) | (1,066) | (33) |
| c. 10% surtax on undistributed earnings | (565,812) | (1,428,112) | (83,416) | (2,572) |
| c. Tax benefit arising from reversal of prior years over accrual of 10% surtax | 533,695 | 804,424 | 795,203 | 24,521 |
| d. Expatriate employees payroll cost paid by IFX | (168,697) | (166,766) | (184,686) | (5,695) |
| d. Tax benefit on expatriate payroll cost paid by IFX | 54,827 | 54,199 | 60,023 | 1,851 |
| e. Operating lease | (4,742) | (8,930) | (8,650) | (267) |
| h. Deferred Stock Purchase Plan | | (826,025) | | |
| k. Employee stock options | | | (106,250) | (3,276) |
| Net decrease in net income | (733,245) | (2,063,729) | (453,776) | (13,992) |
| Net income based on U.S. GAAP | \$ 5,196,513 | 13,804,180 | 473,073 | 14,588 |
| Earnings per share | \$ 2.08 | 4.44 | 0.15 | 0.004 |
| Stockholders' equity | | | | |
| Stockholders' equity based on ROC GAAP | \$ 47,236,284 | 79,137,540 | 71,877,541 | 2,216,390 |
| Adjustments: | | | | |
| a. Foreign currency forward contracts marked to market | (355,857) | | | |
| a. Interest rate swaps marked to market | 38,637 | | | |
| b. Bonuses to employees | (298,866) | (799,742) | (48,387) | (1,492) |
| b. Remuneration to directors and supervisors | (3,736) | (9,997) | (1,066) | (33) |
| c. 10% surtax on undistributed earnings | (565,812) | (1,428,112) | (83,416) | (2,572) |

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| | | | | |
|---|----------------------|-------------------|-------------------|------------------|
| c. Tax benefit arising from reversal of prior years over accrual of 10% surtax | 533,694 | 772,307 | 139,399 | 4,298 |
| d. Expatriate employees payroll cost paid by IFX | (324,773) | (491,539) | (676,225) | (20,852) |
| d. Contributed capital arising from employees payroll paid by IFX | 219,221 | 331,788 | 456,451 | 14,075 |
| d Tax benefit on expatriate payroll cost paid by IFX | 105,553 | 159,751 | 219,774 | 6,777 |
| e. Operating lease | (4,742) | (13,672) | (22,322) | (688) |
| i. Other comprehensive income pension | | (41,800) | 8,591 | 265 |
| i Tax benefit on pension | | | (2,792) | (86) |
| Net decrease in stockholders equity | (656,681) | (1,521,016) | (9,993) | (308) |
| Stockholders equity based on U.S. GAAP | \$ 46,579,603 | 77,616,524 | 71,867,548 | 2,216,082 |
| Changes in stockholders equity based on U.S. GAAP | | | | |
| Balance, beginning of period | \$ 41,377,184 | 46,579,603 | 77,616,524 | 2,393,355 |
| Issuance of common stock | | 19,769,176 | | |
| Cash dividend to stockholders | (124,883) | (3,433,227) | (7,777,385) | (239,821) |
| Bonus shares issued at a premium to the employees | 16,919 | | 1,276,824 | 39,372 |
| Contributed capital (net of tax of NT\$54,827, NT\$54,199 and NT\$60,023 in 2005, 2006 and 2007, respectively) arising from employees payroll paid by IFX | 113,870 | 112,567 | 124,663 | 3,844 |
| Deferred Stock Purchase Plan | | 826,025 | | |
| Employee stock options | | | 106,250 | 3,276 |
| Other comprehensive income pension | | (41,800) | 47,599 | 1,468 |
| Net income for the year | 5,196,513 | 13,804,180 | 473,073 | 14,588 |
| Balance, end of period | \$ 46,579,603 | 77,616,524 | 71,867,548 | 2,216,082 |

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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)

A reconciliation of the significant balance sheet accounts to the amounts determined under U.S. GAAP as of December 31, 2006 and 2007 were as follows:

| | 2006 | December 31, | |
|---|-----------------------|---------------------|------------------|
| | NTD | 2007 | USD |
| | | NTD | |
| Current Assets | | | |
| ROC GAAP | \$ 36,470,375 | 19,530,399 | 602,232 |
| U.S. GAAP adjustments | | | |
| e. Current portion of lease receivables | (4,912) | (5,209) | (161) |
| c. Deferred tax assets current, net | 28,351 | (143,007) | (4,410) |
| U.S. GAAP | \$ 36,493,814 | 19,382,183 | 597,661 |
| | | | |
| Property, plant and equipment | | | |
| ROC GAAP | \$ 100,410,476 | 123,869,355 | 3,819,592 |
| U.S. GAAP adjustments | | | |
| e. Building and structure | 281,538 | 281,538 | 8,681 |
| e. Other equipment | 75,555 | 75,555 | 2,330 |
| e. Accumulated depreciation | (31,977) | (45,537) | (1,404) |
| U.S. GAAP | \$ 100,735,592 | 124,180,911 | 3,829,199 |
| | | | |
| Other Assets | | | |
| ROC GAAP | \$ 802,349 | 736,049 | 22,697 |
| U.S. GAAP adjustments | | | |
| c. Deferred tax assets non-current, net | 29,900 | 250,830 | 7,735 |
| e. Lease receivables long term | (333,876) | (328,668) | (10,135) |
| U.S. GAAP | \$ 498,373 | 658,211 | 20,297 |
| | | | |
| Current Liabilities | | | |
| ROC GAAP | \$ 32,974,822 | 19,732,603 | 608,467 |
| U.S. GAAP adjustments | | | |
| b. Employees bonus | 799,742 | 48,387 | 1,493 |
| b. Remuneration to directors and supervisors | 9,997 | 1,066 | 33 |
| c. Deferred tax liabilities current, net | | 54,633 | 1,685 |
| c. 10% surtax on undistributed earnings | 714,056 | | |
| n. Classification of syndicate loans for which loan covenants were not complied | | 32,358,022 | 997,781 |

| | | | |
|---|---------------|--------------|-----------|
| U.S. GAAP | \$ 34,498,617 | 52,194,711 | 1,609,459 |
| Long-term Liabilities | | | |
| ROC GAAP | \$ 25,519,586 | 52,481,739 | 1,618,308 |
| U.S. GAAP adjustments | | | |
| n. Classification of syndicate loans for which loan covenants were not complied | | (32,358,022) | (997,781) |
| U.S. GAAP | \$ 25,519,586 | 20,123,717 | 620,527 |
| Other Liabilities | | | |
| ROC GAAP | \$ 51,252 | 43,920 | 1,353 |
| U.S. GAAP adjustments | | | |
| i. Accrued pension liabilities | 41,800 | (8,591) | (264) |
| U.S. GAAP | \$ 93,052 | 35,329 | 1,089 |

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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)

(q.) Additional US GAAP disclosures

(1) Valuation allowance for deferred income tax assets

(i) The change in valuation allowance for deferred tax assets as follows:

| | NTD | USD |
|---------------------------------|------------|------------|
| Balance as of January 31, 2007 | 7,182,330 | 221,472 |
| Additions | 5,060,763 | 156,052 |
| Balance as of December 31, 2007 | 12,243,093 | 377,524 |

The Company recognized an additional valuation allowance in 2007 as a result of increased investment tax credits that will expire if unused during 2008 to 2011, the Company's five-year tax holidays expiring during 2009 to 2010, and forecasted taxable results through 2009.

(ii) The aggregate amount and per share effects of the tax holiday

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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)

| | For the years ended December 31, | | |
|---|----------------------------------|---------|--------|
| | 2006 | 2007 | |
| | NTD | NTD | USD |
| The aggregate amount of the tax holiday | 15,870,490 | 829,413 | 25,575 |
| Per share effect of the tax holiday | 5.10 | 0.26 | 0.01 |

(iii) The valuation allowance for deferred tax assets are allocated on pro-rata basis between gross current and non-current deferred tax assets as follows:

| | December 31, 2007 | |
|---|-------------------|---------|
| | NTD | USD |
| Valuation allowance for deferred tax assets current | 397,626 | 12,261 |
| Valuation allowance for deferred tax assets non-current | 11,845,467 | 365,263 |
| Total | 12,243,093 | 377,524 |

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Amendment No. 2 to the annual report on its behalf.

Date: April 17, 2008
Neubiberg, Germany

Infineon Technologies AG

By: /s/ Wolfgang Ziebart
Dr. Wolfgang Ziebart
Member of the Management Board and
Chief Executive Officer

By: /s/ Marco Schroeter
Dr. Marco Schroeter
Member of the Management Board and
Chief Financial Officer

Table of Contents**Exhibit Index**

| Exhibit Number | Description of Exhibit | Form | Exhibit Number | Filing Date with SEC | SEC File Number |
|-----------------------|--|-------------|-----------------------|---|------------------------|
| 1.1 | Articles of Association (as of November 2007) (English translation) | 20-F | 1.1 | December 7, 2007 | 1-15000 |
| 1.2 | Rules of Procedure for the Management Board (as of November 2007) (English translation) | 20-F | 1.2 | December 7, 2007 | 1-15000 |
| 1.3 | Rules of Procedure for the Supervisory Board (as of November 2007) (English translation) | 20-F | 1.3 | December 7, 2007 | 1-15000 |
| 1.4 | Rules of Procedure for the Investment Finance and Audit Committee of the Supervisory Board (as of November 2007) (English translation) | 20-F | 1.4 | December 7, 2007 | 1-15000 |
| 2 | The total amount of long-term debt securities of Infineon Technologies AG authorized under any instrument does not exceed 10% of the total assets of the group on a consolidated basis. Infineon Technologies AG hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Infineon Technologies AG or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed. | | | | |
| 4.3 | Patent Cross License Agreement between Infineon and Siemens AG, dated as of February 11, 2000 | F-1 | 10.7 | February 18, 2000 | 333-11508 |
| 4.9 | Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and Compagnie IBM France, dated as of June 24, 1999 | F-1 | 10.15 | February 18, 2000 | 333-11508 |
| 4.18 | Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002 | 20-F | 4.38 | December 4, 2002 | 1-15000 |
| 4.19 | Amendments No 1, 2 and 3 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002 | 20-F | 4.19 | November 23, 2005 | 1-15000 |
| 4.19.1 | Amendment No. 4 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002 | | | Filed as exhibit 10(i)(I) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |

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| Exhibit Number | Description of Exhibit | Form | Exhibit Number | Filing Date with SEC | SEC File Number |
|-----------------------|---|-------------|-----------------------|-----------------------------|------------------------|
| 4.20 | Terms and Conditions of 5% Guaranteed Subordinated Convertible Notes due 2010 in the aggregate nominal amount of EUR 700,000,000 (the 2010 Notes) issued on June 5, 2003 by Infineon Technologies Holding B.V. | 20-F | 4.30 | November 21, 2003 | 1-15000 |
| 4.21 | Undertaking for Granting of Conversion Rights from Infineon to JPMorgan Chase Bank for the benefit of the holders of the 2010 Notes, dated June 2, 2003 | 20-F | 4.31 | November 21, 2003 | 1-15000 |
| 4.22 | Subordinated Guarantee of Infineon, as Guarantor, in favor of the holders of 2010 Notes, dated June 2, 2002 | 20-F | 4.32 | November 21, 2003 | 1-15000 |
| 4.23 | Loan Agreement dated June 2, 2003, between Infineon Technologies Holding B.V., as Issuer, and Infineon | 20-F | 4.33 | November 21, 2003 | 1-15000 |
| 4.24 | Assignment Agreement dated June 2, 2003, among Infineon Technologies Holding B.V., Infineon and JPMorgan Chase Bank for the benefit of the holders of the 2010 Notes | 20-F | 4.34 | November 21, 2003 | 1-15000 |
| 4.25 | Amendment 1, dated June 26, 2003, to Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and Compagnie IBM France, dated as of June 24, 1999 | 20-F | 4.35 | November 21, 2003 | 1-15000 |
| 4.25.1 | Amendment 2 effective as of December 31, 2005 to Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and IBM XXI SAS dated as of June 24, 1999. | 20-F | 4.25.1 | November 30, 2006 | 1-15000 |
| 4.25.2 | Framework Agreement dated as of August 8, 2007 among GlobalInformService, International Business Machines Corporation and Infineon Technologies AG, related to ALTIS Semiconductor | 20-F | 4.25.2 | December 7, 2007 | 1-15000 |
| 4.26 | Real Estate Leasing Contract between MoTo Object CAMPEON GmbH & Co. KG and Infineon dated as of December 23, 2003, with Supplementary Agreements No 1 and 2 (English translation) | 20-F | 4.28 | November 26, 2004 | 1-15000 |

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| Exhibit Number | Description of Exhibit | Form | Exhibit Number | Filing Date with SEC | SEC File Number |
|-----------------------|--|-------------|-----------------------|--|------------------------|
| 4.27.1 | Contribution Agreement (Einbringungsvertrag) between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006, and addendum thereto, dated as of June 2, 2006 (English translation). | | | | |
| | | | | Filed as exhibit 10(i)(A) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |
| 4.27.2 | Contribution Agreement (Einbringungsvertrag) between Infineon Holding B.V. and Qimonda AG, dated as of May 4, 2006 (English translation). | | | | |
| | | | | Filed as exhibit 10(i)(B) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |
| 4.27.3 | Addenda No. 2 and 3 to Contribution Agreement (Einbringungsvertrag) between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006 (English translation). | | | | |
| | | | | Filed as exhibit 4(i)(W) to the annual report on form 20-F of Qimonda AG dated November 21, 2006 (file 1-32972) and incorporated herein by reference | |
| 4.27.5 | Master Loan Agreement between Qimonda AG and Infineon Technologies Holding B.V., dated April 28, 2006. | | | | |
| | | | | Filed as exhibit 10(i)(D) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |
| 4.27.6 | Global Services Agreement between Infineon Technologies AG and Qimonda AG, effective May 1, 2006. | | | | |
| | | | | Filed as exhibit 10(i)(E) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |
| 4.27.7 | Master IT Cost Sharing Agreement by and between Infineon Technologies AG and Qimonda AG, effective May 1, 2006 | | | | |
| | | | | Filed as exhibit 10(i)(Q) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference | |
| 4.28.1 | Terms and Conditions of the 1.375% Guaranteed Subordinated Notes due 2010 in the aggregate nominal amount of EUR 215,000,000 (the 2007/2010 Notes) issued by Infineon Technologies Investment B.V., on September 26, 2007 | 20-F | 4.28.1 | December 7, 2007 | 1-15000 |
| 4.28.2 | Subordinated Guarantee by Infineon Technologies AG in Favor of the Holders of the 2007/2010 Notes | 20-F | 4.28.2 | December 7, 2007 | 1-15000 |
| 4.29 | Asset Purchase Agreement by and between LSI Corporation and Infineon Technologies AG dated as of August 20, 2007 | | | | |
| | | | | Filed as exhibit 2.1 to the current report on form 8-K of LSI Corporation dated October 24, 2007 (file 1-10317) and incorporated herein by reference. Infineon Technologies AG agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request. | |
| 8 | List of Significant Subsidiaries and Associated Companies of Infineon | | | | |
| | | | | See Additional Information Organizational Structure | |

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| Exhibit Number | Description of Exhibit | Form | Exhibit Number | Filing Date with SEC | SEC File Number |
|-----------------------|--|----------------|-----------------------|-----------------------------|------------------------|
| 12.1 | Certification of chief executive officer pursuant to Exchange Act Rule 13a-14(a) | Filed herewith | | | |
| 12.2 | Certification of chief financial officer pursuant to Exchange Act Rule 13a-14(a) | Filed herewith | | | |
| 13 | Certificate pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith | | | |
| 14.1 | Consent of KPMG Certified Public Accountants (in respect of Inotera Memories, Inc.) | Filed herewith | | | |
| 15.1 | Material incorporated into this Annual Report on Form 20-F, as amended, by reference to the Annual Report on Form 20-F of Qimonda AG | 20-F/A | 15.1 | March 31, 2008 | 1-15000 |

Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission