

SOLUTIONS

INFINEON TECHNOLOGIES
ANNUAL REPORT 2007



Never stop thinking

001 OUR COMPANY

- 002 The Management Board of Infineon Technologies AG
- 003 Letter to the Shareholders
- 022 Focus Areas
- 030 Automotive, Industrial & Multimarket
- 034 Communication Solutions
- 038 Qimonda
- 042 Infineon 2007 (Chronicle)
- 044 The Infineon Share
- 046 Human Beings and the Environment
- 049 Our Employees
- 052 Infineon Worldwide

055 FINANCIAL REVIEW

- 056 Contents
- 057 Report of the Supervisory Board
- 062 Corporate Governance Report
- 066 Compensation Report
- 072 Operating and Financial Review
- 116 Consolidated Financial Statements
- 122 Notes to the Consolidated Financial Statements
- 184 Consolidated Financial Data 2003–2007
- 186 Financial and Technology Glossary
- 194 Financial Calendar

Note:

When we use the masculine singular pronoun in this Annual Report to refer to employees, we of course are referring to all employees, both male and female.

Forward-looking statements:

This annual report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in the light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement.

01 INFINEON KEY DATA

AS OF AND FOR THE FISCAL YEAR, ENDED SEPTEMBER 30¹

Fiscal year from October 1 to September 30

	2006		2007		2007/2006
	€ millions	As % of net sales	€ millions	As % of net sales	Change in %
Net sales by region	7,929		7,682		(3)
Germany	1,327	17	1,164	15	(12)
Other Europe	1,360	17	1,218	16	(10)
North America	2,126	27	1,887	25	(11)
Asia-Pacific	2,498	31	2,632	34	5
Japan	461	6	661	9	43
Other	157	2	120	1	(24)
Net sales by segment					
Automotive, Industrial & Multimarket	2,839	36	3,017	39	6
Communication Solutions	1,205	15	1,051	14	(13)
Other Operating Segments	310	4	219	3	(29)
Corporate and Eliminations	(240)	---	(213)	---	11
Infineon without Qimonda	4,114	52	4,074	53	(1)
Qimonda	3,815	48	3,608	47	(5)
Gross margin	2,075	26	1,590	21	(23)
Research and development expenses	1,249	16	1,169	15	(6)
Operating loss	(56)		(370)		---
Net loss	(268)		(368)		(37)
EBIT EBIT margin	(15)	---	(256)	(3)	---
Property, plant and equipment, net	3,764		3,647		(3)
Total assets	11,185		10,679		(5)
Total shareholders' equity	5,315		4,914		(8)
Net cash provided by operating activities	1,003		1,207		20
Net cash used in investing activities	(853)		(867)		(2)
Net cash provided by (used in) financing activities	762		(521)		---
Effect of foreign exchange rate changes	(20)		(40)		(100)
Free cash flow ²	(88)		207		+++
Depreciation and amortization	1,405		1,276		(9)
Impairment charges	57		40		(30)
Purchases of property, plant and equipment	1,253		1,375		10
Gross cash position ³	2,655		2,294		(14)
Net cash position ⁴	650		582		(11)
Loss per share – basic and diluted in €	(0.36)		(0.49)		(36)
Dividend per share in €	—		—		
Equity ratio	48%		46%		(4)
Return on equity ⁵	(5%)		(7%)		(60)
Return on assets ⁶	(2%)		(3%)		(33)
Equity-to-fixed-assets ratio ⁷	141%		134%		(5)
Debt-to-equity ratio ⁸	38%		35%		(8)
Debt-to-total-capital ratio ⁹	18%		16%		(11)
Return on Capital Employed (RoCE) ¹⁰	0%		(4%)		---
Employees	41,651		43,079		3

1 Columns may not add due to rounding.

2 Free cash flow = Net cash provided by operating activities minus net cash used in investing activities adjusted by purchases (proceeds from sales) of marketable securities available for sale.

3 Gross cash position = Cash and cash equivalents plus marketable securities.

4 Net cash position = Gross cash position minus short and long-term debt.

5 Return on equity = Net income (loss) divided by average shareholders' equity.

6 Return on assets = Net income (loss) divided by average total assets.

7 Equity-to-fixed-assets ratio = Total shareholders' equity divided by fixed assets.

8 Debt-to-equity ratio = Long-term and short-term debt divided by shareholders' equity.

9 Debt-to-total-capital ratio = Long-term and short-term debt divided by total assets.

10 Return on Capital Employed (RoCE) = EBIT divided by capital employed.

INFINEON TECHNOLOGIES AG

AIM

AUTOMOTIVE, INDUSTRIAL & MULTIMARKET



AUTOMOTIVE



INDUSTRIAL & MULTIMARKET



SECURITY & ASICs

APPLICATIONS

AUTOMOTIVE ◦ Powertrain (engine and transmission control) ◦ car body and comfort electronics (steering, sunroof, light, air conditioning, shocks, power windows) ◦ safety (ABS, airbags, ESP) ◦ multimedia, telematics and eCall

INDUSTRIAL & MULTIMARKET ◦ Electric drive control ◦ modules for energy transmission and conversion ◦ generation of renewable energy ◦ electric motor drives for washing machines, air conditioners ◦ semiconductor components to control light sources, low-energy lamps, and light-management systems ◦ medical equipment ◦ power packs and power supplies for PCs, game consoles and entertainment electronics

SECURITY & ASICs ◦ Chip-based cards in the fields of communications, payment systems, identification ◦ object identification and logistics ◦ platform security for computers and networks ◦ customized components for hard disk drives and other peripheral devices for PCs and for medical technology applications

COM

COMMUNICATION SOLUTIONS



WIRELESS COMMUNICATIONS



BROADBAND ACCESS

WIRELESS COMMUNICATIONS ◦ Mobile phones of various classes and communication standards ◦ cordless telephones ◦ television receivers ◦ navigation systems ◦ cellular basestations

BROADBAND ACCESS ◦ Analog telephony and ISDN ◦ integrated voice and data communication ◦ broadband access technologies for network operators and individual customers ◦ cellular infrastructure ◦ home networks

QIMONDA

MEMORY PRODUCTS

APPLICATION-SPECIFIC DRAMs

STANDARD DRAMs

APPLICATIONS

APPLICATION-SPECIFIC DRAMs ◦ Servers, network infrastructure, graphics boards, game consoles, PDAs, smart phones, digital cameras, MP3 players, flat-panel televisions, set-top boxes

STANDARD DRAMs ◦ PCs, notebooks, workstations

Infineon Technologies AG, Neubiberg, provides semiconductor and system solutions, focusing on three central needs of our modern society: energy efficiency, communications and security. With some 43,000 employees worldwide (of whom 13,500 work for Qimonda), Infineon achieved 7.68 billion euros in sales (of which 3.6 billion euros for Qimonda) in fiscal year 2007. The company's shares are listed in Frankfurt and New York (NYSE) with the ticker symbol IFX.

PRODUCTS	MARKET POSITION ¹	KEY CUSTOMERS ²	COMPETITORS ²
<p>AUTOMOTIVE ◦ Microcontrollers (8-bit, 16-bit, 32-bit) ◦ discrete/highly integrated power semiconductors (MOSFETs, IGBTs) ◦ voltage regulators ◦ sensors (pressure, temperature, inertia, magnetic field sensors) ◦ components for bus systems (CAN, LIN, MOST, FlexRay)</p> <p>INDUSTRIAL & MULTIMARKET ◦ Microcontrollers (8-bit, 16-bit, 32-bit) ◦ power semiconductor ICs, discrete power semiconductors ◦ IGBT and bipolar modules ◦ discrete small-signal semiconductors ◦ thyristors and diodes ◦ sensors ◦ radio-frequency semiconductors</p> <p>SECURITY & ASICs ◦ Contact-based and contactless security controllers (8-bit, 16-bit, 32-bit) ◦ security memory ◦ RFID chips ◦ Trusted Platform Modules (TPM) ◦ HDD controllers ◦ memory controllers ◦ customized chips with security functions</p>	<p>AUTOMOTIVE</p> <p>No. 2 in automotive semiconductors (no. 1 in Europe) Leader in voltage regulators and power semiconductors</p> <p>INDUSTRIAL & MULTIMARKET</p> <p>No. 1 in power semiconductors No. 2 in all industrial applications</p> <p>SECURITY & ASICs</p> <p>No. 1 in chip-card ICs</p>	<ul style="list-style-type: none"> ◦ ABB, Arrow, Asustek, Autoliv, Avnet ◦ Bosch ◦ Continental ◦ Delphi, Delta, Denso ◦ Emerson ◦ Gemalto, ◦ Giesecke & Devrient ◦ Hella, Hitachi, Hyundai ◦ Kostal ◦ Lear, LG Electronics ◦ Microsoft ◦ Nokia ◦ Oberthur Card Systems ◦ Philips ◦ Rockwell, Rutronik ◦ Siemens, Silicon Application, Schneider Electric, Sony ◦ TRW ◦ Valeo, Visteon 	<ul style="list-style-type: none"> ◦ Atmel ◦ Fairchild, Freescale ◦ International Rectifier ◦ Mitsubishi ◦ National Semiconductor, NEC, NXP ◦ ON Semiconductor ◦ Renesas ◦ Samsung, STMicroelectronics ◦ Texas Instruments, Toshiba

<p>WIRELESS COMMUNICATIONS ◦ Baseband processors, radio-frequency solutions and power management chips, all additionally available as single-chip solutions, software as well as complete platforms for mobile phones ◦ chips for Bluetooth and WLAN ◦ chip sets for cordless telephones ◦ analog and digital TV tuners for stationary and mobile TV receivers ◦ power transistors for cellular base stations ◦ GPS receivers ◦ BAW filters</p> <p>BROADBAND ACCESS ◦ Interface components for voice communications in switching centers and terminal units (e.g. CODECs, SLICs, ISDN, T/E) ◦ solutions for integrated voice and data communications ◦ solutions for VoIP ◦ system solutions for wireline broadband technologies (ADSL2, ADSL2+, VDSL2) ◦ system solutions for DSL modems, routers, home gateways, WLAN access points</p>	<p>WIRELESS COMMUNICATIONS</p> <p>No. 1 in radio-frequency chips (230 million chips sold in 2006) No. 6 in platforms for mobile phones (baseband processor, power management chips and radio-frequency chips)</p> <p>BROADBAND ACCESS</p> <p>No. 1 in the addressed market in access networks (DSL, T/E carriers, analog line cards, etc.)</p>	<ul style="list-style-type: none"> ◦ Alcatel-Lucent, Avnet ◦ Ericsson ◦ Huawei ◦ LG Electronics ◦ Matsushita, Motorola ◦ Ningbo Bird, Nokia, Nokia Siemens Networks ◦ Samsung, Siemens, Silicon Application, Sphairon ◦ Thomson ◦ ZTE 	<ul style="list-style-type: none"> ◦ Broadcom ◦ Conexant ◦ Ericsson Mobile Platforms ◦ Freescale ◦ LSI ◦ Mediatek ◦ NXP ◦ Qualcomm ◦ STMicroelectronics ◦ Texas Instruments
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PRODUCTS	MARKET POSITION ¹	KEY CUSTOMERS ²	COMPETITORS ²
<p>APPLICATION-SPECIFIC DRAMs ◦ Memory modules for servers and network infrastructure ◦ Specialty memories for graphics applications (Graphics RAM) and mobile communication (Mobile-RAM, CellularRAM)</p> <p>STANDARD DRAMs ◦ Memory with densities from 64 Mbit to 1 Gbit</p>	<p>No. 3 for DRAM (first nine months of calendar year 2007) A leader in 300-millimeter wafer production A leader in highly complex memory modules for workstations and servers A leader in high-performance graphics memories A leader in power-saving specialty memories</p>	<ul style="list-style-type: none"> ◦ Asustek, ATI ◦ Cisco ◦ Dell ◦ EMC ◦ Fujitsu-Siemens ◦ HP, HTC ◦ IBM, Intel ◦ Kingston ◦ Lenovo, LG Electronics ◦ Microsoft, Motorola ◦ NEC, Nintendo, Nvidia ◦ Sony, Sun Microsystems 	<ul style="list-style-type: none"> ◦ Elpida ◦ Hynix ◦ Micron ◦ Nanya ◦ Samsung

¹ Sources: AIM: IMS Research, July 2007; Semicast, March 2007; Strategy Analytics, 2007 ◦ COM: Gartner Dataquest, 2007; Strategy Analytics, 2007; Infineon Technologies ◦ Qimonda: Gartner Dataquest, November 2007 ◦ (all market figures for calendar year 2006 if not listed otherwise)
² In alphabetical order

LIFE IS FULL OF CHALLENGES

MILLIONS OF PEOPLE PLACE THEIR TRUST IN OUR PRODUCTS EVERY DAY – WHETHER THEY ARE AWARE OF IT OR NOT. THEY FIND THEMSELVES USING OUR PRODUCTS WHENEVER THEY ARE ON THE PHONE, PURCHASING GOODS WITH THEIR CREDIT CARDS, OR JUST DRIVING THEIR CARS. OUR PRODUCTS HELP THEM TO TALK AND SHARE THEIR DATA, WHETHER AT HOME, IN THE OFFICE, OR ON THE GO.

AS DEVELOPERS AND MANUFACTURERS OF ELECTRONIC COMPONENTS, WE TAKE ON THE CHALLENGES FACING OUR CUSTOMERS AND USERS.



WE DEVELOP SOLUTIONS

THE FUTURE WILL MEAN MORE AND MORE TECHNOLOGY IN OUR EVERYDAY LIVES.

THAT IS WHY WE WORK EVERY DAY ON NEW TECHNOLOGIES AND PRODUCTS THAT WILL HELP SUSTAIN OUR LIVES, AND MAKE US MORE INDEPENDENT AND SECURE.



DR. WOLFGANG ZIEBART
President and CEO
Infineon Technologies AG

Dear ladies and gentlemen,

While our work has been characterized by restructuring and reorganization over the past three years, this phase is now coming to an end. We have made great progress in many areas and have laid a solid foundation for the future. Nearly all of our major areas of activity now number among the top three in their fields and have reached at least the break-even point in earnings before interest and taxes (EBIT). Our Group's EBIT without Qimonda has increased from minus 217 million euros in fiscal year 2006 to minus 49 million euros in fiscal year 2007 (excluding charges: minus 18 million euros in fiscal year 2006 and plus 79 million euros in fiscal year 2007). The Infineon share price improved from 9.35 euros at the end of fiscal year 2006 to close fiscal year 2007 at 12.09 euros. This rise of 29 percent closely followed the development of the German DAX share index (up 31 percent), while it clearly outpaced the SOX semiconductor index (up 10 percent) and the Dow Jones U.S. Semiconductor Index (up 16 percent). That said, the share price has declined since the end of our fiscal year due to the adverse effect of the U.S. dollar/euro exchange rate on our profitability and due to a decline in DRAM prices. Going forward, we will seek to further Infineon's development on the basis of the solid foundation we have laid in the reorganization process. We wish to create a larger, more profitable and – in the interest of our shareholders – a more valuable company. We continue to work towards our goal of an EBIT margin of 10 percent in fiscal year 2009 for Infineon without Qimonda, and plan to take a major step towards this benchmark in the current fiscal year 2008. In the following lines, I would like to provide you with a closer view of the measures taken over the past fiscal years, and our plans for the future.

OUR WAY FORWARD can be roughly divided into two parts. Based on the realization that a strong market position and focus are the primary drivers for strong profitability in the semiconductor industry, we have concentrated in the first phase of reorganization on focusing Infineon on businesses that have similar factors for success, on closing or selling areas that could not be restructured, and on restructuring other areas to turn a profit. We are now beginning

our second phase, which will focus on the expansion of the company through profitable growth and continual improvements in income. The plan should, among other things, lead us to an EBIT margin of 10 percent in fiscal year 2009.

IN THE FIRST PHASE of the reorganization, our increased concentration on business areas with similar success factors particularly affected our former memory business. As the result of an increasing divergence of the success factors involved, a separate and independent memory business can be run in a way more conducive to meeting the needs of the market. We have thus carved out our memory activities to form Qimonda, a legally independent subsidiary, which has been listed on the New York stock market since August 2006. We reduced our participation in Qimonda to 77.5 percent in September 2007. We wish to arrive at a minority shareholding by the Shareholders' General Meeting in 2009. Funds received from the reduction of our share in Qimonda will be used in acquisitions and share buybacks. We also wish to lay the framework at the coming General Meeting for the payment of Qimonda shares as dividends-in-kind to our shareholders. The gradual reduction of our participation in Qimonda affords more entrepreneurial freedom to both Qimonda and Infineon, thus benefiting both parties.

OVER THE PAST THREE YEARS, we have closed down or sold a number of businesses of Infineon's remaining core business (excluding Qimonda), for which restructuring did not seem to be possible. We have thus discontinued our activities in optical networks, parts of the fiber-optics business, and in controllers for cellular infrastructure. We also sold other parts of the fiber-optics business, our activities at Polymer Optical Fiber, and our Sci-Worx subsidiary.

AS THE RESULT OF THIS CONSOLIDATION PROCESS, we have formed a portfolio of businesses which has an excellent outlook worldwide in terms of market share, innovative capability, and customer access. While not all segments of our portfolio were sufficiently profitable, we have been successful in restructuring

areas that had been showing losses. Our discrete semiconductors, wireline access solutions and chipcard activities that had been sustaining losses have all turned in positive earnings before interest and taxes this past fiscal year. We are particularly pleased with the improvement in our wireless business in the last fiscal year. Just a year ago the unit was facing severe challenges caused by the insolvency of its major customer. Now, however, with several new customers, it can pursue the goal of becoming the world's number three company in mobile-phone platforms. Amongst others, we have received a major order for our GSM/GPRS products from Nokia, the world's top mobile-phone manufacturer, and we have expanded our supplier share at LG, number five on the global market. Other renowned customers develop mobile phones based on our system solutions. Acquisitions have also contributed to our success. Our acquisition of LSI's mobile-phone activities, announced in August, has dramatically improved our position as a supplier of mobile-phone chips to Samsung, the second largest manufacturer of mobile phones worldwide. Our wireless business should, as planned, break-even in EBIT excluding charges during the last quarter of calendar year 2007. Our AIM business group also developed to our great satisfaction this past fiscal year, with sales rising 6 percent to over 3 billion euros, and its EBIT margin improving to 10 percent from 9 percent in fiscal year 2006. We set a new record in sales at 814 million euros in the last quarter of the fiscal year, for an EBIT margin of 12 percent. We also increased our market share in power and automotive semiconductors even further, thus solidifying our top position in both of these markets. In all, we have had great success in the reorganization of the company, setting it on the right course for the future. Today, our business areas and activities enjoy a superb outlook with regard to market share, innovation capability, and customer access in the global arena and yield a strong foundation for the future.

BUILDING ON THIS FOUNDATION, we will now begin a second phase of progress at Infineon. We wish to create a larger, more profitable, and – in the

interest of our shareholders – more valuable company. In the future, we will continue to seek improvement in five different areas:

FIRST: WE WISH TO GROW – AND WE WILL. The semiconductor solutions that we develop provide great added value with regard to three central challenges facing our society today: energy efficiency, communications and security.

- Energy efficiency: Continually rising energy-production costs, limited access to fossil fuels and increased environmental constraints all combine to create a greater demand for products that boost efficiency of resource utilization. Our semiconductor solutions have served to increase efficiency in energy production, energy transmission and energy consumption for many years, and have helped to make cars cleaner and more economical. We have benefited from this through our growth in the past, and expect to do so in the future.
- Communications: An increasing number of people wish to be connected with other people or with the Internet in all places and at all times. We make this possible with our semiconductor solutions for mobile and wireline communications. The resulting added value, combined with the significant increase in orders in our wireless business, are our primary growth drivers in the area of communications.
- Security: There are more and more ways to access data in today's world, adding to our flexibility and opening up new possibilities in our daily lives. At the same time, however, we must ensure that our data and intellectual property remain protected from unauthorized access and manipulation. Our expertise in semiconductor solutions for security has proven successful in meeting this challenge, and we will continue to make use of this growth potential in the future.

SECOND: WE WISH TO CONTINUE TO INCREASE OUR PROFITABILITY with the goal of attaining an EBIT margin of 10 percent for Infineon without Qimonda

in fiscal year 2009. We will seek to make clear strides toward this goal in the course of the current fiscal year, thereby continuing a trend in income that began in fiscal year 2007.

THIRD: WE WISH TO REDUCE THE CAPITAL INTENSITY OF OUR BUSINESS. In connection with an increase in profitability, we will seek a strong improvement of our cash inflow. Our fixed-asset investment (excluding Qimonda) is currently at about 12 percent of our sales. In the future, our differentiated production model will allow for, in absolute terms, a relative constancy of investment in fixed assets alongside an increase in sales – i.e. a reduction in the ratio of our capital expenditures relative to our sales. We believe that by continuing our differentiated production model, we can reduce the ratio of capital expenditures to sales by at least one to two percentage points over the next two fiscal years.

FOURTH: WE WISH TO MAINTAIN AN EFFICIENT CAPITAL STRUCTURE. Our balance sheet (excluding Qimonda) currently contains a small net debt position. In our view, this is quite appropriate with regard to the size of both our gross debt and our gross cash in hand. Once we reach the three goals mentioned so far, however, we should see improved earnings and cash flows on a sustainable basis. Providing that a sensible ratio between debt and shareholders' equity is maintained, our balance sheet can then sustain higher debt levels – as long as the increase in debt is exercised with good judgment. We would like to maintain optimal capital costs over the long term in such a manner.

FIFTH: WE WISH TO MAKE USE OF OUR STRATEGIC OPTIONS in expanding Infineon. We continue to maintain the view that our industry is in a process of consolidation within its individual segments – a trend for which we are very well positioned. We number among the leaders in most of the markets that we supply. The majority of our customers are global market leaders in their fields, which attests to the high technical quality of our products. Our solid financial position and the possibility of raising additional cash through the sale of

Qimonda stock gives us the financial strength and flexibility to make use of consolidation options at any time. The acquisition of Texas Instrument's DSL Customer Premises Equipment solutions was a first step in this direction, and served to boost our Broadband business. I have already discussed the second step in this process, which was the subsequent acquisition of LSI's mobile-phone activities. We will continue to make acquisitions in the future that will improve specifically targeted areas of our core business while playing an active role in our industry's process of consolidation.

LADIES AND GENTLEMEN, we have made great progress over the past three years. We have completely restructured Infineon and provided it with a solid foundation for the future. We have strongly improved our market positions, our customer base and – not insignificantly – our results. This would all have been impossible without the flexibility, competence, commitment and devotion of our employees. We would not have otherwise been able to achieve the results that we have in the course of the deep-cutting change and in light of the extremely complex problems that Infineon's reorganization has entailed. On behalf of the entire Management Board, I would like to thank the Infineon employees for their great efforts. Together, we will do all that we can in the future to take advantage of the enormous potential that our current situation holds for us.

NEUBIBERG, DECEMBER 2007

A handwritten signature in blue ink, appearing to read 'W. Ziebart', written in a cursive style.

DR. WOLFGANG ZIEBART
President and CEO



PETER BAUER

DR. REINHARD PLOSS

DR. WOLFGANG ZIEBART

PROF. DR. HERMANN EUL

PETER J. FISCHL

The Management Board of Infineon Technologies AG

PETER BAUER ◦ Head of Automotive, Industrial & Multimarket Business Group
Electrical engineer (Dipl.-Ing.)
Member of the Management Board since April 1999

DR. REINHARD PLOSS ◦ Head of Operations
Doctorate in chemical engineering (Dr.-Ing.)
Member of the Management Board since June 2007

DR. WOLFGANG ZIEBART ◦ President and Chief Executive Officer (CEO)
Doctorate in mechanical engineering (Dr.-Ing.)
Member of the Management Board since September 2004

PROF. DR. HERMANN EUL ◦ Head of Communication Solutions Business Group
Doctorate in electrical engineering (Dr.-Ing.), Professor
Member of the Management Board since July 2005

PETER J. FISCHL ◦ Chief Financial Officer (CFO) and Labor Director
BA equivalent degree in business and finance
Member of the Management Board from April 1999 to April 2007 and since August 2007



ENERGY EFFICIENCY

WHAT IS THE TEMPERATURE OUTSIDE?
WILL THIS SUMMER BE SO HOT AGAIN?
WHY IS OUR ELECTRICITY BILL SO HIGH?

DO OUR AIR CONDITIONERS SAVE ENERGY?



INTELLIGENT CONTROLS
STRONG PERFORMANCE
LOW CONSUMPTION

INFINEON MEANS ENERGY EFFICIENCY

435 MILLION

435 MILLION AIR CONDITIONERS AND
OTHER HOUSEHOLD APPLIANCES WILL
BE SOLD IN 2010. → IMAGE 04, PAGE 25

Source: IMS Research, 2007

Motors account for the greatest portion of the electricity that we use.

They are at work in industrial facilities and household appliances in the form of drives, pumps and ventilators, and they provide power for dishwashers, washing machines and air conditioners. Installed in control devices, our power semiconductors are able to reduce power consumption while maintaining performance and improving comfort.

DR. GERHARD MILLER IS IN CHARGE OF POWER SEMICONDUCTOR DEVELOPMENT FOR CONSUMER AND INDUSTRY PRODUCTS. HIS UNIT'S PRODUCTS CAN BE FOUND IN COOLING SYSTEMS AND WASHING MACHINES, RAIL SYSTEMS AND FERRYBOATS.



ENERGY EFFICIENCY



COMMUNICATIONS

HOW'S THE WEATHER HOLDING UP?
IS THE NEW NET FINISHED?
HOW WAS MY COLLEAGUES' CATCH?

WHICH MARKET AFFORDS US THE BEST PRICES TODAY?



ALWAYS MOBILE
CONTINUOUSLY LINKED
EVER INFORMED

INFINEON MEANS COMMUNICATIONS



1.5 BILLION

IN 2010, 1.5 BILLION MOBILE PHONES
WILL BE SOLD WORLDWIDE. → IMAGE 05, PAGE 27

Source: ABI Research, Q4 2007

Communication is a mainstay of our globalized world. Accessibility is important to our relationships, and is crucial to our work and income. Supporting an ever-faster exchange of information, our communication solutions improve our quality of life, and support greater innovation. Lower prices for mobile-phone components make it possible to distribute them more extensively in the rapidly growing markets of newly industrializing countries.

DANIEL BERGMANN DEFINES OUR SINGLE-CHIP SOLUTIONS FOR THE NEXT GENERATION OF MOBILE PHONES. TOGETHER WITH OUR CUSTOMERS, HE DETERMINES HOW THE CHIPS FUNCTION, HOW COMPLEX THEY ARE, AND HOW MUCH THEY COST.



COMMUNICATIONS



SECURITY

IS MY CASH CARD SECURE?
IS THE TRANSACTION GOING TO GO THROUGH?
DID PEOPLE USE TO HAVE TO WAIT IN LINE?

**WILL I SOON BE ABLE
TO PAY WITHOUT USING
CASH?**



SECURE STORAGE
RAPID IDENTIFICATION
CONTACTLESS TRANSMISSION

INFINEON MEANS SECURITY

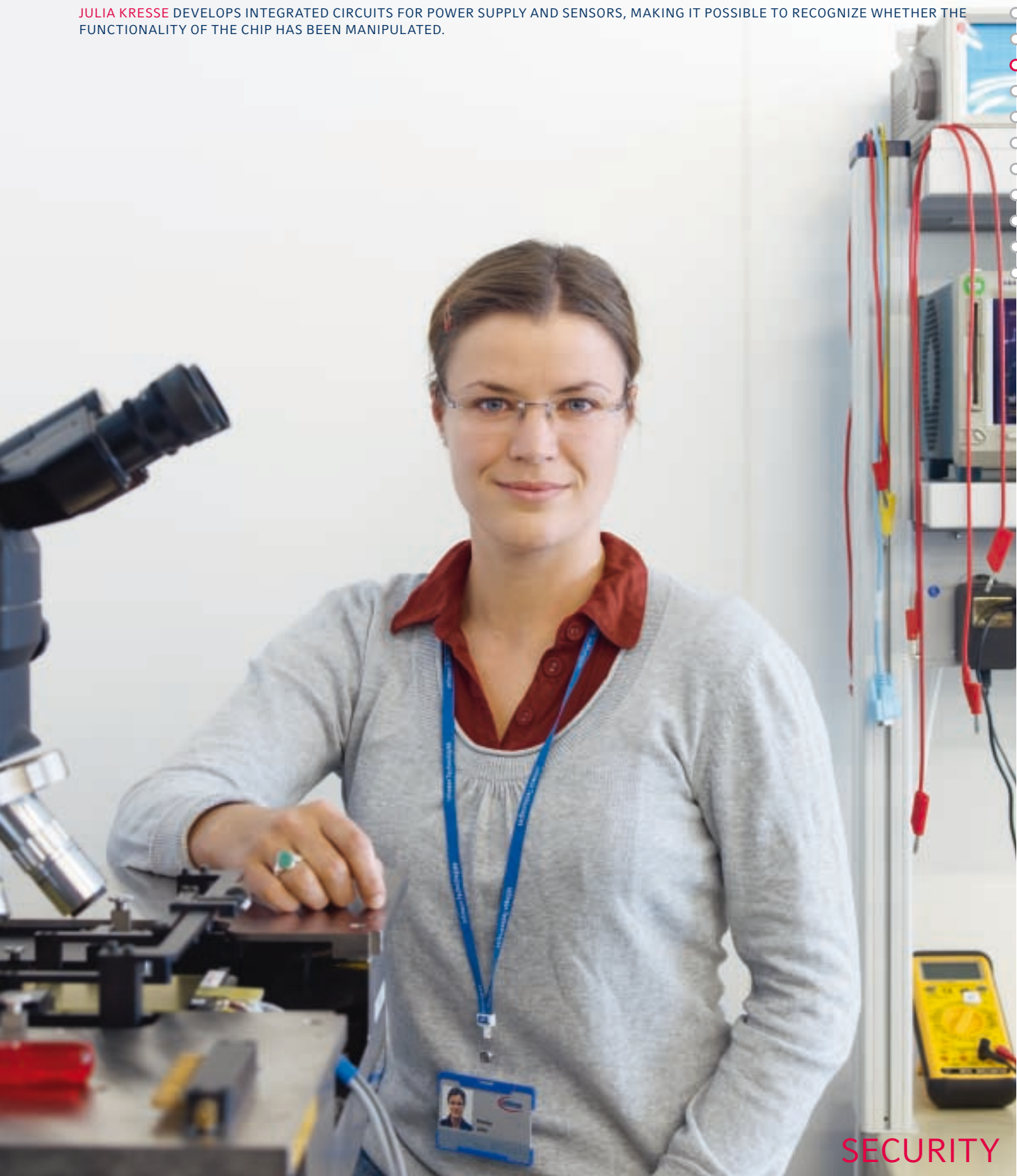
6.5 BILLION

OVER 6.5 BILLION CHIP CARDS WILL BE ISSUED IN 2010 FOR PAYMENT SYSTEMS, IDENTIFICATION CARDS AND MOBILE COMMUNICATIONS. → IMAGE 06, PAGE 28

Source: Frost & Sullivan, August 2007

Our goal is to make data secure and to protect intellectual property. Our products ensure that data are stored and transmitted securely, whether over short or long distances, through physical contact or via wireless systems. Anchored in many years of expertise, we can provide a level of security that makes it possible to mass-produce applications such as chip-based identity and insurance cards, and credit and debit cards.

JULIA KRESSE DEVELOPS INTEGRATED CIRCUITS FOR POWER SUPPLY AND SENSORS, MAKING IT POSSIBLE TO RECOGNIZE WHETHER THE FUNCTIONALITY OF THE CHIP HAS BEEN MANIPULATED.



SECURITY

Semiconductors make it possible to uphold the world's highest security standards. They ensure that databases and data exchanges, financial transactions, logistics systems and border controls are easier to use and maintain, as well as being more secure.

COMMUNICATIONS

Semiconductors transmit voice and data – whether using wireless or wireline systems. Microchips bring people closer together and increase productivity.

ENERGY EFFICIENCY

Semiconductors increase energy efficiency in cars and in all value-added steps of the energy sector, including the generation, transmission and especially in the use of electricity. This efficiency helps to protect the environment while saving money.

Focus Areas

The growth of our business is driven by three major trends that should continue to be of great importance to us into the future.

- **Energy efficiency:** State-of-the-art power semiconductors protect the environment while saving money
- **Communications:** Microchips keep people connected and provide Internet access everywhere and at all times
- **Security:** More effective products protect our privacy and intellectual property

FOCUS AREA ENERGY EFFICIENCY

Three major developments will continue to drive the demand for semiconductors: An increased awareness of the importance of environmental protection, legal requirements and higher energy costs.

ENVIRONMENTAL AWARENESS, LEGAL REGULATIONS, ENERGY COSTS

The protection of our environment and our resources will continue to place an ever-greater demand on modern technology well into the future. With energy use and costs on the rise, it is important that electricity be used efficiently. Power semiconductors, i.e. semiconductor components that can be used to switch high voltages and currents, go a long way toward making this a reality. In this way, technology companies such as Infineon can contribute a great deal to protecting our environment and our world's climate.

HIGH-QUALITY ELECTRICITY NEEDED

Around a third of the energy used worldwide is consumed in the form of electricity. No matter how this energy is produced – whether by wind, water, coal, oil, gas or nuclear reactors – electricity can be difficult to manage and needs to be transformed into a controllable and steady source with as little loss as possible. Especially when it comes to renewable energy, our power semiconductors are playing an increasingly important role in the process. Wind turbines provide a particularly unsteady source of energy, especially when compared with nuclear and coal plants, as they are subject to the vagaries of the wind. Semiconductors, therefore, come into play even more predominantly in wind turbine parks, and make it possible for the electricity to be fed into the power grid efficiently.

LITTLE ENERGY LOSS OVER A THOUSAND KILOMETERS

Once produced, the energy needs to be carried efficiently to its destination through the use of alternating or direct-current systems. In newly industrializing economies such as China, India, Brazil and Russia, and throughout much of Africa, High-Voltage Direct-Current (HVDC) transmission systems are gaining considerable ground. In countries such as these, electricity must be transported over long distances – often greater than a thousand kilometers – from the energy sources to the countries' large and growing urban centers. Alternating current networks cannot service these distances while maintaining the required power quality, whereas HVDC systems are more robust and lose less energy along the way. Transformer stations



are, however, required at both ends of the route in order to convert the alternating current into direct current and back again. For these systems, Infineon provides thyristors, which are triggered either electrically or by light.

MOTORS ACCOUNT FOR A MAJORITY OF ELECTRICAL USE

Over 60 percent of all electricity is used to power motors, and efforts to improve their efficiency can lead to particularly far-reaching improvements. Modern semiconductor solutions in control units can reduce energy needs considerably in drive mechanisms, pumps, ventilators and compressors. To make this possible, electrical devices must have semiconductors that meet their specific requirements, i.e. with the necessary frequency and torque. Today, these advanced motor systems are the exception to the rule, even in progressive industrialized countries. Without electronic controls, motors can only be either on or off. The long-term transition to new technologies entails great sales potential for our microcontrollers and power modules. Rising energy prices over the past few years have served to accelerate this transition.

MANAGING POWER CONSUMPTION IN PCs AND SERVERS

Computer centers are yet another current example of why efficient energy and power management are so important. The centers' high energy consumption generates considerable waste heat that must be managed, thus raising costs. Computer center operators are therefore particularly interested in economic solutions when it comes to their servers' power consumption. This is where our power transistors for power supply units and motherboards prove their worth for our customers and our company.

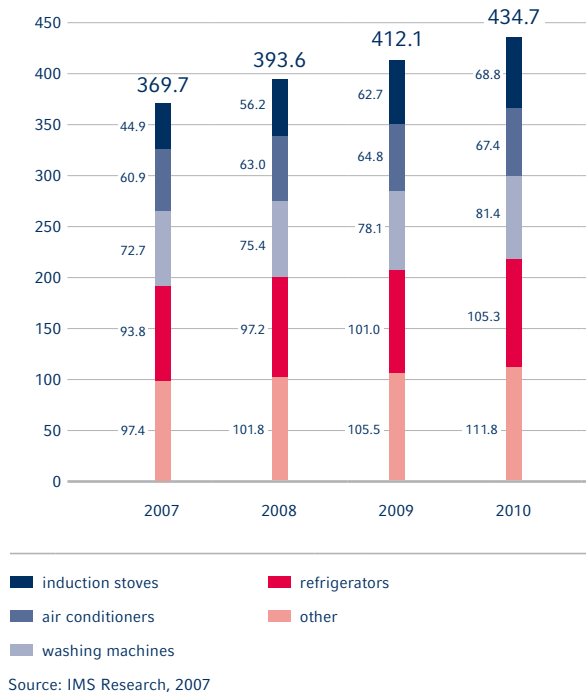
POTENTIAL SAVINGS AT HOME

Our components can help to reduce energy use in the home as well, whether in refrigerators, air conditioners, washing machines or in standard electrical or induction stoves. → [IMAGE 04](#)
We can also save power when appliances are in stand by mode. Calculations have shown that two mid-sized power plants are required to provide the stand by power used by television sets in Europe alone. Infineon has developed power semiconductors for entertainment electronics devices that significantly reduce the power used in stand by mode.

STRICTER EMISSIONS REGULATIONS INCREASE AUTOMOTIVE SEMICONDUCTOR USE

More stringent emissions regulations, including the Euro 5 and Euro 6 norms in the EU and other strict measures in India and China, will increase the demand for semiconductors in cars as well. Infineon's microcontrollers, power semiconductors and sensors enable vehicles to fulfill the strict emissions standards in Europe and the United States. Pressure and gas sensors continually monitor the air-fuel ratio, while microcontrollers determine optimal injection and ignition times within a mere fraction of a second. The use of increasingly efficient electronic components reduces the emissions of pollutants and other particles.

04 PROJECTED GLOBAL HOUSEHOLD APPLIANCE SALES IN MILLIONS OF UNITS



ELECTRIC AUTO PARTS AFFECT FUEL CONSUMPTION

Car parts of all types run on electric power, including electric motors (in fuel pumps, power windows and sunroofs), lighting devices (headlights and interior lighting) and air conditioning and heating systems. Via the alternator, the power needs of these devices increase fuel use. Increasingly effective semiconductor components, however, can increase the efficiency of these systems.

ELECTRIC POWER USED BY HYBRIDS IS SURPRISINGLY HIGH

Power use and the environmental damage caused by exhaust fumes will remain two important considerations for prospective buyers, as demand for hybrid vehicles continues to rise. Hybrid cars combine internal combustion engines and electric motors. State-of-the-art Infineon electronics will make it possible to increase the energy efficiency of these vehicles. Hybrid drives require up to 150 kilowatts (200 hp) of power, the equivalent of 75 washing machines. With decades of industrial experience with systems of this magnitude, Infineon is well-prepared to meet these challenges.



FOCUS AREA COMMUNICATIONS

Some seven million people become new mobile-phone subscribers each month in China. This figure is rising fast in other developing economies as well. → **IMAGE 05** The most popular phones there are simple and affordable, without too many additional options. The telephones' low prices chiefly reflect considerable reductions in production costs. Infineon makes this possible by integrating numerous individual semiconductor components into a single-chip solution such as on Infineon's GSM/GPRS platforms. Infineon is the global leader in this field. Millions of people in China and elsewhere are already communicating by means of mobile phones with our single-chip solution.

MORE ADVANCED TELEPHONES FOR COMPLEX APPLICATIONS

In industrialized countries, on the other hand, demand is on the rise for mobile phones that offer a number of additional multimedia applications. One can download music and new navigational maps, visit websites, and send videos, all in data-intensive applications based on 3G technology using the HSDPA download protocol. These all-around devices require a large number of semiconductor components and very complex software solutions. Our 3G solutions are especially geared towards this market.

INFINEON PROFITS FROM CHANGES IN THE MOBILE COMMUNICATIONS INDUSTRY

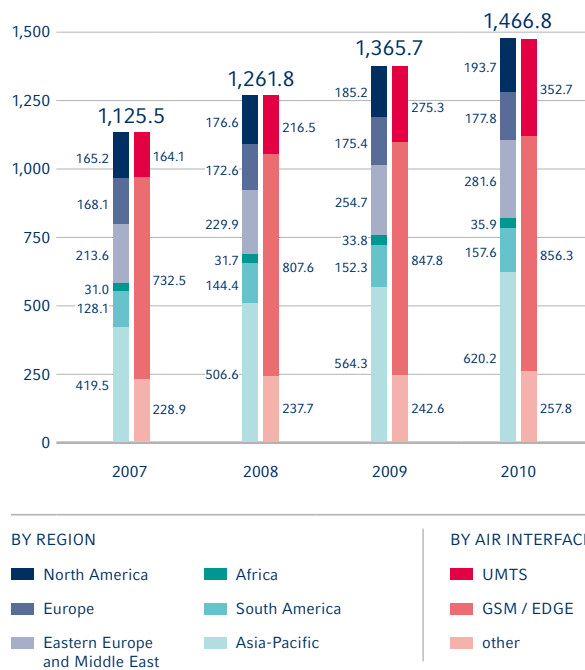
It was one of the breaking news for the mobile-phone semiconductor market, when Nokia, the world's largest mobile-phone manufacturer, announced that it will expand its use of commercially available chips and reduce its own chip development. Infineon will profit from this decision as the supplier selected to deliver single-chip solutions for Nokia's entry-level phones.

In another trend, network operators such as Vodafone, department store chains and fashion brands have been edging into the market with their own mobile phones. This development is also positive for us, since these companies do not manufacture their own phones themselves, but instead employ contract manufacturers, who in turn favor predeveloped mobile-phone platform solutions such as those provided by Infineon.

IP-BASED NETWORKS OFFER GREAT ADVANTAGES

We have witnessed dynamic developments in the wireline sector as well. Networks are currently being reorganized with voice networks being integrated into data networks based on the Internet Protocol (IP). In this new system, voice and data traffic are both transmitted via a broadband network with new features and services. The expansion of high-speed networks for rapid data transfer will be a primary focus of the telecommunications market over the next ten years. This process will result in the Next-Generation Network (NGN), a combination of previous networks (telephone and mobile networks) and IP-based networks. This will require network operators to invest in their infrastructure, an investment that will benefit Infineon,

05 PROJECTED GLOBAL MOBILE PHONE SALES IN MILLIONS OF UNITS



Source: ABI Research, Q4 2007

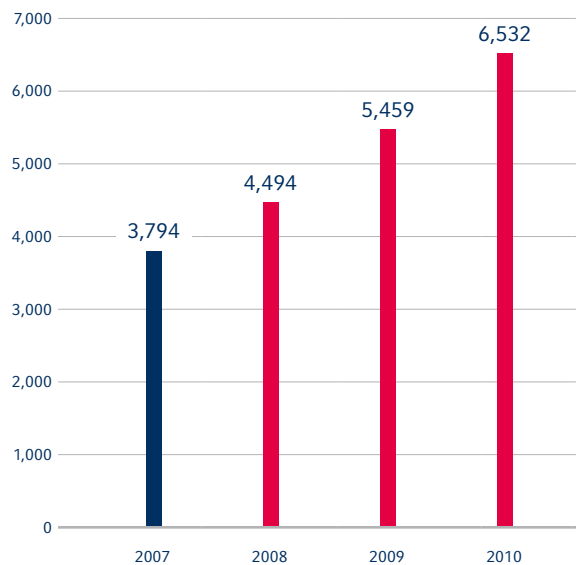
which offers a comprehensive range of communication chips both for switching centers and for customer premises equipment.

INTERACTIVE TELEVISION: AS YOU LIKE IT

With Internet Protocol Television (IPTV), rigid schedules are becoming a thing of the past. Like other Internet services, the interactive system turns viewers into service users. Future television viewers will watch whatever they want, whenever they want. They will be able to pause movies when the phone rings, and have full control over their television programming.

Since High-Definition Television (HDTV) entails the transmission of particularly large amounts of data, IPTV requires suitably fast DSL connections. Such connections are now being introduced in many places throughout the world. As the network operators improve their networks, their customers will need to purchase more powerful access devices. All this will provide the basis for Infineon's future growth in the broadband sector.

06 PROJECTED GLOBAL MICROCONTROLLER IC SALES FOR CHIP CARD APPLICATIONS IN MILLIONS OF UNITS



Source: Frost & Sullivan, August 2007

FOCUS AREA SECURITY

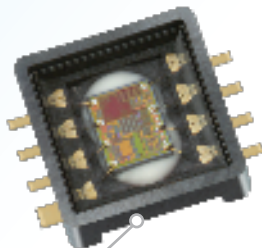
We are currently in the midst of a period of transition from paper documents and bank cards with magnetic stripes to chip-based cards. → **IMAGE 06** New encryption processes made possible by microcontrollers and cryptography processors are incomparably more secure than earlier solutions. Certain everyday devices such as Subscriber Identity Module (SIM) cards for mobile phones are also fully dependent on automatic authentication. Infineon is the supplier of the security controllers used in credit cards, patient cards and health and social insurance cards for the largest national programs today.

NETWORK SECURITY WITH TRUSTED COMPUTING

An increasing number of laptop manufacturers have been equipping their products with the Trusted Platform Module (TPM) chip. The TPM can be used to determine whether the configuration of hardware and software has been altered. Their integrity is of decisive importance in security applications such as electronic signatures. Thought has also been given to the integration of TPM into mobile phones as well. This would turn the devices into terminals for mobile electronic commerce and electronic banking. Infineon provides TPM units as complete solutions including software.

WHAT DOES THE FUTURE HAVE IN STORE?

RESOURCES USED WITH GREATER EFFICIENCY
INCREASED DATA TRANSMISSION RATES AND ACCESS
SECURE DATA MADE SIMPLE



KP 125

The KP 125 pressure sensor measures barometric pressure. The sensor provides optimal injection parameters, thereby reducing hazardous emissions considerably.

CIPOS™

The highly integrated CIPOS™ power module drives electric engines with variable speeds. The module is used to meet the needs of appliances such as air conditioners and washing machines.



SMARTi® UE

The SMARTi® UE radio-frequency transceiver supports all conventional frequency bands worldwide. The chip will be used in dual-mode UMTS/EDGE mobile telephones.



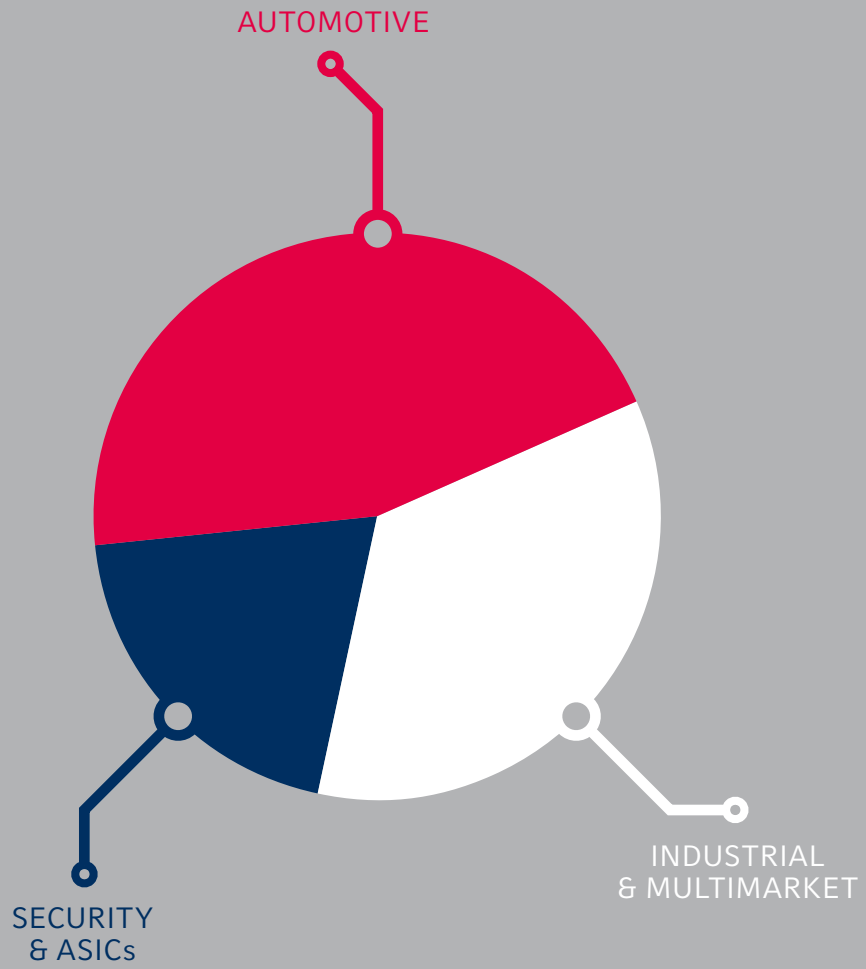
AMAZON SE

The high level of integration of the AMAZON SE solution makes the design and assembly of ADSL2+ modems easier. The single-chip solution helps expand the broadband technology market.



TPM v1.2

The TPM v1.2 security chip is part of a security solution engineered for Microsoft Windows Vista. The system impedes the unauthorized access of laptop and PC data.





○ Infineon Technologies ○ Automotive, Industrial & Multimarket

IFX • **AIM**

The Automotive, Industrial & Multimarket (AIM) business group is divided into three businesses: Automotive, Industrial & Multimarket, and Security & ASICs. The focus areas energy efficiency and security both play major roles in the sales of this business group.

AUTOMOTIVE • Powertrain (engine and transmission control); car body and comfort electronics (steering, shock absorbers, lighting, air conditioning, sunroof, power windows); safety (ABS, airbags, ESP); multimedia and telematics.

INDUSTRIAL & MULTIMARKET • Control of electric drives; energy transmission and conversion modules; renewable energy production; control of electric motor drives in washing machines and air conditioners; semiconductor components used to control light sources, energy-saving lamps and light management systems; medical equipment; power-supply units for PCs, game consoles and entertainment electronics.

SECURITY & ASICs • Chip-based cards for use in communications applications, payment transactions and identification; object identification and logistics; platform security for computers and networks; custom-designed components for hard disc drives and other PC peripherals, and for medical technology applications.

Business Group AIM

Sales up 6 percent from previous year to 3.02 billion euros;
EBIT up 22 percent to 300 million euros over same period.

- Great growth potential in the smart control of electric motors
- Power semiconductors play an important role in renewable energies
- Boom in contactless chip-card applications and chip-based identification systems

AUTOMOTIVE

Complete control systems, comprising sensors, microcontrollers and actuators, make certain that requirements are met for fuel use, transmission control, complex safety systems or air conditioning. At Infineon, our system-related expertise in vehicle powertrains, safety systems and in car body and comfort electronics contributes to new innovations – not only for cars, but increasingly for motorcycles as well.

Fuel consumption and the emission of hazardous substances currently dominate discussions on the future of cars. Car buyers, however, base their decisions for cars on automotive safety as well. For quite a while now, airbags and Antilock Braking Systems (ABS) have been viewed as indispensable automotive features. Additional safety improvements in current and future cars will also reflect stricter legislature introduced in the United States, and will help pursue the EU goal to reduce the number of traffic deaths by half between 2000 and 2010.

Infineon's airbag sensors can already be found in every fourth car, and the company's tire pressure sensors in one out of every two cars produced in the world. Each new car has an average of two dozen Infineon components, of which five are sensors for applications that are essential to safety.

INDUSTRIAL & MULTIMARKET

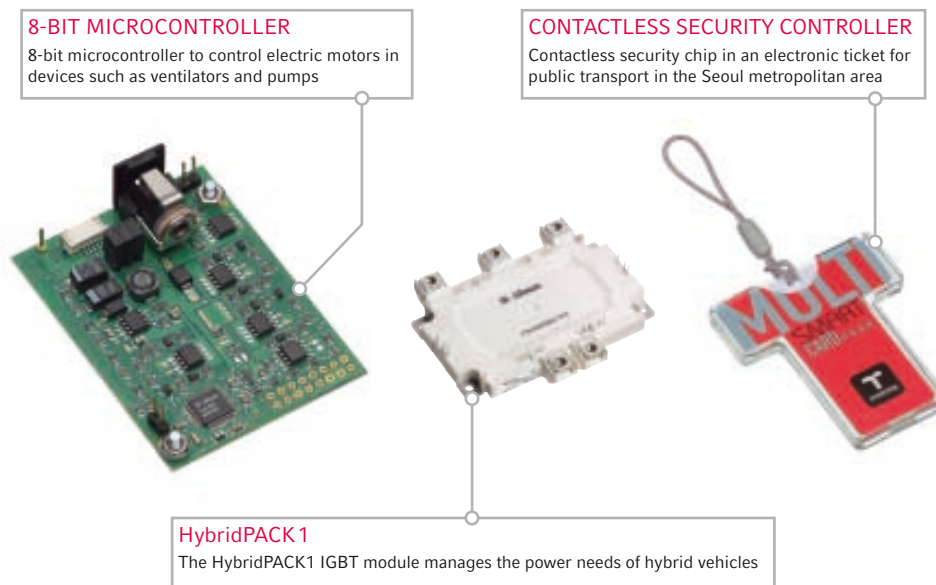
Around 80 percent of the semiconductors required for the electric drives of hybrid cars are power semiconductors. Infineon's HybridPACK™ covers these needs well, anchored in our decades of industrial experience with IGBT modules. → **IMAGE 08** We are the only automotive semiconductor manufacturer that is able to provide its customers with power components for hybrid vehicles.

Today, innovative semiconductor solutions are used in each link of the value-added chain – in the generation, transmission and use of electricity. Infineon power semiconductors are at work in all of these areas.

Power semiconductor solutions are playing an increasingly important role in sources of renewable energy. The latest products of Infineon's PrimePACK™ family represent the most compact modular solutions yet, working within wind turbine inverters to ensure that the electricity produced can be fed into the power grid.

Our microcontrollers and power modules also play a strong role in optimizing system solutions in the industrial drive systems, elevators, traction and auxiliary drives, power supply

08 PRODUCTS FROM THE AIM BUSINESS GROUP



and heating systems used in railroads and trains. One such example is our highly integrated CIPOS™ module for electric engine drives with a variable speed and power of up to 3,000 watts. The module is used in appliances such as dishwashers, washing machines and air conditioners. → **IMAGE PAGE 29** Our electronic products used to control fluorescent lamps ensure that the gases in the lamps are excited optimally, reducing flickering, extending the lamps' lifespan and saving energy.

SECURITY & ASICs

Rising demand for secure, hardware-based identity cards has arisen chiefly from the integration of security chips into electronic travel documents and health insurance cards. Over 70 million security cards of this kind were equipped with an Infineon chip in 2007 alone.

Other areas of growth include contactless chip-card systems and mobile communications, including high-end SIM cards for mobile TV applications, and SIM cards with a memory capacity in the single and double-digit megabyte range.

For the tenth consecutive year, Infineon was the global market leader in chips for card applications – and is also the world's leading supplier of security chips for credit and debit cards.



WIRELESS COMMUNICATIONS



BROADBAND ACCESS



○ Infineon Technologies ○ Communication Solutions

IFX • COM

The Communication Solutions (COM) business group is divided into two businesses: Wireless Communications and Broadband Access. The focus area communications plays a major role in the sales of this business group.

WIRELESS COMMUNICATIONS • Baseband processors, RF solutions and power management chips, all additionally available as single-chip solutions; complete platforms including software for all classes of mobile telephones and transmission standards; chips for Bluetooth, WLAN and GPS receiver; chip sets for cordless telephones, analog and digital tuners for television reception; power transistors for base stations.

BROADBAND ACCESS • Chips for analog telephones and ISDN, integrated voice and data communications; broadband access technologies for network operators and individual customers; cellular infrastructure.

Business Group COM

Sales down 13 percent to 1.05 billion euros from previous year;
EBIT up 31 percent to negative 160 million euros for the same period.

- Infineon is very well positioned to benefit from growth trends
- Successful production start for new customers in the mobile-phone sector
- Acquisitions boost activities in both mobile platforms and broadband access

WIRELESS COMMUNICATIONS

Infineon has been setting new standards both in its complete mobile platform solutions and in its radio-frequency (RF) transceivers. Our X-GOLD™101 single-chip solution and our XMM™2010 platform for EDGE technology have become standards in compact mobile-phone design. Our XMM™6080 platform for 3G multimedia devices supports an HSDPA transmission rate of 7.2 megabits per second. → **IMAGE 10** In RF transceivers we have solidified our position as a market leader with some 230 million chips sold in 2006¹. Also in terms of technology, we are leading with our CMOS-based transceivers for the rapidly growing EDGE and 3G segments.

As a result of the bankruptcy of BenQ Mobile GmbH & Co. OHG, a major customer, the unit was faced with a drop of about 170 million euros in sales compared with the previous fiscal year. We have already been able to make up for a large portion of this in that we have shifted the focus of the business area, and are continually diversifying it to include projects for other new customers. Numerous models got off to an exemplary start, including new models from LG Electronics (EDGE and GSM/GPRS), ZTE (GSM/GPRS), and Panasonic (3G), each based on Infineon platforms. We are now on schedule to break-even in EBIT for Wireless Communications by the end of calendar year 2007.

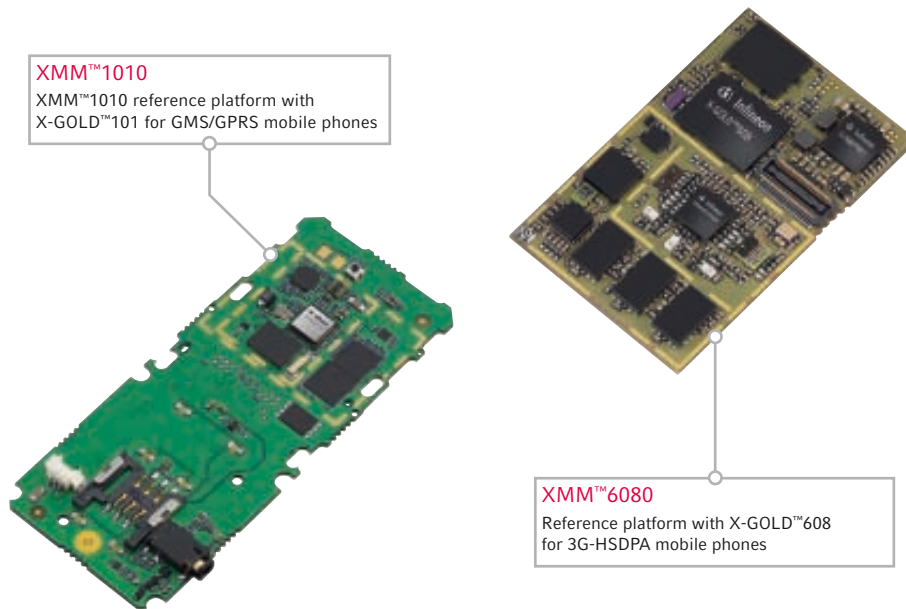
In February 2007, Nokia, for one, has decided on our X-GOLD™101 GSM/GPRS single-chip solution. Our EDGE and HSDPA platforms have also gained new customers. → **IMAGE 10** In RF transceivers Ericsson Mobile Platforms has opted for our CMOS-based transceiver, SMARTi® 3G. We have also signed an agreement with Motorola for the development of a 3G RF transceiver.

Infineon signed a contract this August to acquire LSI's Mobility Products Group, which has broadened our market share and sales base, particularly with respect to our customer Samsung, which is now the world's second-largest manufacturer of mobile phones. The agreement also served to strengthen our research and development work in mobile-phone platform solutions. This will speed up our rise to join the ranks of top suppliers of chips for mobile phones.

BROADBAND ACCESS

In calendar year 2006, Infineon was able to maintain its position as the market leader in access networks (including DSL, T/E and analog telephony). Our complete range of telecommunication chips gives us a competitive advantage.

10 PRODUCTS FROM THE COM BUSINESS GROUP

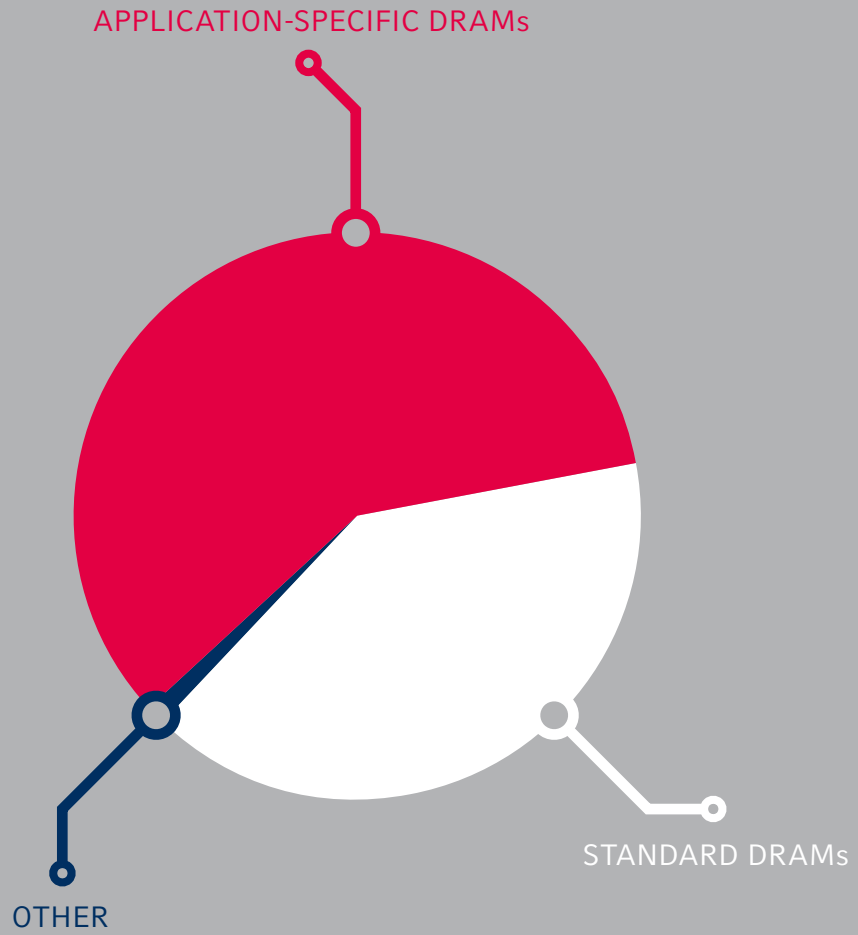


Infineon can provide all links to the DSL value-added chain, from switching centers and street cabinets to individual home units, including chips for DSL routers, VoIP telephony, WLAN and Ethernet switching applications. Infineon's DSL portfolio includes products for a variety of standards including ADSL2/2+, IVD (Integrated Voice and Data), SHDSL and VDSL2.

Infineon also provides complete hardware and software designs for DSL Customer Premises Equipment (CPE), leading to considerable savings in the time and effort that system manufacturers put into the development process. One such example is the AMAZON SE single-chip solution. → [IMAGE PAGE 29](#)

In fiscal year 2007, Infineon acquired Texas Instruments' DSL CPE segment. This will allow Infineon to strengthen its market position even further by complementing its innovative product range with an expansive global network operator and customer base for DSL CPE from Texas Instruments.







○ Infineon Technologies ○ Qimonda

Qimonda

Qimonda is one of the world's largest manufacturers of semiconductor memory products. Its product range includes memory solutions for a large number of different applications, from electronic data processing, game consoles and entertainment systems to mobile phones.

APPLICATION-SPECIFIC DRAMs • Technologically sophisticated memory products for use in servers and network infrastructures, for graphics applications, mobile communications and consumer electronics.

STANDARD DRAMs • Memory products with a variety of speeds, configurations and memory densities for PCs, laptops and workstations.

OTHER • Embedded memory products; license revenue.

Qimonda

Sales down 5 percent to 3.61 billion euros from previous year;
EBIT down to negative 246 million euros over same period.

- Calendar year 2007 was defined by strong supply growth
- Successful continuation of the diversification strategy into entertainment electronics
- Expansion of development and production cooperation for future growth

Fiscal year 2007 was characterized by a substantial change in the DRAM market situation. Following a period of market scarcity during the first quarter, with prices remaining stable, prices began to fall in the second quarter of fiscal year 2007, continuing on into the third quarter. In total, prices fell some 70 percent during this period. Even though market demand grew with the introduction of the Windows Vista operating system, supply growth exceeded demand and resulted in an oversupply situation. The supply growth was caused by a strong expansion of production capacities, the introduction of the 80- and 70-nanometer technology generations, and the partial transition from Flash to DRAM memory as a reaction to falling NAND Flash prices during calendar year 2006.

DIVERSIFICATION STRATEGY CONTINUED WITH SUCCESS

Qimonda was also affected by the strong fall in prices. The company, however, was also able to benefit from the positive effects of its diversification strategy. As the overall drop in prices was much less than the decline in the PC segment alone, Qimonda was able to attain a price level above market average for the first time.

After successfully entering the games console market the previous year, Qimonda continued to expand its product range and customer structure. New leading customers were found, especially in the entertainment electronics segment, including producers of digital televisions, set-top boxes, DVD players, MP3 players and GPS systems. → [IMAGE 12](#)

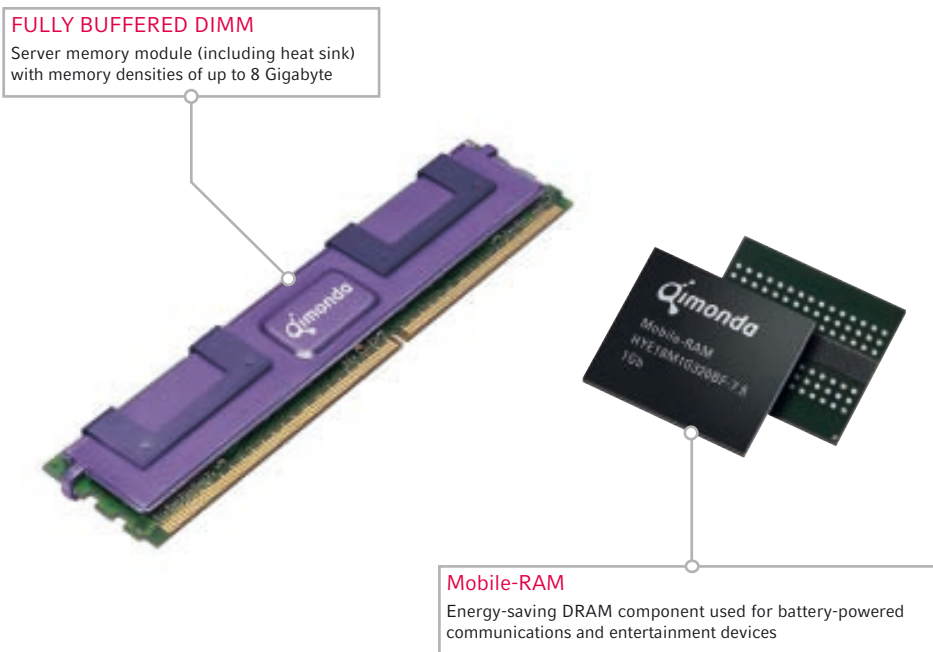
The difference in pricing compared with Qimonda's most important DRAM competitors has thus narrowed. There still remains room for improvement, however, especially in the field of mobile communications and in the market share for high-end entertainment electronics applications.

EXPANDING COOPERATIVE ENDEAVORS

In fiscal year 2007, Qimonda expanded its cooperative projects in order to make use of further diversification potential. In one such case, Qimonda and SanDisk entered into a collaboration for the development and production of multi-chip packages (MCPs). In the future, Qimonda aims to provide complete memory solutions, combining DRAM and NAND Flash memory, to manufacturers of mobile phones.

Qimonda has enhanced its current production partnerships with Nanya, SMIC and Winbond, with agreements to introduce further production technologies. The Inotera joint venture has brought forth a second production module within only nine months, nearly doubling the capacity now available to Qimonda.

12 PRODUCTS FROM QIMONDA



Qimonda also entered into cooperation with its long-time production partner EEMS Italia SpA in order to expand its back-end capabilities. EEMS is constructing a back-end plant in Suzhou, China, relieving Qimonda of the need to invest there itself.

PROGRESS IN PRODUCTION AND DEVELOPMENT

In addition to its cooperative work, Qimonda has begun the scheduled moderate expansion of its own capacity at its 300-millimeter plant in Richmond, Virginia, USA. The company also plans to begin construction on a new 300-millimeter plant in Singapore in fiscal year 2008.

The production of standard products in Dresden, Germany, was completely converted to 80- and 75-nanometer production technology in the course of the year. Qimonda plans to introduce new 58-nanometer technology towards the end of fiscal year 2008.

Qimonda's two most important tasks for fiscal year 2008 are the continuation of its diversification strategy and acceleration in productivity expansion.



INFINEON 2007

OCT 2006 – DEC 2006

1st Quarter

OCT 2006 • Infineon introduces a turnkey reference design featuring ADSL2+/VoIP and DECT for wireless broadband access to digital home networks. The IAD reference design is based on a Danube single-chip solution that provides an interface for WLAN connections, and a power-saving DECT base station for wireless VoIP telephone connections.

OCT 2006 • In a global premiere, Infineon introduces its power modules for hybrid cars at an automotive trade show in Detroit. Using state-of-the-art IGBT technology, the HybridPACK™ module will be able to reduce fuel use by up to 40 percent.

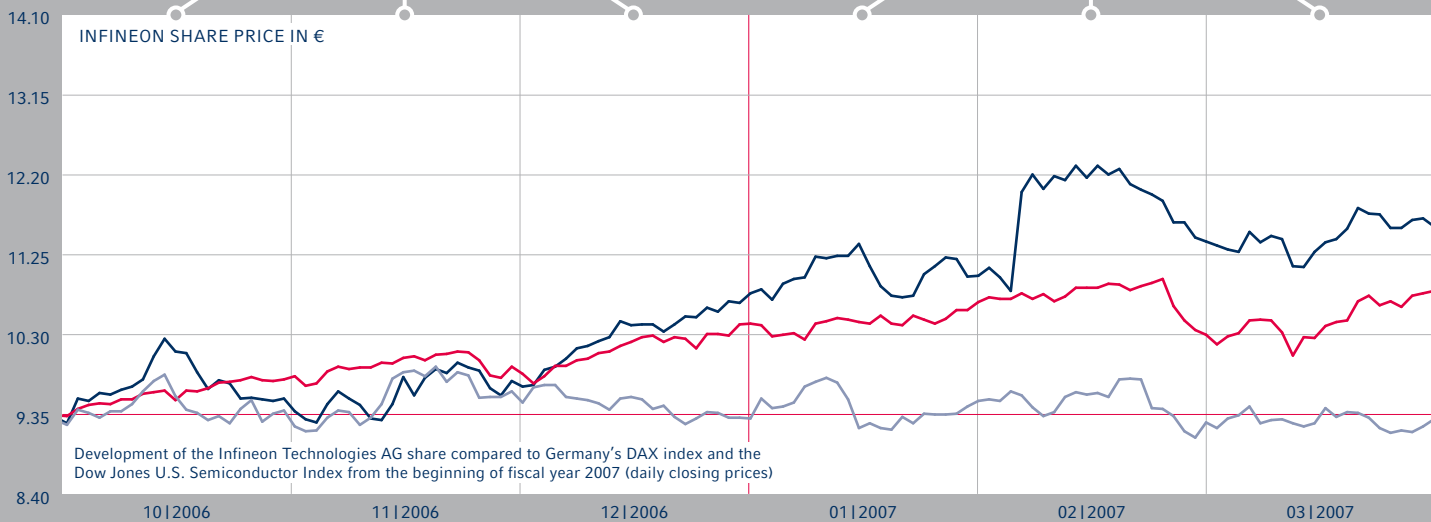
OCT 2006 • Infineon announces OptiMOS™ 3, a new power semiconductor that will considerably increase energy efficiency of DC/DC converter applications. The new semiconductor's impressive features include using one-third fewer components, up to two-thirds less space in power-supply units, and up to a one-third reduction in power loss due to on-state resistance.

JAN 2007 – MAR 2007

2nd Quarter

FEB 2007 • Nokia announces the use of Infineon's X-GOLD™101 single-chip solution for future entry-level phones, featuring the highest level of integration in the field. The Infineon solution supports color displays, text messages, MP3-quality ring tones, an integrated hands-free mode and a speaking clock.

MAR 2007 • Infineon and Hyundai Motor Company open a joint innovation center in Korea and announce their strategic cooperation in automotive electronics. The Hyundai Infineon Innovation Center is intended to lower the cost and improve the functionality of Hyundai's automotive electronics systems. The two companies are also set to cooperate in the development of electronic system architecture to be implemented in the engine control, comfort electronics and safety applications of Hyundai and Kia vehicles.



APR 2007 – JUN 2007

3rd Quarter

APR 2007 • Infineon’s semiconductors help make a new world record possible: Over 300 IGBT modules from our facility in Warstein, Germany, played a crucial role in the new speed record set by France’s Train à Grande Vitesse (TGV) train at 574.8 km/h (357 mph) in April 2007.

MAY 2007 • ZTE Corporation, a leading China-based telecommunication equipment manufacturer announces the use of Infineon’s GSM/GPRS platform in its entry-level phones in newly industrializing economies. By mid-2007, telephone models based on Infineon’s X-GOLD™101 single-chip solution are set to emerge on the market.

JUN 2007 • Infineon agrees to the acquisition of Texas Instruments’ DSL Customer Premises Equipment (CPE) business. Infineon can offer DSL customers a unique and comprehensive range of services by combining its own products with those from Texas Instruments. The deal was closed on July 31.

JUN 2007 • Infineon receives the Bosch Supplier Award for 2005 and 2006 from Robert Bosch GmbH. This is the fourth time that Infineon has been presented this honor. Bosch has recognized Infineon’s outstanding work in the development and supply of products and services – particularly with regard to reliability and quality.

JUL 2007 – SEP 2007

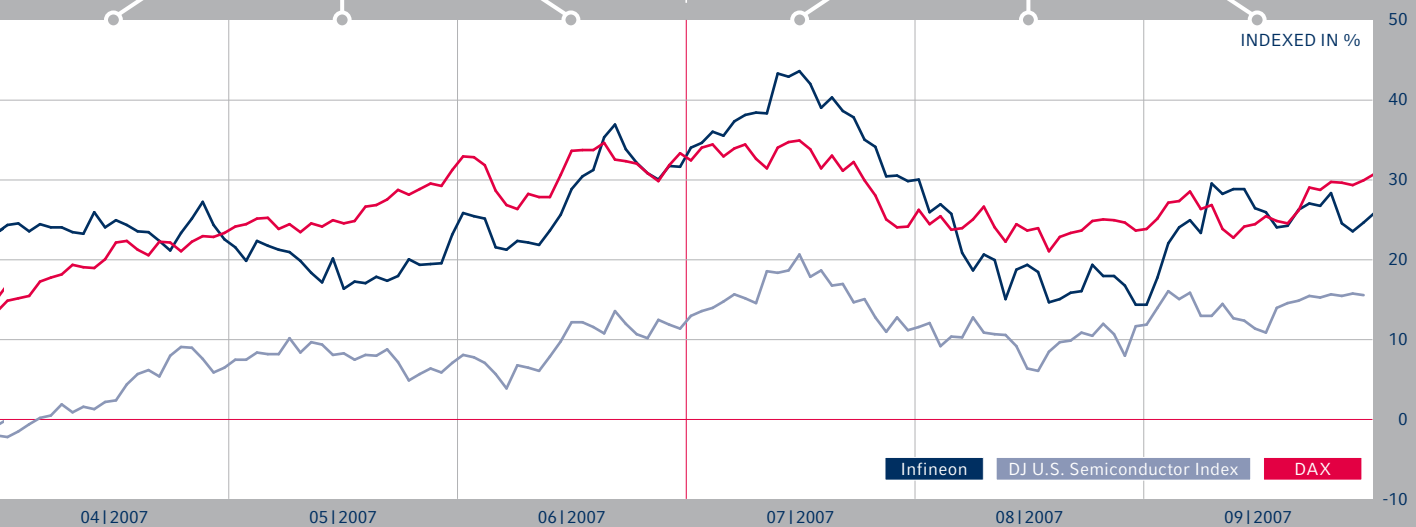
4th Quarter

AUG 2007 • Infineon agrees to the acquisition of LSI’s mobile-phone business in a move to bolster its communications activities. LSI’s mobile communications activities focus on baseband processors and mobile platforms. The deal was closed on October 24.

AUG 2007 • IBM and Infineon sign an agreement in principle, in which Advanced Electronic Systems AG (AES), a Swiss subsidiary of the Russian company Global Information Services (GIS), is to acquire Infineon’s and IBM’s shares in their ALTIS Semiconductor manufacturing joint venture in Essonnes, near Paris, France.*

SEP 2007 • Infineon places 28.75 million Qimonda ADS shares (including an additional greenshoe option of 3.75 million shares) on the market. Infineon thus reduces its share in Qimonda to 77.5 percent. Along with this measure, Infineon issues an exchangeable bond. If all bondholders were to exercise their exchange rights, Infineon’s share in Qimonda would fall to 71.5 percent.

SEP 2007 • Infineon announces the development of a 3G radio-frequency (RF) transceiver for Motorola. The new chip is based on Infineon’s SMARTi® UE, and will provide maximum HSDPA and HSUPA performance, while playing a major role in reducing the size of future 3G devices.



* The agreement is expected to become binding at the end of December 2007.

INFINEON SHARE STATISTICS
 FISCAL YEAR ENDING SEPTEMBER 30

	2005	2006	2007
Europe: Xetra close in euros			
Fiscal year close (end September)	8.18	9.35	12.09
Year high	9.00	9.95	13.44
Year low	6.43	7.60	9.25
Daily average shares traded	9,666,303	10,064,022	10,492,310
Of which Xetra trading in %	97	98	98
USA: NYSE close in USD			
Fiscal year close (end September)	9.92	11.83	17.18
Year high	11.74	12.68	18.68
Year low	8.40	8.95	11.77
Daily average ADS traded	583,101	831,883	2,241,362

SHARE INFORMATION

Share types	Ordinary registered shares in the form of shares or American Depository Shares (ADS) with a notional value of 2.00 euros each (ADS:shares = 1:1).
Share capital	1,499 million euros (as of Sept. 30, 2007)
Shares outstanding	750 million (as of Sept. 30, 2007)
Listings	Shares: Frankfurt Stock Exchange (FSE) ADS: New York Stock Exchange (NYSE)
Options on trading	Shares: Eurex ADS: CBOE
Initial Public Offering (IPO)	March 13, 2000 on FSE and NYSE
IPO issue price	EUR 35.00 per share USD 33.92 per ADS
Ticker symbol	IFX
ISIN Code	DE0006231004
German Security Identification Number (WKN)	623100
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system) IFX.US
Reuters	IFXGn.DE
Index membership (selected)	DAX 30 Dow Jones German Titans 30 Dow Jones Euro STOXX Technology FTS Eurofirst 300 Index MSCI Germany SOX S&P Europe 350

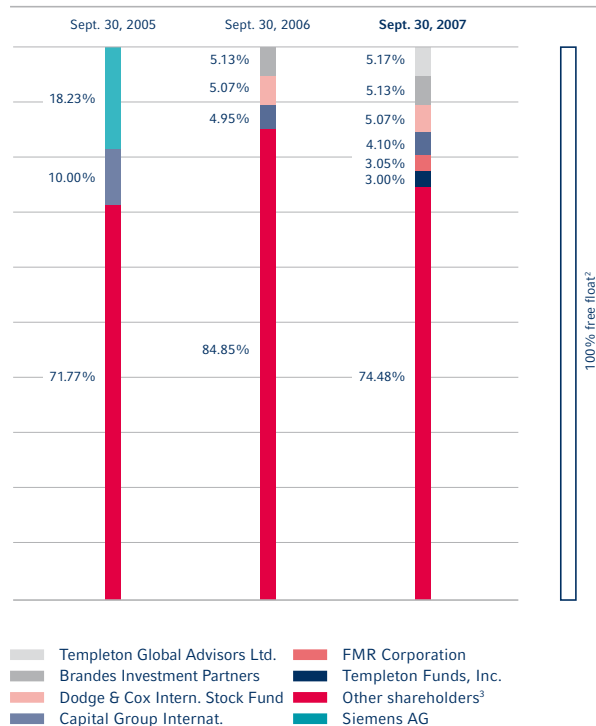
DEVELOPMENT OF THE INFINEON SHARE COMPARED TO WORLDWIDE INDICES

Through end September 2007	Since end September 2005	Since end September 2006
Europe		
Infineon (Xetra)	+47.80%	+29.30%
DAX	+55.85%	+30.93%
DJ Stoxx 50	+17.14%	+7.58%
USA		
Infineon (NYSE)	+73.19%	+45.22%
DJ U.S. Semiconductor Index	+10.45%	+15.63%
Philadelphia Semiconductor Index (SOX)	+5.21%	+9.98%

INFINEON TECHNOLOGIES AG SHARE CAPITAL, SHARES OUTSTANDING, AND MARKET CAPITALIZATION

As of	Sept. 30, 2006	Sept. 30, 2007	Change
Share capital in EUR millions	1,495	1,499	—
Shares outstanding in millions ¹	748	750	—
Yearly average in millions ¹	748	749	—
Market capitalization in EUR millions	6,990	9,064	+30%
Market capitalization in USD millions	8,844	12,853	+45%

¹ Undiluted

SHAREHOLDER STRUCTURE¹

¹ In accordance with obligatory reporting known to Infineon.

² Free float according to the definition used by FTSE.

³ 2005 and 2006: shares < 5%; 2007: shares < 3%

The Infineon Share

Infineon stock price develops positively and outpaces index trend.

Rising 29 percent in the course of fiscal year 2007, Infineon outpaced not only the Dow Jones U.S. Semiconductor Index, which rose 16 percent during the year, but also the Philadelphia Semiconductor Index (SOX), which rose 10 percent. Within Europe, the Dow Jones STOXX 50 was up 8 percent, while Germany's DAX index outpaced Infineon, growing 31 percent.

At the end of fiscal year 2006, the Infineon share price was 9.35 euros. It developed positively in the course of fiscal year 2007, reaching its annual high at 13.44 euros on July 16, 2007. The share price closed the fiscal year at 12.09 euros. Since the end of the fiscal year 2007, the share price has declined due to the adverse effect of the U.S. dollar/euro exchange rate on our profitability and due to a decline in DRAM prices. In the past fiscal year, in addition to reflecting Infineon's improved business results excluding Qimonda, the Infineon share price benefited from the announcement of numerous new design wins in wireless communications. These included, for example, new design wins from Nokia and ZTE for mobile-phone platforms, and from Ericsson Mobile Platforms and Motorola for radio-frequency components. Negative factors included mainly the continuing decline of DRAM prices, as well as global financial market hesitancy due to the U.S. mortgage crisis.

Infineon's trading volume rose 4 percent in fiscal year 2007 from the previous year. An average of 10.5 million Infineon shares were traded daily in Xetra trading, the Frankfurt Stock Exchange, and in other regional exchanges. Infineon trading turnover came to approximately 1.7 percent of DAX 30 trading turnover in fiscal year 2007, placing Infineon 19th among DAX 30 companies in this regard. As in the previous fiscal year, average trading on the New York Stock Exchange rose significantly, with some 2.2 million American Depositary Shares (ADS) in Infineon traded each day, compared to 0.8 million a year earlier. This increase corresponded to the increase in the percentage of ADS among total Infineon shares. At the beginning of the fiscal year, 99.8 million Infineon ADS were in circulation, or 13.4 percent of Infineon's share capital. As of the end of fiscal year 2007, this figure had risen to 116.6 million, or 15.6 percent of Infineon share capital.

As of the end of the fiscal year, the Infineon shareholders whose percentage of ownership was above the new legal threshold for obligatory shareholder reporting included: Templeton Global Advisors Limited at 5.17 percent of Infineon shares; Brandes Investment Partners at 5.13 percent; Dodge & Cox International Stock Fund at 5.07 percent; Capital Group International at 4.10 percent; FMR Corporation at 3.05 percent; and Templeton Funds, Inc. at 3.00 percent.

As in previous years, the Management Board and Supervisory Board will propose at the Shareholders' General Meeting that no dividend be issued, reflecting the fact that the Group's parent company, Infineon Technologies AG, had not achieved an accumulated profit for the year. The accumulated loss came to 2,608 million euros as of the end of the fiscal year 2007 (previous year: 1,546 million euros).

Infineon's investor relations team in Munich, Germany, would be happy to answer any questions you may have.

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Sustainability for Human Beings and the Environment

We are steadfast in the pursuit of our global goals.

- Thinking with foresight
- Taking on responsibility
- Shaping the future

As a global company, we are present in over 100 countries worldwide, and manufacture products for nearly all fields of modern technology. Our global business activity carries with it a particular responsibility for the environment and our fellow human beings. Our strategic actions must be harmonized with this principle. Sustainability and social concerns are therefore integral to many of our company's activities such as environmental protection, occupational safety and health, human resource management and human rights, corporate citizenship, business ethics and our daily interactions with each other within the company, with external partners, and with third parties. Our membership in the United Nations Global Compact initiative is one expression of our identification as a corporation with responsibility.

RESOURCE MANAGEMENT AND CLIMATIC PROTECTION

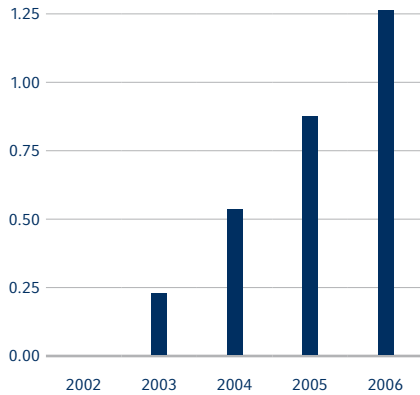
The global demand for resources, especially energy and water, will continue to rise in coming years. Access to these resources is a basic requirement for national economic success. The efficient and responsible use of resources serves two purposes: environmental protection, including an intelligent program of climatic protection; and the fair distribution of wealth.

Semiconductor products cannot be produced without consuming energy. It is our goal to minimize the amount of energy that we use, following the principle that "the best source of energy is saving energy." By consistently pursuing this principle, we have been able to reduce our energy consumption in our front-end production considerably over the past few years in spite of the increasing complexity of our products and processes. → **IMAGE 15** illustrates this point even more vividly. It depicts the "negajoules," a term coined to describe energy not consumed because of enhanced energy efficiency, of our European front-end facilities from 2002 to 2006. The energy that was not consumed over this period of time roughly corresponds to a full year's power output at the coal-fired power plant in Goldenberg, Germany.

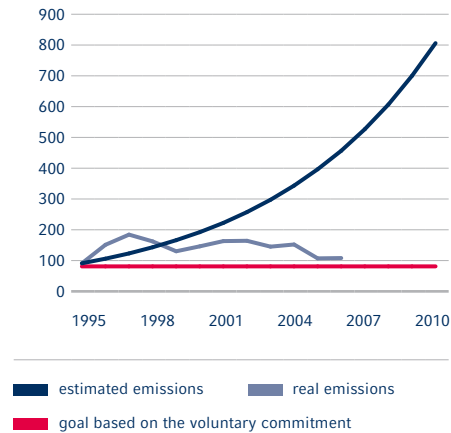
Nonetheless, we will not rest on our laurels. We evaluate our entire potential savings as a whole and are always looking for improvements – even in the office environment. For example, at Campeon, our corporate headquarters, we have provided employees with the information they need and raised their awareness of relevant problems with concrete recommendations for action. Much of this information can also be applied to our personal lives, thus achieving an even greater effect.

In addition to saving energy, the reduction of emissions is of great importance to climatic protection. The emission of perfluorinated compounds (PFC), which are potent greenhouse gases, cannot be avoided completely in semiconductor production. However, we take our

15 "NEGAJouLES" – ENERGY NOT CONSUMED DUE TO ENHANCED ENERGY EFFICIENCY OF THE EUROPEAN FRONT-END SITES IN TWh



16 PFC EMISSIONS 1995 TO 2010 CO₂ EQUIVALENTS (%)



environmental responsibility very seriously. We have taken effective measures to reduce emissions in order to achieve our ambitious – and voluntary – commitment to reduce PFC emissions by 2010 to the emissions level of 1995 minus 10 percent, as calculated in CO₂ equivalents. We have already come very close to this commitment, and are thus doing our part toward actively protecting the climate. → [IMAGE 16](#)

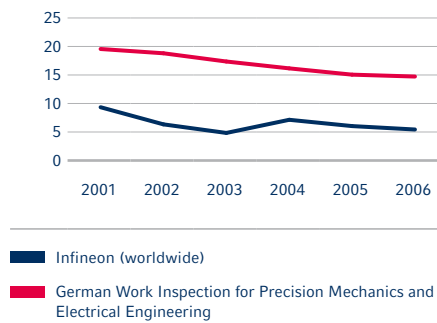
OCCUPATIONAL SAFETY

Since Infineon was founded, our employees' safety has been treated as a top priority. While chemicals remain essential to our production processes, we pay close attention to the safe handling of these chemicals in order to minimize the risk to our employees and to the environment. Beginning in the ordering stage, experts record, evaluate and monitor these chemicals so that they are only used in production under strictly defined conditions. Use of these chemicals is approved only once the protection of people and the environment is guaranteed throughout the period of their use. This extends, of course, to proper recycling and disposal. Our statistics (worldwide occupational accidents per year per 1,000 employees) have shown that our strict approach is worth every bit of the effort that goes into it. → [IMAGE 17](#) Our accident figures are well below the average for the German Work Inspection for Precision Mechanics and Electrical Engineering. This achievement is even more impressive considering that we even record accidents that result in one day of absence from work, as a means of providing a precise estimate, while the German Work Inspections' figures begin only after at least three days' absence.

Our responsibility extends through the entire value chain. Acting with foresight, we are cooperating with our suppliers in searching for ways to replace potentially harmful chemicals in order to minimize risk further.

Personal safety and environmental protection are by no means at odds with economic gain. In a global project at all our front-end facilities, for example, the transportation of certain chemicals was successfully reduced by over 750,000 kilometers each year. This is both a boon to our business figures and an important contribution to protecting the environment; in addition to reducing transport risks, we were able to reduce CO₂ emissions at the same time.

17 STATISTICS ON OCCUPATIONAL ACCIDENTS PER 1,000 EMPLOYEES



18 INTERNET-BASED PRODUCT INFORMATION PLATFORM



PRODUCT-RELATED ENVIRONMENTAL PROTECTION ENSURES SAFETY FOR OUR CUSTOMERS

Requirements and restrictions for the use of certain substances in electronic products have been made more stringent worldwide over the past several years. At Infineon, we are committed to upholding these rules as a matter of course. It is important for us to give our customers a maximum sense of reliability and trust with regard to the consistent quality of our products. In addition to the implementation of the processes involved, efficient communications also play an important role in this. Our Internet-based information platform, for instance, describes in detail our commitment to providing information on product contents, as stipulated in Chinese law. This platform also provides our customers with the opportunity to find out important information about the products they have purchased – and of course this information is provided in Mandarin as well. → **IMAGE 18**

Legal requirements in different regions and countries will continue to become stricter in the future. While these often differ from place to place, we need to be able to deliver our products throughout the world. Clear strategies, well-defined managerial processes and a cooperative approach to the development of international standards are all important in making worldwide shipments possible. Product-related environmental protection is a major pillar of IMPRES – Infineon Integrated Management Program for Environment, Safety and Health –, which involves important internal processes that ensure that our products meet all legal requirements. As IMPRES is implemented consistently throughout the world, it does not matter where these products are manufactured.

We apply the same high standards at all our facilities worldwide, thus providing our customers and employees with the highest safety standards. Borders lose all meaning when it comes to protecting human beings and the environment.

Our Employees

Implementation of company's "Focus on 10" goals underway.

- Our company values strengthen Infineon's identity and organizational development
- Effective and efficient personnel management are cornerstones in an international context
- Employee and talent development are key elements of our Human Resources activities

Our employees have strongly supported the implementation of Infineon's "Focus on 10" company goals, which include plans for a 10 percent EBIT margin in fiscal year 2009. Concentrating on Infineon's focus areas energy efficiency, communications and security will help to achieve this.

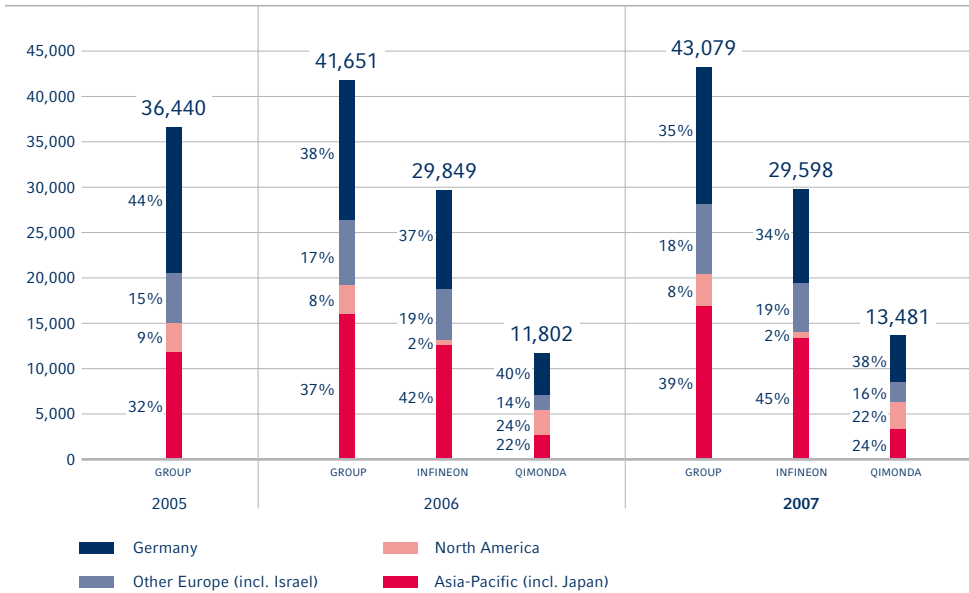
The company's reorganization by creating the unit "Operations" constituted another focal point of our activities over the past fiscal year. Numerous tasks and changes had to be prepared for and implemented so that this unit, with around 20,000 employees, could be fully functional at the start of fiscal year 2008. The new organization takes into account current changes in the fields of production and technology and is expected to anticipate potential future changes. The focus of "Operations" is on the harmonization of production and planning throughout the value chain, especially by product and technology roadmaps as well as productivity improvement and quality management programs.

Our new company values, "WE COMMIT, WE INNOVATE, WE PARTNER, WE CREATE VALUE" provide guidance for our employees throughout the company. The values are in turn based upon the four "pillars" of Infineon: customer focus, operational excellence, profitable growth and collaborative leadership. → **IMAGE 19**

19 THE COMPANY VALUES OF INFINEON



20 EMPLOYEES BY REGION



The values and pillars also become evident in our M&A activities, such as the acquisition of the LSI mobile phone business, and TIS' DSL Customer Premises Equipment (CPE) activities. We have also acted decisively, while at the same time taking our social responsibilities into account, in other fields, such as in the planned sale of our ALTIS plant in France, a joint venture with IBM.

Our company is international and works within global markets. This requires our personnel management to be effective and efficient in a variety of different environments.

Such variety is reflected, for example in the further ramp-up of our facility in Kulim, Malaysia, in the expansion of our R&D site in Romania, as well as in our measures to implement cost-reducing working time models, respectively the lengthening of working hours at our German sites.

We have also made good use of the Infineon Complexity Reduction Program ("ICoRe"), reducing personnel expenses by finding the means to successfully reduce redundant tasks, overlapping responsibilities and inefficient cost structures.

One important milestone for our company in Germany was the introduction of a new pension plan, which we will be able to offer to our employees as part of an attractive long-term pension package.

The new collective wage agreement (“Entgeltrahmenabkommen,” ERA) has been successfully introduced at our Warstein, Germany, location on October 1, 2006. Infineon Technologies AG will now also introduce the agreement at our tariff-bound locations within the state of Bavaria. The introduction is scheduled for October 1, 2008. ERA offers the chance to reflect trends in employee remuneration such as performance-based compensation elements also for tariff-staff, thus bringing about greater transparency and fairness in wages.

The diversity of our company shows in many different ways. Of the approximately 30,000 employees of Infineon excluding Qimonda, about 10,000 are located in Germany. → [IMAGE 20](#) In total, 99 different nationalities work at Infineon sites in over 24 countries. We participate in and support a corporate culture in which everyone has the opportunity to contribute to the company’s success regardless of nationality, ethnicity, religion, age, gender or skin color. We will not tolerate discrimination and have, for instance, committed ourselves in Germany to fully implement the General Act on Equal Treatment (“Allgemeines Gleichbehandlungsgesetz”) by requiring our staff and management to participate in information and training sessions on the topic. Further measures in this area are our long-standing Business Conduct Guidelines and the availability of our Corporate Compliance Officer if complaints should be registered.

Employee and talent development is of particular importance to us and is demonstrated by our annual STEPS program, which has now been established for several years to define in a globally harmonized format development measures in dialogue between employee and manager. Within this framework, employees are identified who possess advancement talents, and programs to support their progress and development are being planned. However, this need not necessarily lead to a managerial career. Being a technology company, Infineon provides its technical experts with particular support and career opportunities through our “Technical Ladder” program and other activities to support and develop technical leadership and expertise.

For years, our most successful employees have been honored in our awards program. In his opening address at the annual award ceremony, Infineon CEO Dr. Wolfgang Ziebart underscored the importance of the event as an “established feature of Infineon culture.” The Infineon Awards “are presented to employees whose extraordinary commitment has furthered the company. The awards stand for excellent efforts that lead to excellent results.” In 2006, an employee received a special award for his life’s work on employee health, a company first, which also emphasized the significance of the safety, health and the environment within the company.

A further example of our innovative corporate culture is our YIP (“Your Idea Pays”) program. 33 percent of our employees participated, making over 15,000 suggestions, and saving Infineon some 84 million euros in total within the fiscal year. This is an outstanding example of the importance of our people in the innovation process. Innovative products for our customers are the result of the innovation work of our employees. It is our people who determine the success of our company.

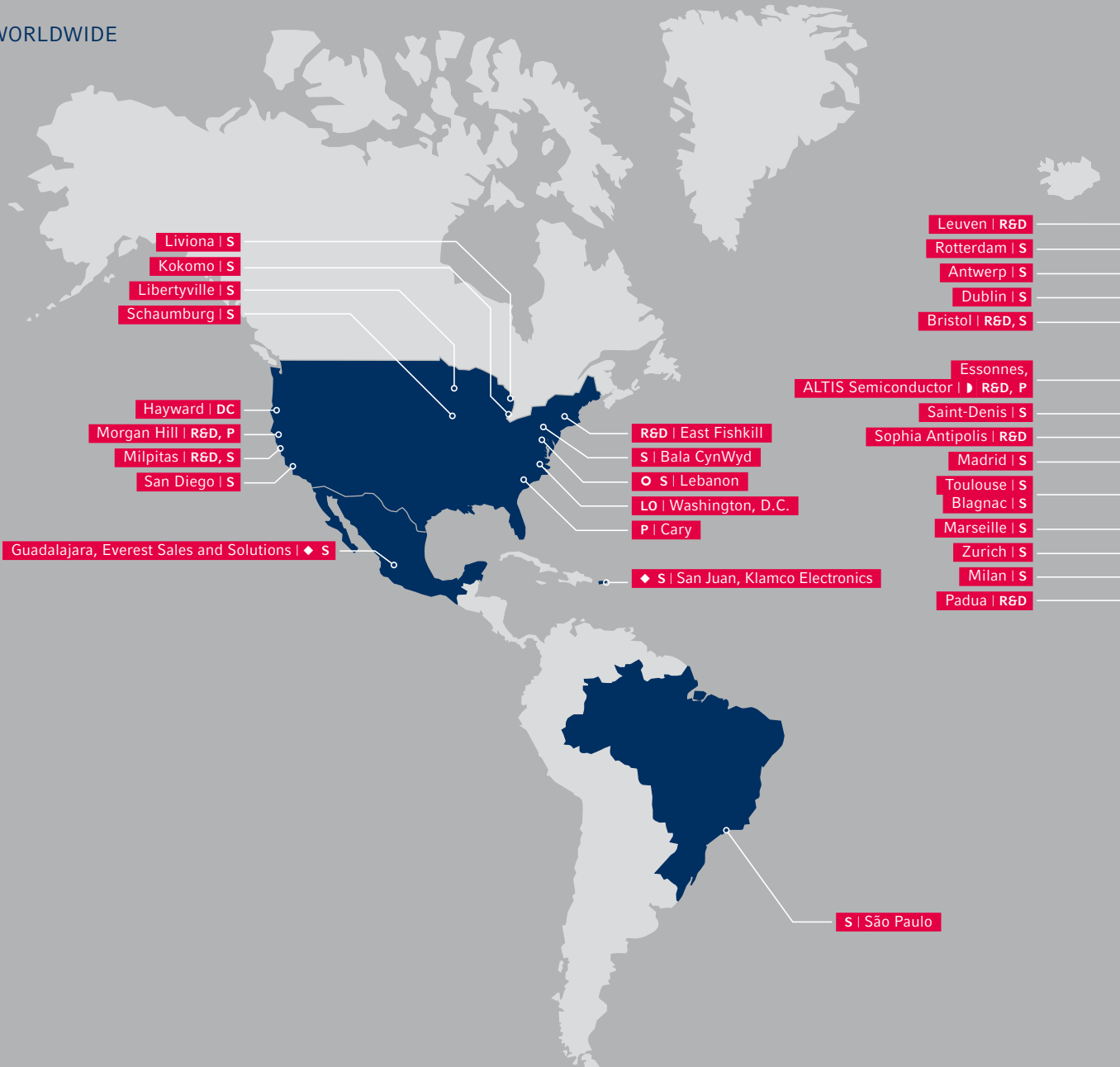


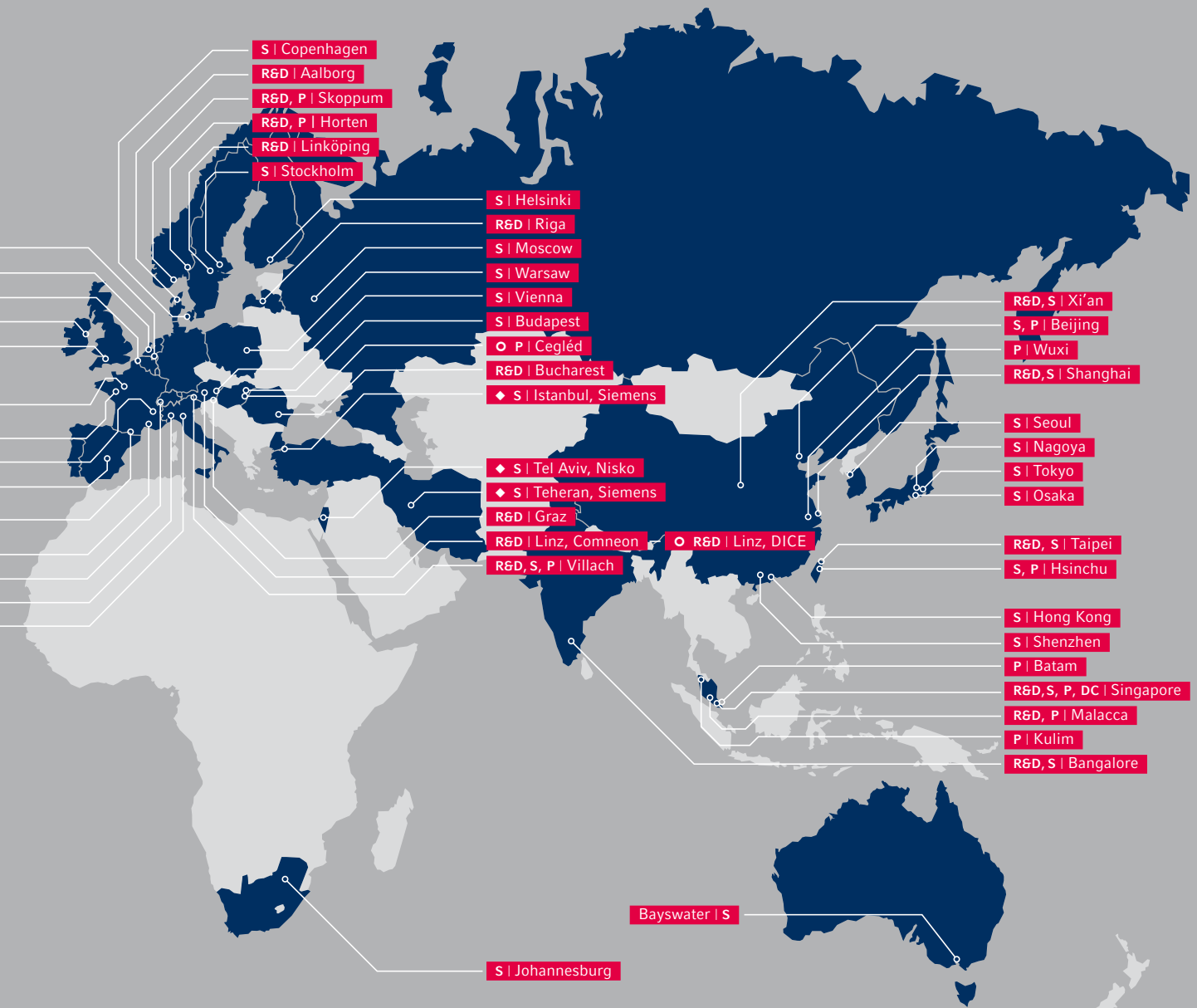
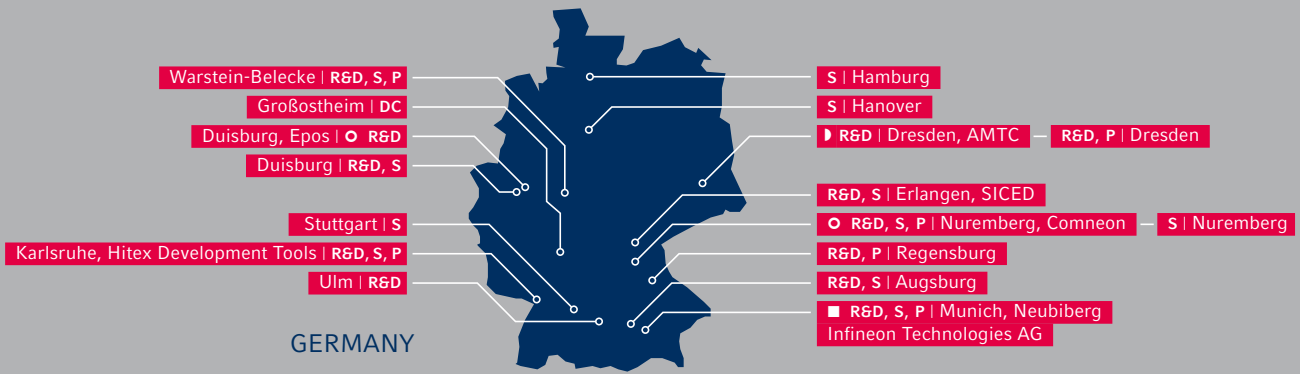
INFINEON WORLDWIDE

Infineon Sites

- Headquarters
- ◆ Representative office
- ▶ Joint venture
- ◊ Production
- Majority holding
- R&D Research & Development
- S Sales
- DC Distribution center
- LO Liaison office

WORLDWIDE





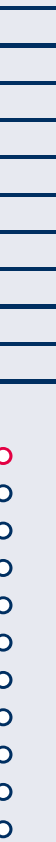
START
DISCOVER
OBSERVE
SPEAK
LEARN
WRITE
READ
DREAM
FILM
WORK
PLAY
EXPERIENCE
COMMUNICATE
ENTERTAIN
REST
INSPIRE
DESIGN
MOVE
CONFER
MEET
WONDER
PHOTOGRAPH
VISIT
GROW
ACT
WISH
FEEL
PLAN
UNDERSTAND
PONDER
HOPE
RESEARCH
EXCITE
ASK
SEARCH
TELL
FASCINATE
COUNT
EXPERIMENT
CHANGE
QUESTION
DISCUSS
INVESTIGATE
GUESS
LOVE
INVENT
RELAX
ENJOY
CELEBRATE
TRAVEL
BEGIN
LIVE

A blurred man in a suit is walking from right to left across the foreground. In the background, there is a whiteboard with handwritten notes and diagrams. One diagram is titled 'MÄRKTE VON MORGEN' and includes terms like 'ENERGIEEFFIZIENZ' and 'EINWIRKUNG'. Another diagram is titled 'POTENZIALE ENTWICKELN'. On a desk in front of the whiteboard, there are three binders (white, blue, and black) and several photographs. The overall scene suggests a busy office environment focused on innovation and strategic thinking.

Never stop thinking

FACTS

INFINEON TECHNOLOGIES
FINANCIAL REVIEW 2007



Contents

57	Report of the Supervisory Board	116	CONSOLIDATED FINANCIAL STATEMENTS
62	Corporate Governance Report	116	Consolidated Statements of Operations
66	Compensation Report	117	Consolidated Balance Sheets
72	OPERATING AND FINANCIAL REVIEW	118	Consolidated Statements of Shareholders' Equity
72	Overview of the 2007 Fiscal Year	120	Consolidated Statements of Cash Flows
75	Our Business	122	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
75	The Semiconductor Industry and Factors that Impact Our Business	122	Description of Business and Basis of Presentation
79	Results of Operations	122	Summary of Significant Accounting Policies
79	Reorganization	128	Separation of Memory Products Business
79	Net Sales	130	Acquisitions
81	Net Sales by Segment	132	Divestitures
82	Net Sales by Region and Customer	134	Licenses
83	Cost of Goods Sold and Gross Margin	135	Grants
85	Research and Development Expenses	136	Supplemental Operating Cost Information
85	Selling, General, and Administrative (SG&A) Expenses	136	Restructuring
86	Other Items Affecting Earnings	137	Income Taxes
88	Earnings Before Interest and Taxes (EBIT)	140	Earnings (Loss) Per Share
89	Interest Expense, net	140	Marketable Securities
90	Income Taxes	141	Trade Accounts Receivable, net
90	Net Loss	141	Inventories
91	Financial Condition	141	Other Current Assets
92	Financial Ratios	142	Property, Plant and Equipment, net
93	Liquidity	143	Long-term Investments
93	Cash Flow	146	Other Assets
93	Free Cash Flow	146	Intangible Assets
94	Net Cash Position	147	Trade Accounts Payable
95	Capital Requirements	147	Accrued Liabilities
96	Commitments and Contingencies	148	Other Current Liabilities
96	Off-Balance Sheet Arrangements	148	Debt
96	Capital Expenditures	150	Long-term Accrued Liabilities
96	Credit Facilities	150	Other Liabilities
97	Pension Plan Funding	150	Minority Interest
98	Financial Instruments	151	Ordinary Share Capital
98	Our Employees	152	Stock-based Compensation
98	Employees	156	Other Comprehensive Loss
99	Implementation of Company's "Focus on 10" Goals Now Underway	156	Supplemental Cash Flow Information
100	Our responsibility in occupational safety, in environment and health protection	156	Related Parties
101	Risk Report	158	Pension Plans
104	Infineon Technologies AG	162	Financial Instruments
106	Subsequent Events	163	Risks
106	Outlook	164	Commitments and Contingencies
110	Opportunities	169	Operating Segment and Geographic Information
110	Information Pursuant to Section 289 Paragraph 4 and section 315, Paragraph 4 of the German Commercial Code	172	Subsequent Events
114	Auditor's Report	172	Additional Information
		177	Management Board and Supervisory Board
		183	Significant Subsidiaries and Associated Companies
		184	Consolidated Financial Data 2003–2007
		186	Financial and Technology Glossary
		194	Financial Calendar

Report of the Supervisory Board to the Annual General Meeting

MAX DIETRICH KLEY

Chairman of the Supervisory Board of Infineon Technologies AG



Dear Shareholders,

The Supervisory Board hereby presents its report on the performance of its duties over the past fiscal year.

At the ordinary meetings of the Supervisory Board, the Management Board has reported comprehensively on the company's business development, the economic situation of the company and its individual segments, as well as the company's financial and investment planning. In detailed quarterly reports, the Management Board reported to the Supervisory Board on topics such as the economic and financial development of the company over the previous quarter, major business transactions, risk issues, and material lawsuits. In the course of its meetings, the Supervisory Board discussed the information submitted by the Management Board in depth. The Management Board also reported verbally or in writing on events of particular importance. In individual discussions with the Management Board, the Chairman of the Supervisory Board was kept continually informed of significant developments and decisions within the company. The Supervisory Board regularly monitored the company's management through the Management Board, and supported the Management Board with its advice.

Over the fiscal year, the Supervisory Board convened in four ordinary and three extraordinary meetings.

MAIN ACTIVITIES OF THE SUPERVISORY BOARD

- Strategic orientation
- Acquisitions in the Communication Solutions (COM) segment
- Production strategy
- Participation in Qimonda AG

STRATEGIC ORIENTATION. The Supervisory Board dealt intensively, as it did the previous fiscal year, with the strategic direction of the company. The subject matter of the deliberations was, in particular, the further development of the Communication Solutions (COM) and Automotive, Industrial & Multi-market (AIM) segments after the carve-out of the Memory Products segment into Qimonda AG. Further

discussions concentrated on the Management Board's concept of a reduction of Infineon's participation in Qimonda.

The Management Board's strategy for profitable growth was another central point of discussion for the Supervisory Board. The Supervisory Board supports the Management Board's strategy of focusing Infineon with regard to its semiconductor and system solutions on the three core themes energy efficiency, communications, and security.

ACQUISITIONS IN THE COMMUNICATION SOLUTIONS (COM) SEGMENT. In an ordinary meeting on May 11, 2007 and an extraordinary meeting on June 22, 2007, the Supervisory Board deliberated in detail on the purchase of the Texas Instruments DSL customer premises equipment (CPE) activities. In an extraordinary meeting on August 20, 2007, the Supervisory Board discussed the purchase of the LSI mobility business. The Supervisory Board received comprehensive information from the Management Board as a basis for the evaluation of these acquisitions. In its deliberations, the Supervisory Board focused especially on information provided by the Management Board concerning business plans, risks and opportunities, the integration of the acquired businesses including their employees, IP rights, production issues, as well as the maintenance of customer relationships.

The Supervisory Board views the acquisition of the Texas Instruments DSL-CPE activities and the LSI mobility business as important milestones on the road to strengthening core business areas in the Communications Solutions segment and therefore granted the required approval to proceed with these acquisitions.

PRODUCTION STRATEGY. The Supervisory Board also dealt with the sale of Infineon's participation in ALTIS Semiconductor, based in Essonnes, France, to Advanced Electronic Systems AG (AES), and with the Management Board's "Fab Light" strategy to reduce the company's own production of advanced logic products.

On June 1, 2007, a new Management Board department for operations was created to move forward with the implementation of Infineon's production strategy. The department, headed by Dr. Reinhard Ploss, combines the units front-end and back-end production, procurement, logistics, and quality management that had previously been assigned to different departments.

PARTICIPATION IN QIMONDA AG. In its meeting on July 30, 2007, the Supervisory Board dealt with the business development of Qimonda AG and intensively discussed the drastic decline in prices for DRAM products and the measures taken by the Management Board of Qimonda AG. The Supervisory Board also deliberated the Management Board's intention to reduce the company's participation in Qimonda to considerably below 50 percent by the 2009 Annual General Meeting at the latest. The Supervisory Board supports the Management Board in its plan to use financial resources that result from the reduction of the company's participation in Qimonda to make selective acquisitions to strengthen its core areas of business or for share buybacks.

CORPORATE GOVERNANCE. The Supervisory Board firmly believes that good corporate governance is an essential factor in the success of the company, and has therefore regularly reviewed German and international corporate governance rules and their implementation in the company. At its meeting of November 23, 2006, the company's Corporate Governance Officer submitted his report to the Supervisory Board. At the July 30, 2007 meeting, the Supervisory Board reviewed the changes in the German Corporate Governance Code that had been implemented by the government commission. In light of

the continuing development of the German Corporate Governance Code, the Supervisory Board is of the view that the company has no further need for its own Corporate Governance Code. The Management Board and Supervisory Board have thus decided to do without the Infineon Corporate Governance Code. Corporate Governance continues to play a major role at Infineon Technologies AG, and the Supervisory Board, Management Board, and managerial staff work to ensure that the German Corporate Governance Code is actively upheld throughout the company.

At its November 30, 2007 meeting, the Supervisory Board discussed the efficiency of its own work. The Supervisory Board filed the 2006 Declaration of Compliance, in accordance with Sec.161 of the German Stock Corporation Act (Aktiengesetz), in November 2006, and the 2007 Declaration of Compliance in November 2007. Each year, only one exception was made from the recommendations of the Code. This and further details of Infineon's corporate governance are described in detail by the Management Board and Supervisory Board in the Infineon Corporate Governance Report.

SUPERVISORY BOARD COMMITTEE REPORT. The **Investment, Finance and Audit Committee** convened four times over the past fiscal year. The committee's activities focused on the examination of the interim reports, the preliminary auditing of the annual accounts, discussion of the auditor's report with the auditor, and the examination of finance and investment plans. In its meeting on July 25, 2007, the committee was informed in detail on the business development of Qimonda AG and discussed the measures already taken or required by the Management Board of Qimonda AG with regard to the drastic decline in prices for DRAM products. In this context, the committee turned its particular attention to the issues of cash flow, liquidity and financing. Moreover, the committee held several discussions on the company's sale of its shares in Qimonda AG. The committee also dealt with the 2008 corporate tax reform and its effects on the company. The CFO informed the committee on management's annual assessment of internal controls over financial reporting, as required under Section 404 of the Sarbanes-Oxley Act. This assessment determined that there were no "material weaknesses".

On February 15, 2007, Gerd Schmidt was elected to replace Mr. Klaus Luschtinetz as committee member. The chairman of the Supervisory Board, Max Dietrich Kley, resigned as chairman of the committee as of November 30, 2007, thus complying with a suggestion of the German Corporate Governance Code that the Supervisory Board chairman should not simultaneously chair the Audit Committee. Dr. Siegfried Luther was elected as new chairman of the committee.

The **Strategy and Technology Committee** convened three times over the past fiscal year, working in particular on the following topics:

- Energy efficiency and the ensuing business opportunity for the company;
- Innovation management along the value-added chain;
- Growth opportunities in power management.

There were no meetings of the **Executive Committee** over the past fiscal year. For reasons of expedience, committee members conferred mostly by telephone and passed resolutions afterwards by way of circulation of written proposals. The committee focused on issues such as stock option grants for the Management Board members, the Management Board contracts of Prof. Dr. Hermann Eul, Mr. Rüdiger A. Günther, and Dr. Reinhard Ploss, and the termination agreement with Mr. Günther. The committee discussed and decided on the addition of a change-of-control clause to Management Board members contracts.

The Investment, Finance and Audit Committee, the Strategy and Technology Committee and the Executive Committee regularly informed the Supervisory Board of their activities.

The **Mediation Committee** formed pursuant to Section 27(3) of the German Codetermination Act was not convened.

Gerd Schmidt took the place of Klaus Luschtinetz on the Executive and Mediation Committees as of February 15, 2007.

At its meeting of November 30, 2007, the Supervisory Board created a **Nomination Committee**, following the recommendation of the German Corporate Governance Code. The committee is composed exclusively of shareholder representatives and will recommend suitable candidates to the Supervisory Board to be recommended by the board at the Annual General Meeting.

INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS. In the period under review Infineon's annual financial statements were again audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main. KPMG audited the individual financial statements of Infineon Technologies AG and the consolidated financial statements of the Infineon Group for the fiscal year ended September 30, 2007, as well as the combined operating and financial reviews (Lagebericht) of Infineon Technologies AG and of the Infineon Group. KPMG has rendered an unqualified auditor's opinion (uneingeschränkter Bestätigungsvermerk) for these documents. KPMG also confirmed that the consolidated financial statements were prepared in accordance with the provisions of U.S. GAAP and that the exemption provision under Section 292a of the German Commercial Code (HGB) in the version dated December 9, 2004, in conjunction with Article 58, para. 5, no. 2 of the Introductory Act to the German Commercial Code (EGHGB) was applicable.

All members of the Supervisory Board received the annual accounts and the consolidated financial statements as well as the combined operating and financial reviews (Lagebericht), prepared and submitted on time by the Management Board. These documents were subsequently examined by the Supervisory Board. The reports by KPMG on the audit of the annual accounts and the consolidated financial statements as well as the combined operating and financial reviews (Lagebericht) were also presented to all members of the Supervisory Board. These reports were discussed in detail at the meeting of the Investment, Finance and Audit Committee on November 13, 2007, and subsequently at the financial statements meeting of the Supervisory Board on November 30, 2007, in the presence of the auditors. At this meeting the Management Board also reported in detail on the scope, key areas, and costs of the audit. The Supervisory Board found no grounds for objection and agreed with the results of the audit, approving the annual and consolidated financial statements and the combined operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The annual report and accounts are thus completed.

MANAGEMENT BOARD CHANGES. Effective December 1, 2006, Prof. Dr. Hermann Eul, previously a deputy member of the Management Board, was appointed full member of the Management Board with no change of his membership term. Effective September 1, 2007, Prof. Dr. Eul's Management Board membership was extended to August 31, 2012. Effective June 1, 2007, Dr. Reinhard Ploss was appointed member of the Management Board through May 31, 2012. Rüdiger A. Günther was appointed member of the Management Board as of April 1, 2007, and his appointment was revoked on August 6, 2007, an event that was discussed in detail at the Supervisory Board meeting of July 30, 2007. Peter J. Fischl retired from office as member of the Management Board as of April 30, 2007, and

was reappointed member of the Management Board effective August 7, 2007. The Supervisory Board would like to thank Mr. Fischl for his agreement to assume on short notice the positions of company CFO and labor director for an interim period.

COMPOSITION OF THE SUPERVISORY BOARD. Klaus Luschtinetz resigned from office as member of the Supervisory Board as of February 15, 2007. He was replaced by Gerhard Hobbach who was elected by the employees as substitute Supervisory Board member. Gerd Schmidt was elected to succeed Mr. Luschtinetz as deputy chairman of the Supervisory Board as of February 15, 2007. Dr. Stefan Jentzsch resigned from the board on August 2, 2007. Dr. Eckart Sünner, elected by the Annual General Meeting as substitute Supervisory Board member, replaced Dr. Jentzsch on the board.

We would like to thank the departing members of the Supervisory Board for their dedication and efforts. We would especially like to express our appreciation to Mr. Luschtinetz for his many years of responsible work as deputy chairman of the Supervisory Board and as member of the Executive and Investment, Finance and Audit Committees.

The Supervisory Board would like to express its thanks to the Management Board and all employees as well as employee representatives for their efforts and their performance over the past fiscal year.

NEUBIBERG, NOVEMBER 2007

ON BEHALF OF THE SUPERVISORY BOARD



MAX DIETRICH KLEY
Chairman of the Supervisory Board



Corporate Governance: Report of the Management Board and the Supervisory Board

CORPORATE GOVERNANCE – STANDARDS FOR EFFECTIVE AND RESPONSIBLE CORPORATE MANAGEMENT

Infineon's Management Board and Supervisory Board view Corporate Governance as a comprehensive concept for responsible, value-driven corporate management which includes all values, processes, and goals that are part of our corporate mission. Infineon recognized the importance of good Corporate Governance early on and adopted the company's own Infineon Corporate Governance Code in December 2002, which was regularly reevaluated and adapted to changes in the German Corporate Governance Code. As a result of the successive development of the German Corporate Governance Code, however, there is no further need for an additional company-specific code. The Management Board and the Supervisory Board have thus decided to set Infineon's own Corporate Governance Code aside in the future. The Management Board, the Supervisory Board and other persons bearing managerial responsibility ensure that the German Corporate Governance Code is actively "lived" in the company. Beyond the German Corporate Governance Code, Corporate Governance at Infineon encompasses internal controlling standards, compliance, in particular the "Business Conduct Guidelines", and regulations on the company's organizational and supervisory tasks. Moreover, Infineon has appointed a Corporate Governance Officer who reports directly to the Management and Supervisory Boards.

INFINEON MAINTAINS HIGH GERMAN AND INTERNATIONAL STANDARDS

GENERAL CONDITIONS IN GERMANY

As a market-listed company headquartered in Germany, Infineon Technologies AG follows, in particular, the requirements of the German Stock Corporation Act (Aktien-gesetz) and the German Corporate Governance Code. With one exception related to efficiency, Infineon has adopted all the recommendations and nearly all the suggestions of the German Corporate Governance Code. It is our goal to continue to provide our shareholders and the general public with open and comprehensive information on our company. We intend to support our shareholders

as far as possible in the exercise of their rights. Shareholders, for example, can register for our Annual General Meeting electronically, can participate in votes by sending online messages to their voting representatives, and can follow the general debate via the Internet.

CAPITAL MARKET REGULATIONS IN THE UNITED STATES

Infineon Technologies AG is also listed on the New York Stock Exchange (NYSE). The company is thus also subject to certain U.S. capital market laws, to the rules of the U.S. Securities and Exchange Commission (SEC), and to the NYSE corporate governance regulations. Since July 2002, U.S. legislators, the SEC, and the NYSE have issued various rules for the improvement of investor protection and Corporate Governance for U.S. corporations. Most of these rules, such as the Sarbanes-Oxley Act, also apply to non-U.S. corporations listed on U.S. stock exchanges. An overview of the significant differences between our corporate governance and NYSE standards is available on the Internet at www.infineon.com, under "About Infineon/Investor/Corporate Governance". These differences are primarily based on our dual management system, the employee representation on the Supervisory Board, and further different legal regulations and standards applicable in Germany.

To implement the U.S. regulations, we have set up a Disclosure Committee, which reviews and approves the publications of certain financial and other material information. Furthermore, a procedure was introduced that allows employees to anonymously disclose information about violations of internal guidelines and statutory accounting rules. The CEO and CFO are obliged under U.S. law to provide the SEC with certain certifications with regard to the financial statements. The required information must be confirmed internally vis-à-vis the Management Board by senior executives bearing managerial responsibility.

MANAGERIAL STRUCTURE AND CORPORATE CONTROL

Infineon Technologies AG as a German stock corporation is subject to German Stock Corporation Law, which stipulates a two-tier administrative system, with the Management Board being responsible for management, and the Supervisory Board for corporate oversight. We are convinced that this separation of the two functions is an important precondition for good Corporate Governance.

MANAGEMENT BOARD

The Infineon Technologies AG Management Board currently consists of five members, for whom the Supervisory Board has set an age limit in accordance with the German Corporate Governance Code; thus, the members of the Management Board may not be older than 65 years.

The Management Board is the company's executive body; it is solely bound to serve the company's interests and shall thereby pursue the goal of sustainably increasing the company's value. In compliance with mandatory German Stock Corporation Law, it bears the overall responsibility for the management of the company. In accordance with the rules of procedure of the Management Board, all members of the board manage the company jointly.

SUPERVISORY BOARD

The Supervisory Board advises and monitors the Management Board in running the company. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all matters of relevance to business development, planning, and risk management, and agrees with the Supervisory Board on corporate strategy and its implementation. The Supervisory Board discusses the quarterly reports, and reviews and approves both the individual financial statements and the consolidated financial statements of Infineon Technologies AG. Major decisions of the Management Board, such as large acquisitions, divestitures, and financial measures, are subject to the approval of the Supervisory Board. Further details are stipulated in the rules of procedure of the Management Board and the Supervisory Board. The Supervisory Board, moreover, decides about the appointment and dismissal of Management Board members. The Supervisory Board comprises 16 members who, in accordance with the German Co-Determination Act (Mitbestimmungsgesetz), are divided equally among shareholder and employee representatives. Shareholder representatives are elected at the Annual General Meeting; the last election took place in the 2005 fiscal year.

Employee representatives are elected by employee delegates at Infineon's German facilities in accordance with the regulations of the German Co-Determination Act. The next election will take place in the 2009 fiscal year. When Supervisory Board votes end in ties, the Chairman of the Supervisory Board has the deciding vote if voting is carried out a second time and again results in a tie.

The regular term of office for the Supervisory Board is five years. The duties of the Supervisory Board and its committees are regulated in the rules of procedure of the Supervisory Board.

SUPERVISORY BOARD COMMITTEES

The rules of procedure of the Supervisory Board provide for the formation of three committees: The Mediation Committee, the Executive Committee, and the Investment, Finance and Audit Committee. The Supervisory Board has also set up a Strategy and Technology Committee, and, at the beginning of the 2008 fiscal year, a Nomination Committee has been established as recommended by the German Corporate Governance Code.

The Executive Committee, composed of the Chairman of the Supervisory Board, the Vice-Chairman, and one shareholder representative, prepares the appointment and dismissal of members of the Management Board, is responsible for the conclusion, alteration, and termination of contracts with Management Board members, and determines the structure and amount of the Management Board members' compensation. It also decides on the amounts of stock-based compensation.

The Investment, Finance, and Audit Committee ("Audit Committee") consists of the Chairman of the Supervisory Board, one shareholder representative, and one employee representative. The Audit Committee performs the tasks of an audit committee under U.S. law. The members of our Audit Committee are all independent in terms of the applicable U.S. regulations. The Supervisory Board has appointed Max Dietrich Kley and Dr. Siegfried Luther as the Audit Committee financial experts.

The Audit Committee monitors the company's financial reporting, discusses and examines the quarterly and the annual financial statements prepared by the Management Board, and, based on the independent auditor's report, gives recommendations with respect to the approval of the annual financial statements by the Supervisory Board. The committee also oversees the company's system of internal control, and the procedures for risk assessment, risk control, and risk management. For this purpose, it is entitled to refer directly to all company employees and to call in external support. Internal Audit reports regularly to the committee, which can also



determine the audit plan and its key areas of auditing. In consideration of the newly introduced stipulations of the German Corporate Governance Code, the responsibility for compliance was also transferred to the Audit Committee; the Corporate Compliance Officer regularly reports to the committee on the compliance system, and, if necessary, on particular compliance issues. The committee, furthermore, commissions the independent auditor selected at the Annual General Meeting to audit the individual financial statements and the consolidated financial statements, determines the audit's areas of focus, and is responsible for determining the independent auditor's compensation. We have also decided that the auditor may be entrusted with consulting work only when so approved by the Audit Committee.

The Mediation Committee, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative, and one employee representative, submits recommendations to the Supervisory Board concerning the appointment of new members of the Management Board if the first round of the election does not result in the required majority of two thirds of the members of the Supervisory Board.

The Nomination Committee, which consists exclusively of shareholder representatives, shall propose to the Supervisory Board suitable candidates for recommendation to the Annual General Meeting.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Infineon shareholders take their decisions at the Annual General Meeting, which is held at least once a year. Every share carries one vote. Shareholders can attend the Annual General Meeting as long as they are registered in the share register and have signed up for the meeting in time. The Annual General Meeting decides on all issues assigned to it, most notably on the discharge of the Management Board and the Supervisory Board, the election of an auditor, amendments to the Articles of Incorporation, and measures affecting the capital structure. In the interest of best Corporate Governance, German law has always stipulated that all measures affecting the company's capital be strictly subject to shareholders' approval. This includes stock option plans served with shares out of conditional capital. Shareholders are entitled to make counterproposals to motions introduced by management and, under certain circumstances, have the right to challenge resolutions of the Annual General Meeting, to request an extraordinary judicial review, and to demand, on behalf of the company, damage compensation from corporate bodies of the company when they suspect misconduct

or severe deficiencies in the company's management or supervision.

In accordance with our financial calendar, we submit a regular quarterly report to our shareholders, covering our business developments and the company's financial situation and financial results. The members of the Management Board regularly inform shareholders, analysts, and the general public about the quarterly and annual results. Our comprehensive investor relations service features regular meetings with analysts and institutional investors, as well as telephone conferences and annual analyst conferences.

FINANCIAL REPORTING AND AUDITING

Since 2005, capital-market-oriented European Union companies are strictly required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Since Infineon is listed on the NYSE, we were able to claim exemption from this rule for the last time in the 2007 fiscal year, and prepare our consolidated financial statements solely in accordance with the United States Generally Accepted Accounting Principles (U.S.-GAAP). For the 2008 fiscal year, we will prepare our consolidated financial statements in accordance with IFRS for the first time. The individual financial statements will continue to follow HGB guidelines.

COMPENSATION REPORT

Details on the compensation of the Management Board and the Supervisory Board in the 2007 fiscal year are provided in our comprehensive compensation report, which follows on pages 66 through 71 and is to be viewed as a part of the group operating and financial review.

THE 2006 INFINEON STOCK OPTION PLAN

The Annual General Meeting adopted the Infineon 2006 Stock Option Plan on February 16, 2006. The absolute performance target was increased to 20 percent from 5 percent in the previous Stock Option Plan. The new relative performance target requires that the Infineon share price exceeds the performance of a benchmark index on at least three consecutive days during the life of the option. The benchmark index used is the PHLX Semiconductor Index (SOX) of the Philadelphia Stock Exchange. The 2006 Infineon Stock Option Plan has a term of three years (in lieu of the former six-year-term). The plan is described in detail in note 28 to the consolidated financial statements and is available in full text on the Internet at www.infineon.com, under "About Infineon/Investor/Corporate Governance".

INTEGRITY

BUSINESS CONDUCT GUIDELINES AND CODE OF ETHICS IN FINANCIAL MATTERS

We conduct our business responsibly and in compliance with legal requirements and administrative regulations – and we have established several guidelines for this purpose. The Infineon Business Conduct Guidelines, which can be viewed in their entirety on the company's website, are binding for the Management Board and all Infineon employees. These guidelines, which are regularly reviewed and refined, include regulations on compliance with the law, interaction with business partners and third parties, the avoidance of conflicts of interest, interaction with company institutions, the treatment of data and information, and environmental protection, health and safety. The guidelines also contain regulations concerning the treatment of complaints and suggestions in case of violations of these guidelines. The Business Conduct Guidelines include, moreover, our Code of Ethics in Financial Matters, as is mandatory under the Sarbanes-Oxley Act.

CORPORATE COMPLIANCE OFFICER AND COMPLIANCE PANEL

A full-time Corporate Compliance Officer, reporting directly to the Management Board, is responsible for the coordination of the Infineon Compliance Program and the reception of complaints and suggestions, which may be submitted anonymously. The officer is supported by regional Compliance Officers. In the 2007 fiscal year, we also introduced a Compliance Panel, composed of experienced managerial members of the legal, human resources, audit, and security departments. The members of the Compliance Panel meet regularly and advise the Compliance Officer, in particular, on the issuance and revision of guidelines.

AVOIDANCE OF CONFLICTS OF INTEREST

The members of the Management Board and the Supervisory Board are to disclose any conflicts of interest to the Supervisory Board immediately. Major business transactions between the company and members of the Management Board and any persons in close association with them require the approval of the Supervisory Board. In the 2007 fiscal year, no conflicts of interest concerning the members of the Management Board and the Supervisory Board arose.

SHAREHOLDINGS OF MANAGEMENT AND SUPERVISORY BOARD MEMBERS

As of September 30, 2007, the entire holdings of shares in Infineon Technologies AG of all members of the Management Board and the Supervisory Board did not exceed 1 percent of the shares issued by the company.

DIRECTORS' DEALINGS

The members of the Management Board and the Supervisory Board and certain other persons bearing managerial responsibility with regular access to inside information, as well as persons in close association with them are required pursuant to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) to notify the company as well as the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) of own transactions involving company shares. This only applies, however, if the total sum of the transactions made by one of the relevant persons bearing managerial responsibility, including those in close association with them, reaches a minimum of 5,000 euros within a single calendar year. These notifications are published on our Internet site at www.infineon.com, under "About Infineon/Investor/Corporate Governance" and are transmitted to the company register. The notification is also reported to the BaFin.

In the past fiscal year, the company was notified of the following transaction:

Date of transaction	March 1, 2007.
Surname, name	Prof. Dr. Eul, Hermann
Position held	Member of the Management Board
Title	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100
Purchase/Sale	Sale following exercise of stock options
Price (per unit)	11.28 euros
Number of units	1,000
Total volume	11,280 euros
Transaction location	Frankfurt Stock Exchange (Xetra)

DECLARATION OF COMPLIANCE 2007 IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

In the 2007 fiscal year, Infineon Technologies AG complied with all recommendations of the German Corporate Governance Code (in the version of June 12, 2006) in accordance with Section 161 of the Securities Act, with the following exception:



- The structure of the Management Board compensation system was not discussed and reviewed in the Supervisory Board plenum but in the Supervisory Board Executive Committee (divergence from Section 4.2.2).

Infineon Technologies AG will comply with all recommendations of the German Corporate Governance Code (in the version of June 14, 2007) with the following exception:

- The structure of the Management Board compensation system will not be discussed and reviewed in the Supervisory Board plenum but in the Supervisory Board Executive Committee (divergence from Section 4.2.2).

Qimonda AG, a listed company which is part of the Infineon group, submitted its declaration of compliance in November 2007, which can be accessed via the Internet at www.qimonda.com.

Further information on Infineon's Corporate Governance is available on the Internet at www.infineon.com, under "About Infineon/Investor". The current version of the German Corporate Governance Code is published at www.corporate-governance-code.de. The report of the Supervisory Board included in the Infineon annual report gives a detailed overview of the activities of the Supervisory Board and its committees. Information on our risk management is available under "Risk Report". A detailed description of our significant accounting policies is provided in the Notes to the Consolidated Financial Statements.

- COMPENSATION REPORT, P. 66
- REPORT OF THE SUPERVISORY BOARD, P. 57
- RISK REPORT, P. 101
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, P. 122

Compensation Report

This Compensation Report is part of the Group operating and financial review. In compliance with legal requirements and the recommendations of the German Corporate Governance Code as amended on June 14, 2007, this report provides information on the principles for determining the compensation of the Management Board and Supervisory Board of Infineon Technologies AG and the amount of compensation paid to the individual members of the Management Board and Supervisory Board.

COMPENSATION OF THE MANAGEMENT BOARD

COMPENSATION STRUCTURE

The Executive Committee of the Supervisory Board, which includes the chairman of the Supervisory Board Max Dietrich Kley, the deputy chairman of the board Gerd Schmidt, and board member Prof. Dr. Martin Winterkorn, is responsible for determining the compensation of the Management Board. The compensation of the members of the Management Board is intended to reflect the company's size and global presence, its economic condition and performance, and the level and structure of the compensation paid to management boards of comparable compa-

nies within Germany and abroad. Additional factors taken into account are the duties and responsibilities as well as the contributions of each member of the Management Board. Their compensation complies with the stipulations of Section 87 of the German Stock Corporation Act and is calculated to be competitive both nationally and internationally and thus to provide an incentive for dedicated and successful work within a dynamic environment. The level of compensation is reevaluated every two years, taking into account an analysis of the income paid to executives of comparable companies.

The compensation of the Management Board comprises the following elements:

- **Fixed annual base salary.** The non-performance-related annual base salary is contractually fixed. It is partly paid in 12 equal monthly installments, and partly paid as a lump sum at the end of each fiscal year (in the following referred to as "Annual Lump Sum").
- **Performance-related compensation.** The annual bonus is dependent on the return on assets, which we define as earnings before interest and taxes (EBIT) adjusted for exceptional effects, in proportion to capital employed. This ensures that a bonus is earned only if the business develops positively. The annual bonus is determined by the Executive Committee in a two-phase process. In a

first step, a target bonus amount is determined on the basis on the return on assets. The Executive Committee subsequently evaluates the personal performance of each individual board member over the past fiscal year, and then determines the actual bonus amount. In addition to the bonus dependent on the return on assets, Management Board contracts provide for a possible special bonus awarded in recognition of special business achievements.

○ **Infineon Technologies AG stock options.** Management Board members are eligible to receive stock options under the 2006 stock option plan approved by the Infineon Technologies AG Shareholders' Annual General Meeting on February 16, 2006 as a variable compensation element with a long-term incentive effect and a risk character. Each stock option guarantees the right to acquire one share at a fixed exercise price. The options are valid for six years and may be exercised only after an initial waiting period of three years and not during specified black-out periods. The exercise price at which a share may be acquired upon exercise of an option is equal to 120 percent of the average Infineon opening prices on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date that the option is granted. The exercise of the options is dependent on the attainment of absolute and relative performance targets. The precondition for the exercise of the option rights is that the Infineon share price on the Frankfurt Stock Exchange in the XETRA trading system equals or exceeds the exercise price on at least one trading day during the option life. Furthermore,

the options can only be exercised if the Infineon share price exceeds the performance of the comparative index "Philadelphia Semiconductor Index" for three consecutive days on at least one occasion during the life of the option. These absolute and relative performance targets serve to ensure that the options are only exercised if the value of the company significantly increases. The Supervisory Board is responsible for all decisions on granting options to members of the Management Board. The fair value of the options granted during the 2007 fiscal year was €2.03 per option, determined according to the Monte Carlo simulation model. The main provisions of our 2006 stock option plan are described in note 28 to our consolidated financial statements for the year ended September 30, 2007, and are available in full text on the Internet at www.infineon.com.

COMPENSATION OF THE MANAGEMENT BOARD IN THE 2007 FISCAL YEAR

In the 2007 fiscal year, the active members of the Management Board received a total cash compensation of €5,349,206 (previous year¹: €4,391,438). No performance-related bonuses were paid for the 2007 fiscal year. The total compensation amounts to €6,465,706 (previous year²: €5,667,438). This includes stock options with a fair value of €1,116,500 (previous year: €1,276,000), which were granted to the Management Board members pursuant to the 2006 stock option plan.

The individual members of the Management Board who were active in the 2007 fiscal year received the following compensation (gross without statutory deductions)³:

01 OVERVIEW OF THE TOTAL COMPENSATION IN €

Management Board	Fiscal year	Cash compensation	Stock-based compensation	Total compensation ⁴
Dr. Wolfgang Ziebart (Chairman)	2007	1,636,828	406,000	2,042,828
	2006	1,735,563	510,400	2,245,963
Peter Bauer	2007	920,146	203,000	1,123,146
	2006	916,438	255,200	1,171,638
Prof. Dr. Hermann Eul	2007	729,815	203,000	932,815
	2006	709,058	255,200	964,258
Peter J. Fischl	2007	1,027,130	304,500	1,331,630
	2006	1,030,379	255,200	1,285,579
Rüdiger A. Günther	2007	799,628	—	799,628
	2006	—	—	—
Dr. Reinhard Ploss	2007	235,659	—	235,659
	2006	—	—	—
Total	2007	5,349,206	1,116,500	6,465,706
	2006	4,391,438	1,276,000	5,667,438

1 This amount includes the Annual Lump Sum for the 2006 fiscal year paid in October 2006.

2 This amount includes the Annual Lump Sum for the 2006 fiscal year paid in October 2006 and the fair value of the stock options granted in the 2006 fiscal year.

3 Each in accordance with the duration of the respective Management Board service contract during the 2007 fiscal year.

4 This amount includes the fair value of the stock options granted in the respective fiscal year.



The cash compensation listed in the overview above comprises the following elements:

02 CASH COMPENSATION IN €

Management Board	Fiscal year	Non-performance-related compensation			Performance-related compensation		Total cash compensation
		Annual Base Salary		Other ¹	Bonus		
		Amount paid in 12 monthly installments	Annual Lump Sum ²				
Dr. Wolfgang Ziebart (Chairman)	2007	800,000	800,000	36,828	—	1,636,828	
	2006	800,000	800,000	35,563	100,000	1,735,563	
Peter Bauer	2007	367,500	532,500	20,146	—	920,146	
	2006	360,000	540,000	16,438	—	916,438	
Prof. Dr. Hermann Eul	2007	358,333	358,333	13,149	—	729,815	
	2006	350,000	350,000	9,058	—	709,058	
Peter J. Fischl	2007	400,000	600,000	27,130	—	1,027,130	
	2006	400,000	600,000	30,379	—	1,030,379	
Rüdiger A. Günther	2007	325,000	425,000 ³	49,628	—	799,628	
	2006	—	—	—	—	—	
Dr. Reinhard Ploss	2007	116,667	116,667	2,325	—	235,659	
	2006	—	—	—	—	—	
Total	2007	2,367,500	2,832,500	149,206	—	5,349,206	
	2006	1,910,000	2,290,000	91,438	100,000	4,391,438	

1 The compensation included under "Other" comprises primarily the monetary value of the provision of a company car and insurance contributions, and, in the case of Mr. Günther, the repayment of relocation expenses.

2 This amount includes the Annual Lump Sum for the 2006 and 2007 fiscal years to be paid in the subsequent fiscal year before the preparation of the prior year consolidated financial statements.

3 This amount comprises the Annual Lump Sum (pro rata) as well as a guaranteed bonus in the amount of €100,000.

STOCK-BASED COMPENSATION

The stock-based compensation listed in the overview above reflects the following stock options granted in the

2007 fiscal year to members of the Management Board pursuant to the 2006 Stock Option Plan:

03 STOCK-BASED COMPENSATION

Management Board	Fiscal year	Stock options granted in the 2007 fiscal year ¹	Fair value at grant date in €
Dr. Wolfgang Ziebart (Chairman)	2007	200,000	406,000
	2006	160,000	510,400
Peter Bauer	2007	100,000	203,000
	2006	80,000	255,200
Prof. Dr. Hermann Eul	2007	100,000	203,000
	2006	80,000	255,200
Peter J. Fischl	2007	150,000	304,500
	2006	80,000	255,200
Rüdiger A. Günther	2007	—	—
	2006	—	—
Dr. Reinhard Ploss	2007	—	—
	2006	—	—
Total	2007	550,000	1,116,500
	2006	400,000	1,276,000

1 For the 2007 grants, the exercise price equals €13.30 per share, while the fair value determined in accordance with the Monte Carlo simulation model as of the grant date amounts to €2.03. The fair value underlying the amounts of the previous year determined in accordance with the Black-Scholes option pricing model was €3.19 per share.

COMMITMENTS TO THE MANAGEMENT BOARD UPON TERMINATION OF EMPLOYMENT

ALLOWANCES AND PENSION ENTITLEMENTS IN THE 2007 FISCAL YEAR

The pension agreement with the chairman of the Management Board sets the monthly pension payment at 70 percent of the last monthly base salary. The other members of the Management Board are contractually entitled to a fixed pension payment, which increases by €5,000 annually (with the exception of Mr. Fischl) until a maximum amount is attained. In accordance with U.S. GAAP, a total of €3,146,830 was added to pension reserves in the 2007 fiscal year (previous year: €2,908,481). Upon termination of membership in the Management Board, pension entitlements normally begin from age 60 at the earliest. Exceptions are provided for in cases such as departures from the board for health reasons and surviving dependents' pensions. Dr. Ziebart and Mr. Bauer deviate from this model and are entitled to a pension before age 60 if their contracts are not renewed, provided that there is no good cause for a revocation of the appointment in accordance with section 84 paragraph 3 of the German Stock Corporation Act. In such a case, however, their incomes from other employment and self-employed activities would be set off against up to one half of their pension entitlements.

The following overview represents the annual pension entitlements, as of the beginning of retirement, for Management Board members active through the end of the 2007 fiscal year, on the basis of the entitlements through September 30, 2007:

04 PENSION ENTITLEMENTS

Management Board	Pension entitlements (annual) as of beginning of pension period	Maximum amount	Transfer to pension reserves in the fiscal year (U.S. GAAP)
Dr. Wolfgang Ziebart (Chairman)	560,000	—	2,234,745
Peter Bauer	210,000	270,000	240,854
Prof. Dr. Hermann Eul	195,000	270,000	186,662
Peter J. Fischl	300,000	300,000	484,569
Dr. Reinhard Ploss	170,000	210,000	—
Total	1,435,000		3,146,830

The contracts of Dr. Ziebart and Mr. Bauer, furthermore, allow for a one-off transitional allowance upon termination of employment. This transitional allowance is equivalent to one year's income, composed of the last 12 basic monthly installments, and a sum amounting to the average of the bonus sums received over the last three fiscal years prior to termination. There is no right to the payment of a transitional allowance in the event of termination by a member of the Management Board not prompted by the company, and if the company has good cause for the termination. Subsequent to his temporary departure, Mr. Fischl received a transitional allowance of €1,133,333 in the 2007 fiscal year; he is not entitled to any further transitional allowance.

EARLY TERMINATION OF EMPLOYMENT

In the 2007 fiscal year, Management Board contracts were modified to include change-of-control clauses: A change-of-control within the meaning of this clause occurs when a third party, individually or in cooperation with another party, holds 30 percent of voting rights in Infineon Technologies AG as stipulated by Section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz). In case of such a change-of-control, the Management Board members have the right to resign and terminate their contracts if the exercise of their office and the fulfillment of their service contract become unacceptable, due, for example, to considerable restrictions in their areas of responsibility. In such an event, board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of two years. This amount is based on the annual target income for the year of termination and the variable components assuming a return on assets of 6 percent. In the event of a termination of the contract by Infineon Technologies AG within 12 months after the announcement of a change of control, the members of the Management Board are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of three years. Mr. Fischl, as an exception to this rule, is entitled to a severance payment equivalent to two years of annual target income in the event of his resignation/termination of contract, and is entitled to a severance payment equivalent to four years of annual target income in the event of the termination of his contract by the company.



The Management Board members' pension entitlements remain unaffected. These rights in the event of a change of control, however, only exist if there is no serious breach of duty.

Management Board contracts, furthermore, do not foresee severance payments in the event of an early termination of contract. Severance payments may, however, be stipulated in individual termination agreements.

FRINGE BENEFITS AND OTHER AWARDS IN THE 2007 FISCAL YEAR

- The members of the Management Board received no fringe benefits besides the elements listed under "Other" in the compensation table.
- The members of the Management Board do not receive any loans from the company.
- The members of the Management Board received no compensation or promise of compensation with regard to their activities on the board from third parties in the 2007 fiscal year.
- The company maintains a directors' and officers' group liability insurance (D&O insurance). The insurance covers the personal liability risk in the event of claims raised against members of the Management Board for indemnification of losses incurred in the exercise of their duties, if the claimed loss exceeds 25 percent of the non-performance-related annual salary of the board member involved (which constitutes a deductible as defined by the German Corporate Governance Code, clause 3.8, para. 2).

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE 2007 FISCAL YEAR

Former members of the Management Board received total payments of €1.3 million (severance and pension payments) in the 2007 fiscal year. This includes a severance payment of €1.2 million to Mr. Günther.

According to U.S. GAAP, a total of €1,442,276 was added to pension reserves for current pensions and entitlements to pensions by former Management Board members; as of September 30, 2007, these pension reserves amount to €13,587,269.

COMPENSATION OF THE SUPERVISORY BOARD

COMPENSATION STRUCTURE

The compensation of the Supervisory Board is determined in the company's Articles of Incorporation. It is intended to reflect the company's size, the duties and responsibilities of the members of the Supervisory Board, and the company's economic condition and performance. The compensation of the Supervisory Board is governed by Section 11 of the Articles of Incorporation and comprises two elements:

- **fixed compensation** of €25,000 per year and
- **a variable element** in the form of 1,500 share appreciation rights per annum, which are granted and may be exercised on the same terms as provided for by the Infineon Stock Option Plan approved by the Shareholders' Annual General Meeting, which is valid in the fiscal year in which these rights are granted. These share appreciation rights, however, do not entitle the holder to purchase shares but only to a settlement in cash. The share appreciation rights expire six years from the date of grant, and can be exercised only following a waiting period of three years. The exercise price per share appreciation right amounts to 120 percent of the average Infineon opening price on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date the respective share appreciation right is granted. The exercise of share appreciation rights is dependent on the attainment of absolute and relative performance targets as stipulated in the 2006 Stock Option Plan. Basic principles of our 2006 Stock Option Plan are described in note 28 to the consolidated financial statements for the year ended September 30, 2007 and are available in full text on the Internet at www.infineon.com. The fair value of the share appreciation rights granted in the 2007 fiscal year amounts to €2.03 per share appreciation right, as determined in accordance with the Monte Carlo simulation model.

Additional compensation is paid for certain functions within the Supervisory Board. The Chairman of the Supervisory Board receives an additional 100 percent of the fixed compensation. Furthermore, each Vice-Chairman and each other member of a Supervisory Board committee, with the exception of the committees stipulated by law, receives an additional 50 percent of their fixed compensation.

Members of the Supervisory Board, moreover, receive compensation for all expenses incurred in connection with their duties, as well as the value-added tax apportioned to their compensation, to the extent that they can charge for it separately and do so.

COMPENSATION OF THE SUPERVISORY BOARD IN THE 2007 FISCAL YEAR

The share appreciation rights granted to the members of the Supervisory Board in the 2007 fiscal year follow the terms of the company's 2006 Stock Option Plan. The

Supervisory Board compensation otherwise remained unchanged from the previous year. The individual members of the Supervisory Board received the following cash compensation, including 19 percent VAT, in the 2007 fiscal year:

05 COMPENSATION OF THE SUPERVISORY BOARD IN THE 2007 FISCAL YEAR IN €

Supervisory Board member	Base compensation	Additional compensation for special functions	Total payment
Max Dietrich Kley	29,750	29,750	59,500
Wigand Cramer	29,750	—	29,750
Alfred Eibl	29,750	14,875	44,625
Prof. Johannes Feldmayer	29,750	—	29,750
Jakob Hauser	29,750	14,875	44,625
Gerhard Hobbach ¹	19,833	—	19,833
Dr. Stefan Jentzsch ²	24,792	—	24,792
Prof. Dr. Renate Köcher	29,750	—	29,750
Klaus Luschtinetz ³	12,396	6,198	18,594
Dr. Siegfried Luther	29,750	14,875	44,625
Michael Ruth	29,750	—	29,750
Gerd Schmidt	29,750	9,917	39,667
Prof. Dr. Doris Schmitt-Landsiedel	29,750	14,875	44,625
Kerstin Schulzendorf	29,750	—	29,750
Dr. Eckart Sünner ⁴	4,958	—	4,958
Alexander Trüby	29,750	14,875	44,625
Prof. Dr. Martin Winterkorn	29,750	14,875	44,625
Prof. Dr.-Ing. Klaus Wucherer	29,750	14,875	44,625
Total	478,479	149,990	628,469

1 Pro rata from appointment (February 15, 2007) 2 Pro rata to retirement from office (August 2, 2007)
3 Pro rata to retirement from office (February 15, 2007) 4 Pro rata from appointment (August 2, 2007)

OTHER

- The members of the Supervisory Board do not receive any loans from the company.
- The company maintains a directors' and officers' group liability insurance (D&O insurance). The insurance covers the personal liability risk in the event of claims raised against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties, if the claimed loss exceeds 100 percent of the annual base salary of the board member involved (which constitutes a deductible as defined by the German Corporate Governance Code, Section 3.8, paragraph 2).

OPERATING AND FINANCIAL REVIEW

IMPORTANT NOTE

This discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and other financial information included elsewhere in this annual report. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions more fully explained in note 1 (Description of Business and Basis of Presentation) and note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.

This report combines the operating and financial review of Infineon Technologies AG as a part of the global development, manufacturing, sales and marketing network of the Infineon group, with the operation and financial review of the Infineon group as a whole.

This annual report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the heading "Risk Report" and elsewhere in this annual report.

OVERVIEW OF THE 2007 FISCAL YEAR

In our 2007 fiscal year, which ended September 30, both the global economy generally and the semiconductor market (other than for memory products) were slightly stronger than in the prior year. Nevertheless, our results of operations were negatively affected by the strength of the Euro (primarily against the U.S. dollar) and by continued pricing pressure, particularly in our Qimonda segment.

The following were the key developments in our business during the 2007 fiscal year:

- Despite unfavorable currency exchange rates and pricing pressure, we were able to maintain net sales in our combined logic segments at approximately the same level as in the 2006 fiscal year. In fact, our Automotive, Industrial & Multimarket segment was able to significantly increase net sales in the 2007 fiscal year despite wide pricing pressure. Furthermore, during the 2007 fiscal year, our Communication Solutions segment began to compensate for the decrease in revenues in the wireless business that had resulted from the insolvency of BenQ's German subsidiary in the 2006 fiscal year. This was achieved by increased shipments of complete mobile phone platform solutions to other leading customers. Overall, our net sales decreased by 3 percent, from €7,929 million in the 2006 fiscal year to €7,682 million in the 2007 fiscal year, primarily due to a 29 percent decline in DRAM prices and the weakening of the U.S. dollar against the Euro, which resulted in a €207 million decrease in net sales in our Qimonda segment.
- EBIT in our Automotive, Industrial & Multimarket segment further improved primarily due to an increase in net sales. Also, in our Communication Solutions segment, EBIT continued to improve despite a further decline in net sales, as no significant charges were recognized and further cost reduction measures were successfully implemented. The unfavorable market conditions in our Qimonda segment and the loss we incurred from further sales of our interest in Qimonda negatively impacted our results of operations in the 2007 fiscal year. Our net loss increased by 37 percent, from €268 million in the 2006 fiscal year to €368 million in the 2007 fiscal year. Earnings before interest and taxes (EBIT) were negative €15 million in the 2006 fiscal year and negative €256 million in the 2007 fiscal year.

- Our cash flow from operations increased from €1,003 million in the 2006 fiscal year to €1,207 million in the 2007 fiscal year.
- In October 2006, we announced our plan to focus our mobile communication activities on business with recently acquired and future customers following the insolvency of BenQ's German subsidiary. As a result, during the 2007 fiscal year we successfully increased shipments of complete mobile phone platform solutions to several leading customers, including LG Electronics Inc., Seoul, Korea ("LG"), Panasonic Mobile Communications Co. Ltd., Yokohama, Japan ("Panasonic") and ZTE Corporation, Shenzhen, China ("ZTE").
- In addition, we announced that Nokia Oyj, Espoo, Finland ("Nokia"), selected our single-chip solution E-GOLD™voice for selected future entry level mobile phones, that Ericsson Mobile Platforms, a business unit of Ericsson AB, Stockholm, Sweden, selected our RF transceiver SMARTi® 3G for their U310 and U360 EDGE/HSDPA platforms and that we signed an agreement with Motorola Inc., Schaumburg, Illinois, USA, to develop a 3G RF transceiver.
- In April 2007, we entered into a definitive agreement with Avago Technologies Ltd., San José, California, USA ("Avago"), under which Avago acquired our Polymer Optical Fiber ("POF") business, based in Regensburg, Germany.
- During 2007, we announced two acquisitions to further strengthen our activities in communication fields. In June 2007, we entered into an agreement with Texas Instruments Inc. ("TI") to acquire its DSL Customer Premises Equipment ("CPE") business. The transaction closed in the fourth quarter of the 2007 fiscal year. In August 2007, we announced the planned acquisition of the mobility products business of LSI Corporation ("LSI"). The transaction closed in October 2007.
- In September 2007, we executed a combined capital markets offering to further reduce our equity interest in Qimonda. One part of the transaction was a secondary sale by us of 28.75 million Qimonda American Depositary Shares ("ADSs"), reducing our interest in Qimonda to 77.5 percent. In addition, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued exchangeable subordinated notes supported by a share lending agreement. The notes are exchangeable for Qimonda ADSs during the exchange period through maturity on August 31, 2010. If all noteholders were to exercise their exchange rights, we would deliver an aggregate of 20.5 million Qimonda ADSs for the redemption of the exchangeable subordinated notes – equivalent to approximately 6 percent of Qimonda's share capital.
- In August 2007, we and International Business Machines Corporation, New York, USA ("IBM") signed an agreement in principle to divest our respective shares in ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") via a sale to Advanced Electronic Systems AG ("AES"). Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS, from us and IBM, and AES agreed to maintain the level of industrial activity of ALTIS. Pursuant to the agreement, we will enter into a two-year supply contract with ALTIS, and IBM and we will license certain manufacturing process technologies to AES for use by ALTIS. The agreement is subject to governmental and regulatory approval and works council consultation.
- We strengthened our research and development ("R&D") activities through a strategic cooperation for the development of automotive electronics with Hyundai Motor Company ("Hyundai") and the expansion of our R&D center in Singapore to better serve the growing demand for products in the energy efficiency, communications and security areas.
- As part of our ongoing efforts to improve our production processes and expand our production capabilities, we:
 - continued to invest in our first Asian-based front-end power fabrication facility located in Kulim Hi-Tech Park, Malaysia. The maximum capacity will be approximately 100,000 wafer starts per month using 200-millimeter wafers. At the end of the 2007 fiscal year aggregate capital expenditures to date were €379 million and the production was running at 30,000 wafer starts per month. The new facility produces power and logic chips used in industrial and automotive power applications;
 - qualified our 65-nanometer technology at several manufacturing partners and began transfer of our 45-nanometer technology to one of our manufacturing partners;
 - extended our joint development agreements with IBM and its development and manufacturing partners to the 32-nanometer generation. This agreement builds on the success of earlier joint development and manufacturing agreements at 65-nanometer and 45-nanometer;
 - we signed a memorandum of understanding ("MoU") with Hindustan Semiconductor Manufacturing Corporation ("HSMC"), a newly established semiconductor company, whereby HSMC would license our leading-

edge 130-nanometer CMOS process technology. This MoU will help build a foundation for the production of integrated circuits for mobile phones, ID cards and automotives in India for the Indian market.

- We continued to invest heavily in research and development and achieved a number of significant milestones and product developments during the year:

ENERGY EFFICIENCY

- the presentation of the HybridPACK™ power module technology, using the IGBT (Insulated Gate Bipolar Transistor) chip technology, which increases energy efficiency of hybrid drives;
- the introduction of CIPOST™ (Control Integrated Power System) modules, a new family of highly integrated intelligent power modules that contain nearly all of the semiconductor components required to drive electronically controlled variable-speed electric motors, designed to enable energy-efficient operation of consumer appliances such as washing machines and air conditioners, offering efficiencies of up to 94 percent;
- the announcement of an 8-bit embedded flash microcontroller product family, XC866Hot, that is qualified for high temperature applications of up to +140 °C diminishing cooling requirements and thus reducing overall system cost in high temperature applications such as motor controls for heating and furnace systems, and electronic controls embedded inside motor drives.

SECURITY

- the selection of our 32-bit security chip card flash microcontroller family as a winner of the 2006 Sesames Award in the category of Best Hardware for the unique combination of high-security and flash memory at the Cartes Trade Show in Paris;
- Infineon supplied secure memories and microcontrollers to government ID projects worldwide such as E-Passports in USA, Scandinavia and Hong Kong. By this, Infineon holds a leading position in the Government ID market;
- the announcement of a new software suite version for the management of computers using Trusted Platform Modules ("TPM") in enterprise environments, which builds a comprehensive and Windows Vista ready secure solution compliant with the Trusted Computing Group's ("TCG") 1.2 specification.

COMMUNICATION

- the introduction of the S-GOLD®radio, a single-chip solution for EDGE mobile phones. The S-GOLD®radio significantly reduces system component count, the modem printed circuit board area and the overall engineering bill-of-materials;
- the presentation of two new single-chip RF CMOS transceivers, the SMARTi® PM+ and SMARTi® UE for EDGE and multi-mode 3G mobile phones, respectively;
- the introduction of Amazon-SE, a new ADSL2+ system-on-a-chip solution for DSL modems and routers that will help drive broadband penetration in emerging markets.

QIMONDA

Qimonda likewise achieved a number of significant milestones during the 2007 fiscal year, including:

- the validation of Qimonda's DDR3 Memory components and modules on Intel reference platforms;
- the announcement of an agreement with SanDisk Corporation ("SanDisk") to jointly develop and manufacture MCPs (Multi-Chip Packages) utilizing SanDisk's NAND flash and controllers, and Qimonda's low power mobile DRAM;
- the sampling of ultra-low power 512 Mbit Mobile-RAM for mobile applications. Qimonda uses a specifically designed 75-nanometer low-power trench technology platform that is the basis for an entire Mobile DRAM product family in this node. The new Mobile-RAM is available as DDR and SDR via bond option and comes with two interfaces (x16/x32) and a single/dual sided pad out to fit any component, MCP, or system in package ("SIP");
- the announcement of plans to build a new DRAM module manufacturing facility in Johor, Malaysia. The overall investment for this new DRAM module manufacturing facility, including IT integration, infrastructure and equipment is expected to total up to €150 million over the next five years;
- the announcement of plans to build a new 300-millimeter front-end manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, Qimonda plans to invest approximately €2 billion in the site over the next five years. With 20,000 square meters of clean room space, the new fab is expected to add 60,000 wafer starts per month to Qimonda's overall front-end capacity when fully ramped.

OUR BUSINESS

We design, develop, manufacture and market a broad range of semiconductors and complete system solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. Our products include standard commodity components, full-custom devices, semi-custom devices, and application-specific components for memory, analog, digital, and mixed-signal applications. We have operations, investments, and customers located mainly in Europe, Asia and North America.

Our business is organized into three principal operating segments serving various markets in the semiconductor industry:

- Our Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.
- Our Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.
- Our majority-owned subsidiary Qimonda designs memory technologies and develops, manufactures, and markets a large variety of memory products on a module, component and chip level.

We have two additional segments for reporting purposes, our Other Operating Segments, which includes remaining activities for certain product lines that have been disposed of, as well as other business activities, and our Corporate and Eliminations segment, which contains items not allocated to our operating segments, such as certain corporate headquarters' costs, strategic investments, unabsorbed excess capacity and restructuring costs.

THE SEMICONDUCTOR INDUSTRY AND FACTORS THAT IMPACT OUR BUSINESS

Our business and the semiconductor industry generally are highly cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and wide fluctuations in product supply and demand. Although these factors affect all segments of our business, they are especially pronounced for Qimonda, are increasingly true for our Communication Solutions segment, and have the least impact on our Automotive, Industrial & Multimarket segment.

CYCLICALITY

The industry's cyclicity results from a complex set of factors, including, in particular, fluctuations in demand for the end products that use semiconductors and fluctuations in the manufacturing capacity available to produce semiconductors. This cyclicity is especially pronounced in the memory portion of the industry. Semiconductor manufacturing facilities (so-called fabrication facilities, or "fabs") can take several years to plan, construct, and begin operations. Semiconductor manufacturers have in the past made capital investments in plant and equipment during periods of favorable market conditions, in response to anticipated demand growth for semiconductors. If more than one of these newly built fabs comes on-line at about the same time, the supply of chips to the market can be vastly increased. Without sustained growth in demand, this cycle has typically led to manufacturing over-capacity and oversupply of products, which in turn has led to sharp drops in semiconductor prices. When prices drop, manufacturers have in the past cut back on investing in new fabs. As demand for chips grows over time, without additional fabs coming on-line, prices tend to rise, leading to a new cycle of investment. The semiconductor industry has generally been slow to react to declines in demand, due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of planned expansion.

We and Qimonda attempt to mitigate the impact of cyclicity by investing in manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle. We believe that Qimonda, in particular, can improve its gross margin by



focusing on two key areas: the continuous improvement of cost structure and productivity through the introduction of advanced memory process technologies and the development and marketing of a broader range of memory products, focusing particularly on higher margin and less volatile applications such as infrastructure, high-end graphics, consumer and mobile applications.

SUBSTANTIAL CAPITAL AND R&D EXPENDITURES

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The top 10 capital spenders in the industry, of which we rank number 9 according to IC Insights, account for more than 60 percent of the industry's projected 2007 capital spending budgets. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

Because pricing, for DRAM products in particular, is market-driven and largely beyond our and Qimonda's control, a key factor for Qimonda in achieving and maintaining profitability is to continually lower its per-unit costs by reducing total costs and by increasing unit production output through productivity improvements.

To reduce total costs, we and Qimonda also aim to share the costs of research and development and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D, as well as manufacturing and foundry partnerships' provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how, and access to additional production capacities. Qimonda, for example, is developing future DRAM technologies with feature sizes of 58-nanometer together with Nanya Technology Corporation ("Nanya"). In addition, Qimonda has established foundry relationships with partners in Asia, including Semiconductor Manufacturing International Corporation, Beijing, China ("SMIC") and Winbond Electronics Corp., Taichung, Taiwan ("Winbond"), to increase its manufacturing capacities, and therefore its potential revenues, without investing in additional manufacturing assets. In our logic business, our principal alliances are with IBM, Chartered Semiconduc-

tor Manufacturing Ltd., Singapore ("Chartered Semiconductor") and Samsung Electronics Co. Ltd., Seoul, Korea ("Samsung") for CMOS development and manufacturing at 65-nanometer and 45-nanometer process technologies. In May 2007, we extended the joint development agreement with IBM and its development and manufacturing partners to include the 32-nanometer generation. Further, we have established foundry relationships with United Microelectronics Corporation, Taipei, Taiwan ("UMC") for 130-nanometer and 90-nanometer manufacturing.

We expect to continue to increase unit production output through improvements in manufacturing, which is achieved by producing chips with smaller structure sizes (more bits per chip) and by producing more chips per silicon wafer (by using larger wafers). For DRAM process technology, the majority of Qimonda's capacity is based on 90-nanometer structure sizes. In addition, 80- and 75-nanometer technologies are currently in ramp-up at Qimonda. Qimonda has extended its 300-millimeter capacity share during the 2007 fiscal year with the continuous ramp-up of the facilities of Inotera Memories Inc., Taoyuan, Taiwan ("Inotera"), its joint venture with Nanya, and the ramp-up of foundry capacities at SMIC in Beijing, China, Winbond in Taichung, Taiwan, and Qimonda's own facility in Richmond, Virginia, USA. Qimonda plans to further extend the share of its memory production on 300-millimeter wafers with the continuous ramp-up of the 300-millimeter line in Richmond. In addition, Qimonda has announced plans to start the construction of a new 300-millimeter manufacturing facility in Singapore.

In our logic business, a substantial portion of our capacity is based on 130-nanometer structure sizes. Our 130-nanometer logic process technology, with up to eight layers of copper metallization, is in full production at several manufacturing sites, including our Dresden facility. Additional 130-nanometer process options have been developed to fulfill the needs of specialty applications. Also, our 90-nanometer logic technology is in production. The 65-nanometer technology has been qualified at several manufacturing sites and the 45-nanometer technology is already undergoing transfer to one of our manufacturing partners.

Within our logic segments, about half of the fab capacity is used for the manufacture of power semiconductors used in automotive and industrial applications. We have manufacturing sites in Regensburg, Germany, in Villach, Austria and are currently ramping-up our new fab in Kulim, Malaysia. We continue to focus on innova-

tion for power semiconductors, introducing power copper metallization and special processes to fabricate ever thinner wafers to optimize electrical resistance.

With our planned additional investment in the Kulim power manufacturing facility, we will increase our manufacturing capacity mainly for automotive and industrial power products by up to 100,000 wafer starts per month using 200-millimeter wafers. At full capacity, this manufacturing facility is expected to employ more than 1,500 people.

TECHNOLOGICAL DEVELOPMENT AND COMPETITION

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. DRAM products, in particular, are to a large extent commodities. Since most specifications are standardized, customers can switch between suppliers on short notice. This leads to strong competition within the market, especially for standard DRAM products for PC applications, and causes manufacturers to pass cost savings on to their customers in an effort to gain market share. Logic products are generally not commodities, but rather have a certain degree of application specification. Although generally less volatile than those for commodity memory products, unit sales prices for logic products typically decline over time as technological developments occur.

We aim to offset the effects of declining unit sales prices on total net sales by optimizing product mix, by increasing unit sales volume and by continually reducing per-unit production costs. The growth in volume depends in part on productivity improvements in manufacturing. By moving to ever-smaller structure sizes, the number of functional elements has historically doubled approximately every two years. In the area of DRAM products, this trend, often referred to as Moore's Law, has led to an average growth rate of bit-volumes of between 40 percent and 45 percent per year and, assuming constant costs per square inch of silicon, to an approximately 30 percent cost reduction per bit per year.

SEASONALITY

Our sales are affected by seasonal and cyclical influences, with sales historically strongest in our fourth fiscal quarter and weakest in our first fiscal quarter. These short cycles are influenced by longer cycles that are a response to innovative technical solutions from our customers that incorporate our products. The short-term and mid-term

cyclicity of our sales reflects the supply and demand fluctuations for the products that contain our semiconductors. If anticipated sales or shipments do not occur when expected, expenses and inventory levels in a given quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

PRODUCT DEVELOPMENT CYCLES

For logic products, the cycle for test, evaluation and adoption of our products by customers before the start of volume production can range from several months to more than one year. Due to this lengthy cycle, we may experience significant delays from the time we incur expenses for research and development, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any. Development cycles affect memory products to a lesser extent due to the higher degree of standardization for memory products.

ACQUISITION AND DIVESTITURE STRATEGY

A key element of our business strategy is to seek to reduce the time required to develop new technologies and products and bring them to market, and to optimize our existing product offerings, market coverage, engineering workforce, and technological capabilities. We plan to continue to evaluate strategic opportunities as they arise, including business combination transactions, strategic relationships, capital investments, and the purchase or sale of assets.

INTELLECTUAL PROPERTY

Due to the high-technology nature of the semiconductor industry, intellectual property ("IP"), meaning intangible assets relating to proprietary technology, is of significant importance. We do not record assets on our balance sheet for self-developed IP. Only IP licensed from others or acquired through a business acquisition is reflected on our balance sheet, and reduced through amortization over its expected useful life. The value of such acquired IP is often complex and difficult to estimate. We also derive modest revenues from the licensing of our IP, generally pursuant to cross licensing arrangements.

CHALLENGES THAT LIE AHEAD

Going forward, our success will remain highly dependent on our ability to stay at the leading edge of technology development, and to continue to optimize our product

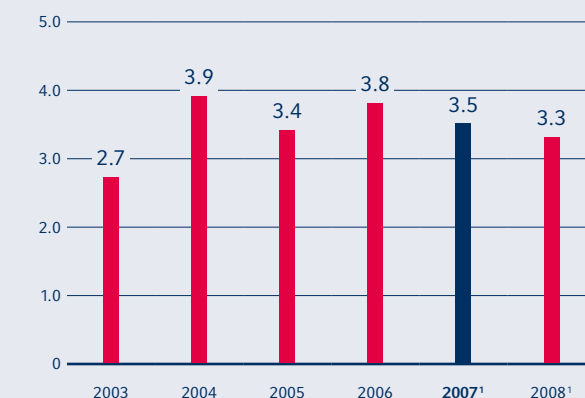


portfolio. We must achieve both objectives to ensure that we have the flexibility to react to fluctuations in market demand for different types of semiconductor products. We believe that the ability to offer and the flexibility to manufacture a broad portfolio of products will be increasingly important to our long-term success in many markets within the semiconductor industry. Establishing and maintaining advantageous technology, development and manufacturing alliances, including the use of third-party foundries, and continuing our efforts to broaden our product portfolio will make it easier for us to respond to changes in market conditions and to improve our financial performance.

SEMICONDUCTOR MARKET CONDITIONS IN THE 2007 FISCAL YEAR

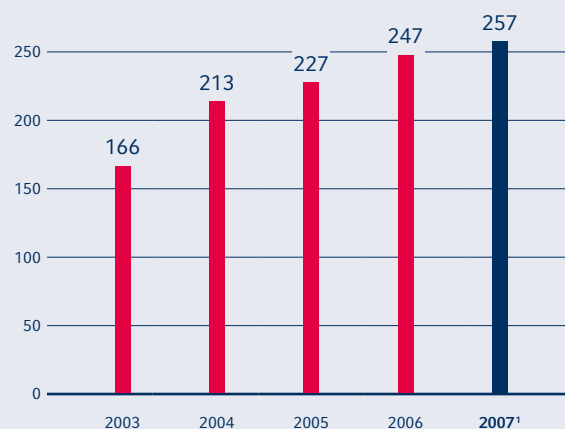
The growth of the semiconductor market decelerated through the first three quarters of the 2007 calendar year following growth of 9 percent in the 2006 calendar year, according to World Semiconductor Trade Statistics (“WSTS”). In November 2007, WSTS predicted a growth rate of 4 percent for the full 2007 calendar year. According to WSTS, sales in North America are expected to decrease by 5 percent in the 2007 calendar year. The semiconductor market in Asia/Pacific (excluding Japan) is expected to increase by 7 percent; the Japanese market is expected to grow by 5 percent; and the European market is expected to increase by 3 percent. Sales of non-memory products (logic chips, analog, and discretes), which accounted for 77 percent of the entire market in the first nine months of the 2007 calendar year, are predicted to grow by 4 percent compared with the 2006 calendar year. Sales of memory products are predicted to grow by 2 percent compared with the 2006 calendar year. Gartner Dataquest predicts worldwide growth in the 2007 calendar year of 9 percent for semiconductors in the automotive business. Sales of semiconductors for industrial electronics are predicted to grow by 4 percent, for communication (wireless and wireline) by 1 percent, for data processing by 4 percent and for consumer electronics by 7 percent.

06 WORLD ECONOMIC GROWTH IN %



Source: International Monetary Fund; status: September 2007.
1 Estimated.

07 DEVELOPMENT OF THE SEMICONDUCTOR MARKET U.S. \$ IN BILLIONS



Source: WSTS; status: November 2007.
1 Estimated.

RESULTS OF OPERATIONS

REORGANIZATION

Our current organizational structure became effective on May 1, 2006, following the legal separation of our memory products business into the stand-alone legal entity Qimonda. The results of prior periods have been reclassified to conform to the current period presentation, as well as to facilitate analysis of current and future operating segment information. As a result of the reorganization, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to Infineon's logic segments.

We operate primarily in three major operating segments, two of which are application focused: Automotive, Industrial & Multimarket, and Communication Solutions; and one of which is product focused: Qimonda. Further, certain of our remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the FASB Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosure about Segments of an Enterprise and Related Information" definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments

are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

Following the completion of the Qimonda carve-out, the Other Operating Segments also include net sales and earnings that Infineon's 200-millimeter production facility in Dresden records from the sale of wafers to Qimonda under foundry agreements. The Corporate and Eliminations segment reflects the elimination of these intra-group net sales and earnings.

Certain amounts in the prior years have been reclassified to conform to the current year presentation. Dividends received from associated companies, previously reported as part of cash flows from investing activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities. The consolidated results of operations and overall cash flows have not been affected by these reclassifications.

NET SALES

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. Our semiconductor products include two main categories of semiconductors:

- Our logic products, which include a wide array of chips and components used in electronic applications ranging from wireless and wireline communication systems,

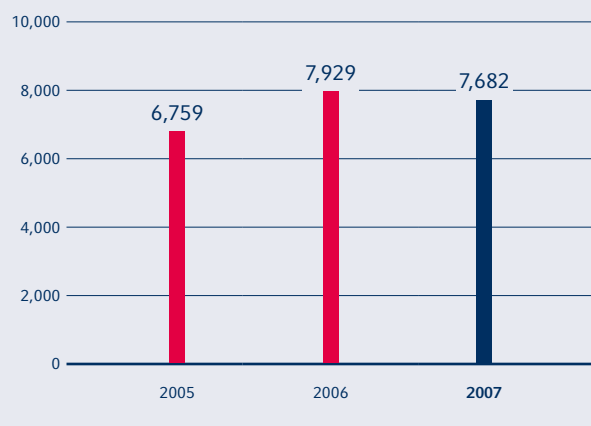
08 RESULTS OF OPERATIONS AS A PERCENTAGE OF NET SALES

For the years ended September 30, ¹	2005	2006	2007
Net sales	100.0	100.0	100.0
Cost of goods sold	(72.6)	(73.8)	(79.3)
Gross profit	27.4	26.2	20.7
Research and development expenses	(19.1)	(15.8)	(15.2)
Selling, general and administrative expenses	(9.7)	(9.5)	(9.1)
Restructuring charges	(1.2)	(0.3)	(0.6)
Other operating expense, net	(1.4)	(1.4)	(0.6)
Operating loss	(4.0)	(0.8)	(4.8)
Interest expense, net	(0.1)	(1.2)	(0.4)
Equity in earnings of associated companies, net	0.9	1.0	1.5
Gain on subsidiaries and associated company share issuance, net	0.0	0.2	0.0
Other non-operating income (expense), net	0.4	(0.4)	0.2
Minority interests	0.0	(0.3)	0.2
Loss before income taxes	(2.8)	(1.5)	(3.3)
Income tax expense	(1.8)	(2.0)	(1.0)
Loss before extraordinary loss	(4.6)	(3.5)	(4.3)
Extraordinary loss, net of tax	0.0	0.0	(0.5)
Net loss	(4.6)	(3.5)	(4.8)

¹ Columns may not add up due to rounding.



09 NET SALES € IN MILLIONS



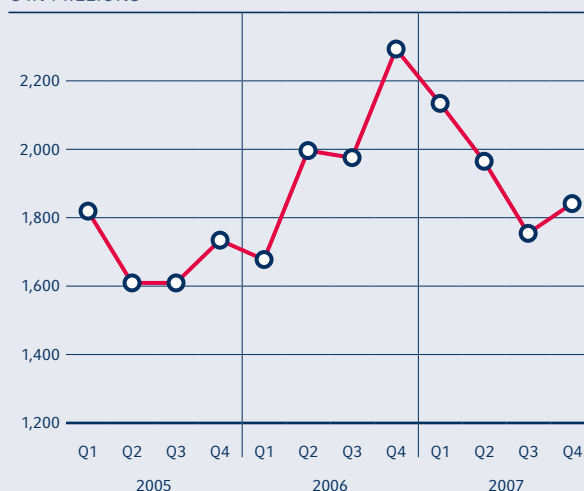
chip cards, automotive electronics and industrial applications.

- Our memory products, such as DRAM products, which are used in computers and other electronic devices.

We made the majority of our product sales in the 2007 fiscal year through our direct sales force, with approximately 24 percent of net sales from our logic segments and approximately 12 percent of Qimonda's net sales derived from sales made through distributors.

We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a

11 QUARTERLY NET SALES € IN MILLIONS



portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements.

Our net sales fluctuate in response to a mix of factors, including the following:

- The market prices for our products, particularly our memory products;
- Our overall product mix and sales volumes;
- The stage of our products in their respective life cycles; and
- The effects of competition and competitive pricing strategies.

10 NET SALES € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,

	2005	2006	2007
Net sales	6,759	7,929	7,682
Changes year-on-year		17%	(3%)
Of which:			
License income	175	29	28
% of net sales	3%	0%	0%
Effect of foreign exchange over prior year	(177)	142	(174)
% of net sales	(3%)	2%	(2%)
Impact of acquisitions over prior year	2	40	16
% of net sales	0%	0%	0%

In the 2007 fiscal year, net sales decreased primarily as a result of the continued revenue decrease in the wireless business of the Communication Solutions' segment and by the decline of DRAM prices of 29 percent in the Qimonda segment. These effects were not fully offset by volume growth, particularly for automotive and industrial power applications. In the 2006 fiscal year, net sales increased primarily as a result of higher demand for memory products, especially for graphics, mobile and consumer DRAM, as well as healthy growth in the Automotive, Industrial & Multimarket segment, particularly in the automotive and industrial power applications businesses. The decrease in license income in the 2006 fiscal year was mainly driven by the non-recurring license fees from ProMOS recognized in the 2005 fiscal year. The strength of the Euro (primarily against the U.S. dollar) during the 2007 fiscal year negatively impacted net sales, whereas net sales in the 2006 fiscal year were positively impacted by the effect of foreign exchange rates. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year is applied as a constant rate in the current year. The increase in net sales from entities we acquired since the beginning of the prior year reflects primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition. Net sales for the 2007 fiscal year include the effect of the TI DSL Customer Premises Equipment ("CPE") acquisition starting August 1, 2007. The main effect in the 2006 fiscal year resulted from the initial consolidation of ALTIS as of December 31, 2005.

NET SALES BY SEGMENT

Automotive, Industrial & Multimarket

In the 2006 fiscal year, the segment experienced healthy growth as sales volumes increased, particularly for automotive and industrial power applications, more than offsetting ongoing pricing pressure caused by technological developments and competition. We experienced strong pricing pressure in the market for chipcard ICs throughout the 2006 fiscal year. Despite continued segment wide pricing pressure we were able to increase net sales in the 2007 fiscal year. The sales growth was mainly driven by continuing strong demand for high power products in industrial applications, an increase of sales for energy efficient devices in industrial and multimarket applications and increasing demand for government ID applications.

Communication Solutions

In the 2006 fiscal year, net sales in the Communication Solutions segment declined year-on-year due to a decrease in revenues in the wireless business mainly due to a continued decline in demand for baseband products, as well as ongoing pricing pressure. This decline was partly compensated by a strong increase in revenues in the wireline business. The decline in net sales in the 2007 fiscal year was primarily caused by a continued decrease in revenues in the wireless business mainly driven by the insolvency of BenQ's German subsidiary as well as ongoing pricing pressure that could not be compensated by increased shipments of complete mobile phone platform solutions to leading customers such as LG, Panasonic, and ZTE. In addition, revenues in the wireline business

12 NET SALES BY SEGMENT

€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	%	2006	%	2007	%
Automotive, Industrial & Multimarket	2,516	37	2,839	36	3,017	39
Communication Solutions ¹	1,391	21	1,205	15	1,051	14
Other Operating Segments ²	285	4	310	4	219	3
Corporate and Eliminations ³	(258)	(4)	(240)	(3)	(213)	(3)
Subtotal	3,934	58	4,114	52	4,074	53
Qimonda	2,825	42	3,815	48	3,608	47
Total	6,759	100	7,929	100	7,682	100

1 Includes inter-segment sales of €30 million for fiscal year ended September 30, 2007, and none in the 2005 and 2006 fiscal years, from sales of wireless communication applications to Qimonda.

2 Includes inter-segment sales of €273 million, €256 million and €189 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements.

3 Includes the elimination of inter-segment sales of €273 million, €256 million and €219 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

declined mainly due to the phase-out of our fiber optics business during the 2006 fiscal year.

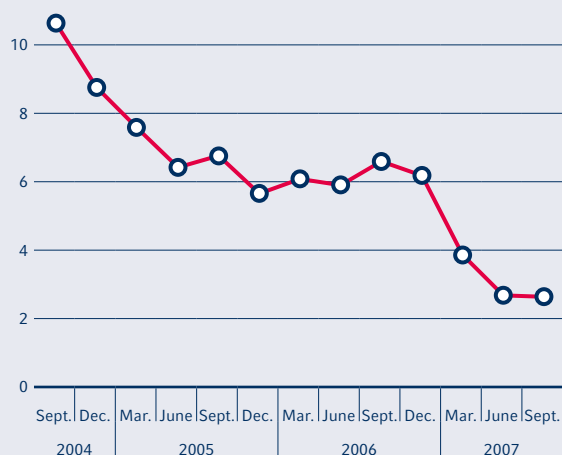
Qimonda

Net sales in the 2006 fiscal year increased compared to the previous year mainly due to increased bit shipments and a favorable U.S. dollar/Euro exchange rate. The higher bit shipments resulted from the ramp-up of Qimonda's 300-millimeter manufacturing facility in Richmond, the conversion of an increasing share of capacities to 90-nanometer technology, and access to additional capacities of Qimonda's joint venture partners and foundry partners, as well as the overall demand growth in the DRAM market and Qimonda's successful diversification in new market segments, particularly with graphic DRAM products. These positive effects were partly offset by price declines in the DRAM market. The majority of Qimonda's memory products sales reflected in 512 Mbit DRAMs in the 2006 fiscal year. Net sales in the 2007 fiscal year decreased by €207 million, or 5 percent, compared to the prior year, primarily due to the 29 percent decline in DRAM prices and the weakening in the U.S. dollar/Euro exchange rate. Offsetting these effects in part were higher bit shipments, which increased 44 percent. In the 2007 fiscal year, considerable progress was made with Qimonda's diversification strategy by increasing the share of net sales of infrastructures, graphics, mobile and consumer DRAMs, which generally command higher and more stable prices than standard DRAMs. The share of net sales from DRAMs for these products increased to 60 percent in the 2007 fiscal year as compared to 51 percent in the 2006 fiscal year.

The following graph shows the average monthly market prices for DRAM (expressed in 512 Mbit equivalents), as reported by WSTS, for the three years ended September 30, 2007.

The 2007 fiscal year was characterized by steep price declines for DRAM products. After remaining stable until the end of December 2006, prices declined significantly thereafter. We believe that a part of this price decline, especially towards the end of March 2007, was driven by seasonal demand weakness, the effects of an earlier build-up of inventories at original equipment manufacturers ("OEMs") ahead of the introduction of the new Windows Vista computer operating system, and capacity conversions from NAND to DRAM by some competitors. During

13 DRAM PRICE DEVELOPMENT PER 512 MBIT EQUIVALENT IN U.S. \$



Source: WSTS

the three months ended June 30, 2007, the price decline continued and was amplified by strong DRAM output growth across the industry, driven, we believe, mostly by capacity increases and technology conversions to more efficient technologies. In the three months ended September 30, 2007, prices initially showed signs of improvement, but then resumed their decline and were ultimately on average at the same low level as during the previous three months.

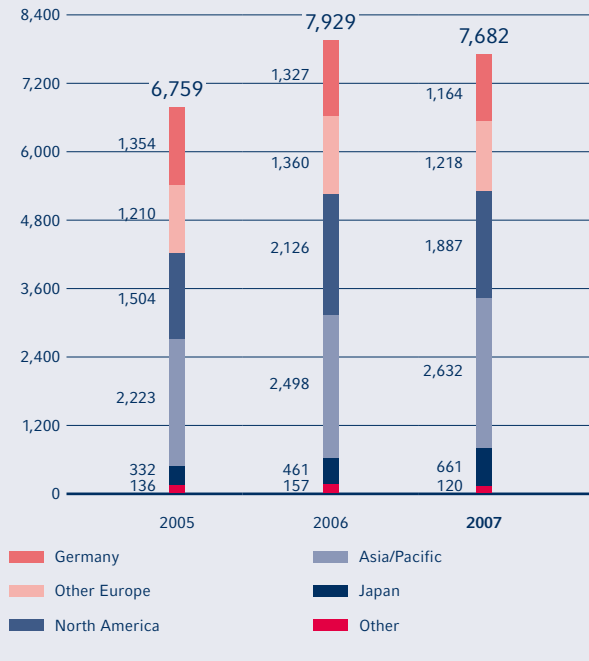
Other Operating Segments

Net sales in the 2005, 2006, and 2007 fiscal years were mainly inter-segment sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements which are eliminated in the Corporate and Eliminations segment.

NET SALES BY REGION AND CUSTOMER

In the 2006 fiscal year, our net sales increased in nearly every region, primarily due to higher demand for semiconductor products, in particular for specialty memory products in the consumer electronics and game-console businesses in North America. In the 2007 fiscal year, we experienced a decrease of €247 million in net sales primarily due to general pricing pressure in the Communication Solutions and Qimonda segments. The regional sales decrease in Germany is primarily due to the insolvency of

14 NET SALES BY REGION € IN MILLIONS



BenQ’s German subsidiary and lower DRAM sales, while the sales increase in the Asia/Pacific region was driven by higher sales volumes, particularly in the Automotive, Industrial & Multimarket and Communication Solutions segments.

The net sales in our Automotive, Industrial & Multimarket segment increased in all regions, with a particularly strong increase in Asia/Pacific and North America. The

number of customers in this segment remained stable in the 2007 fiscal year. The top 20 customers in this segment accounted for approximately 62 percent of the segment’s sales in the 2007 fiscal year.

In the Communication Solutions segment, we have seen a further shift of net sales from Europe and North America to the Asia/Pacific region in the 2007 fiscal year. Our top 20 customers in this segment accounted for over 70 percent of its net sales in the 2007 fiscal year.

In the 2007 fiscal year, net sales of Qimonda declined overall due to lower average selling prices, which could not be offset by higher bit shipments. Qimonda’s net sales increased in Asia, due to OEM customers shifting their production to that region, and increased particularly in Japan due to a growth in sales of specialty memory products to consumer electronics and graphics applications. Sales in North America declined correspondingly. Qimonda’s top 20 customers accounted for nearly 77 percent of its net sales in the 2007 fiscal year.

COST OF GOODS SOLD AND GROSS MARGIN

Our cost of goods sold consists principally of:

- Direct materials, which consist principally of raw wafer costs;
- Labor costs;
- Overhead, including maintenance of production equipment, indirect materials, utilities and royalties;
- Depreciation and amortization;
- Subcontracted expenses for assembly and test services;
- Production support, including facilities, utilities, quality control, automated systems and management functions; and
- Foundry production costs.

15 NET SALES BY REGION € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	%	2006	%	2007	%
Germany	1,354	20	1,327	17	1,164	15
Other Europe	1,210	18	1,360	17	1,218	16
North America	1,504	22	2,126	27	1,887	25
Asia/Pacific	2,223	33	2,498	31	2,632	34
Japan	332	5	461	6	661	9
Other	136	2	157	2	120	1
Total	6,759	100	7,929	100	7,682	100

In addition to factors that affect our revenue, our gross margin is impacted by:

- Factory utilization rates and related idle capacity costs;
- Amortization of purchased intangible assets;
- Product warranty costs;
- Provisions for excess or obsolete inventories; and
- Government grants, which are recognized over the remaining useful life of the related manufacturing assets.

We include in cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies such as ALTIS (consolidated since December 31, 2005) and Inotera. Our purchases from these associated and related companies amounted to €615 million in the 2005 fiscal year, €575 million in the 2006 fiscal year, and €593 million in the 2007 fiscal year.

In the 2006 fiscal year our gross margin worsened slightly compared to the 2005 fiscal year due to the lower gross margin of the Qimonda segment primarily as a result of lower levels of license income and strong pricing pressure for DDR2 memories in the first quarter of the 2006 fiscal year. This effect was largely offset by improved gross margin in the Automotive, Industrial &

Multimarket and the Communication Solutions segments, particularly due to lower idle capacity costs. Our gross margin decreased in the 2007 fiscal year, primarily as a result of a strong deterioration of the gross margin in the Qimonda segment, resulting from exchange rate effects, DRAM price development in the 2007 year, and inventory devaluations. The gross margin in our other segments remained broadly unchanged from the prior year.

Automotive, Industrial & Multimarket

In the 2006 fiscal year, our gross margin increased mainly due to a reduction in idle capacity costs. The gross margin remained on the same level in the 2007 fiscal year, as pricing pressure and certain corporate overhead expenses that resulted from the Qimonda carve out were compensated with productivity measures.

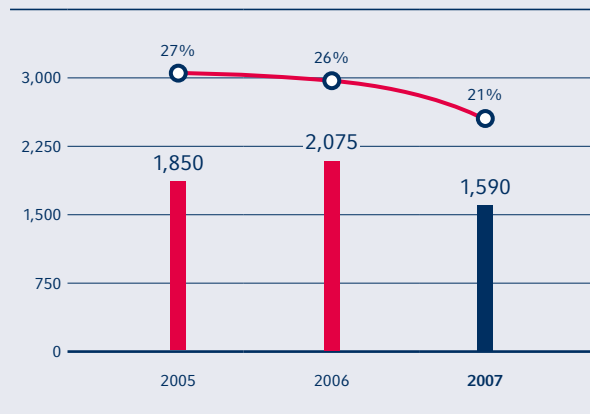
Communication Solutions

In the 2006 fiscal year, gross margin improved, mainly as a result of lower idle capacity costs and the successful implementation of productivity measures, which more than offset the inventory write-downs resulting from the insolvency of BenQ's German subsidiary. In the 2007 fiscal year, the gross margin of this segment remained stable.

16 COST OF GOODS SOLD € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Cost of goods sold	4,909	5,854	6,092
Changes year-on-year		19%	4%
% of net sales	73%	74%	79%
Gross margin	27%	26%	21%

17 GROSS MARGIN ABSOLUTE € IN MILLIONS AND AS PERCENTAGE OF NET SALES IN %



Qimonda

The gross margin decreased slightly during the 2006 fiscal year, primarily as a result of the lower level of license income. The Qimonda gross margin was under particular pressure early in the 2006 fiscal year when price pressure was higher, and improved later in the fiscal year. The gross margin decreased from 20 percent in the 2006 fiscal year to 6 percent in the 2007 fiscal year, primarily due to lower average selling prices, the weakening of the U.S. dollar, and inventory write-downs of €85 million. These negative effects could not be offset by lower production costs per unit resulting from increased manufacturing productivity.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development (“R&D”) expenses consist primarily of salaries and benefits for research and development personnel, materials costs, depreciation and maintenance of equipment used in our research and development efforts, and contracted technology development costs. R&D expenses also include our joint technology development arrangements with partners such as Nanya and IBM.

We continue to focus our investments on the development of leading-edge manufacturing technologies and products with high potential for growth and profitability.

Some of our R&D projects qualify for subsidies from local and regional governments where we do business. If the criteria to receive a grant are met, the subsidies received reduce R&D expenses over the project term as expenses are incurred.

Automotive, Industrial & Multimarket

In the 2006 fiscal year, R&D expenses remained approximately on the same level as in the 2005 fiscal year in absolute terms and slightly decreased as a percentage of net sales. In the 2007 fiscal year, R&D expenses remained stable as a percentage of net sales and slightly increased in absolute terms mainly driven by automotive and industrial applications.

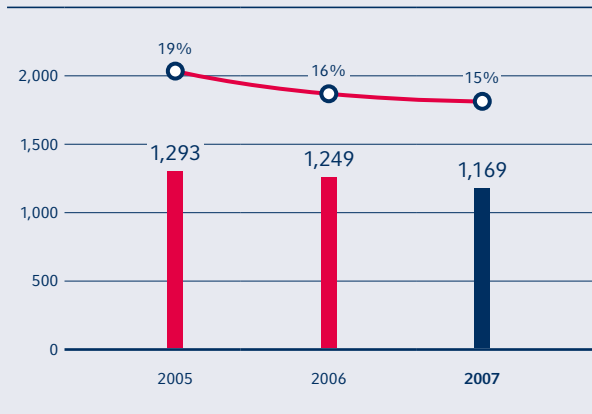
Communication Solutions

In the 2006 fiscal year, R&D expenses declined in absolute terms but remained stable as a percentage of net sales as the effect of previously implemented efficiency programs was realized. In the 2007 fiscal year, R&D expenses continued to decline in absolute terms and remained stable as a percentage of net sales, reflecting the implementation of cost reduction measures in response to the insolvency of BenQ’s German subsidiary.

18 RESEARCH AND DEVELOPMENT (R&D) EXPENSES € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Research and development expenses	1,293	1,249	1,169
Changes year-on-year		(3%)	(6%)
% of net sales	19%	16%	15%
Government subsidies	50	67	115
% of net sales	1%	1%	1%

19 R&D EXPENSES € IN MILLIONS AND AS PERCENTAGE OF NET SALES IN %



Qimonda

In the 2006 fiscal year, R&D expenses increased in absolute terms due to Qimonda’s effort to strengthen its development capabilities with respect to next-generation memory technologies and the further diversification of its portfolio of memory products, but decreased as a percentage of net sales due to the growth in net sales. In the 2007 fiscal year, R&D expenses decreased due to the completion of R&D work on 80-nanometer and 75-nanometer technology platforms earlier in the 2007 fiscal year, and the focus on production support research before development efforts on 58-nanometer technology platform took off towards the end of the 2007 fiscal year. Qimonda also initiated cost saving measures in order to increase the productivity of development efforts.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

Selling expenses consist primarily of salaries and benefits for personnel engaged in sales and marketing activities, costs of customer samples, other marketing incentives, and related marketing expenses.

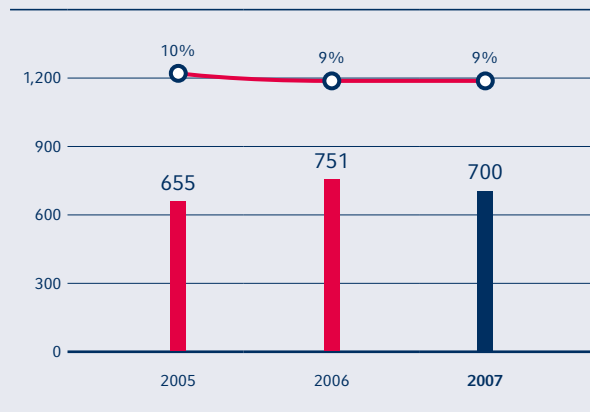


General and administrative expenses consist primarily of salaries and benefits for administrative personnel, non-manufacturing related overhead costs, consultancy, legal and other fees for professional services, recruitment and training expenses.

20 SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Selling, general and administrative expenses	655	751	700
Changes year-on-year		15%	(7%)
% of net sales	10%	9%	9%

21 SG&A EXPENSES € IN MILLIONS AND AS PERCENTAGE OF NET SALES IN %



Selling and administrative expenses in the 2006 fiscal year increased primarily due to charges of €28 million incurred in connection with the insolvency of BenQ's German subsidiary, expenses of €16 million related to the formation and carve-out of Qimonda, and stock-based compensation costs of €12 million. In the 2007 fiscal year, selling and administrative expenses decreased in absolute terms as a result of cost saving measures and the non-recurrence of the unusual charges from the 2006 fiscal year. As a percentage of net sales, selling and administrative expenses remained unchanged in 2007.

OTHER ITEMS AFFECTING EARNINGS

Restructuring Charges

During the 2005 fiscal year, we announced restructuring measures aimed at reducing costs, downsizing certain

22 OTHER ITEMS AFFECTING EARNINGS € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Restructuring charges	78	23	45
% of net sales	1%	0%	1%
Other operating expense, net	92	108	46
% of net sales	1%	1%	1%
Equity in earnings of associated companies, net	57	78	117
% of net sales	1%	1%	2%
Gain on subsidiaries and associated company share issuance, net	—	19	—
% of net sales	0%	0%	0%
Other non-operating income (expense), net	26	(33)	13
% of net sales	0%	0%	0%
Extraordinary loss, net of tax	—	—	(35)
% of net sales	0%	0%	0%

portions of our workforce, and consolidating certain functions and operations. As part of the restructuring measures, we agreed upon plans to terminate approximately 350 employees. The terminations were primarily the result of the close down of fiber optics operations in Germany and the United States, and were completed in the 2006 fiscal year. In addition, we took measures to restructure our chip manufacturing within the manufacturing cluster Munich-Perlach, Regensburg and Villach. Production from Munich-Perlach was transferred primarily to Regensburg and to a lesser extent to Villach. Manufacturing at Munich-Perlach was phased out in March 2007. As part of the restructuring, we reduced our workforce by approximately 600 employees. During the 2006 fiscal year, we announced restructuring plans to downsize our workforce at ALTIS and at our chip card back-end activities in order to maintain competitiveness and reduce cost. As part of these restructuring measures, we agreed upon plans to terminate approximately 390 employees and recorded restructuring charges in the 2007 fiscal year. During the 2007 fiscal year, we took further restructuring measures mainly in response to the insolvency of one of our largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. Approximately 280

jobs are affected worldwide, thereof approximately 120 in the German locations Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures have been completed during the 2007 fiscal year. The Infineon Complexity Reduction program (“ICoRe”) was launched in the first quarter of the 2007 fiscal year to reduce costs and seek added efficiencies by optimizing process flows. This program is expected to have only limited impact on our workforce.

Other Operating Expense, net

In the 2005 fiscal year, other operating expense, net included a net charge of €96 million resulting primarily from the reorganization of certain communication businesses and goodwill and other intangible assets impairment charges. In the 2006 fiscal year, other operating expense, net consisted mainly of goodwill and intangible assets impairment charges of €38 million, antitrust related charges of €23 million, the settlement of litigation with Tessera of €37 million, and a loss of €12 million in connection with our sale of Qimonda ADSs following its initial public offering. In the 2007 fiscal year, other operating expense, net consisted primarily of gains from the sale of the POF business of €17 million and from the sale of the Sci-Worx business of €3 million, and losses of €84 million from the sale of an additional 28.75 million Qimonda ADSs.

Equity in Earnings of Associated Companies, net

Our principal associated company is currently Inotera. Inotera is a DRAM manufacturer and our equity in its earnings has been sensitive to fluctuations in the price of DRAM and is reflected in the results of Qimonda. In each of the 2005, 2006 and 2007 fiscal years, Inotera contributed the majority of our equity in earnings from associated companies, reflecting the start of volume production by that joint venture in the 2005 fiscal year. In the 2007 fiscal year, equity in earnings of associated companies, net were €117 million.

Gain on Subsidiaries and Associated Company Share Issuance, net

In August 2006, Qimonda successfully completed an initial public offering on the New York Stock Exchange of 42 million ADSs, together with 6.3 million ADSs from Infineon in an over-allotment option, at a price of US\$13

per share. We realized a non-operating loss of €53 million from the dilution of our interest in Qimonda in connection with its initial public offering.

In March and May 2006, Inotera successfully completed an initial public offering on the Taiwanese Stock Exchange of 200 million ordinary shares and a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400 million ordinary shares), each at an issuance price of NT\$33 per ordinary share. As a result of these transactions, we recognized a non-operating gain of €72 million.

Other Non-Operating Income (Expense), net

Other non-operating income and expense consists of various items in different periods not directly related to our principal operations, including gains and losses on sales of marketable securities. In the 2005 fiscal year, other non-operating income, net included €40 million related to net gains from foreign currency derivatives and foreign currency transactions and a gain of €13 million realized on the sale of our venture capital activities, partially offset by investment-related impairment charges of €29 million. In the 2006 fiscal year, other non-operating expense, net consisted mainly of €31 million related to net losses from foreign currency derivatives and foreign currency transactions and investment-related impairment charges of €13 million. In the 2007 fiscal year, other non-operating income, net included primarily gains and losses from financial instruments transactions.

Extraordinary Loss, net of tax

During the quarter ended March 31, 2007, we entered into agreements with Molstanda Vermietungsgesellschaft mbH (“Molstanda”) and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of our headquarters south of Munich. Pursuant to FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51” (“FIN 46R”), we determined that Molstanda is a variable interest entity since it does not have sufficient equity to demonstrate that it could finance its activities without additional financial support, and as a result of the agreements we became its primary beneficiary. Accordingly, we consolidated the assets and liabilities of Molstanda beginning in the second quarter of the 2007 fiscal year. Since Molstanda is not considered a business



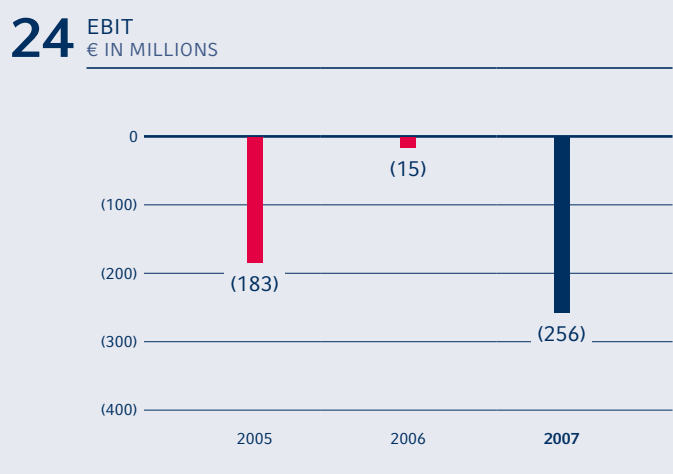
pursuant to FIN 46R, the €35 million excess in fair value of liabilities assumed and consolidated of €76 million, over the fair value of the newly consolidated identifiable assets of €41 million, was recorded as an extraordinary loss during the second quarter of the 2007 fiscal year. Due to our cumulative loss situation no tax benefit was provided on this loss. We subsequently acquired the majority of the outstanding capital of Molstanda during the fourth quarter of the 2007 fiscal year. In August 2007, we entered into an agreement to sell part of the acquired parcel of land to a third party developer-lessor in connection with the construction and lease of Qimonda's new headquarter office in the south of Munich.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

We define EBIT as earnings (loss) before interest and taxes. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business and to evaluate its performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance and especially about the performance of our separate operating segments. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, we find a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for us to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing.

EBIT is determined from the consolidated statements of operations as follows:

23 EBIT € IN MILLIONS			
For the years ended September 30,	2005	2006	2007
Net loss	(312)	(268)	(368)
Add: Income tax expense	120	161	79
Interest expense, net	9	92	33
EBIT	(183)	(15)	(256)



EBIT of our separate reporting segments were as follows:

25 EBIT € IN MILLIONS			
For the years ended September 30,	2005	2006	2007
Automotive, Industrial & Multimarket	134	246	300
Communication Solutions	(295)	(231)	(160)
Other Operating Segments	4	4	(12)
Corporate and Eliminations	(137)	(236)	(177)
Subtotal	(294)	(217)	(49)
Qimonda ¹	111	202	(207)
Total	(183)	(15)	(256)

¹ EBIT of Qimonda for the period following its IPO are reported net of minority interest's results.

EBIT reflects the combined effects of the following EBIT developments of our reporting segments:

Automotive, Industrial & Multimarket

The EBIT improvement in the 2006 fiscal year was mainly due to higher sales volumes and improved gross margin, partially offset by continued strong price pressure especially in the automotive and chipcard businesses, costs related to product transfers in connection with the phase-out of production at Munich-Perlach, and costs incurred in connection with our production site in Kulim, Malaysia. In the 2007 fiscal year, EBIT further improved due to an increase in net sales and despite being negatively impacted by additional corporate expense allocations subsequent to the Qimonda carve out. In addition, a €17 million gain was realized from the sale of our POF business in June 2007 to Avago, which also had a positive impact on EBIT in the 2007 fiscal year.

Communication Solutions

In the 2006 fiscal year, EBIT was negatively impacted by charges aggregating €91 million, primarily in connection with allowances recorded in response to the insolvency of BenQ’s German subsidiary. Despite these charges, EBIT improved in the 2006 fiscal year mainly due to lower idle capacity costs and the implementation of cost reduction measures. In the 2007 fiscal year, EBIT continued to improve despite a further decline in net sales, as no significant charges were recognized and further cost reduction measures were successfully implemented.

Qimonda

In the 2006 fiscal year, EBIT increased primarily due to sales volume growth, higher bit shipments and a favorable U.S. dollar/Euro exchange rate compared to the 2005 fiscal year. In the 2007 fiscal year, EBIT decreased significantly primarily due to deteriorating conditions in the DRAM market and inventory write-downs, resulting from negative DRAM price development and the weakening of the U.S. dollar with respect to the Euro.

Other Operating Segments

EBIT in the 2005 fiscal year was positively impacted by a gain of €13 million realized on the sale of our venture capital activities. EBIT in the 2006 fiscal year remained unchanged compared to the 2005 fiscal year. In the 2007 fiscal year, EBIT was negatively impacted by a downward adjustment of transfer prices resulting from the 200-milimeter wafer supply agreement between Infineon and Qimonda.

Corporate and Elimination

EBIT declined in the 2006 fiscal year mainly due to aggregate charges of approximately €80 million incurred in connection with the formation of Qimonda, the dilution of our interest in Qimonda following its IPO, and our sale of Qimonda shares in that offering. In the 2007 fiscal year, EBIT of this segment was positively impacted by a reduction in idle production capacities at ALTIS compared to the 2006 fiscal year, a revision to accrued personnel costs of €22 million, and a decrease in stock option expenses of €13 million. On the other hand, we incurred a loss of €84 million from the sale of an additional 28.75 million Qimonda ADSs in the 2007 fiscal year, which was recorded in this segment. Also, restructuring expenses increased by €22 million in comparison to the 2006 fiscal year.

INTEREST EXPENSE, NET

We derive interest income primarily from cash and cash equivalents and marketable securities. Interest expense is primarily attributable to bank loans and convertible/exchangeable notes, and is net of interest capitalized on manufacturing facilities under construction.

26 INTEREST EXPENSE
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Interest expense, net	(9)	(92)	(33)
% of net sales	0%	(1%)	0%

Interest expense in the 2005, 2006 and 2007 fiscal years relates principally to the convertible subordinated notes that we issued in February 2002 and in June 2003. The increase in interest expense, net in the 2006 fiscal year



primarily reflects the drawdown of US\$345 million under our syndicated credit facility to finance the expansion of Qimonda's Richmond manufacturing facility and a reduction in income from interest rate swaps resulting from increased variable interest rates and, to a lesser extent, interest on outstanding tax obligations and a reduction in capitalized interest. In February 2007, we redeemed the remaining outstanding principal of the convertible subordinated notes issued in 2002, which resulted in a decrease in interest expense in the 2007 fiscal year.

INCOME TAXES

27 INCOME TAXES € IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2005	2006	2007
Income tax expense	(120)	(161)	(79)
% of net sales	(2%)	(2%)	(1%)
Effective tax rate	(63%)	(150%)	(31%)

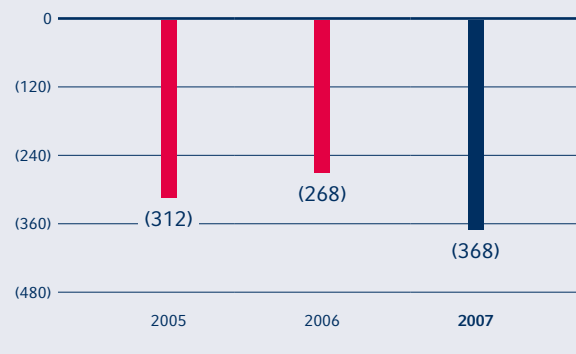
Generally, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2005, 2006, and 2007 fiscal years we continued to have a three-year cumulative loss in certain tax jurisdictions and, accordingly, we recorded increases to the valuation allowance of €192 million, €292 million, and €226 million in those periods, respectively. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

NET LOSS

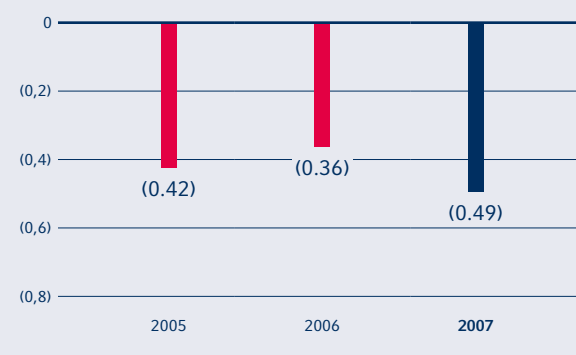
In the 2005 fiscal year, the net loss incurred resulted primarily from the combination of lower revenues and gross margin, long-term asset impairments, restructuring measures and tax expense. In the 2006 fiscal year, the net loss incurred was primarily due to charges resulting from allowances recorded in response to the insolvency of BenQ's German subsidiary, losses recognized in connection with the initial public offering of Qimonda, and the

settlement of litigation. In addition, in the 2006 fiscal year we began to recognize the fair value of employee stock options in earnings, which further contributed to the net loss incurred. In the 2007 fiscal year, the most significant factor contributing to the increase in net loss was the significant deterioration in EBIT of Qimonda, from positive €202 million in the 2006 fiscal year to negative €207 million in the 2007 fiscal year, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and a consequent significant decrease in Qimonda's gross margin. Also contributing to the net loss incurred in the 2007 fiscal year were the loss of €84 million resulting from the sale of an additional 28.75 million Qimonda ADSs, restructuring charges of €45 million, and the extraordinary loss of €35 million resulting from the consolidation of Molstanda.

28 NET LOSS € IN MILLIONS



29 EARNINGS (LOSS) PER SHARE IN €



FINANCIAL CONDITION

As of September 30, 2007, our total assets and current assets decreased in comparison to the prior year end, primarily due to decreased trade accounts receivable and decreased cash and cash equivalents. Trade accounts receivable decreased primarily as a result of the decrease in fourth quarter sales by €452 million to €1,838 million compared with the fourth quarter of the 2006 fiscal year. The decrease of cash and cash equivalents resulted primarily from the redemption during the 2007 fiscal year of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million.

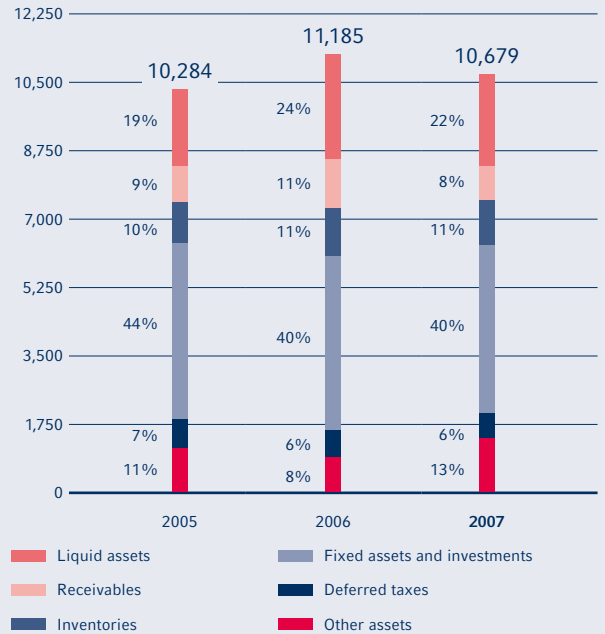
Non-current assets decreased slightly at the end of the 2007 fiscal year compared with the prior year end, as capital expenditures were more than offset by depreciation, amortization, and impairment charges during the year.

Total liabilities and current liabilities decreased as of September 30, 2007 compared with the prior year end, mainly due to the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million. The increase in non-current liabilities is primarily due to the issuance during the 2007 fiscal year of subordinated notes exchangeable for Qimonda ADSs in the principal amount of €215 million. The increase in minority interests resulted primarily from the sale of an additional 28.75 million Qimonda ADSs, for net proceeds of €216 million.

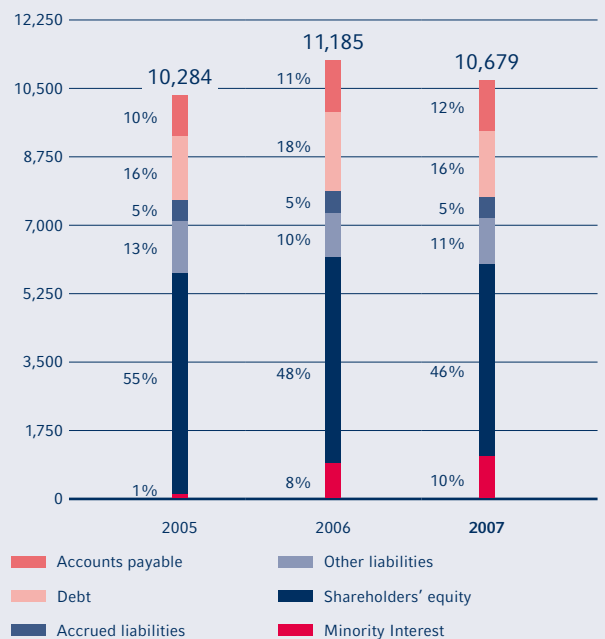
30 FINANCIAL CONDITION € IN MILLIONS, EXCEPT PERCENTAGES

As of September 30,	2006	2007	Change year-on-year
Current assets	5,681	5,278	(7%)
Non-current assets	5,504	5,401	(2%)
Total assets	11,185	10,679	(5%)
Current liabilities	3,305	2,847	(14%)
Non-current liabilities	1,725	1,885	9%
Total liabilities	5,030	4,732	(6%)
Minority Interests	840	1,033	23%
Shareholders' equity	5,315	4,914	(8%)

31 ASSETS € IN MILLIONS



32 LIABILITIES AND EQUITY € IN MILLIONS



FINANCIAL RATIOS

In the 2006 fiscal year, our equity ratio decreased principally due to the net loss during the year. At September 30, 2006, our equity ratio was 48 percent, a 7 percentage point decrease from September 30, 2005. At September 30, 2007, our equity ratio was 46 percent, a 2 percentage point decrease from September 30, 2006, principally due to the net loss incurred.

In the 2006 fiscal year, the return on equity remained unchanged at negative 5 percent and the return on assets improved to negative 2 percent due to a smaller net loss and increased total assets compared to the 2005 fiscal year. In the 2007 fiscal year, the return on equity decreased to negative 7 percent and the return on assets decreased to negative 3 percent, due to a higher net loss and decreased total assets compared to the 2006 fiscal year.

The equity-to-fixed-assets ratio decreased to 141 percent in the 2006 fiscal year from 150 percent in the prior year as a result of the net loss. In the 2007 fiscal year, the equity-to-fixed-assets ratio further decreased to 135 percent, mainly as a result of the net loss.

In the 2006 fiscal year, the increase in debt-to-equity ratio to 38 percent, compared to 30 percent in the 2005 fiscal year, was mainly attributable to the drawdown of US\$345 million under our syndicated credit facility during the 2006 fiscal year to finance the expansion of our Richmond manufacturing facility. In the 2007 fiscal year, the debt-to-equity ratio decreased to 35 percent, primarily due to the full redemption of the principal outstanding amount of €640 million of convertible subordinated notes, partially offset by the issuance of €215 million in exchangeable subordinated notes due in 2010.

33 FINANCIAL RATIOS

As of September 30,	2005	2006	2007
Non-current asset intensity ¹	56%	49%	51%
Current asset intensity ²	44%	51%	49%
Degree of wear of fixed assets ³	67%	72%	72%
Depreciation rate of fixed assets ⁴	11%	10%	9%
Inventory intensity ⁵	10%	11%	11%
Inventory turnover ⁶	6.8	7.1	6.4
Inventory turnover in days ⁷	53	50	57
Days sales outstanding ⁸	53	50	50
Equity ratio ⁹	55%	48%	46%
Return on equity ¹⁰	(5%)	(5%)	(7%)
Return on assets ¹¹	(3%)	(2%)	(3%)
Equity-to-fixed-assets ratio ¹²	150%	141%	135%
Debt-to-equity ratio ¹³	30%	38%	35%

The aforementioned financial condition ratios are calculated as follows:

- 1 Non-current asset intensity = non-current assets / total assets
- 2 Current asset intensity = current assets / total assets
- 3 Degree of wear of fixed assets = accumulated depreciation on fixed assets / historical costs of fixed assets at the end of the fiscal year
- 4 Depreciation rate of fixed assets = annual depreciation of fixed assets / historical costs of fixed assets at the end of the fiscal year
- 5 Inventory intensity = inventory / total assets
- 6 Inventory turnover = annual net sales / average inventory
- 7 Inventory turnover in days = average inventory × 360 days / annual net sales
- 8 Days sales outstanding = average accounts receivable × 360 days / annual net sales
- 9 Equity ratio = equity / total assets
- 10 Return on equity = net income (loss) for the year / average equity
- 11 Return on assets = net income (loss) for the year / average total assets
- 12 Equity-to-fixed-assets ratio = equity / property, plant and equipment
- 13 Debt-to-equity ratio = (short-term debt + long-term debt) / equity

The average of a balance sheet position is calculated as the arithmetic average of the amount as of the balance sheet dates of the current and the prior years.

LIQUIDITY

CASH FLOW

Our consolidated statements of cash flows show the sources and uses of cash and cash equivalents during the reported periods. They are of key importance for the evaluation of our financial position.

Cash flows from investing and financing activities are both indirectly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net loss. The changes in balance sheet items have been adjusted for the effects of foreign currency exchange fluctuations and for changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes in the respective balance sheet line items.

34 CASH FLOW € IN MILLIONS

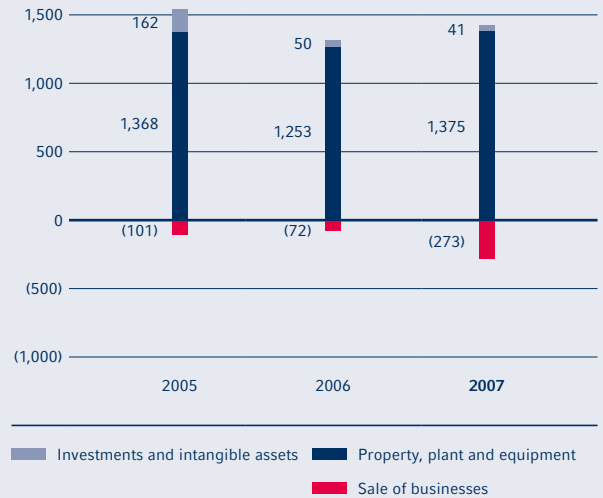
For the years ended September 30,	2005	2006	2007
Net cash provided by operating activities	1,090	1,003	1,207
Net cash used in investing activities ¹	(289)	(853)	(867)
Net cash provided by (used in) financing activities	(266)	762	(521)
Cash and cash equivalents at end of year	1,148	2,040	1,819

¹ In the 2006 fiscal year the amount includes a €119 million cash increase as a result of the initial consolidation of ALTIS.

Cash provided by operating activities in the 2007 fiscal year resulted mainly from the net loss of €368 million, which is net of non-cash charges for depreciation and amortization of €1,276 million and impairment charges of €40 million. Cash provided by operating activities was positively impacted by a decrease of trade accounts receivable and other current assets of €386 million, and negatively impacted by an increase in inventories and a decrease in other current liabilities aggregating to €185 million.

Cash used in investing activities in the 2007 fiscal year mainly reflects capital expenditures of €1,375 million, principally to expand and equip our manufacturing facilities in Kulim, Malacca, Batam, Villach and Regensburg in the logic segments and the DRAM manufactur-

35 INVESTMENTS/DISPOSITIONS¹ € IN MILLIONS



¹ Without marketable securities.

ing facilities in Richmond, Dresden and Porto, as well as net proceeds from net sales of marketable securities of €133 million, proceeds from sale of business activities and interests in subsidiaries of €273 million, and cash inflows of €156 million from a sale and leaseback transaction of 200-millimeter equipment that Qimonda entered into in September 2007.

Cash used in financing activities in the 2007 fiscal year principally relates to the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million, which was in part offset by the proceeds of the issuance of €215 million in exchangeable subordinated notes due 2010.

FREE CASH FLOW

We define free cash flow as cash from operating and investing activities excluding purchases or sales of marketable securities. Since we hold a substantial portion of our available monetary resources in the form of readily available marketable securities, and operate in a capital-intensive industry, we report free cash flow to provide investors with a measure that can be used to evaluate changes in liquidity after taking capital expenditures into account. It is not intended to represent the residual cash flow available for discretionary expenditures, since debt service requirements or other non-discretionary expenditures are

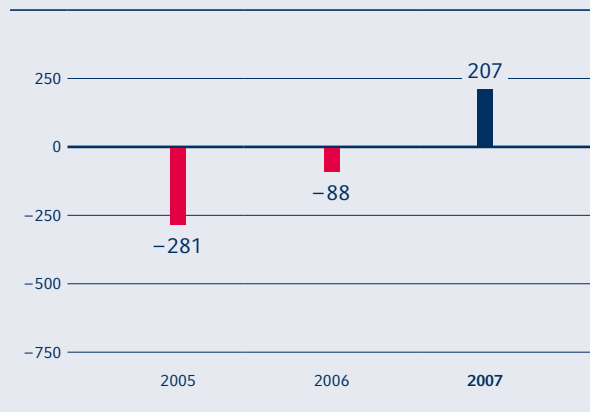
not deducted. The free cash flow is determined as follows from the consolidated statements of cash flows:

36 FREE CASH FLOW € IN MILLIONS

For the years ended September 30,	2005	2006	2007
Net cash provided by operating activities	1,090	1,003	1,207
Net cash used in investing activities ¹	(289)	(853)	(867)
Sales of marketable securities, net	(1,082)	(238)	(133)
Free cash flow	(281)	(88)	207

1. In the 2006 fiscal year, the amount includes a €119 million cash increase as a result of the initial consolidation of ALTIS.

37 FREE CASH FLOW IN €



NET CASH POSITION

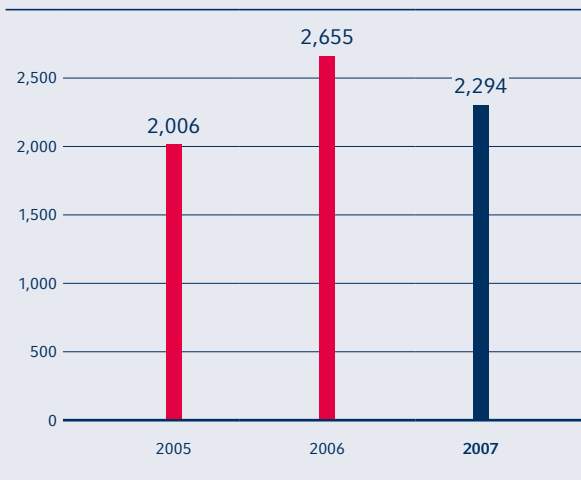
The following table presents our gross and net cash positions and the maturity of debt. It is not intended to be a forecast of cash available in future periods.

Our gross cash position – representing cash and cash equivalents, plus marketable securities – decreased to €2,294 million at September 30, 2007, compared with €2,655 million at the prior year end. The decrease was mainly due to the net effect of the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million and the proceeds from the issuance of €215 million in subordinated notes due 2010 exchangeable for Qimonda ADSs.

Long-term debt principally consists of convertible and exchangeable subordinated notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our business operations. The total outstanding convertible and exchangeable notes as of September 30, 2007 amounted to €915 million.

On February 6, 2002, we issued €1,000 million in convertible subordinated notes due 2007 at par in an underwritten offering to institutional investors in Europe. During the 2004 fiscal year we redeemed €360 million of these notes. On February 6, 2007, we redeemed the remaining notes at the principal outstanding amount of €640 million.

38 GROSS CASH POSITION € IN MILLIONS



39 NET CASH POSITION € IN MILLIONS



40 NET CASH POSITION € IN MILLIONS

As of September 30, 2007, Payments due by period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Cash and cash equivalents	1,819	1,819	—	—	—	—	—
Marketable securities	475	475	—	—	—	—	—
Gross cash position	2,294	2,294	—	—	—	—	—
Less							
Long-term debt	1,376	—	207	1,002	95	26	46
Short-term debt and current maturities	336	336	—	—	—	—	—
Total financial debt	1,712	336	207	1,002	95	26	46
Net cash position	582	1,958	(207)	(1,002)	(95)	(26)	(46)

On June 5, 2003, we issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of €10.23 per share through maturity.

On September 26, 2007, we issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are unsecured and accrue interest at 1.375 percent per year. The notes are exchangeable for a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS at any time during the exchange period through maturity, corresponding to an exchange premium of 35 percent.

Our net cash position – meaning cash and cash equivalents, plus marketable securities, less total financial debt – decreased by €68 million to €582 million at September 30, 2007, compared with €650 million at September 30, 2006, principally due to dividend payments to minority interest holders.

To secure our cash position and to keep flexibility with regards to liquidity, we have implemented a policy with risk limits for the amounts deposited with respect to the counterparty, credit rating, sector, duration, credit support and type of instrument.

CAPITAL REQUIREMENTS

We require capital in our 2008 fiscal year to:

- Finance our operations;
- Make scheduled debt payments;
- Settle contingencies if they occur; and
- Make planned capital expenditures.

We expect to meet these requirements through:

- Cash flows generated from operations;
- Cash on hand and securities we can sell; and
- Available credit facilities.

As of September 30, 2007, we require funds for the 2008 fiscal year aggregating €1,658 million, consisting of €336 million for short-term debt payments and €1,322 million for commitments. In addition, we may need up to €150 million for currently known and estimable contingencies. We also plan to invest between approximately €1.1 billion and €1.2 billion in capital expenditures. We have a gross cash position of €2,294 million as of September 30, 2007, and also the ability to draw funds from available credit facilities of €946 million.



COMMITMENTS AND CONTINGENCIES

41 COMMITMENTS AND CONTINGENCIES € IN MILLIONS

As of September 30, 2007 ^{1,2} , Payments Due/Expirations by Period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	870	90	78	65	62	57	518
Unconditional purchase commitments	1,212	1,161	29	11	6	1	4
Other commitments	77	71	2	2	1	1	—
Total commitments	2,159	1,322	109	78	69	59	522
Other contingencies:							
Guarantees ³	209	25	22	1	14	30	117
Contingent government grants ⁴	462	125	40	56	171	30	40
Total contingencies	671	150	62	57	185	60	157

1 Certain payments of obligations or expiration of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table, based on our estimate of the reasonably likely timing of payments or expirations in each particular case. Actual outcomes could differ from those estimates.

2 Product purchase commitments associated with capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not quantifiable at September 30, 2007. Purchases under such agreements aggregated €1,165 million for the year ended September 30, 2007.

3 Guarantees are mainly issued for the payment of import duties, rentals of buildings and contingent obligations related to government grants received.

4 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met.

The above table should be read together with note 35 to our consolidated financial statements for the year ended September 30, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

We issue guarantees in the normal course of business, mainly for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2007, the undiscounted amount of potential future payments for guarantees was €209 million.

CAPITAL EXPENDITURES

42 CAPITAL EXPENDITURES € IN MILLIONS

For the years ended September 30,	2005	2006	2007
Non-memory businesses ¹	442	567	496
Qimonda	926	686	879
Total	1,368	1,253	1,375

1 Includes elimination of inter-segment transfers of €149 million, €37 million and €2 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

Depending on our business situation we currently expect to invest between €1.1 billion and €1.2 billion in capital expenditures in the 2008 fiscal year, principally for our manufacturing facilities in Richmond, Virginia, USA, and Kulim, Malaysia. We also constantly seek to improve productivity and upgrade technology at existing facilities, especially in Dresden, Germany. As of September 30, 2007, €361 million of this amount was committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 60 percent of these expected capital expenditures will be made in the front-end and back-end facilities of Qimonda.

CREDIT FACILITIES

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities, which aggregate €1,620 million, of which €946 million remained available at September 30, 2007, comprise the following:

43 CREDIT FACILITIES

€ IN MILLIONS

Term	Nature of financial institution commitment	Purpose/intended use	As of September 30, 2007		
			Aggregate facility	Drawn	Available
Short-term	Firm commitment	Working capital, guarantees	164	127	37
Short-term	No firm commitment	Working capital, cash management	336	28	308
Long-term ¹	Firm commitment	General corporate purposes	766	165	601
Long-term ¹	Firm commitment	Project finance	354	354	—
Total			1,620	674	946

¹ Including current maturities.

In September 2004, we executed a US\$400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to US\$345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, we drew US\$345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2007, US\$235 million was outstanding under Tranche A. Tranche B, which is a €300 million multicurrency revolving facility to be used for general corporate purposes, remained available and undrawn at September 30, 2007. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility have been granted a negative pledge relating to the future financial indebtedness of our company with certain permitted encumbrances. In September 2007, we extended our credit lines by €300 million in additional short-term bilateral commitments from lenders of the facility described above under the same terms and conditions applicable to Tranche B.

In September 2007, Qimonda entered into a sale and leaseback transaction of 200-millimeter equipment. The four-year lease is accounted for as a capital lease, whereby the present value of the lease payments is reflected as a capital lease obligation.

At September 30, 2007, we were in compliance with our debt covenants under the relevant facilities.

We plan to fund our working capital and capital requirements from cash provided by operations, available funds, bank loans, government subsidies and, if needed, the issuance of additional debt or equity securities. We

have also applied for governmental subsidies in connection with certain capital expenditure projects, but can provide no assurance that such subsidies will be granted on a timely basis or at all. We can provide no assurance that we will be able to obtain additional financing for our research and development, working capital or investment requirements or that any such financing, if available, will be on terms favorable to us.

Taking into consideration the financial resources available to us, including our internally generated funds and currently available banking facilities, we believe that we will be in a position to fund our capital requirements in the 2008 fiscal year.

PENSION PLAN FUNDING

Our projected pension benefit obligation, which considers future compensation increases, amounted to €469 million at September 30, 2007, compared to €518 million at September 30, 2006. The fair value of plan assets as of September 30, 2007 was €412 million, compared to €320 million as of September 30, 2006.

The actual return on plan assets between the last measurement dates amounted to 9.6 percent, or €27 million, for domestic (German) plans and 9.8 percent, or €4 million, for foreign plans, compared to the expected return on plan assets for that period of 6.1 percent for domestic plans and 6.9 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 6.5 percent, or €24 million, for domestic plans and 7.0 percent, or €3 million, for foreign plans.

At September 30, 2006 and 2007, the combined funding status of our pension plans reflected an underfunding of €198 million and €57 million, respectively. Due to the significant improvement of the combined funding status



of our pension plans, we intend to make lower contributions to our pension plans during the 2008 fiscal year, compared to those made during the 2007 fiscal year.

Our investment approach with respect to the pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on plan assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

Our asset allocation targets for pension plan assets are based on our assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analyses and other relevant factors. The overall allocation is expected to help protect the plans' level of funding while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits. As a matter of policy, our pension plans do not invest in Infineon or Qimonda shares.

FINANCIAL INSTRUMENTS

We periodically enter into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on our foreign currency denominated net future cash flows. We do not enter into derivatives for trading or speculative purposes.

OUR EMPLOYEES

EMPLOYEES

The following table indicates the composition of our workforce by function and region at the end of the fiscal years indicated.

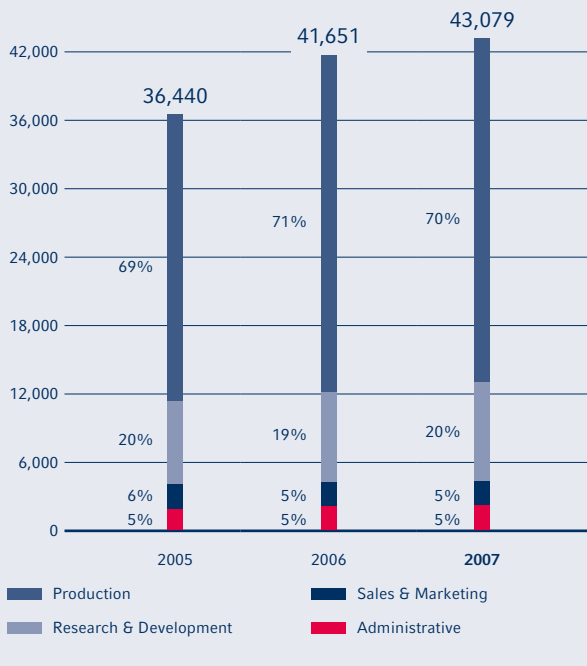
44 EMPLOYEES

As of September 30,	2005	2006	2007
Function:			
Production	25,114	29,641	30,210
Research & Development	7,401	7,745	8,339
Sales & Marketing	2,016	2,101	2,223
Administrative	1,909	2,164	2,307
Total	36,440	41,651	43,079
Region:			
Germany	16,119	15,736	15,223
Europe	5,482	7,244	7,739
North America	3,193	3,295	3,536
Asia/Pacific	11,451	15,148	16,365
Japan	158	187	216
Other	37	41	—
Total	36,440	41,651	43,079

Of the total workforce, 9,606, 11,802 and 13,481 as of September 30, 2005, 2006 and 2007, respectively, were employees of Qimonda.

In the 2005 and 2006 fiscal years, our headcount increased principally due to the expansion of manufacturing capacities in Malaysia and China. The increase of our headcount in Europe during the 2006 fiscal year resulted mainly from the first-time consolidation of ALTIS as of December 31, 2005. In the 2007 fiscal year, the number of employees in our logic segments decreased in Germany primarily as a result of the phase out of manufacturing at Munich-Perlach, and the restructuring program initiated following the insolvency of BenQ's German subsidiary, but increased in the Asia/Pacific region due to expansion of production in Kulim, Malaysia, and research and development in Malaysia and China. With respect to Qimonda, its number of employees increased by approximately 1,700 principally due to capacity increases, especially in the production areas in Suzhou, Porto and Dresden.

45 EMPLOYEES BY FUNCTION



IMPLEMENTATION OF COMPANY'S "FOCUS ON 10" GOALS UNDERWAY

- Our company values strengthen Infineon's identity and organizational development
- Effective and efficient personnel management are corner stones in an international context
- Employee and talent development are key elements of our Human Resources activities

Our employees have strongly supported the implementation of Infineon's "Focus on 10" company goals, which include plans for a 10 percent EBIT margin in fiscal year 2009. Concentrating on Infineon's focus areas energy efficiency, communications and security will help to achieve this.

The company's reorganization by creating the unit "Operations" constituted another focal point of our activities over the past fiscal year. Numerous tasks and changes had to be prepared for and implemented so that this unit, with around 20,000 employees, could be fully functional at the start of the 2008 fiscal year. The new organization takes into account current changes in the fields of production and technology and is expected to anticipate potential future changes. The focus of "Operations" is on the harmonization of production and planning throughout the value chain, especially by product and technology

roadmaps as well as productivity improvement and quality management programs.

Our new company values, "we commit, we innovate, we partner, we create value," provide guidance for our employees throughout the company. The values are in turn based upon the four "pillars" of Infineon: customer focus, operational excellence, profitable growth and collaborative leadership.

The values and pillars also become evident in our M&A activities, such as the acquisition of the LSI mobile phone business, and Texas Instruments' DSL Customer Premises Equipment (CPE) activities. We have also acted decisively, while at the same time taking our social responsibilities into account, in other fields, such as in the planned sale of our ALTIS plant in France, our joint venture with IBM.

Our company is international and works within global markets. This requires our personnel management to be effective and efficient in a variety of different environments.

Such variety is reflected, for example in the further ramp-up of our facility in Kulim, Malaysia, in the expansion of our R&D site in Romania, as well as in our measures to implement cost-reducing working time models, respectively the lengthening of working hours at our German sites.

We have also made good use of the Infineon Complexity Reduction Program ("ICoRe"), reducing personnel expenses by finding the means to successfully reduce redundant tasks, overlapping responsibilities and inefficient cost structures.

One important milestone for our company in Germany was the introduction of a new pension plan, which we will be able to offer to our employees as part of an attractive long-term pension package.

The new collective wage agreement ("Entgeltrahmenabkommen", "ERA") has been successfully introduced at our Warstein, Germany location on October 1, 2006. Infineon Technologies AG will also introduce the agreement at our tariff-bound locations within the state of Bavaria. The introduction is scheduled for October 1, 2008. ERA offers the chance to reflect trends in employee remuneration such as performance-based compensation elements also for tariff staff, thus bringing about greater transparency and fairness in wages.

The diversity of our company shows in many different ways. Out of the approximately 30,000 employees of Infineon excluding Qimonda, about 10,000 are located in Germany. In total, 99 different nationalities work at Infineon sites in over 24 countries. We participate in, and



support a corporate culture in which everyone has the opportunity to contribute to the company's success regardless of nationality, ethnicity, religion, age, gender or skin color. We will not tolerate discrimination and have, for instance, committed ourselves in Germany to fully implement the General Act on Equal Treatment ("Allgemeines Gleichbehandlungsgesetz") by requiring our staff and management to participate in information and training sessions on the topic. Further measures in this area are our long-standing Business Conduct Guidelines and the availability of our Corporate Compliance Officer if complaints should be registered.

Employee and talent development is of particular importance to us and is demonstrated by our annual STEPS program, which has now been established for several years to define in a globally harmonized format development measures in dialogue between employee and manager. Within this framework, employees are identified who possess advancement talents, and programs to support their progress and development are being planned. However, this need not necessarily lead to a managerial career. Being a technology company, Infineon provides its technical experts with particular support and career opportunities through our "Technical Ladder" program and other activities to support and develop technical leadership and expertise.

For years, our most successful employees have been honored in our awards program. In his opening address at the annual award ceremony, Infineon's CEO, Dr. Wolfgang Ziebart underscored the importance of the event as an "established feature of Infineon culture." The Infineon Awards "are presented to employees whose extraordinary commitment has furthered the company. The awards stand for excellent efforts that lead to excellent results." In 2006, an employee received a special award for his life's work on employee health, a company first, which also emphasized the significance of safety, health and the environment within our company.

A further example of our innovative corporate culture is our YIP ("Your Idea Pays") program. 33 percent of our employees participated, making over 15,000 suggestions, and saving Infineon approximately €84 million in total within the 2007 fiscal year. This is an outstanding example of the importance of our people in the innovation process. Innovative products for our customers are the result of the innovative work of our employees. It is our people who determine the success of our company.

OUR RESPONSIBILITY IN OCCUPATIONAL SAFETY, IN ENVIRONMENT AND HEALTH PROTECTION

Our IMPRES System – Infineon Integrated Management Program for Environment, Safety and Health – was implemented on a global scale in the year 2005. This management system incorporates all processes, strategies and objectives in the area of safety, health and environmental protection. IMPRES as an integrated system is highly efficient and complies with the requirements of the standards ISO 14001 and OHSAS 18001.

By ongoing process improvements, we ensure that we not only comply with the minimum statutory and regulatory requirements, but also go above and beyond the minimum requirements in order to meet our commitment for continuing improvement in safety, health and environmental protection, and guarantee sustainable business management. The efficient and responsible use of resources and energy is an integral part of our policy.

We pay close attention to the safe handling of chemicals that are an unavoidable necessity in our production processes. Already when such chemicals are ordered, experts start recording, evaluating, and monitoring them to ensure that they are used in production exclusively under precisely defined parameters which are subject to the expert's approval. Such approvals are only granted when the safety of individuals and the environment is guaranteed throughout the period of usage of the chemicals.

In recent years, the world-wide requirements and restrictions involving the use of certain substances in electrical and electronic products has increased, and we expect it will continue to increase. However, compliance with these requirements does not come into question for us.

These requirements and restrictions, which are sometimes region-specific, are carefully taken into account by us, given our need to deliver products globally. Meeting these challenges requires clear strategies, defined management processes, and active participation in international standard setting. IMPRES incorporates product-related environmental protection as one of its integral pillars, and encompasses internal processes which ensure that our products consistently comply with legal and statutory requirements and offer a high degree of legal certainty and reliability to our customers.

RISK REPORT

INTRODUCTION

Like almost no other business, the semiconductor industry is characterized by periods of growth which are historically followed by periods of market contraction. Such periods of market contraction are characterized by surplus capacity, increasing order cancellations as well as above average price erosion and sales volume reductions. The risks associated with the cyclical nature of this business are complemented by the need for capital investments in order to achieve and sustain market leadership as well as the sector's extraordinary rapid pace of technological change.

INFINEON RISK AND OPPORTUNITY MANAGEMENT SYSTEM

Given the volatility of the business cycle in the semiconductor industry it is very important that the risk and opportunity management policies are geared towards the goal of resilient profitable growth. The ability to react quickly to changing market developments is therefore crucial. Therefore we have established a risk and opportunity management system which allows us to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associated or arising from them. An enterprise-wide system of risk and opportunity reporting is a central element of our risk and opportunity management system. The scope and depth of reporting helps to enable corporate management to take quick and effective actions. Within every organizational unit of the company, risk officers or risk reporters have been designated. They are responsible for the implementation and execution of the risk management process and the risk and opportunity reporting process respectively. According to the guidelines for this process, risks and opportunities are identified within the framework of a risk and opportunity categorization model, accompanied by an evaluation of each risk and opportunity based on its respective probability and impact on EBIT.

The risk management system is extensively documented in our intranet and thus accessible by our employees worldwide.

We consider risk and opportunity management as a basis for our business activities and an integral part of all business processes. It commences at the level of strategic planning and continues through the development, the manufacturing and sales operations, including the collection of receivables. As an extension of the forecast-

ing processes, the risk and opportunity system is used to identify and evaluate at an early stage possible deviations from expected developments. Beyond the identification and evaluation of major developments that may impact the business, the system is also used to prioritize and implement activities to mitigate or reduce our risk and to enhance opportunities.

Risk and opportunity reports are issued on a regular basis by our business groups. These reports form the core of the risk management system. They are examined and evaluated by the Central Risk Management department and aggregated to a summary risk report. This report is reviewed by the management board and business group management and it is part of the regular reporting process.

Alongside the enterprise-wide reporting system, we have established a quantitative risk analysis process for our investing and R&D projects in order to provide greater transparency of risks and to prioritize measures designed which can enhance the probabilities of success of these activities. The analysis of quantifiable risks, using simulation models, is an inherent and integral part of the management of R&D projects. Furthermore, this quantitative risk analysis methodology is being applied to financial decision-making processes, in particular to investment decisions and revenue forecasts. The overall objective of this methodology is to ensure that appropriate risk mitigation and opportunity enhancement strategies are analyzed and evaluated.

The continuous systematic development of our Risk and Opportunity Management System substantially contributes to the enhancement and sustainability of a risk and opportunity culture within the company. This is supported by regular Risk and Opportunity Forum meetings. These meetings provide a communication platform for exchanging ideas and information and provide a basis for the awareness creation.

The Risk Management System is subject to a regular review of form and content. Part of this systematic review process is a yearly self assessment, the Risk Management System Analysis ("RMSA"). In this review the Business Groups and Central Functions are called upon to systematically challenge the elements of our Risk Management System. Interviews between Central Risk Management and Risk Officers complete the self-assessment to identify weak points. Therefore, the RMSA serves on the one hand the self-assessment, including identification of specific



measures to improve the sub-systems, and on the other hand to support the audit process, both by our internal and external auditors.

Our risk and opportunity reporting system is evaluated by the external auditor as part of the annual audit process. The external auditor confirms that the Management Board has fulfilled its obligation according to paragraph 91 section 2 of the German Law on Stock Companies (“Aktengesetz”), which calls for the creation of a control system which is able to detect developments early on which may endanger the existence of the company as a whole.

GLOBAL BUSINESS AND ENVIRONMENTAL RISKS

As a global operating company our business could suffer from periodic downturns. Furthermore, substantial changes in regional business environments around the world may also have adverse effects on our business and results of operations.

Our global business strategy sees that we maintain research and development locations as well as manufacturing sites in various countries around the world. This may be the result of decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. More than two-thirds of our sales volume is currently generated outside of Europe. With the expected growth rates of Asian countries in the near future we expect our revenues to increase in this region. Therefore, risks could develop based upon:

- negative economic and political developments in our regional markets,
- changes in laws and policies affecting trade and investment aimed at limiting free trade; and
- varying practices which restrict our entrepreneurial actions of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

Substantial changes in any of these conditions could have an adverse effect on our business. It cannot be excluded that regional crises like in the past the avian flu or the SARS epidemic will not have a negative effect on our earnings. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world provides an effective measure to mitigate the overall risk of such regional crises, as the interdependencies are generally reduced.

RISKS RELATED TO OUR OPERATIONS

Effective May 1, 2006, Qimonda, at the time a 100% owned subsidiary of Infineon Technologies AG, took over the activities of the memory products segment. The initial public offering of Qimonda was completed on August 9, 2006. Infineon still owns the majority of this company.

The volatility of DRAM-Memory prices remains the most important risk in the Qimonda segment. The continuous expansion of Qimonda’s product portfolio through the introduction of new memory products and graphic memories could also pose substantial future risks.

Within the Logic segments of our business, Automotive, Industrial & Multimarket as well as Communication Solutions, we see comparatively less volatility than in the Qimonda segment but nonetheless significant volume risks. The quick pace of technological change coupled with the possibility of delays in the introduction of new products in the market could lead to a significant curtailment of our business which could in turn lead to a loss of customer relationships. The high price pressure and the associated risks remain in effect for both logic segments. As a substantial volume of our products may be purchased by a select number of customers, our operational results may also be dependent upon their success in the marketplace. We react to such developments by constantly widening our customer base, which has proven to be a successful strategy leading to new customer wins. Further risks are related to the integration of our acquisitions. In the 2007 fiscal year, we acquired the DSL Customer Premise Equipment business from TI, and signed a contract for the acquisition of the Mobility Group of LSI, in order to strengthen our position in the Communication Solutions segment. To reduce associated risks, we implemented a Post-Merger Integration Management. We try to minimize risks resulting from higher costs due to fluctuations in the utilization of our plants by increasing flexibility of production with respect to technology and products.

A substantial business-related risk in the semiconductor industry is that of delay, low yields, or substantial yield fluctuations in connection with the ramp-up of new technologies. We attempt to mitigate this risk by continuously improving project management and closely monitoring the selected business processes.

In order to address the risks relating to the quality of our products we have established specific quality management strategies such as Zero Defects and Six Sigma. The overall objective is to prevent or solve problems and

to improve our business processes. Our quality management system (which includes the supplier development) has been certified on a worldwide basis according to ISO 9001/TS 16949 for a number of years.

We use insurance policies to cover as best as possible against risk of liability or losses impacting our net assets, financial position and results of operations.

In the area of intellectual property, our company benefits from various cross-license agreements with other companies. We are working intensively to increase the number and scope of such cross-license agreements with leading competitors in order to reduce the risk of claims related to patent infringement. The formation of Qimonda had no effect on intellectual property protection of Infineon. However, if we reduce our interest in Qimonda to a minority position, we will strive to transfer the IP protection to Qimonda to the fullest extent possible.

Tax, fair trade and stock exchange regulations represent additional risks to us. To mitigate these risks we rely upon the counsel of internal and external advisors.

MARKET RISKS

Exchange rate risks

Our involvement and participation in various regional markets around the world create cash-flows in a number of different currencies – primarily in U.S. dollars. Since we are exposed to fluctuating currencies and substantial volatility relating to exchange rates, the management of these risks becomes an important issue.

A major portion of our sales volumes as well as the costs relating to sales, administration, research and development, and production are incurred in US-dollars, not in Euros. Exchange rate fluctuations may have substantial effects on our sales, our costs and our overall results of operations.

Generally, our policy with respect to limiting short-term foreign currency exposure is to hedge at least 75% of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Parts of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash-flow basis considering actual orders received or made and all other planned revenues and expenses.

Interest rate risk management

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2003 fiscal year, we issued convertible subordinated notes, and in 2007 subordinated notes, exchangeable into Qimonda ADSs. Due to the high volatility of our core business and to maintain high operational flexibility, our liquid assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. Interest rate derivatives are used to reduce the risk caused by changes in market interest rates.

Commodity Price Risk

We are exposed to commodity price risks with respect to certain materials used in manufacturing. We seek to minimize the risks through our sourcing policies and operating procedures such as constant product and cost analysis or specific optimization programs (“Best Cost Country”, or “Focus-on-Value”). These programs consist of cross-functional expert teams that focus on the standardization of purchasing materials, equipment and processes.

Financing Risks

Semiconductor companies that operate their own manufacturing facilities require significant amounts of capital to build, expand, modernize and maintain them. Semiconductor companies also require significant amounts of capital to fund research and development. These funding requirements are generally financed by net cash provided by operating activities, the use of available credit facilities, available government grants and – depending upon market conditions – capital market offerings including equity related financial instruments. Although we have applied for financial support from public authorities for a number of investment projects, we cannot guarantee that we will get the support at all or that we get it in time. We intend to continue to cooperate on R&D projects and production with other semiconductor companies to share the costs of research and development.

Legal Risks

Like other companies in the semiconductor industry, Infineon has been exposed to patent claims, claims relating to alleged defective or faulty products, claims relating to the alleged transgression of environmental rules or regulations, and other general liability claims. Regardless



of the outcome of these claims, our company may incur substantial costs in defending itself against these claims. Infineon intends to exert substantial efforts in defending itself vigorously against such claims including the support of internal and external experts.

Reorganization

The reorganization of our memory products segment, the carve-out followed by the initial public offering of Qimonda and additionally, the announcement that Infineon plans to reduce its stake in Qimonda shares below 50% no later than the annual shareholders' meeting 2009 could have an adverse effect on our net assets, financial position and results of operations.

We intend to continuously examine and evaluate the financial and business developments, and to consider further steps of reorganization, if deemed necessary.

Overall Risks

At no time during the past fiscal year have we become aware of any substantial risks which would have threatened the existence of our company. Risks which may endanger the existence of our company are currently not recognizable.

An additional description of risks can be found in the notes to the Consolidated Financial Statements.

INFINEON TECHNOLOGIES AG

Infineon Technologies AG is the parent company of the Infineon group and carries out the group's management and corporate functions. Infineon Technologies AG has major group-wide responsibilities such as finance and accounting, human resources, strategic and product-oriented research and development activities as well as worldwide corporate and marketing communications, and manages the logistical processes at the group level. Infineon Technologies AG has its own production facilities in Regensburg and Warstein. Since Infineon Technologies AG enters into most transactions with derivative financial instruments on behalf of the Infineon group, the same terms and conditions are valid for derivative financial instruments as well as covered risks for Infineon Technologies AG as for the Infineon Group.

The risks and opportunities as well as the future developments of Infineon Technologies AG are to a large extent the same as the risks and opportunities and future developments of the Infineon group, as further described in the Risk Report and Outlook sections.

Infineon Technologies AG prepares its stand-alone financial statements in accordance with the requirements of the German commercial code ("HGB"). The complete financial statements are published separately.

46 STATEMENTS OF OPERATIONS¹ (CONDENSED)

€ IN MILLIONS

For the years ended September 30,	2005	2006	2007
Net sales	9,038	7,914	5,003
Cost of goods sold	(8,045)	(7,228)	(4,231)
Gross profit	993	686	772
Operating expenses	(1,483)	(1,289)	(986)
Equity in earnings (losses) of associated companies, net	76	149	(174)
Other operating income (expenses), net	79	(107)	(77)
Loss before tax	(335)	(561)	(465)
Income tax (expense) benefit	(2)	4	(6)
Net loss before extraordinary loss	(337)	(557)	(471)
Extraordinary loss	—	—	(34)
Net loss	(337)	(557)	(505)
Accumulated loss brought forward	(1,209)	(1,546)	(2,103)
Accumulated loss at end of year	(1,546)	(2,103)	(2,608)

¹ Prepared in accordance with German GAAP ("HGB").

47 BALANCE SHEETS¹ (CONDENSED) € IN MILLIONS

For the years ended September 30,	2006	2007
Fixed and intangible assets	779	701
Investments	7,339	6,846
Non-current assets	8,118	7,547
Inventories	314	318
Receivables and other assets	1,197	809
Cash and marketable securities	1,057	938
Current assets	2,568	2,065
Total assets	10,686	9,612
Shareholders' equity	6,315	5,846
Accrued liabilities	750	765
Payables and other liabilities	3,621	3,001
Total liabilities	10,686	9,612

¹ Prepared in accordance with German GAAP ("HGB").

Infineon Technologies AG's net sales and cost of goods sold decreased primarily as a result of the carve-out of the memory products business into Qimonda AG as of May 1, 2006. In the 2007 fiscal year, the net loss resulted primarily from the equity in losses of associated companies, net which included the loss resulting from the sale of shares (€118 million) and an impairment of our investment in Qimonda AG (€107 million). Also included therein was an extraordinary loss in the amount of €34 million related to an impairment of assets in connection with Molstanda Vermietungsgesellschaft mbH, Dusseldorf.

On a year to date comparison, the gross margin increased from 8.7 percent in the 2006 fiscal year to 15.4 percent in the current fiscal year, mainly due to higher sales volume which more than offset ongoing pricing pressure. In addition, the gross margin in the 2007 fiscal year was positively impacted by a decrease in pension liabilities of €33 million, as compared to the 2006 fiscal year where it had been negatively impacted by pension liability charges of €154 million.

Infineon Technologies AG's financial position was primarily impacted by a decrease in investments, mainly related to the sale of Qimonda ADSs, a capital reduction at Infineon Technologies Dresden GmbH & Co OHG, Dresden, and an impairment of our investment in Qimonda AG. The reduction in shareholders' equity mainly resulted from the net loss incurred in the 2007 fiscal year. Infineon Technologies AG's shareholders' equity ratio was 61 percent (2006: 59 percent).

DIVIDENDS

Since the stand-alone financial statements of Infineon Technologies AG for the 2006 fiscal year reported a net loss, no dividend was distributed. A net loss was also incurred in the 2007 fiscal year and therefore a dividend cannot be distributed.

MERGER/CARVE-OUT

Infineon Technologies Immobilien Regensburg GmbH, Regensburg, stepped down as investor of Infineon Technologies Immobilien Regensburg GmbH & Co. KG, Regensburg, and was merged with Infineon Technologies AG according to an agreement dated January 15, 2007.

Effective February 27, 2007, Immobilien Regensburg GmbH & Co. KG, Regensburg, was merged with Infineon Technologies AG due to the step-down of the investor.

Infineon Technologies AG contributed all activities related to the business of development and manufacturing of bipolar power semiconductors and all assets and liabilities exclusively related to this business into the newly incorporated Infineon Technologies Bipolar GmbH & Co. KG, Warstein, with economic effect of September 30, 2007 (according to a contribution agreement dated September 28, 2007).



SUBSEQUENT EVENTS

On October 2, 2007, Sony Corporation and Qimonda announced that they had signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of calendar year 2007, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, Qimonda entered into a rental agreement for a new headquarters office south of Munich, Germany. The agreement provides for the construction of a building by a third-party developer-lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. Qimonda has an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 million over the initial lease term. The lease provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term.

On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Claims Liquidation Trust case with prejudice. On October 29, 2007, we answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, we answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses.

On October 24, 2007, we completed our acquisition of the mobility products business of LSI.

On October 25, 2007, 1.25 million Qimonda ADSs that had been borrowed by an affiliate of J.P. Morgan Securities Inc. in connection with the exchangeable subordinated notes due 2010 were returned to us.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. District Court for the Eastern District of Texas against Westell Technologies, Inc. and 16 other defendants, including Infineon Technologies AG and Infineon Technologies North America Corp. The complaint alleges infringement of 3 U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants.

OUTLOOK

INDUSTRY ENVIRONMENT AND OUTLOOK

Global economy

A considerable uncertainty surrounding the future of the U.S. real estate market and of international financial markets is overshadowing the current economic outlook. While the risks facing the overall economy have increased considerably, experts do not expect that a drop in financial sector confidence will have a strong negative effect on the producing economy. In its current World Economic Outlook, the International Monetary Fund projects 3.3 percent growth in the global real gross domestic product in 2008, compared to 3.5 percent in 2007. The experts predict a similar growth rate for 2009. This means that the global economy will continue to expand over the next two years, while a recession or an unexpected significant weakening of the economy would seem improbable. The dynamic economies of developing and newly industrialized countries, China and India in particular, have done much to make this reality. The newly industrialized countries have seen increasing importance as independent motors of the global economy, and can now compensate for less dynamic trends in industrialized countries, more so than had been the case in previous economic cycles.

Semiconductor industry

Most analysts expect the semiconductor market growth to accelerate in 2008. WSTS, for instance, projects the market to grow on the basis of the U.S. dollar by 9 percent in 2008 (2007: 4 percent), and then by 6 percent in 2009 (WSTS projection, November 2007). Automotive and industrial applications, and within those particularly solutions to increase energy efficiency and security, continue to account for a large portion of this growth. Cell phones continue to drive growth in the wireless communications business, boosted by the shift to UMTS technology.

Analysts expect the wireline communications business to be positively influenced by the market for broadband and home network equipment. This business is expected to contribute positively to growth. PCs remain the driving force behind the data technology arena. The new applications of nearly all new PCs serve to increase hardware requirements and thus the demand for a large number of components. The area of entertainment and consumer electronics is also expected to grow over the next two years.

OUTLOOK FOR INFINEON EXCLUDING QIMONDA

Significant planning assumptions

When preparing this outlook, we made certain important planning assumptions for Infineon excluding Qimonda. In particular, we assumed a U.S. dollar/Euro exchange rate of 1.40 in our business excluding Qimonda. If the U.S. dollar remains weaker than estimated, it would further negatively impact our results of operations. Furthermore, all projections made herein exclude the effect of any non-ordinary gains or losses that may be incurred, since the amount of such non-ordinary gains or losses cannot be reliably estimated. We can only identify significant events which could lead to non-ordinary gains or losses. These include, among others, gains or losses that may be realized from potential sales of Qimonda shares or other investments and activities, impairments of investments or other long-term assets, as well as gains or losses resulting from general restructuring measures. Finally, it should be noted that subsequent to the initial public offering of our majority-owned subsidiary Qimonda, forecasts for this segment are prepared by Qimonda, and are presented separately in this report. We believe that the individual analysis of our memory products business is also meaningful with respect to the price development of our shares. We believe that the results of Qimonda will have a significant impact on the price development of our shares for as long as we continue to hold a significant equity interest in Qimonda.

Net Sales of Infineon excluding Qimonda

Based on our current plans, we expect net sales for Infineon excluding Qimonda in the 2008 fiscal year, consisting of the segments Automotive, Industrial & Multimarket, Communication Solutions, Other Operating Segments and Corporate & Eliminations, to increase by up to ten percent compared to the 2007 fiscal year. In Automotive, Industrial & Multimarket, we expect sales

to be down slightly in the 2008 fiscal year relative to the 2007 fiscal year. Within that, healthy growth rates in the industrial business should continue despite adverse effects from the deconsolidation of our high power bipolar activities. We expect roughly stable sales within our automotive business. Sales in the Security & ASIC business should decline given a full year of lower turnover levels for hard-disk ICs due to weak demand from our main customer in this business and a full year of lower sales levels in chip card ICs given deliberate portfolio adjustments with less emphasis on SIM card products. Finally, the overall adverse development of the exchange rate of the U.S. dollar against the Euro in the 2007 fiscal year will have a negative effect on the revenue development of the Automotive, Industrial & Multimarket segment. Sales for our Communication Solutions segment are expected to increase strongly in the 2008 fiscal year compared to the 2007 fiscal year. The growth is expected to be driven primarily by strong demand for our mobile phone products. In addition, consolidation effects will have a positive impact on total sales. We expect a full year's revenue from the DSL CPE activities of TI that we acquired on July 31, 2007. In addition, our acquisition of the mobile phone activities of LSI closed on October 24, 2007. We expect a sales contribution of between €200 million and €250 million from the LSI business. Finally, we expect the net sales contribution of Other Operating Segments and Corporate & Eliminations to be negligible.

In the 2008 fiscal year and beyond, demand for our products is expected to be driven by three strong overriding challenges for society that we help address: Energy Efficiency, Communications and Security. As natural resources become scarce, as the costs of energy generation and energy consumption continue to rise, and as environmental awareness continues to increase, people and businesses are seeking to economize on energy usage. Our semiconductor solutions, particularly in our automotive and our industrial businesses, enable improved energy efficiency. At the same time, people want to communicate and have access to the internet in any place and at any time. We contribute to this trend through our products and solutions in our Communication Solutions segment. Finally, as there are more and more complex means to access data anywhere and at any time, the need to secure data and protect intellectual property is growing. Likewise, the need to securely authenticate and identify users and travelers continues to grow. We cater to this trend in our Security and ASIC activities within our Automotive,



Industrial & Multimarket segment. All in all, we anticipate continuing industry growth and expect our revenues in such an environment to continue to increase relative to the 2008 fiscal year.

EBIT of Infineon excluding Qimonda

In the 2007 fiscal year, reported EBIT for Infineon excluding Qimonda was €(49) million. Included in EBIT in the 2007 fiscal year were positive effects of €53 million, of which €29 million related to a revision of accrued personnel cost and €20 million related to the sale of our subsidiary Sci-Worx and the sale of our POF activities. Included in EBIT in the 2007 fiscal year were also charges of €(181) million, of which €(84) million arose from the sale of part of our interest in Qimonda and €(80) million were related to various restructuring measures affecting, among others, our ALTIS manufacturing facility in France and the streamlining of our R&D locations, and an asset write-down. In our 2009 fiscal year, we expect an EBIT margin before non-ordinary gains and losses for Infineon excluding Qimonda of approximately 10 percent and we plan to make meaningful progress towards this goal in our 2008 fiscal year.

In our Automotive, Industrial & Multimarket segment, we reported EBIT of €300 million for the 2007 fiscal year. Included therein were gains of €20 million relating primarily to the sale of our POF activities, and losses of €4 million from asset impairments. We currently expect EBIT excluding non-ordinary gains and losses to decrease slightly in the 2008 fiscal year in comparison to the 2007 fiscal year. Our EBIT will continue to benefit from ongoing productivity increases and the ongoing ramp-up of our manufacturing facility in Kulim, Malaysia. Such positive effects are likely to be more than offset by negative effects resulting from the unfavorable development of the U.S. dollar to Euro exchange rate relative to the 2007 fiscal year, and from normal price reductions that we grant our customers. In the Communication Solutions segment, we reported EBIT of €(160) million in the 2007 fiscal year. The balance of non-ordinary gains and losses included in this EBIT was negligible. In the 2008 fiscal year, production ramp-ups at new customers will have a positive effect on EBIT. We still expect the EBIT in the wireless business within Communication Solutions to break-even in the first quarter of our 2008 fiscal year. Overall in Communication Solutions, despite significant headwinds generated by the unfavourable development of the U.S. dollar to Euro exchange rate relative to the 2007 fiscal year, we are aiming for positive EBIT before non-ordinary gains and losses in the 2008 fiscal year. This

projection already includes the impact of the acquisitions of the DSL Customer Premises Equipment activities of TI and the mobile phone activities of LSI. For both activities combined, we expect to incur a low to mid double digit million Euro amount per annum in amortization of intangible assets resulting from the purchases of these businesses. We have included such amortization amounts into our EBIT projection for the Communication Solutions segment. In our Other Operating Segments and Corporate & Eliminations combined, we reported EBIT of €(189) million for the 2007 fiscal year. Included in this EBIT were positive effects amounting to €25 million relating mainly to a revision of accrued personnel cost. Also included in this EBIT figure were charges of €(173) million, of which €(84) million arose from the sale of a portion of our interest in Qimonda, and €(80) million were related to various restructuring measures affecting, for example, our ALTIS manufacturing facility in France and the streamlining of our R&D locations, and an asset write-down. We currently estimate the aggregate EBIT of Other Operating Segments and Corporate & Eliminations to be in the region of €(50) million for the 2008 fiscal year prior to inclusion of non-ordinary gains and losses.

As stated above, we are targeting an EBIT margin of 10 percent for Infineon excluding Qimonda for the 2009 fiscal year prior to inclusion of non-ordinary gains and losses. Within that, we believe that EBIT margins in both the Automotive, Industrial & Multimarket and the Communication Solutions segments will have room for improvement relative to the 2008 fiscal year. EBIT in the Communication Solutions segment will continue to include amortization of intangible assets in the low to mid double digit million Euro range per annum resulting from the acquisitions of the DSL customer premises equipment activities and the mobile phone products activities from TI and LSI, respectively. We expect EBIT in Other Operating Segments and Corporate & Eliminations combined to remain comparable to the levels seen in the 2008 fiscal year.

Fixed assets investment and depreciation for Infineon excluding Qimonda

We are pursuing a differentiated manufacturing strategy for our Automotive, Industrial & Multimarket and Communication Solutions segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, in particular in the power semiconductor arena. In contrast, we do not plan to invest in our own manufacturing capacities starting with 65-nanometer structure sizes for the standard semiconductor manufac-

turing process, so called CMOS technology. We anticipate that our annual fixed assets capital investment will be within the €400 million to €500 million range in the 2008 fiscal year, and approximately €500 million per year thereafter. In the 2008 fiscal year, depreciation expense is expected to fall between €550 million and €600 million. In subsequent fiscal years we expect annual depreciation expense to decrease further.

Expenditures for research & development for Infineon excluding Qimonda

We expect expenditures for research and development for Infineon excluding Qimonda in the 2008 fiscal year to increase slightly compared to the 2007 fiscal year, driven primarily by the impact of the consolidation of the acquired businesses for DSL customer premises equipment and mobile phone ICs. We expect slight increases in R&D expenditures in our Automotive, Industrial & Multi-market segment, predominantly in the automotive and the industrial businesses. The introduction of new products and the widening of the existing product portfolio within automotive power, sensors and controls and power management are examples of areas of emphasis within research and development. Similarly, R&D expenses in the Communication Solutions segment are likely to increase slightly relative to the 2007 fiscal year. However, excluding the consolidation effect of the two purchased businesses, we expect that R&D expenses would decline slightly. This is due to efficiency gains and cost reduction measures initiated after the insolvency of one of our major customers taking effect for a full fiscal year in 2008. The slight increase in overall Communication Solutions' R&D expenses expected for the 2008 fiscal year results solely from the consolidation of the acquired activities for DSL customer premises equipment and mobile phone ICs. In the Communication Solutions segment, our R&D spending is focused for example on developing next generation system-on-a-chip products and system solutions for the mobile phone as well as the broadband access market. Another important area of our R&D activities is process technologies that we develop in alliances with several partners and consortia in order to maintain a competitive technology roadmap at an affordable cost level. Beyond the 2008 fiscal year, slight increases in expenditures for R&D are possible, in line with anticipated sales increases.

QIMONDA SEGMENT

Qimonda's revenues are a function of the bit volume it ships and the selling price it achieves for its products. While Qimonda has an influence over its production

growth, through capacity additions and productivity improvements, its sales volume depends on the extent to which its product offerings match market demand. Qimonda's selling prices are a function of the supply and demand relationship in the DRAM market. These market forces are beyond Qimonda's control and, accordingly, it cannot reliably estimate what these future sales prices, and the resulting revenues and the contribution to its earnings will be.

In the first quarter of the 2008 fiscal year, Qimonda expects its bit production to grow by approximately 5 percent, mainly due to productivity improvements from the ongoing conversion to 80-nanometer and 75-nanometer technologies and including effects from declining 200-millimeter capacities.

For the 2008 fiscal year, Qimonda expects bit demand to be driven by the continued strong growth for DRAM in graphics, consumer and communication applications, by price elasticity and the move to higher density modules in the PC market. For the 2008 fiscal year, Qimonda estimates an increase in bit production of approximately 50 percent. Qimonda targets the share of its bit shipments for non-PC applications to be more than 50 percent for the full fiscal year.

Qimonda is continuously taking steps to reduce its cost-per-bit in manufacturing, such as the introduction of advanced process technologies featuring smaller die-sizes, the ramp-up of more productive 300-millimeter capacities and other cost saving and productivity improvement measures. By the end of the first quarter of the 2008 fiscal year, Qimonda expects more than 50 percent of its manufacturing capacity to be using 80-nanometer and smaller die sizes, and Qimonda is targeting to increase this share to approximately 75 percent by the end of the second quarter.

Qimonda expects to make capital expenditures in the 2008 fiscal year ranging between €650 million and €750 million. In the years thereafter, its aim is to have capital expenditures of approximately 15 percent to 25 percent of revenues on average over the DRAM cycle.

Depreciation and amortization during the 2008 fiscal year is estimated to range between €700 million and €800 million, and for the years thereafter to be in line with capital expenditures.

Research and development expenses are anticipated to be between €450 million and €490 million for the 2008 fiscal year, and approximate 10 percent of sales on average over the DRAM cycle for the years thereafter.



OPPORTUNITIES

For the Infineon group we consider the optimization of our product portfolio, the enhancement of the productivity in our production and a positive market environment as an essential opportunity for a sustainable improvement of our operating results.

The Automotive, Industrial & Multimarket as well as the Communication Solutions segments particularly could benefit from volume opportunities in connection with a better than expected demand development in our target markets. Decreasing price erosion constitutes a further significant opportunity potential.

In the Automotive, Industrial & Multimarket segment a recovery of the US-Automotive Market could lead to a better than expected development in demand. In the Communication Solutions segment opportunities arise especially from a better than expected business success by our mobile phone customers and from new customer projects.

Additional opportunities could be generated by decreased price pressures in commodity and energy markets.

INFORMATION PURSUANT TO SECTION 289, PARAGRAPH 4, AND SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

STRUCTURE OF THE SUBSCRIBED CAPITAL

The subscribed capital of the company totaled €1,499,457,270 as of September 30, 2007. It is divided into 749,728,635 no par value nominal shares. All shares carry the same rights and obligations. Each share carries one vote.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Restrictions on the voting rights of shares may arise as the result of the regulations of the German Stock Corporation Act ("AktG"); in particular, shareholders are prohibited, under certain conditions, from voting according to section 136 AktG and the company has no voting rights from its own shares according to section 71b AktG. We are not aware of any contractual restrictions on voting rights or the transfer of shares.

SHAREHOLDINGS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

We are not aware of any shareholdings exceeding 10 percent of the voting rights.

SHARES WITH SPECIAL CONTROL RIGHTS

Shares that confer special control rights have not been issued.

SYSTEM OF CONTROL OF EMPLOYEE SHARE SCHEMES WHEN CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY BY THE EMPLOYEES

Employees who hold shares in Infineon Technologies AG exercise their control rights directly in accordance with applicable laws and the Articles of Association, just as other shareholders do.

RULES GOVERNING THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF THE MANAGEMENT BOARD

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of the Company shall consist of at least two members. Pursuant to section 5, paragraph 1, of the Articles of Association and section 84, paragraph 1, AktG, the Supervisory Board shall decide on the exact number of members as well as on the appointment and dismissal of the members of the Management Board. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (MitbestG), the appointment or dismissal of members of the Management Board requires a two-third majority of the votes of the members of the Supervisory Board (section 31, paragraph 2, MitbestG). If such majority is not achieved on the first ballot, the appointment may be approved upon a recommendation of the mediation committee on a second ballot by a simple majority of the votes of the members of the Supervisory Board (section 31, paragraph 3, MitbestG). If the required majority is still not achieved, a third ballot is held, in which the chairman of the Supervisory Board has two votes (section 31, paragraph 4, MitbestG). If the Management Board does not have the required number of members, in urgent cases, the local court (Amtsgericht) of Munich shall make the necessary appointment upon petition of a party concerned pursuant to section 85, paragraph 1, AktG.

Pursuant to section 84, paragraph 1, sentence 1 AktG, members of the Management Board may be appointed for a maximum term of five years. They may be re-appointed or have their terms extended for one or more terms of up to a maximum of five years each. Section 5, paragraph 1, of the Articles of Association, and section 84, para-

graph 2, AktG stipulate that the Supervisory Board may appoint a chairman and a deputy chairman of the Management Board. The Supervisory Board may revoke the appointment of a member of the Management Board and the chairman of the Management Board for good cause (section 84, paragraph 1, AktG).

RULES GOVERNING THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

Pursuant to section 179, paragraph 1, AktG, any amendment of the Articles of Association requires a resolution of the general shareholders' meeting. However, Section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as such amendments merely relate to the wording, such as changes of the share capital resulting from a capital increase of authorized or conditional capital. Unless the Articles of Association provide for another majority, section 179, paragraph 2, AktG stipulates that resolutions of the general shareholders' meeting on the amendment of the Articles of Association shall require a three-quarter majority of the share capital represented. Section 17, paragraph 1, of the Articles of Association of Infineon Technologies AG provides that, as a principle, resolutions shall be passed with a simple majority of the votes cast and, when a capital majority is necessary, with a simple majority of the represented share capital, unless a higher majority is required by law or by the Articles of Association.

POWERS OF THE MANAGEMENT BOARD

Purchase of own shares

By resolution of the general shareholders' meeting on February 15, 2007, the Management Board has been authorized, in accordance with section 71, paragraph 1, No. 8 AktG, to purchase own shares of the company through August 14, 2008, within statutory limits, in an aggregate amount not exceeding 10% of the outstanding share capital at the time the resolution is passed. The authorization may be used once or several times, in its entirety or partially. The authorization may not be used for the purpose of trading in the company's own shares.

The Management Board decides whether own shares are purchased through a stock exchange or by means of a public offer. If shares are purchased through a stock exchange, the purchase price per share (excluding incidental acquisition costs) paid by the company may not be more than 5% above or below the price established in the XETRA (or comparable successor system) opening

auction on the trading day. If shares are purchased through a public offer, the purchase price per share paid by the company (excluding incidental acquisition costs) may not be more than 10% above or below the arithmetic average value of the price established in the XETRA (or comparable successor system) closing auction on the fifth, fourth and third trading day prior to the publication of the offer. If significant price changes occur after publication of the offer, the purchase price may be adjusted according to the aforementioned calculation; in such a case, the relevant timeframe is the fifth, fourth and third trading day prior to the public announcement of the purchase price adjustment. The offer may provide for additional terms and conditions.

In addition to the sale of shares via stock exchange, the Management Board has been authorized to recall shares of the company, purchased under this authorization, without this recall or its implementation requiring any further resolution of the general shareholders' meeting. Furthermore, the Management Board has been authorized to offer and transfer the shares to third parties in connection with company mergers or the acquisition of companies, parts of companies, or participations in companies. Moreover, the Management Board may use the shares to meet the company's obligations under notes with warrants and/or convertible notes issued or guaranteed by it in the past or in the future and in particular to meet obligations under the convertible notes issued in June 2003 by Infineon Technologies Holding B.V. of the Netherlands, which are guaranteed by the company.

Authorized Capital and Conditional Capital

The Management Board is authorized through February 14, 2012, with the approval of the Supervisory Board, to increase the share capital once or in partial amounts by a total of up to €224,000,000 by issuing new no par value registered shares against contributions in cash or in kind (Authorized Capital 2007). The details, and in particular, the authorization to exclude the subscription right of the existing shareholders in certain cases, are stipulated in section 4, paragraph 2, of the Articles of Association.

Furthermore, the Management Board is authorized through January 19, 2009, according to section 4, paragraph 3, of the Articles of Association, to increase, with the consent of the Supervisory Board, the ordinary share capital by a total of up to €30,000,000 by issuing, in one or more tranches, new shares against contributions in cash for the purpose of issuing shares to employees of the company or of its group companies (Authorized Share Capital II/2004). The preemptive rights of shareholders



are excluded with respect to this provision. The Management Board is authorized to define, with the consent of the Supervisory Board, the further rights conveyed by the shares and the terms and conditions of the share issue.

By resolution of the general shareholders' meeting of February 15, 2007, the Management Board has been further authorized through February 14, 2012 to issue, once or in partial amounts, notes with warrants and/or convertible notes in a total nominal amount of up to €4 billion and with a term of up to 20 years, to be issued by the company or by subordinated group companies, and to guarantee those notes issued by subordinated group companies of the company. The Management Board is authorized to grant the holders or creditors of notes option or conversion rights up to 124,000,000 no par value company registered shares, representing a notional portion of the share capital of up to €248,000,000 in accordance with the relevant terms of the notes. Therefore, the share capital has been conditionally increased by up to €248,000,000 through the issuance of up to 124,000,000 new no par value registered shares (Conditional Capital 2007; see section 4, paragraph 7, of the Articles of Association). The shareholders shall, as a principle, have a right to subscribe to the notes; the Management Board, however, is authorized, with the approval of the Supervisory Board, to exclude the subscription right of the existing shareholders.

A further conditional capital of up to €152,000,000 (corresponding to 76,000,000 shares) shall serve the purpose of granting shares to the holders of the convertible notes issued in June 2003 by Infineon Technologies Holding B.V. of the Netherlands, which are guaranteed by the company. The conditional capital increase is effected only insofar as conversion rights from the convertible notes are exercised or any conversion obligations under these notes are fulfilled (Conditional Capital 2002; see section 4, paragraph 9, of the Articles of Association).

Conditional capital of up to a nominal amount of €91,662,448 (corresponding to 45,831,224 shares) has been implemented in order to serve the preemptive rights granted under the Infineon Technologies AG stock option plan of 1999, in accordance with the authorization issued on October 18, 1999, and amended on February 16, 2000, and the Infineon Technologies AG 2001 International Long Term Incentive Plan, in accordance with the authorization of April 6, 2001 (Conditional Capital I; see section 4, paragraph 6, of the Articles of Association).

Conditional capital of up to a nominal amount of €29,000,000 (corresponding to 14,500,000 shares) shall, furthermore, serve the subscription rights granted under the "Infineon Technologies AG 2001 International Long

Term Incentive Plan" on the basis of the authorization issued on April 6, 2001, and the holders of subscription rights granted under the "Infineon Technologies AG Stock Option Plan 2006" on the basis of the authorization issued on February 16, 2006 (Conditional Capital III; see section 4, paragraph 8, of the Articles of Association).

The subscription rights granted under the "Infineon Technologies AG Stock Option Plan 2006" on the basis of the authorization issued on February 16, 2006 may also be served with shares issued out of a further conditional capital of up to a nominal amount of 24,500,000 (corresponding 12,250,000 shares) (Conditional Capital IV/2006; see section 4, paragraph 10, of the Articles of Association)

Further details of the various stock option plans are described in the Notes to the Consolidated Financial Statements under No. 28 Stock-based Compensation.

SIGNIFICANT AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID

The credit facilities executed by Infineon Technologies AG in September 2004 and August 2007 each contain a so-called change of control clause (for further information please refer to the Notes to the Consolidated Financial Statements under No. 23 Debt). In the event of a takeover, the lenders are entitled to terminate the credit facility and to demand repayment of any outstanding sums. A change of control for this purpose shall be assumed if a third party or a group acting in concert obtains control over Infineon Technologies AG.

The subordinated convertible notes issued on June 5, 2003 by the company as guarantor through its subsidiary Infineon Technologies Holding B.V. with a nominal value of €700,000,000 due in 2010, as well as the subordinated convertible notes issued by the company on September 26, 2007 as guarantor through its subsidiary Infineon Technologies Investment B.V. with a nominal value of €215,000,000 due in 2010 (for further information please refer to the Notes to the Consolidated Financial Statements under No. 23 Debt), each contain a change of control clause, which grants the note holders an early redemption option in the event of a change of control as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control for the purpose of the clause.

Furthermore, certain cross-license agreements and development agreements contain change of control clauses according to which the other party shall be entitled to terminate the agreement, or the continuation shall depend on the other party's approval.

AGREEMENTS FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

If a member of the Management Board retires within the scope of a change of control, the Management Board member is entitled to a continuation of his annual target income for the full remaining duration of his service contract and a minimum of two years in the event of resignation/termination of contract by the board member, or a minimum of three years in the event of a termination of the contract by the company. The pension entitlements of the respective Management Board members remain unaffected. In the event of a change of control, however, these rights only persist if there has been no serious breach of duty. Further details are contained in the compensation report. There are no comparable arrangements for employees.

COMMENTS OF THE MANAGEMENT BOARD ON THE INFORMATION PURSUANT TO SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

The aforementioned authorizations of the Management Board for the purchase and use of own shares as well as the authorization for the issuance of notes with warrants and/or convertible notes and the issuance of new shares using authorized capital shall enable the Management Board to raise capital swiftly, flexibly, and in economically advantageous terms, taking advantage of attractive financing opportunities whenever they may arise on the market. The company is able to expand without an impact on its liquidity by using, in certain individual cases, newly issued shares of the company as consideration for the acquisition of participations in other enterprises or the acquisition of other enterprises or parts thereof. In German companies, the issuance of new shares from conditional capital is a common element in the compensation of employees and board members.

The change of control clauses provided for in the credit facilities and the subordinated convertible notes correspond with the standard market practice for the protection of creditors. The change of control clauses negotiated with the contract partners of Infineon Technologies AG as part of its general business activities are also in line with standard market practice.

The change of control clauses agreed upon with the members of the Management Board are designed to protect the members of the Management Board and to contribute to their independency in the event of a change of control.

NEUBIBERG, NOVEMBER 2007
Infineon Technologies AG

The Management Board

DR. WOLFGANG ZIEBART
PETER BAUER
PETER J. FISCHL
PROF. DR. HERMANN EUL
DR. REINHARD PLOSS



Auditor's Report

We have audited the consolidated financial statements prepared by Infineon Technologies AG, Neubiberg, comprising the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of shareholders' equity, the consolidated statement of cash flows, and the related notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2006 to September 30, 2007. The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US-GAAP) and the group management report in accordance with the requirements of German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with accounting principles generally accepted in the United States of America and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

In addition, we confirm that the consolidated financial statements and the group management report for the business year from October 1, 2006 to September 30, 2007 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements in accordance with German law and the group management report.

MUNICH, GERMANY, NOVEMBER 13, 2007

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

HOYOS
Wirtschaftsprüfer

DITTMANN
Wirtschaftsprüfer



Consolidated Financial Statements

48 CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2005, 2006 AND 2007 € IN MILLIONS, EXCEPT AS INDICATED & EXCEPT FOR SHARE DATA

	Notes	2005	2006	2007	2007 (\$ millions)
Net sales:					
Third parties		5,843	7,546	7,625	10,842
Related parties	31	916	383	57	81
Total net sales		6,759	7,929	7,682	10,923
Cost of goods sold	8	4,909	5,854	6,092	8,662
Gross profit		1,850	2,075	1,590	2,261
Research and development expenses		1,293	1,249	1,169	1,662
Selling, general and administrative expenses		655	751	700	995
Restructuring charges	9	78	23	45	64
Other operating expense, net	8	92	108	46	66
Operating loss		(268)	(56)	(370)	(526)
Interest expense, net		(9)	(92)	(33)	(46)
Equity in earnings of associated companies, net	17	57	78	117	166
Gain on subsidiaries and associated company share issuance, net	17	—	19	—	—
Other non-operating income (expense), net		26	(33)	13	18
Minority interests	26	2	(23)	19	27
Loss before income taxes		(192)	(107)	(254)	(361)
Income tax expense	10	(120)	(161)	(79)	(112)
Loss before extraordinary loss		(312)	(268)	(333)	(473)
Extraordinary loss, net of tax	4	—	—	(35)	(50)
Net loss		(312)	(268)	(368)	(523)
Basic and diluted loss per share before extraordinary loss		(0.42)	(0.36)	(0.45)	(0.64)
Basic and diluted loss per share	11	(0.42)	(0.36)	(0.49)	(0.70)

See accompanying notes to the consolidated financial statements.

49 CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2006 AND 2007

€ IN MILLIONS, EXCEPT AS INDICATED

	Notes	2006	2007	2007 (\$ millions)
ASSETS				
Current assets:				
Cash and cash equivalents		2,040	1,819	2,586
Marketable securities	12	615	475	675
Trade accounts receivable, net	13	1,245	894	1,271
Inventories	14	1,202	1,217	1,731
Deferred income taxes	10	97	66	94
Other current assets	15	482	807	1,148
Total current assets		5,681	5,278	7,505
Property, plant and equipment, net	16	3,764	3,647	5,186
Intangible assets, net	19	230	232	330
Long-term investments	17	659	652	927
Restricted cash		78	77	109
Deferred income taxes	10	627	593	843
Pension assets	32	—	60	85
Other assets	18	146	140	199
Total assets		11,185	10,679	15,184
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt and current maturities	23	797	336	478
Trade accounts payable	20	1,245	1,285	1,827
Accrued liabilities	21	525	526	748
Deferred income taxes	10	26	15	21
Short-term pension liabilities	32	—	5	7
Other current liabilities	22	712	680	967
Total current liabilities		3,305	2,847	4,048
Long-term debt	23	1,208	1,376	1,957
Pension liabilities	32	134	111	158
Deferred income taxes	10	60	46	65
Long-term accrued liabilities	24	46	36	51
Other liabilities	25	277	316	449
Total liabilities		5,030	4,732	6,728
Minority interests	26	840	1,033	1,469
Shareholders' equity:				
Ordinary share capital	27	1,495	1,499	2,131
Additional paid-in capital		5,828	5,864	8,338
Accumulated deficit		(1,780)	(2,148)	(3,054)
Accumulated other comprehensive loss	29	(228)	(301)	(428)
Total shareholders' equity		5,315	4,914	6,987
Total liabilities and shareholders' equity		11,185	10,679	15,184

See accompanying notes to the consolidated financial statements.

50 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2005, 2006 AND 2007

€ IN MILLIONS, EXCEPT FOR SHARE DATA

	Notes	Issued Ordinary shares (Shares)	Issued Ordinary shares (Amount)
Balance as of October 1, 2004		747,559,859	1,495
Net loss		—	—
Other comprehensive income (loss)	29	—	—
Total comprehensive loss			
Issuance of ordinary shares:			
Exercise of stock options	27	9,500	—
Balance as of September 30, 2005		747,569,359	1,495
Net loss		—	—
Other comprehensive income (loss)	29	—	—
Total comprehensive loss			
Issuance of ordinary shares:			
Exercise of stock options	27	39,935	—
Stock-based compensation	28	—	—
Balance as of September 30, 2006		747,609,294	1,495
Net loss		—	—
Other comprehensive (loss) income	29	—	—
Total comprehensive loss			
Issuance of ordinary shares:			
Exercise of stock options	27	2,119,341	4
Stock-based compensation	28	—	—
Deferred compensation, net		—	—
Adjustment to initially apply SFAS No. 158, net of tax	32	—	—
Balance as of September 30, 2007		749,728,635	1,499

See accompanying notes to the consolidated financial statements.

Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability/Defined benefit plans	Unrealized gain (loss) on securities	Unrealized gain (loss) cash flow hedge	Total
5,800	(1,200)	(122)	—	4	1	5,978
—	(312)	—	—	—	—	(312)
—	—	64	(84)	8	(25)	(37)
—	—	—	—	—	—	(349)
—	—	—	—	—	—	—
5,800	(1,512)	(58)	(84)	12	(24)	5,629
—	(268)	—	—	—	—	(268)
—	—	(69)	(3)	(7)	5	(74)
—	—	—	—	—	—	(342)
—	—	—	—	—	—	—
28	—	—	—	—	—	28
5,828	(1,780)	(127)	(87)	5	(19)	5,315
—	(368)	—	—	—	—	(368)
—	—	(105)	90	(12)	2	(25)
—	—	—	—	—	—	(393)
15	—	—	—	—	—	19
17	—	—	—	—	—	17
4	—	—	—	—	—	4
—	—	—	(48)	—	—	(48)
5,864	(2,148)	(232)	(45)	(7)	(17)	4,914



51 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2005, 2006 AND 2007

€ IN MILLIONS, EXCEPT AS INDICATED

	2005	2006	2007
Net loss	(312)	(268)	(368)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	1,316	1,405	1,276
Provision for (recovery of) doubtful accounts	3	23	(19)
Gains on sales of marketable securities	(8)	(3)	(8)
Losses (gains) on sales of businesses and interests in subsidiaries	(39)	10	63
Gains on disposals of property, plant, and equipment	(8)	(9)	(13)
Equity in earnings of associated companies, net	(57)	(78)	(117)
Dividends received from associated companies	51	29	61
Gain on subsidiaries and associated company share issuance, net	—	(19)	—
Minority interests	(2)	23	(19)
Impairment charges	134	57	40
Stock-based compensation	—	28	17
Deferred income taxes	88	(6)	58
Changes in operating assets and liabilities:			
Trade accounts receivable, net	119	(334)	331
Inventories	(25)	(145)	(76)
Other current assets	(2)	31	55
Trade accounts payable	(52)	222	29
Accrued liabilities	(115)	85	4
Other current liabilities	1	52	(109)
Other assets and liabilities	(2)	(100)	2
Net cash provided by operating activities	1,090	1,003	1,207

See accompanying notes to the consolidated financial statements.

52 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2005, 2006 AND 2007

€ IN MILLIONS

	2005	2006	2007
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(2,228)	(492)	(224)
Proceeds from sales of marketable securities available for sale	3,310	730	357
Proceeds from sales of businesses and interests in subsidiaries	101	72	273
Business acquisitions, net of cash acquired	—	—	(45)
Investment in associated and related companies	(135)	(6)	(2)
Cash increase from initial consolidation of ALTIS	—	119	—
Purchases of intangible assets	(27)	(44)	(39)
Purchases of property, plant and equipment	(1,368)	(1,253)	(1,375)
Proceeds from sales of property, plant and equipment	58	21	188
Net cash used in investing activities	(289)	(853)	(867)
Cash flows from financing activities:			
Net change in short-term debt	(20)	—	30
Net change in related party financial receivables and payables	18	7	(3)
Proceeds from issuance of long-term debt	192	400	245
Principal repayments of long-term debt	(500)	(56)	(744)
Change in restricted cash	21	10	1
Proceeds from issuance of ordinary shares	—	—	23
Proceeds from issuance of shares to minority interest	23	—	4
Proceeds from issuance of shares of Qimonda	—	406	—
Dividend payments to minority interests	—	(5)	(77)
Net cash (used in) provided by financing activities	(266)	762	(521)
Effect of foreign exchange rate changes on cash and cash equivalents	5	(20)	(40)
Net increase (decrease) in cash and cash equivalents	540	892	(221)
Cash and cash equivalents at beginning of year	608	1,148	2,040
Cash and cash equivalents at end of year	1,148	2,040	1,819

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

Infineon Technologies AG and its subsidiaries (collectively, the "Company") design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. The Company's products include standard commodity components, full-custom devices, semi-custom devices and application-specific components for memory, analog, digital and mixed-signal applications. The Company has operations, investments and customers located mainly in Europe, Asia and North America. The fiscal year-end for the Company is September 30.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to the German Commercial Code Implementation Act ("Einführungsgesetz zum HGB-EGHGB"), Article 58, paragraph 5, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein.

All amounts herein are shown in Euro (or "€") except where otherwise stated. The accompanying consolidated balance sheet as of September 30, 2007, and the consolidated statements of operations and cash flows for the year then ended are also presented in U.S. dollars ("\$"), solely for the convenience of the reader, at the rate of €1 = \$1.4219, the Federal Reserve noon buying rate on September 28, 2007. The U.S. dollar convenience translation amounts have not been audited.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Dividends received from Associated Companies (as defined below), previously reported as part of cash flows from investing activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities. The Company's consolidated results of operations and overall cash flows have not been affected by these reclassifications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries that are directly or indirectly controlled on a consolidated basis. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company evaluates its relationships with entities to identify whether they are variable interest entities ("VIE's"), and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. VIE's are entities for which either the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, the investors lack an essential characteristic of a controlling financial interest, or the investors' economic interests are disproportionate to the attached voting rights and substantially all of the entity's activities involve or are conducted for an investor with disproportionately few voting rights.

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies, generally through an ownership interest of 20 percent or more and that are not controlled by the Company ("Associated Companies") are accounted for using the equity method of accounting (see note 17). The equity in earnings of Associated Companies with fiscal

year ends that differ by not more than three months from the Company's fiscal year end are recorded on a three month lag. Other equity investments ("Related Companies"), generally in which the Company has an ownership interest of less than 20 percent, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Company group consists of the following numbers of entities:

	Consolidated subsidiaries	Associated companies	Total
September 30, 2006	66	7	73
Additions	8	—	8
Disposals	(5)	(2)	(7)
September 30, 2007	69	5	74

REPORTING AND FOREIGN CURRENCY

The Company's reporting currency is the euro, and therefore the accompanying consolidated financial statements are presented in euro.

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are included in other comprehensive income (loss) and reported as a separate component of shareholders' equity.

The exchange rates of the primary currencies used in the preparation of the accompanying consolidated financial statements are as follows in Euro:

		Exchange Rate		Annual average exchange rate	
		September 29, 2006	September 28, 2007	2006	2007
U.S. dollar	1\$	0.7899	0.7052	0.8117	0.7497
Japanese yen	100 JPY	0.6696	0.6124	0.6978	0.6297
Great Britain pound	1 GBP	1.4756	1.4300	1.4595	1.4806
Singapore dollar	1 SGD	0.4981	0.4728	0.5016	0.4904

REVENUE RECOGNITION

Sales

Revenue from products sold to customers is recognized, pursuant to U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition", when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection, based on actual historical experience, at the time the related revenue is recognized. In general, returns are permitted only for quality-related reasons within the applicable warranty period. Distributors can, in certain cases, apply for stock rotation or scrap allowances and price protection. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included

in such inventory. In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License Income

License income is recognized when earned and realizable (see note 6). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional service. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables", revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

GRANTS

Grants for capital expenditures include both tax-free government grants (Investitionszulage) and taxable grants for investments in property, plant and equipment (Investitionszuschüsse). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset and thereby reduce depreciation expense in future periods. Other taxable grants reduce the related expense (see notes 7, 22 and 25).

PRODUCT-RELATED EXPENSES

Shipping and handling costs associated with product sales are included in cost of sales. Expenditures for advertising, sales promotion and other sales-related activities are expensed as incurred. Provisions for estimated costs related to product warranties are generally made at the time the related sale is recorded, based on estimated failure rates and claim history. Research and development costs are expensed as incurred.

INCOME TAXES

Income taxes are accounted for under the asset and liability method pursuant to FASB Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recorded to reduce deferred tax assets to an amount that is more-likely-than-not to be realized in the future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

STOCK-BASED COMPENSATION

Prior to the adoption of SFAS No. 123 (revised 2004) "Share-Based Payment", the Company accounted for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees", recognized compensation cost over the pro rata vesting period, and adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123".

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. SFAS No. 123 (revised 2004) eliminates the alternative method of accounting for employee share-based payments previously available under APB No. 25. Periods prior to October 1, 2005 have not been restated and do not reflect the recognition of stock-based compensation (see note 28).

ISSUANCE OF SHARES BY SUBSIDIARIES OR ASSOCIATED COMPANIES

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in earnings pursuant to SAB Topic 5:H, "Accounting for Sales of Stock by a Subsidiary" (see notes 3 and 17).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less. Cash equivalents as of September 30, 2006 and 2007 were €1,926 million and €1,653 million, respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of three months or less.

RESTRICTED CASH

Restricted cash includes collateral deposits used as security under arrangements for deferred compensation, business acquisitions, construction projects, leases and financing (see note 35).

MARKETABLE SECURITIES AND INVESTMENTS

The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income, net of applicable income taxes. Realized gains or losses and declines in value, if any, judged to be other-than-temporary on available-for-sale securities are reported in other non-operating income or expense. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

The Company assesses declines in the value of marketable securities and investments to determine whether such decline is other-than-temporary, thereby rendering the marketable security or investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and investee data, the length of time and the extent to which the fair value has been less than cost, and the Company's intent and ability to hold the marketable security or investment for a period of time sufficient to allow for any anticipated recovery in fair value.

INVENTORIES

Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor costs and applicable indirect costs.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is recognized using the straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized

over the estimated useful life of the related asset. During the years ended September 30, 2006 and 2007 capitalized interest was less than €1 million. The estimated useful lives of assets are as follows:

	Years
Buildings	10–25
Technical equipment and machinery	3–10
Other plant and office equipment	1–10

LEASES

The Company is a lessee of property, plant and equipment. All leases where the Company is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to SFAS No. 13, "Accounting for Leases", and related interpretations. All other leases are accounted for as operating leases.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company accounts for business combinations using the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations". Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

Intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology, which are recorded at acquisition cost, and goodwill resulting from business acquisitions, representing the excess of purchase price over fair value of net assets acquired. Intangible assets other than goodwill are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company tests goodwill annually for impairment in the fourth quarter of the fiscal year, whereby if the carrying amount of a reporting unit with goodwill exceeds its fair value, the amount of impairment is determined as the excess of recorded goodwill over the fair value of goodwill. The determination of fair value of the reporting units and related goodwill requires considerable judgment by management.



IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets, including property, plant and equipment and intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either market value, appraised value or discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

FINANCIAL INSTRUMENTS

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which provides guidance on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Generally the Company does not designate its derivative instruments as hedge transactions. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales, while undesignated derivatives relating to financing activities are recorded in other non-operating expense, net. Changes in fair value of derivatives designated as fair value hedges and the related changes in the hedged item are reflected in earnings. Changes in the fair value of derivatives designated as cash flow hedges are, to the extent effective, deferred in accumulated other comprehensive income and subsequently reclassified to earnings when the hedging transaction is reflected in earnings and, to the extent ineffective, included in earnings immediately. The fair value of derivative and other financial instruments is discussed in note 33.

PENSION PLANS

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS No. 87, "Employers' Accounting for Pensions". The assumptions used to calculate pension liabilities and costs are shown in note 32. Prior to the adoption of the recognition provision of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)", changes in the amount of the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions could result in gains or losses not yet recognized in the Company's consolidated financial statements. Amortization of an unrecognized net gain or loss is included as a component of the Company's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of that plan's assets. In that case, the amount of amortization recognized by the Company is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan.

Effective September 30, 2007, the Company adopted the recognition provision of SFAS No. 158, whereby the Company recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its statement of financial position. Changes in funded status will be recognized in the year in which the changes occur through other comprehensive income. The incremental effects of the adoption of the recognition provision on the individual line items of the September 30, 2007 consolidated balance sheet are shown in note 32. See also Recent Accounting Pronouncements below.

The Company also records a liability for amounts payable under the provisions of its various defined contribution plans.

USE OF ESTIMATES

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ materially from such estimates made by management.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections". SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting and reporting of a change in accounting principle. The Company adopted SFAS No. 154 on October 1, 2006. The adoption of SFAS No. 154 did not have a significant impact on the Company's consolidated financial position or results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109" ("FIN 48"), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainty. FIN 48 is effective for fiscal years beginning after December 15, 2006. The difference between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The provisions of FIN 48 are effective for the Company as of October 1, 2007. The Company is in the process of determining the impact, if any, that the adoption of FIN 48 will have on its consolidated financial position and results of operations.

In September 2006, the FASB released SFAS No. 157, "Fair Value Measurements", which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or

permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the Company in the fiscal year beginning on October 1, 2008, and interim periods within that fiscal year. The Company will adopt SFAS No. 157 on October 1, 2008 on a prospective basis.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)", which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). The Company adopted the Recognition Provision of SFAS No. 158 as of the end of the fiscal year ended September 30, 2007. The incremental effects of the implementation of the Recognition Provision on the individual line items in the September 30, 2007 consolidated balance sheet are shown in note 32. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). The Company currently measures the funded status of its plans annually on June 30. The Measurement Date Provision is effective for the Company as of the end of the fiscal year ending September 30, 2009. The Company does not expect the change in the annual measurement date to September 30 to have a significant impact on its consolidated financial position and results of operations.

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously



considered immaterial are now considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the year of adoption. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006. The Company adopted SAB No. 108 during the fourth quarter of the fiscal year ended September 30, 2007. The adoption of SAB No. 108 did not have an impact on the Company's consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS No. 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted as of the beginning of a fiscal year provided that the entity also early adopts all of the requirements of SFAS No. 157. The Company is currently evaluating whether to elect the option provided for in this standard.

3. SEPARATION OF MEMORY PRODUCTS BUSINESS

Effective May 1, 2006, substantially all of the memory products-related assets and liabilities, operations and activities of Infineon were contributed to Qimonda AG ("Qimonda"), a stand-alone legal company (the "Formation"). In conjunction with the Formation, the Company entered into contribution agreements and various other service agreements with Qimonda. In cases where physical contribution (ownership transfer) of assets and liabilities was not feasible or cost effective, the monetary value was transferred in the form of cash or debt. At the Formation, Qimonda's operations in Japan and Korea were initially held in trust for Qimonda's benefit by Infineon until the legal transfer to Qimonda could take place. Qimonda's Korea operations were legally transferred to Qimonda in October 2006. Infineon legally transferred the Japanese operations to Qimonda during the year ended September 30, 2007. Qimonda's investment in Inotera Memories Inc. ("Inotera"), previously held in trust by Infineon, was transferred to Qimonda in March 2007 (see note 17). The Company's investment in Advanced Mask Technology Center GmbH & Co. KG ("AMTC") is intended to be transferred to Qimonda after approval by the other shareholders in the venture (see note 17).

The contribution agreements include provisions pursuant to which Qimonda agreed to indemnify Infineon against any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, incomplete transactions, continuing obligations, risks, encumbrances, guarantees and other matters relating to the memory products business that were transferred to it as part of the Formation. In addition, the contribution agreements provide for indemnification of Infineon with respect to certain existing and future legal claims and potential restructuring costs incurred in connection with the potential rampdown of production in one module of Infineon Technologies Dresden GmbH & Co. OHG. Although no restructuring has been established for the respective module of Infineon Technologies Dresden GmbH & Co. OHG, these costs could be material and could adversely impact the financial condition and results of operations of Qimonda and of the Company. With the exception of the securities and certain patent infringement and antitrust claims identified in note 35, Qimonda is obligated to

indemnify Infineon against any liability arising in connection with claims relating to the memory products business described in that section. Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon and Qimonda, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrual that Infineon transferred to Qimonda at Formation. Qimonda has agreed to indemnify Infineon for 60 percent of any license fee payments to which Infineon may agree in connection with ongoing negotiations relating to licensing and cross-licensing arrangements with a third party. These payments could be substantial and could remain in effect for lengthy periods.

Qimonda fully repaid its short-term loan from Infineon of €344 million during the 2007 fiscal year.

On August 9, 2006 Qimonda completed its IPO on the New York Stock Exchange through the issuance of 42 million ordinary shares which are traded as American Depositary Shares (“ADSs”) under the symbol “QI”, for an offering price of \$13.00 per ADS. As a result, the Company’s ownership interest in Qimonda was diluted to 87.7 percent and its proportional share of Qimonda’s equity decreased by €53 million, which loss the Company reflected as part of non-operating expenses under gain on subsidiaries and associated company share issuance, net during the year ended September 30, 2006. The net offering proceeds amounted to €406 million (before tax benefits available to Qimonda of €9 million) and were classified as proceeds from issuance of shares of Qimonda within cash flows from financing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006. In addition, Infineon sold 6.3 million Qimonda ADSs upon exercise of the underwriters’ over-allotment option. As a result, the Company’s ownership interest in Qimonda decreased to 85.9 percent and the Company recognized a loss of €12 million, which was reflected as part of other operating expenses, net during the year ended September 30, 2006. The net over-allotment proceeds amounted to €58 million and were classified as proceeds from sale of businesses and interests in subsidiaries within cash flows from investing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006. Qimonda used the offering proceeds to finance investments in its manufacturing facilities and for research and development.

On September 25, 2007, Infineon sold an additional 28.75 million Qimonda ADSs (including the underwriters’ over-allotment option) for an offering price of \$10.92 per ADS. As a result, the Company’s ownership interest in Qimonda decreased to 77.5 percent and the Company recognized a loss on sale of €84 million, which is reflected in other operating expenses, net during the year ended September 30, 2007. The net proceeds from this transaction amounted to €216 million and are classified as proceeds from sale of businesses and interests in subsidiaries within cash flows from investing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2007.

In addition, on September 26, 2007, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued notes exchangeable into ADSs of Qimonda in the amount of €215 million (including the underwriters’ over-allotment option). The coupon of the three-year exchangeable note is 1.375 percent per year. The exchange price is €10.48 for each Qimonda ADS, corresponding to an exchange premium of 35 percent. If all noteholders exercise their exchange rights, Infineon will deliver 20.5 million Qimonda ADSs, equivalent to approximately 6.0 percent of Qimonda’s share capital (see notes 23 and 26).

On January 26, 2007 Infineon and Qimonda extended their agreement for the production of wafers in Infineon Technologies Dresden GmbH & Co. OHG production facility through September 30, 2009.

On April 25, 2007, Qimonda and SanDisk Corporation (“SanDisk”) entered into an agreement to jointly develop and manufacture multichip packages (“MCPs”) utilizing SanDisk’s NAND flash and controllers and Qimonda’s low power mobile DRAM. The jointly owned company, SanQi Solutions Lda., based in Portugal, targets the need for high capacity, integrated memory solutions for data-intensive mobile applications.

On April 25, 2007, Qimonda announced plans to construct a fully-owned 300-millimeter front-end manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, Qimonda plans to invest approximately €2 billion in the site over the next 5 years. Qimonda expects to finance the initial capital expenditures for the construction with a combination of its own cash flows and project-based financing.



4. ACQUISITIONS

During December 2004, Saifun Semiconductors Ltd. ("Saifun") and the Company modified their existing flash memory cooperation agreement. As a consequence, the Company consummated the acquisition of Saifun's remaining 30 percent share in the Infineon Technologies Flash joint venture in January 2005 and was granted a license for the use of Saifun's NROM® technologies, in exchange for \$95 million (subsequently reduced to \$46 million) to be paid in quarterly installments over 10 years and additional purchase consideration primarily in the form of net liabilities assumed aggregating €7 million (see note 6). The assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed amounted to €7 million and was allocated to goodwill. Qimonda has sole ownership and responsibility for the business and started to account for its entire financial results in the three months ended March 31, 2005. In light of the weak market conditions for commodity NAND flash memories in the three months ended September 30, 2006, Qimonda decided to ramp down its flash production and stop the development of NAND compatible flash memory products based on Saifun's technology. Qimonda and Saifun amended the above license agreement to terminate the payment of quarterly installments as of December 31, 2006. As a result, Qimonda reduced payables, goodwill and other intangible assets, and recognized an impairment charge of €9 million related to license and fixed assets that were not considered to be recoverable as of September 30, 2006.

On July 31, 2007, the Company acquired Texas Instruments Inc.'s ("TI") DSL Customer Premises Equipment ("CPE") business for cash consideration of €45 million. The purchase price is subject to an upward or downward contingent consideration adjustment of up to \$16 million, based on revenue targets of the CPE business during the nine months following the acquisition date. The Company plans to continue supporting the acquired product portfolio and existing customer designs while leveraging the acquired experience in future product generations. The results of operations of the CPE business have been included in the consolidated financial statements starting August 1, 2007.

On August 20, 2007, the Company announced that it plans to acquire the mobility products business of LSI Corporation ("LSI") for a price of \$450 million plus a contingent performance-based payment of up to \$50 million in order to further strengthen its activities in the field of communications. The mobility products business designs semiconductors and software for cellular telephone handsets. The assets and liabilities to be acquired consist primarily of customer relationships, goodwill, fixed assets and current assets and liabilities. The Company is in the process of obtaining an appraisal of the estimated fair value of the assets and liabilities of the business to be acquired, the exact amount of which is not currently determinable. Pending the approval of the corresponding authorities, the transaction is expected to close in the first quarter of the 2008 fiscal year (see note 37).

During the quarter ended March 31, 2007, the Company entered into agreements with Molstanda Vermietungsgesellschaft mbH ("Molstanda") and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of the Company's headquarters south of Munich. Pursuant to FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51" ("FIN 46R"), the Company determined that Molstanda is a variable interest entity since it does not have sufficient equity to demonstrate that it could finance its activities without additional financial support, and as a result of the agreements the Company became its primary beneficiary. Accordingly, the Company consolidated the assets and liabilities of Molstanda beginning in the second quarter of the 2007 fiscal year. Since Molstanda is not considered a business pursuant to FIN 46R, the €35 million excess in fair value of liabilities assumed and consolidated of €76 million, over the fair value of the newly consolidated identifiable assets of €41 million, was recorded as an extraordinary loss beginning in the second quarter of the 2007 fiscal year (see note 30). Due to the Company's cumulative loss situation described in note 10 no tax benefit was provided on this loss. The Company subsequently acquired the majority of the outstanding capital of Molstanda during the fourth quarter of the 2007 fiscal year. In August 2007, the Company entered into an agreement to sell part of the acquired parcel of land to a third-party developer-lessor in connection with the construction and lease of Qimonda's new headquarters office in the south of Munich (see note 37).

The following table summarizes the Company's business acquisitions during the years ended September 30, 2005 and 2007 (there were no significant business acquisitions during the 2006 fiscal year) (€ in millions):

	2005	2007
	Flash	CPE
Acquisition Date	January 2005	July 2007
Segment	Qimonda	Communication Solutions
Cash	1	—
Other current assets	16	6
Property, plant and equipment	4	1
Intangible assets		
Core technology	58	—
Other	—	7
Goodwill	7	31
Other non-current assets	3	—
Total assets acquired	89	45
Current liabilities	(45)	—
Non-current liabilities	(2)	—
Total liabilities assumed	(47)	—
Net assets acquired	42	45
Cash paid (Purchase Consideration)	—	45

The above acquisitions have been accounted for by the purchase method of accounting and, accordingly, the consolidated statements of operations include the results of the acquired companies from their respective acquisition dates. For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired.

Pro forma financial information relating to these acquisitions is not material either individually or in the aggregate to the results of operations and financial position of the Company and has been omitted.



5. DIVESTITURES

On December 23, 2004, the Company agreed to sell its venture capital activities, reflected in the Other Operating Segments, to Cipio Partners, a venture capital company. Under the terms of the agreement, the Company sold its interest in Infineon Ventures GmbH including the majority of the venture investments held therein. The transaction closed on February 23, 2005. As a result of the sale, the Company realized a gain before tax of €13 million which was recorded in other non-operating expense, net in the 2005 fiscal year.

On January 25, 2005, Finisar Corporation (“Finisar”) and the Company entered into an agreement under which Finisar acquired certain assets of the Company’s fiber optics business. Under the terms of the agreement, the Company received 34 million shares of Finisar’s common stock valued at €40 million as consideration for the sale of inventory, fixed assets and intellectual property associated with the design and manufacture of fiber optic transceivers. The Company also committed to provide Finisar with contract manufacturing services under separate supply agreements for up to one year following the closing. The transaction did not require shareholder or regulatory approval and closed on January 31, 2005. As a result of the transaction, the Company realized a gain before tax of €21 million which was recorded in other operating expense, net in the 2005 fiscal year.

On April 8, 2005, the Company sold to VantagePoint Venture Partners its entire share interest in Finisar’s common stock. As a result of the sale, the Company recorded an other-than-temporary impairment of €8 million in other non-operating expense during the second quarter of the 2005 fiscal year, to reduce the investment’s carrying value to the net sale proceeds.

The Company retained ownership of its remaining fiber optics businesses consisting of Bi-Directional Fiber Transmission (“BIDI”) components for Fiber-To-The-Home (“FTTH”) applications, Parallel Optical Components (“PAROLI”) and Polymer Optical Fiber (“POF”) components that are used in automotive applications, which were reclassified from held for sale to held and used during the second quarter of the 2005 fiscal year, and were restructured. The reclassification of the retained

fiber optic businesses into the held and used category was measured at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation expense that would have been recognized had the retained fiber optic businesses been continuously classified as held and used, or the fair value of the assets on January 25, 2005. Accordingly, the Company recognized an impairment charge of €34 million in other operating expenses during the second quarter of the 2005 fiscal year.

On August 2, 2005, the Company sold the long-term assets utilized in the design and manufacture of BIDI components to EZConn Corporation (“EZConn”) for cash consideration of €3 million. The Company also committed to provide EZConn with contract manufacturing services through March 2006. As a result of the transaction, the Company realized a gain before tax of €2 million, which was recorded in other operating income in the 2005 fiscal year, and deferred €1 million which was realized over the term of the contract manufacturing agreement until June 2006.

On April 7, 2005, the Company and Exar Corporation (“Exar”) entered into an agreement whereby the Company sold to Exar a significant portion of its optical networking business unit for \$11 million cash. The sale included assets relating to multi-rate TDM framer products, Fiber Channel over SONET/SDH, Resilient Packet Ring (“RPR”), as well as certain intellectual property for Data Over SONET products. As a result of the sale, the Company reclassified related non-current assets into assets held for sale during the second quarter of the 2005 fiscal year and recorded an impairment of €3 million to reduce their carrying value to the net sale proceeds. The sale of the assets was consummated during the 2005 fiscal year.

On June 29, 2007, the Company sold its POF business, based in Regensburg, Germany, to Avago Technologies Ltd. The POF business operates in the market for automotive multimedia infotainment networks and transceivers for safety systems. As a result of the sale, the Company realized a gain before tax of €17 million which was recorded in other operating expense, net during the 2007 fiscal year.

On August 8, 2007 the Company and International Business Machines Corporation (“IBM”) signed an agreement in principle to divest their respective shares in ALTIS Semiconductor S.N.C., Essonnes, France (“ALTIS”) via a sale to Advanced Electronic Systems AG (“AES”). Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS, from the Company and IBM, and AES agreed to maintain the level of industrial activity in ALTIS. Pursuant to the agreement, the Company will enter into a two-year supply contract with ALTIS and IBM and Infineon will license certain manufacturing process technologies to AES for use in ALTIS. The agreement is subject to governmental and regulatory approval and works council consultation. As a result of the agreement, the Company reclassified related non-current assets and liabilities into assets and liabilities held for sale during the fourth quarter of the 2007 fiscal year.

At September 30, 2007, other current assets included assets held for sale relating to ALTIS (see note 15). These assets include land, buildings and equipment, and current assets associated with the production facility located in Essonnes, France. Related liabilities are included in other current liabilities (see note 22). Pursuant to SFAS 144, “Accounting for Impairment or Disposal of Long-lived Assets”, the recognition of depreciation expense ceased as of August 1, 2007. The Company performed an impairment assessment and concluded that no impairment was necessary.

Summarized balance sheet information for ALTIS is set forth below (€ in millions):

	September 30, 2007
Current assets	103
Non-current assets	169
Total assets held for sale (note 15)	272
Current liabilities	110
Non-current liabilities	7
Total liabilities related to assets held for sale (note 22)	117

Summary financial information for the divested businesses (through the date of divestiture) for the years ended September 30, 2005, 2006 and 2007, are as follows (€ in millions):

	2005	2006	2007
Sales:			
Fiber Optics	23	—	—
BIDI	6	—	—
POF	28	26	14
Total	57	26	14
EBIT:			
Infineon Ventures GmbH	(3)	—	—
Fiber Optics	(27)	—	—
BIDI	(20)	—	—
POF	(7)	(1)	(6)
Total	(57)	(1)	(6)
Gain (loss) on sale before tax:			
Infineon Ventures GmbH	13	—	—
Fiber Optics	21	—	—
BIDI	2	—	—
POF	—	—	17
Other	3	—	3
Total	39	—	20

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG (“Siemens”), whereby the Company would contribute all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (“Bipolar”) and Siemens would acquire a 40 percent interest in Bipolar for €37 million. The Company contributed all assets and liabilities of its high power bipolar business into Bipolar effective September 30, 2007. The joint venture agreement will grant Siemens certain contractual participating rights which will inhibit the Company from exercising control over the newly formed entity. Accordingly, the Company will account for its 60 percent interest in Bipolar under the equity method of accounting and will recognize the excess of the consideration received over the carrying value of the interests sold as other operating income. Pending the approval of the applicable authorities, the transaction is expected to close in the first quarter of the 2008 fiscal year.

6. LICENSES

During the years ended September 30, 2005, 2006 and 2007, the Company recognized revenues related to license and technology transfer fees of €175 million, €29 million and €28 million, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €33 million, €12 million and €8 million, which were recognized as revenue pursuant to SAB 104 in the years ended September 30, 2005, 2006 and 2007, respectively, since the Company had fulfilled all of its obligations and the amounts were realized.

On November 10, 2004, the Company and ProMOS Technology Inc. ("ProMOS") reached an agreement regarding ProMOS' license of the Company's previously transferred technologies, pursuant to which ProMOS may continue to produce and sell products using those technologies and to develop its own processes and products. The Company has no continuing involvement with the licensing of these products to ProMOS. As full consideration, ProMOS agreed to pay the Company \$156 million in four installments through April 30, 2006, against which the Company's accrued liability for DRAM products from ProMOS of \$36 million was offset. The parties agreed to withdraw their respective claims, including arbitration. The present value of the settlement amounted to €118 million and was recognized as license income during the 2005 fiscal year.

In connection with its joint technology development with Nanya Technology Corporation ("Nanya"), in 2003 the Company granted Nanya a license to use its 110-nanometer technology and to do joint development on the 90-nanometer and 70-nanometer technologies. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation with respect to the joint development of advanced 58-nanometer production technologies for 300-millimeter wafers (see note 17). On September 24, 2007, Qimonda and Nanya entered into an agreement for further know-how transfer from Qimonda to Nanya. License income related to the technology is recognized over the estimated life of the technology.

In connection with a capacity reservation agreement with Winbond Electronics Corp. ("Winbond") in August 2004, the Company granted Winbond a license to use its 110-nanometer technology and for the production and

sale of Winbond's proprietary Specialty DRAM products to third parties. In August 2006, Qimonda entered into an agreement with Winbond whereby Qimonda transferred its 80-nanometer DRAM technology to Winbond to manufacture DRAM using this technology exclusively for Qimonda. On June 27, 2007, Qimonda signed agreements with Winbond to expand their existing cooperation and capacity reservation. Under the terms of the agreements, Qimonda agreed to transfer its 75-nanometer and 58-nanometer DRAM trench technologies to Winbond. In return, Winbond will manufacture DRAM using these technologies exclusively for Qimonda. Winbond will also use the 58-nanometer technology to develop and sell proprietary Specialty DRAM products to third parties, for which Qimonda would receive license fees and royalties.

On March 18, 2005 the Company and Rambus Inc. ("Rambus") reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in the Company's memory products. In exchange for this worldwide license, the Company agreed to pay \$50 million in quarterly installments of \$6 million between November 15, 2005 and November 15, 2007. As of March 31, 2005, the Company recorded a license and corresponding liability in the amount of €37 million, representing the estimated present value of the minimum future license payments. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, Qimonda would make additional quarterly payments which may accumulate up to a maximum of an additional \$100 million. Because Rambus' ability to conclude the agreements is not within the Company's control, the Company is not able to estimate whether additional payment obligations may arise. The agreement also provides the Company an option for acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company simultaneously granted to Rambus a fully-paid perpetual license for memory interfaces. In addition to the licenses, the two companies agreed to the immediate dismissal of all pending litigation and released each other from all existing legal claims. The license of €37 million is being amortized over the expected useful life of the related technologies of ten years (see note 19).

In January 2005, the Company was granted a license for the use of Saifun's NROM® technologies. The estimated fair value of the license and minimum future license payments of €58 million were recorded as an asset and liability, respectively. The Company retained the option to terminate the entire license, or parts thereof, at any time without penalty. During the three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 million and €29 million, respectively. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 million as of September 30, 2006.

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID Technologies Inc. ("MOSAID") settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. MOSAID granted to Infineon and Qimonda a six-year license to use any MOSAID patents in the manufacturing and sale of semiconductor products, as well as a "lives of the patents" license to certain MOSAID patent families. In exchange for these licenses, the Company and Qimonda agreed to make license payments commencing on July 1, 2006 over a six-year term (see note 19).

On August 1, 2006, Infineon and Qimonda entered into settlement agreements with Tessera Inc. ("Tessera") in respect of all of Tessera's patent infringement and antitrust claims and all counterclaims and other claims Infineon and Qimonda had raised against Tessera. As part of the settlement, Infineon and Qimonda entered into license agreements with Tessera, effective July 1, 2006, that provide the companies world-wide, nonexclusive, non-transferable and non-sublicensable licenses to use a portfolio of Tessera patents relating to packaging for integrated circuits in Infineon's and Qimonda's production. The license agreements have a six-year term and can be extended. Under the license agreements, Infineon and Qimonda agreed to pay Tessera an initial upfront fee and additional royalty payments over a six year period based on the volume of components they sell that are subject to the license. The Company recognized the litigation settlement portion of €37 million as other operating expense during the year ended September 30, 2006. The remaining license portion is being amortized over the term of the agreement and the royalty payments are recognized as the related sales are made.

7. GRANTS

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying consolidated financial statements during the fiscal years ended September 30, 2005, 2006 and 2007, are as follows (€ in millions):

	2005	2006	2007
Included in the consolidated statements of operations:			
Research and development	50	67	115
Cost of sales	121	86	133
Total	171	153	248
Construction grants deducted from the cost of fixed assets (note 30)	—	49	1

Deferred government grants amounted to €212 million and €182 million as of September 30, 2006 and 2007, respectively. The amounts of grants receivable as of September 30, 2006 and 2007 were €138 million and €104 million, respectively.



8. SUPPLEMENTAL OPERATING COST INFORMATION

The costs of services and materials are as follows for the years ended September 30 (€ in millions):

	2005	2006	2007
Raw materials, supplies and purchased goods	1,867	2,244	2,382
Purchased services	1,166	1,330	1,352
Total	3,033	3,574	3,734

Personnel expenses are as follows for the years ended September 30 (€ in millions):

	2005	2006	2007
Wages and salaries	1,664	1,827	1,880
Social levies	285	319	341
Pension expense (note 32)	28	37	41
Total	1,977	2,183	2,262

Other operating expense, net is as follows for the years ended September 30 (€ in millions):

	2005	2006	2007
Gains (losses) from sales of businesses and interests in subsidiaries	39	(10)	(63)
Goodwill and intangible assets impairment charges (note 19)	(57)	(38)	(2)
Long-lived asset impairment charges	(39)	(6)	(4)
Litigation settlement charges, net of recoveries (note 35)	(20)	(60)	9
Other	(15)	6	14
Other operating expense, net	(92)	(108)	(46)

Litigation settlement charges refer to the settlement of an antitrust investigation by the U.S. Department of Justice and related settlements with customers (see note 21), as well as, during the year ended September 30, 2006, the settlement of the Tessera litigation (see note 6).

Total rental expenses under operating leases amounted to €125 million, €151 million and €134 million for the years ended September 30, 2005, 2006 and 2007, respectively.

The average number of employees by geographic region is as follows for the years ended September 30 (€ in millions):

	2005	2006	2007
Germany	16,334	15,822	15,449
Other Europe	5,606	7,455	7,479
North America	3,108	3,283	3,433
Asia/Pacific	10,919	14,285	15,964
Japan	147	180	202
Other	44	41	22
Total	36,158	41,066	42,549

Of the total average number of employees listed above, 10,332, 11,003 and 12,775 for the years ended September 30, 2005, 2006 and 2007, respectively, were employees of Qimonda.

9. RESTRUCTURING

During the 2005 fiscal year, the Company announced restructuring measures aimed at reducing costs, downsizing certain portions of its workforce, and consolidating certain functions and operations. As part of the restructuring measures, the Company agreed upon plans to terminate approximately 350 employees. The terminations were primarily the result of the close down of fiber optics operations in Germany and the United States, and were completed in the 2006 fiscal year. In addition, the Company took measures to restructure its chip manufacturing within the manufacturing cluster Munich-Perlach, Regensburg and Villach. Production from Munich-Perlach was transferred primarily to Regensburg and to a lesser extent to Villach. Manufacturing at Munich-Perlach was phased out in March 2007. As part of the restructuring, the Company reduced its workforce by approximately 600 employees.

During the 2006 fiscal year, restructuring plans were announced to downsize the workforce at ALTIS and the Company's chip card back-end activities in order to maintain competitiveness and reduce cost. As part of these

restructuring measures, the Company agreed upon plans to terminate approximately 390 employees and recorded restructuring charges in the 2007 fiscal year.

During the 2007 fiscal year, further restructuring measures were taken by the Company mainly as a result of the insolvency of one of its largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. Approximately 280 jobs are affected worldwide, thereof approximately 120 in the German locations

Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures have been completed during the 2007 fiscal year.

During the years ended September 30, 2005, 2006 and 2007, charges of €78 million, €23 million and €45 million, respectively, were recognized as a result of the above mentioned restructuring initiatives.

The development of the restructuring liability during the year ended September 30, 2007 is as follows (€ in millions):

	September 30, 2006	2007	2007	September 30, 2007
	Liabilities	Restructuring Charges	Payments	Liabilities
Employee terminations	57	39	(58)	38
Other exit costs	6	6	(6)	6
Total	63	45	(64)	44

10. INCOME TAXES

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2005, 2006 and 2007 (€ in millions):

	2005	2006	2007
Germany	(298)	(378)	(453)
Foreign	104	294	180
Total	(194)	(84)	(273)

Income tax expense (benefit) for the years ended September 30, 2005, 2006 and 2007 are as follows (€ in millions):

	2005	2006	2007
Current taxes:			
Germany	31	126	14
Foreign	1	41	7
	32	167	21
Deferred taxes:			
Germany	66	(21)	88
Foreign	22	15	(30)
	88	(6)	58
Income tax expense	120	161	79

Total income taxes for the years ended September 30, 2005, 2006 and 2007 were allocated as follows (€ in millions):

	2005	2006	2007
Income tax expense	120	161	79
Goodwill and intangible assets, for initial recognition of acquired tax benefits that were previously included in the valuation allowance	(30)	—	—
Shareholder's equity, for other comprehensive income (loss)	—	—	5
	90	161	84

The Company's corporate statutory tax rate in Germany is 25 percent in the 2005, 2006 and 2007 fiscal years. Additionally, a solidarity surcharge of 5.5 percent is levied. The trade tax decreased in respect of Infineon Technologies AG from 13 percent in 2005 to 11 percent in 2006 due to the move of the Company's headquarters in 2006. Therefore, the combined statutory tax rate is 39 percent in 2005, and 37 percent in 2006 and 2007, respectively.

On August 17, 2007 the Business Tax Reform Act 2008 was enacted in Germany including several changes to the taxation of German business activities, including a reduction of the Company's combined statutory cor-



porate and trade tax rate in Germany from 37 percent to 28 percent. Most of the changes will come into effect for the Company in its 2008 fiscal year. Pursuant to SFAS No. 109, the Company recorded a deferred tax charge of €53 million as of September 30, 2007, reflecting the reduction in value of the Company's deferred tax assets in Germany upon enactment.

A reconciliation of income taxes for the fiscal years ended September 30, 2005, 2006 and 2007, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 39 percent for 2005 and 37 percent for 2006 and 2007 is as follows (€ in millions):

	2005	2006	2007
Expected expense (benefit) for income taxes	(76)	(31)	(101)
Increase in available tax credits	(5)	(36)	(35)
Non-taxable investment (income) loss	(26)	(31)	4
Tax rate differential	(18)	(50)	(107)
Non deductible expenses	29	13	28
Change in German tax rate	—	3	53
Increase in valuation allowance	192	292	226
Other	24	1	11
Actual provision for income taxes	120	161	79

The Company has operations in a jurisdiction which grants a tax holiday from the 2005 fiscal year onwards, which has a remaining term of two years. Compared to ordinary taxation in this jurisdiction, this resulted in tax savings of €0, €16 million and €6 million for the years ended September 30, 2005, 2006 and 2007, respectively, which are reflected in the tax rate differential.

In the 2006 fiscal year, the Company reached an agreement with German tax authorities on certain tax matters relating to prior years. As a result, the timing of the deductibility of certain temporary differences was revised, which led to an increase in the valuation allowance for the 2006 fiscal year in the amount of €50 million.

Deferred income tax assets and liabilities as of September 30, 2006 and 2007 relate to the following (€ in millions):

	2006	2007
Deferred tax assets:		
Intangible assets	95	62
Property, plant and equipment	264	197
Deferred income	94	57
Net operating loss and tax credit carry-forwards	1,350	1,319
Other items	179	272
Gross deferred tax assets	1,982	1,907
Valuation allowance	(1,091)	(1,050)
Deferred tax assets	891	857
Deferred tax liabilities:		
Intangible assets	4	—
Property, plant and equipment	103	75
Accounts receivable	17	43
Accrued liabilities and pensions	118	113
Other items	11	28
Deferred tax liabilities	253	259
Deferred tax assets, net	638	598

Net deferred income tax assets and liabilities presented in the accompanying consolidated balance sheets as of September 30, 2006 and 2007, are as follows (€ in millions):

	2006	2007
Deferred tax assets:		
Current	97	66
Non-current	627	593
Deferred tax liabilities:		
Current	(26)	(15)
Non-current	(60)	(46)
Deferred tax assets, net	638	598

At September 30, 2007, the Company had in Germany tax loss carry-forwards of €3,295 million (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,375 million); in other jurisdictions the Company had tax loss carry-forwards of €220 million and tax effected credit carry-forwards of €149 million. Such tax loss carry-forwards and tax effected credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim. In connection with the formation of Qimonda, the net operating losses related to the memory products segment have been retained by Infineon Technologies AG.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three-year period as of September 30, 2007, which is significant evidence that the more likely than not criterion is not met pursuant to the provisions of SFAS No. 109, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2005, 2006 and 2007 by €192 million, €292 million, and €226 million, respectively, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2005, 2006 and 2007 were as follows (€ in millions):

	2005	2006	2007
Balance, beginning of the year	567	740	1,091
Applicable to continuing operations	192	292	226
Purchase accounting adjustments	(30)	—	—
Change in tax rate	—	—	(298)
Adjustment in corresponding net operating loss carry-forward	11	59	31
Balance, end of the year	740	1,091	1,050

In the 2006 and 2007 fiscal years, the Company recorded adjustments to certain net operating loss carry-forwards mainly as a result of final tax assessment reconciliations. As the adjustments were made in jurisdictions in which the Company is in cumulative loss positions, such adjustments were recorded directly to the valuation allowance and approximated €11 million, €59 million and €31 million in the 2005, 2006 and 2007 fiscal years, respectively.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2006 and 2007, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The Company reorganized certain businesses in different tax jurisdictions which resulted in deferred intercompany transactions. As of September 30, 2006 and 2007, deferred tax charges related to these transactions amounted to €63 million and €56 million, respectively, of which €56 million and €50 million, respectively are non-current (see note 18).



11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share (“EPS”) is calculated by dividing net loss by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding

plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments or ordinary share equivalents had been issued.

The computation of basic and diluted EPS for the years ended September 30, 2005, 2006 and 2007, is as follows:

	2005	2006	2007
Numerator (€ in millions):			
Net loss before extraordinary loss	(312)	(268)	(333)
Extraordinary loss, net of tax	—	—	(35)
Net loss	(312)	(268)	(368)
Denominator (shares in millions):			
Weighted-average shares outstanding – basic	747.6	747.6	748.6
Effect of dilutive instruments	—	—	—
Weighted-average shares outstanding – diluted	747.6	747.6	748.6
Basic and diluted loss per share in €:			
Net loss before extraordinary loss	(0.42)	(0.36)	(0.45)
Extraordinary loss, net of tax	—	—	(0.04)
Net loss	(0.42)	(0.36)	(0.49)

The weighted average of potentially dilutive instruments that were excluded from the diluted loss per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise not dilutive, includes 39.4 million, 46.7 million and 41.2 million shares underlying employee stock options for the years ended September 30, 2005, 2006 and 2007, respectively. Additionally, 86.5 million, 86.5 million and 74.7 million ordinary shares issuable upon the conversion of the convertible subordinated

notes for the years ended September 30, 2005, 2006 and 2007, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

12. MARKETABLE SECURITIES

Marketable securities at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006				2007			
	Cost	Fair Value	Unrealized Gains	Unrealized Losses	Cost	Fair Value	Unrealized Gains	Unrealized Losses
Foreign government securities	9	11	2	—	9	11	2	—
Floating rate notes	156	162	6	—	—	—	—	—
Fixed term securities	460	453	—	(7)	491	477	1	(15)
Other debt securities	14	18	4	—	18	22	4	—
Total debt securities	639	644	12	(7)	518	510	7	(15)
Equity securities	4	5	1	—	5	6	1	—
Total marketable securities	643	649	13	(7)	523	516	8	(15)
Reflected as follows:								
Current assets	616	615	6	(7)	490	475	—	(15)
Non-current assets (note 18)	27	34	7	—	33	41	8	—
Total marketable securities	643	649	13	(7)	523	516	8	(15)

Unrealized losses relating to securities held for more than 12 months as of September 30, 2006 and 2007, were €7 million and €8 million, respectively.

Realized (losses) gains, net are reflected as other non-operating income (expense), net and were as follows for the years ended September 30 (€ in millions):

	2005	2006	2007
Realized gains	8	3	7
Realized losses	—	—	—
Realized gains, net	8	3	7

As of September 30, 2007, there were no significant fixed term deposits with contractual maturities between three and twelve months.

Debt securities as of September 30, 2007 had the following remaining contractual maturities (€ in millions):

	Cost	Fair Value
Less than 1 year	160	152
Between 1 and 5 years	133	130
More than 5 years	225	228
Total debt securities	518	510

Actual maturities may differ due to call or prepayment rights.

13. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Third party – trade	1,304	916
Associated and Related Companies – trade (note 31)	8	16
Trade accounts receivable, gross	1,312	932
Allowance for doubtful accounts	(67)	(38)
Trade accounts receivable, net	1,245	894

Activity in the allowance for doubtful accounts for the years ended September 30, 2006 and 2007 is as follows (€ in millions):

	2006	2007
Allowance for doubtful accounts at beginning of year	44	67
Provision for (recovery of) bad debt, net	23	(29)
Allowance for doubtful accounts at end of year	67	38

14. INVENTORIES

Inventories at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Raw materials and supplies	125	123
Work-in-process	777	665
Finished goods	300	429
Total Inventories	1,202	1,217

15. OTHER CURRENT ASSETS

Other current assets at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Assets held for sale (note 5)	—	272
VAT and other tax receivables	189	174
Grants receivable (note 7)	125	104
Associated and Related Companies – financial and other receivables (note 31)	1	59
Third party – financial and other receivables	61	57
Financial instruments (note 33)	22	49
Prepaid expenses	36	42
License fees receivable	14	13
Employee receivables (note 31)	7	8
Intangible pension asset (note 32)	13	—
Other	14	29
Total other current assets	482	807



16. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the years ended September 30, 2006 and 2007 is as follows (€ in millions):

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost					
September 30, 2006	1,554	9,173	2,309	218	13,254
Additions	61	618	105	646	1,430
Impairments	—	(3)	—	—	(3)
Disposals	(15)	(162)	(180)	(4)	(361)
Reclassifications	13	424	25	(462)	—
Transfers	(101)	(971)	(24)	(7)	(1,103)
Foreign currency effects	(56)	(224)	(20)	(9)	(309)
September 30, 2007	1,456	8,855	2,215	382	12,908
Accumulated depreciation					
September 30, 2006	(732)	(6,749)	(2,009)	—	(9,490)
Depreciation	(103)	(933)	(187)	—	(1,223)
Disposals	9	155	175	—	339
Reclassifications	—	(5)	5	—	—
Transfers	41	880	18	—	939
Foreign currency effects	18	139	17	—	174
September 30, 2007	(767)	(6,513)	(1,981)	—	(9,261)
Book value September 30, 2006	822	2,424	300	218	3,764
Book value September 30, 2007	689	2,342	234	382	3,647

On December 8, 2004, the Company announced plans to build a new front-end production plant in Kulim High Tech Park, Malaysia. The facility mainly produces power and logic chips used in automotive and industrial power applications. The construction started in early 2005 and production started in September 2006. At full capacity, the facility is expected to employ more than 1,500 people. Maximum capacity will be about 100,000 wafer starts per month using 200-millimeter wafers. As of September 30, 2007, the Company had invested a total of €379 million in this production plant.

17. LONG-TERM INVESTMENTS

A summary of activity for long-term investments for the years ended September 30, 2006 and 2007, is as follows (€ in millions):

	Investment in Associated Companies	Investment in Related Companies	Total
Balance at September 30, 2005	758	21	779
Additions	5	1	6
Disposals	—	(3)	(3)
Dividend payments	(29)	—	(29)
Capitalized interest	(1)	—	(1)
Impairments	(13)	—	(13)
Equity in earnings	78	—	78
Consolidation of ALTIS	(202)	4	(198)
Gain on share issuance	72	—	72
Reclassifications	10	1	11
Foreign currency effects	(43)	—	(43)
Balance at September 30, 2006	635	24	659
Additions	—	2	2
Disposals	(25)	(3)	(28)
Dividend payments	(61)	—	(61)
Capitalized interest	(1)	—	(1)
Impairments	—	(2)	(2)
Equity in earnings	117	—	117
Reclassifications	(12)	4	(8)
Foreign currency effects	(26)	—	(26)
Balance at September 30, 2007	627	25	652

Investments in Related Companies principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

The following Associated Companies as of September 30, 2007 are accounted for using the equity method of accounting:

Name of the Associated Company	Direct and indirect ownership in % ¹
Advanced Mask Technology Center GmbH & Co. KG, Dresden ("AMTC")	25.8
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	27.6

¹ Direct and indirect ownership percentages are net of Qimonda's minority interest.

The Company has accounted for these investments under the equity method of accounting due to the lack of unilateral control (see note 2). The above companies are principally engaged in the research and development, design and manufacture of semiconductors and related products.

On May 16, 2002, the Company entered into the AMTC joint venture with its partners Advanced Micro Devices Inc., USA ("AMD"), and DuPont Photomasks Inc., USA ("DuPont"), with the purpose of developing and manufacturing advanced photo masks. In addition, the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly, as of September 30, 2007, €12 million was deferred which is being recognized over the term of the purchase agreement. Toppan Printing Co., Ltd. acquired DuPont in April 2005 which led to a name change; former DuPont is now named Toppan Photomasks Inc., Ltd.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a joint venture (Inotera) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to several agreements, the Company and Nanya devel-

oped advanced 90-nanometer and have been developing 75- and 58-nanometer technology. The 300-millimeter fabrication facility, which employs the technology developed under the aforementioned agreements to manufacture DRAM products, was completed in the 2006 fiscal year and was funded by Inotera. The ramp-up of the second manufacturing module at Inotera was completed and the total capacity in both manufacturing modules reached 120,000 wafer starts per month in September 2007. The second module was also fully funded by Inotera. The joint venture partners are obliged to each purchase one-half of the facility's production based, in part, on market prices.

On March 17, 2006, Inotera successfully completed an IPO on the Taiwanese stock exchange of 200 million ordinary shares, representing 7.97 percent of its outstanding share capital before IPO, for an issuance price of NT\$33 per share. As a result, the Company's ownership interest was diluted to 41.4 percent while its proportional share of Inotera's equity increased by approximately €30 million, which gain the Company recognized as part of non-operating income during the third quarter of the 2006 fiscal year.

On May 10, 2006, Inotera successfully completed a public offering on the Luxembourg Stock Exchange of 40 million global depository shares (representing 400,000,000 ordinary shares) which are traded on the Euro MTF market and represent 14.8 percent of its outstanding share capital before the offering, for an issuance price of NT\$33 per ordinary share. As a result, the Company's ownership interest was diluted to 36.0 percent (30.9 percent net of Qimonda's minority interest) while its proportional share of Inotera's equity increased by €42 million, which gain the Company reflected as part of non-operating income during the fourth quarter of the 2006 fiscal year.

The agreement governing the joint venture with Nanya allowed Infineon to transfer its shares in Inotera to Qimonda. However, under Taiwanese law, Infineon's shares in Inotera are subject to a compulsory restriction on transfer (lock-up) as a result of Inotera's IPO. Infineon may only transfer these shares to Qimonda gradually over the four years following Inotera's IPO. The Company sought an exemption from this restriction that would permit the immediate transfer of all of these shares to Qimonda. In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which

Infineon held its Inotera shares in trust for Qimonda until the shares could be transferred. This trust agreement provided for Infineon to transfer the shares to Qimonda as and when the transfer restrictions expire or Qimonda received the exemption from the lock-up. In March 2007, the Inotera shares (except for the portion representing less than 1 percent of the total shares) were transferred to Qimonda. The Inotera shares remain subject to Taiwanese lock-up provisions related to the Inotera IPO through January 2008, after which the remaining shares are to be transferred to Qimonda.

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. During the year ended September 30, 2003, the Company and IBM amended the original shareholders agreement. Pursuant to the amendment, the Company agreed to ratably increase its capacity reservation in the production output of ALTIS from 50 percent to 100 percent during fiscal years 2004 through 2007.

In December 2005, the Company further amended its agreements with IBM in respect of ALTIS, and extended its product purchase agreement with ALTIS through 2009. Pursuant to the December 2005 amendment, the Company granted to IBM an option to require the Company to acquire four-fifths of IBM's 50 percent interest in the joint venture (or a total of 40 percent of the outstanding shares of ALTIS) at any time after April 1, 2006 and prior to January 1, 2009. In connection with the exercise of such option, IBM would be required to make a payment to the Company to settle the respective interests of the parties. In addition, the Company granted to IBM a second option to require the Company to acquire up to four-fifths of IBM's 50 percent interest in the joint venture (or a total of 40 percent of the outstanding shares of ALTIS) in increments of 10 percent after April 1, 2006 and prior to January 1, 2009. The amendment also permits IBM to sell its interest in ALTIS to a third party meeting certain specified criteria.

Under the December 2005 amendment, the Company and IBM also agreed a number of administrative matters regarding the governance and management of ALTIS, as well as related cost-allocation and accounting matters. The Company evaluated the amendment in accordance with FIN 46R and concluded that it held an interest in a variable interest entity in which the Company is determined to be the primary beneficiary. Accordingly, the

Company began to fully consolidate ALTIS following the December 19, 2005 amendment whereby IBM's 50 percent ownership interest has been reflected as a minority interest.

The following table summarizes the elimination of the investment in ALTIS as previously accounted for under the equity method of accounting, and the Company's initial consolidation of ALTIS during first quarter of the 2006 fiscal year (€ in millions) (see note 5):

	ALTIS
Consolidation Date	December 2005
Segment	Communication Solutions
Cash	119
Inventories	45
Other current assets	10
Property, plant and equipment	212
Long-term investment	(202)
Other non-current assets	(47)
Total assets consolidated	137
Current liabilities	(79)
Non-current liabilities (including debt)	6
Deferred tax liabilities	3
Minority Interests	207
Total liabilities consolidated	137
Net assets consolidated	—
Cash paid	—

In November 2003, the Company, together with United Epitaxy Company, Ltd. ("UEC"), Hsinchu, Taiwan, founded a joint venture company, ParoLink. The Company initially invested €6 million, held a 56 percent ownership interest in ParoLink and accounted for its investment in ParoLink using the equity method, since substantive participating minority rights prevented the exercise of unilateral control. In connection with the Company's disposal of its fiber optics business (see note 5), the Company acquired the minority interest in ParoLink, terminated the joint venture with UEC and recorded an impairment to reduce the investment to its estimated fair value of €3 million. During January 2006, the joint venture partners decided to dissolve and liquidate ParoLink. The liquidation was completed in the 2007 fiscal year.

On October 1, 2002, the Company, Agere Systems Inc. and Motorola Inc. incorporated StarCore, LLC ("StarCore"), based in Austin, Texas. StarCore focused on developing, standardizing and promoting Digital Signal Processor ("DSP") core technology. In the 2006 fiscal year the shareholders decided by consensus to pursue their objectives in DSP core technology individually and to liquidate StarCore. As a consequence the Company recorded an impairment of €13 million during the 2006 fiscal year.

On November 13, 2006 Qimonda sold its investment in Ramtron International Corp., Colorado, USA ("Ramtron") through a private placement. As a result of the sale, Qimonda recorded a gain of €2 million as part of other non-operating income during the 2006 fiscal year.

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis of €29 million, €13 million and €2 million during the years ended September 30, 2005, 2006 and 2007, respectively.

There was no goodwill included in the amount of long-term investments at September 30, 2006 and 2007, respectively.

For the Associated Companies as of September 30, 2007, the aggregate summarized financial information for the fiscal years 2005, 2006 and 2007, is as follows (€ in millions):

	2005	2006	2007
Sales	439	894	1,122
Gross profit	137	312	381
Net income (loss)	72	208	277

	2005	2006	2007
Current assets	520	1,084	714
Non-current assets	1,883	1,811	2,810
Current liabilities	(334)	(524)	(661)
Non-current liabilities	(891)	(637)	(1,133)
Shareholders' equity	1,178	1,734	1,730

18. OTHER ASSETS

Other non-current assets at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Deferred tax charges (note 10)	56	50
Marketable securities (note 12)	34	41
Long-term receivables	20	27
Employee receivables (note 31)	2	1
Grants receivable (note 7)	13	—
Other	21	21
Total	146	140

19. INTANGIBLE ASSETS

A summary of activity for intangible assets for the years ended September 30, 2006 and 2007 is as follows (€ in millions):

	Goodwill	Other Intangibles	Total
Cost			
September 30, 2005	125	448	573
Additions	—	56	56
Impairment charges (note 8)	(7)	(31)	(38)
Disposals	(11)	(26)	(37)
Foreign currency effects	(6)	(1)	(7)
September 30, 2006	101	446	547
Additions	31	45	76
Impairment charges (note 8)	—	(2)	(2)
Disposals	(6)	(46)	(52)
Foreign currency effects	(9)	(4)	(13)
September 30, 2007	117	439	556
Accumulated amortization			
September 30, 2005	—	(258)	(258)
Amortization	—	(67)	(67)
Disposals	—	5	5
Foreign currency effects	—	3	3
September 30, 2006	—	(317)	(317)
Amortization	—	(52)	(52)
Disposals	—	42	42
Foreign currency effects	—	3	3
September 30, 2007	—	(324)	(324)
Carrying value September 30, 2005	125	190	315
Carrying value September 30, 2006	101	129	230
Carrying value September 30, 2007	117	115	232

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding fiscal years is as follows: 2008 €37 million; 2009 €22 million; 2010 €17 million; 2011 €16 million; 2012 €11 million.

In connection with the acquisition of Saifun's remaining 30 percent share in the Infineon Technologies Flash joint venture, the Company was granted a license for the use of Saifun's NROM® technologies (see note 4). During the three months ended March 31, 2005 the Company recorded the license of €58 million and a corresponding liability in the amount of €58 million, representing the estimated fair value of the license and minimum future license payments, respectively. The Company retained the option to terminate the entire license, or parts thereof, at any time without penalty. During the three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 million as of September 30, 2006.

In March 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio. The license of €37 million is being amortized over the expected useful life of the related technologies of ten years (see note 6).

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. The license of €32 million is being amortized over the expected useful life of the related technologies of six years (see note 6).

During the years ended September 30, 2005, 2006 and 2007, the Company recognized intangible assets impairment charges of €57 million, €38 million and €2 million, respectively.

During the year ended September 30, 2005, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets in the Customer Premises Equipment, Wireless Infrastructure, Short Range Wireless, RF Engine and Optical Networking reporting units within the Communication Solutions segment might not be recoverable. Recoverability of these intangible assets was measured by a comparison of the

carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €57 million were recognized in other operating expenses, representing the amount by which the carrying amount of the assets exceeded their fair value.

During the year ended September 30, 2006, partially as a result of the insolvency of one of the Company's largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets principally in reporting units within the Communication Solutions segment might not be recoverable. Recoverability of these intangible assets was measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €38 million were recognized in other operating expenses, representing the amount by which the carrying amount of the assets exceeded their fair value.

During the year ended September 30, 2007, the Company did not recognize any impairments of goodwill.

20. TRADE ACCOUNTS PAYABLE

Trade accounts payable at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Third party – trade	1.165	1.128
Associated and Related Companies – trade (note 31)	80	157
Total	1.245	1.285

21. ACCRUED LIABILITIES

Accrued liabilities at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Personnel costs	353	381
Warranties and licenses	54	44
Settlement for antitrust related matters (note 35)	53	38
Other	65	63
Total	525	526

On September 15, 2004 the Company entered into a plea agreement with the United States Department of Justice in connection with its antitrust investigation (see note 35) and agreed to pay a fine aggregating \$160 million over a five-year period. The related amount due within one year is included in accrued liabilities and other current liabilities, and the long-term portion is reflected as other non-current liabilities (see note 25). As a result of this agreement and other antitrust related investigations and customer settlements (see note 35), the Company recorded other operating (expenses) income with an aggregate of €(20) million, €(23) million and €9 million during the years ended September 30, 2005, 2006 and 2007, respectively (see note 8).

A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2007 is as follows (€ in millions):

	2007
Balance as of September 30, 2006	51
Accrued during the year, net	29
Settled during the year	(36)
Balance as of September 30, 2007	44



22. OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Deferred income	62	124
VAT and other taxes payable	212	109
Liabilities related to asset held for sale (note 5)	—	117
Payroll obligations to employees	128	88
Deferred government grants (note 7)	95	69
Restructuring (note 9)	63	44
Financial instruments (note 33)	11	38
Interest	37	20
Settlement for anti-trust related matters (note 35)	24	20
Associated and Related Companies – financial and other payables (note 31)	9	12
Other	71	39
Total	712	680

Other deferred income includes amounts relating to license income (see note 6) and deferred revenue. The non-current portion is included in other liabilities (see note 25).

23. DEBT

Debt at September 30, 2006 and 2007 consists of the following (€ in millions):

	2006	2007
Short-term debt:		
Loans payable to banks, weighted average rate 4.55%	51	155
Convertible subordinated notes, 4.25%, due 2007	638	—
Current portion of long-term debt	108	153
Capital lease obligation	—	28
Total short-term debt and current maturities	797	336
Long-term debt:		
Exchangeable subordinated notes, 1.375%, due 2010	—	215
Convertible subordinated notes, 5.0%, due 2010	692	695
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.82%, due 2009–2013	458	318
Secured term loans, weighted average rate 1.99%, due 2013	7	4
Other loans payable, weighted average rate 4.35%, due 2011	3	—
Notes payable to governmental entity, rate 2.02%, due 2010–2027	48	44
Capital lease obligation	—	100
Total long-term debt	1,208	1,376

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

On September 26, 2007, the Company (as guarantor), through its subsidiary Infineon Technologies Investment B.V. (as issuer), issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes accrue interest at 1.375 percent per year. The notes are exchangeable into a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS any time during the exchange period, as defined, through maturity, corresponding to an exchange premium of 35 percent. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined, and an early redemption option in the event of a change of control, as defined. The Company may, at its option, redeem the outstanding notes in whole, but not in part, at the principal amount thereof together with accrued interest to the date of redemption, if the issuer has determined that, as a result of a publicly announced transaction, there is a substantial likelihood that the aggregate ownership of the share capital of Qimonda AG by the issuer, the guarantor and any of their respective subsidiaries will be less than 50 percent plus one share. In addition, the Company may, at its option, redeem the outstanding notes in whole, but not in part, at their principal amount together with interest accrued to the date of redemption, if the share price of the ADSs on each of 15 trading days during a period of 30 consecutive trading days commencing on or after August 31, 2009, exceeds 130 percent of the exchange price. The exchangeable notes are listed on the Frankfurt Stock Exchange. At September 30, 2007, unamortized debt issuance costs amount to €6 million. Concurrently with this transaction, the Company loaned an affiliate of J.P. Morgan Securities Inc. 3.6 million Qimonda ADSs ancillary to the placement of the exchangeable subordinated notes. The affiliate of J.P. Morgan Securities Inc. sold these ADSs as part of the Qimonda ADSs sale on September 25, 2007 (see note 3).

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company,

at a conversion price of €10.23 per share through maturity. The notes accrue interest at 5.0 percent per year. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125 percent of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. On September 29, 2006 the Company (through the issuer) irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon conversion. At September 30, 2007, unamortized debt issuance costs amount to €5 million.

On February 6, 2007, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), fully redeemed its convertible subordinated notes due 2007 at the principal outstanding amount of €640 million.

In September 2004, the Company executed a \$400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to \$345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, the Company drew \$345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2007, \$235 million was outstanding under Tranche A. Tranche B, which is a €300 million multicurrency revolving facility to be used for general corporate purposes, remained available and undrawn at September 30, 2007. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility have been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances. In September 2007, the Company extended its credit lines by €300 million in additional short-term bilateral commitments from lenders of the facility described above under the same terms and conditions applicable to Tranche B.



In September 2007, Qimonda entered into a sale and leaseback transaction of 200-millimeter equipment. The four-year lease is accounted for as a capital lease, whereby the present value of the lease payments is reflected as a capital lease obligation.

The Company has established independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities, which are available for anticipated funding purposes (€ in millions).

As of September 30, 2007					
Term	Nature of financial Institution Commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	Firm commitment	Working capital, guarantees	164	127	37
Short-term	No firm commitment	Working capital, cash management	336	28	308
Long-term ¹	Firm commitment	General corporate purposes	766	165	601
Long-term ¹	Firm commitment	Project finance	354	354	—
Total			1,620	674	946

¹ Including current maturities.

At September 30, 2007, the Company was in compliance with its debt covenants under the relevant facilities.

Interest expense for the years ended September 30, 2005, 2006 and 2007 was €83 million, €109 million and €89 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2007 are as follows (€ in millions):

Fiscal year ending September 30	Amount
2008	336
2009	207
2010	1,002
2011	95
2012	26
Thereafter	46
Total	1,712

24. LONG-TERM ACCRUED LIABILITIES

Long-term accrued liabilities at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Asset retirement obligations	33	24
Post-retirement benefits	4	3
Personnel costs	6	6
Other	3	3
Total	46	36

25. OTHER LIABILITIES

Other non-current liabilities at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Deferred income	40	114
Deferred government grants (note 7)	117	113
Settlement for antitrust related matters (note 35)	62	37
License fees payable	41	27
Deferred Compensation	—	13
Other	17	12
Total	277	316

26. MINORITY INTEREST

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture Company ("CSVC") for the construction of a back-end manufacturing facility in the People's Republic of China. Pursuant the joint venture agreement, the capital invested by CSVC earns an annual return and has a liquidation preference, while all accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company has fully consolidated the joint venture from inception, and the capital invested and annual return of the minority investor is reflected as minority interest.

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. In December 2005, the Company further amended its agreements with IBM in respect of the ALTIS joint venture and began to fully consolidate ALTIS, whereby IBM's 50 percent ownership interest is reflected as minority interest (see note 5 and 17).

Effective May 1, 2006, the Company contributed substantially all of the operations of its memory products segment, including the assets and liabilities that were used exclusively for these operations, to Qimonda, a stand-alone legal company. On August 9, 2006, Qimonda completed an initial public offering on the New York Stock Exchange through the issuance of 42 million ADSs which are traded under the symbol "QI", for an offering price of \$13 per ADS. In addition, the Company sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result of these transactions, the Company reduced its shareholding in Qimonda to 85.9 percent. During the fourth quarter of the 2007 fiscal year, Infineon sold an additional 28.75 million Qimonda ADSs (including underwriters' over-allotment option), further reducing its ownership interest in Qimonda to 77.5 percent. The minority investors' ownership interest in Qimonda of 14.1 percent and 22.5 percent as of September 30, 2006 and 2007, respectively, is reflected as minority interest (see note 3).

27. ORDINARY SHARE CAPITAL

As of September 30, 2007 the Company had 749,728,635 registered ordinary shares, notional value of €2.00 per share, outstanding. During the years ended September 30, 2006 and 2007 the Company increased its share capital by €0.08 million and €4 million, respectively, by issuing 39,935 and 2,119,341 ordinary shares, respectively, in connection with the Company's Long-Term Incentive Plans.

AUTHORIZED AND CONDITIONAL SHARE CAPITAL

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. As of September 30, 2007, the Management Board may use these authorizations to issue new shares as follows:

- Through January 19, 2009, Authorized Share Capital II/2004 – in an aggregate nominal amount of up to

€30 million to issue shares to employees (in which case the pre-emptive rights of existing shareholders are excluded).

- Through February 14, 2012, Authorized Share Capital 2007 – in an aggregate nominal amount of up to €224 million to issue shares for cash, where the pre-emptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the pre-emptive rights of shareholders may be excluded for all shares.

The Company has conditional capital of up to an aggregate nominal amount of €92 million (Conditional Share Capital I), of up to an aggregate nominal amount of €29 million (Conditional Share Capital III) and up to an aggregate nominal amount of €24.5 million (Conditional Share Capital IV/2006) that may be used to issue up to 72.6 million new registered shares in connection with the Company's long-term incentive plans (see note 28). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €152 million (Conditional Share Capital 2002) that may be used to issue up to 76 million new registered shares upon conversion of debt securities, issued in June 2003 and which may be converted at any time until May 22, 2010 (see note 23). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €248 million (Conditional Share Capital 2007) that may be used to issue up to 124 million new registered shares upon conversion of debt securities which may be issued before February 14, 2012. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

DIVIDENDS

Under the German Stock Corporation Act (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of earnings (Bilanzgewinn) of the ultimate parent, as determined in accordance with the HGB. All dividends must be approved by shareholders.

The ordinary shareholders meeting held in February 2007 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2007 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2007.



28. STOCK-BASED COMPENSATION

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. Amounts in periods prior to the adoption of SFAS No. 123 (revised 2004) have not been restated and do not reflect the recognition of stock-based compensation.

INFINEON STOCK OPTION PLAN

In 1999, the shareholders approved a long-term incentive plan ("LTI 1999 Plan"), which provided for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI 1999 Plan, the Company could grant up to 48 million options over a five-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire seven years from the grant date.

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions; however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105 percent of the average closing price of

the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board decided annually within 45 days after publication of the financial results how many options to grant to the Management Board. The Management Board, within the same period, decided how many options to grant to eligible employees.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the LTI 2001 Plan. Under the terms of SOP 2006, the Company can grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of a share exceeds the trend of the comparative index Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date.

Under the SOP 2006, the Supervisory Board will decide annually within a period of 45 days after publication of the annual results or the results of the first or second quarters of a fiscal year, but not later than two weeks before the end of the quarter, how many options to grant to the Management Board. During the same period the Management Board may grant options to other eligible employees.

A summary of the status of the LTI 1999 Plan, the LTI 2001 Plan, and the SOP 2006 as of September 30, 2007, and changes during the fiscal year then ended is presented below (options in millions, exercise price in euro, intrinsic value in millions of euro):

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2006	44.8	18.12	3.54	14
Granted	2.3	13.30		
Exercised	(2.1)	8.91		
Forfeited and expired	(5.6)	33.58		
Outstanding at September 30, 2007	39.4	16.17	2.99	66
Vested and expected to vest, net of estimated forfeitures at September 30, 2007	39.1	16.20	2.97	66
Exercisable at September 30, 2007	25.8	19.52	2.06	31

Options with an aggregate fair value of €42 million, €51 million and €32 million vested during the fiscal years ended September 30, 2005, 2006 and 2007, respectively. Options with a total intrinsic value of €0, €0 and €6 million were exercised during the fiscal years ended September 30, 2005, 2006 and 2007, respectively.

Changes in the Company's unvested options for the fiscal year ended September 30, 2007 are summarized as follows (options in million, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted average grant date fair value	Weighted average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2006	19.2	4.11	5.11	11
Granted	2.3	2.03		
Vested	(7.0)	4.63		
Forfeited	(0.9)	3.91		
Unvested at September 30, 2007	13.6	3.50	4.77	35
Unvested options expected to vest	13.2	3.53	4.81	34

The fair value of each option grant issued pursuant to the 1999 and 2001 Long-Term Incentive Plans was estimated on the grant date using the Black-Scholes option-pricing model. Prior to the adoption of SFAS No. 123 (revised 2004), Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. Following the implementation of SFAS No. 123 (revised 2004), Infineon uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plan 2006 was estimated on the grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. The Company uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

Beginning on the date of adoption of SFAS No. 123 (revised 2004), forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Infineon has not made any dividend payments during the fiscal year ended September 30, 2007.



The following weighted-average assumptions were used in the fair value calculation:

	2005	2006	2007
Weighted-average assumptions:			
Risk-free interest rate in %	3.02	3.08	3.91
Expected volatility, underlying shares in %	58	43	40
Expected volatility, SOX index in %	—	—	36
Forfeiture rate, per year in %	—	—	3.40
Dividend yield in %	0	0	0
Expected life in years in %	4.50	5.07	3.09
Weighted-average fair value per option at grant date in €	4.03	3.19	2.03

As of September 30, 2007, there was a total of €12 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of 1 year.

QIMONDA'S STOCK OPTION PLAN

Qimonda shareholders approved a stock option plan ("Qimonda 2006 SOP") during the 2006 fiscal year. Under the terms of the Qimonda 2006 SOP, Qimonda can grant up to 6 million non-transferable option rights over a three-year period which grant the holder the right to receive ordinary shares issued by Qimonda. The exercise price of each option equals 100 percent of the average closing price of Qimonda's ADSs on the New York Stock Exchange during the five trading days prior to the grant date. Granted options are only exercisable if the price of Qimonda ADSs as quoted on the New York Stock Exchange exceeds the trend of the comparative index SOX for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to Qimonda's ADSs reaching the exercise price on at least one trading day, and expire six years from the grant date. On November 24, 2006, Qimonda granted 1.9 million stock options to its employees under the Qimonda 2006 SOP.

A summary of the status of the Qimonda 2006 SOP as of September 30, 2007, and changes during the fiscal year then ended, is presented below (options in millions, exercise prices in U.S. dollar, fair value in euro):

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2006	—	—	—	—
Granted	1.9	15.97	6.00	—
Exercised	—	—	—	—
Forfeited and expired	—	—	—	—
Outstanding at September 30, 2007	1.9	15.97	5.16	—
Expected to vest, net of estimated forfeitures, at September 30, 2007	1.7	15.97	5.16	—
Exercisable at September 30, 2007	—	—	—	—

Changes of the Qimonda 2006 SOP unvested options for the fiscal year ended September 30, 2007 are summarized

as follows (options in million, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted average grant date fair value	Weighted average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2006	—	—	—	—
Granted	1.9	3.23	6.00	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Unvested at September 30, 2007	1.9	3.23	5.16	—
Unvested options expected to vest	1.7	3.23	5.16	—

The fair value of each option grant issued pursuant to the Qimonda 2006 SOP was estimated on the grant date using

a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of

the SOX and its impact on stock option fair value. Following the implementation of SFAS No. 123 (revised 2004), Qimonda uses a combination of implied and historical volatilities from traded options on Qimonda's peer group when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The peer group is a group of publicly listed companies deemed to reflect the fundamentals of Qimonda's stock. Forfeitures are estimated based on historical experience. The expected life of options granted was estimated using the Monte Carlo simulation model. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Qimonda has not made any dividend payments during the fiscal year ended September 30, 2007.

The following weighted average assumptions were used in the fair value calculation:

	2007
Weighted-average assumptions:	
Risk-free interest rate in %	4.62
Expected volatility, underlying ADS in %	45
Expected volatility, SOX in %	29
Forfeiture rate, per year in %	3.40
Dividend yield in %	0
Expected life in years	4.62
Weighted-average fair value per option at grant date in €	3.23

As of September 30, 2007, there was a total of €4 million in unrecognized compensation expense related to unvested stock options of Qimonda 2006 SOP, which is expected to be recognized over a weighted average period of 2.27 years.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense was allocated as follows for the fiscal years ended September 30, 2006 and 2007 (€ in millions, except for share data):

	2006	2007
Compensation expense recognized:		
Cost of goods sold	7	4
Selling, general and administrative expenses	12	7
Research and development expenses	9	6
Total stock-based compensation expense	28	17
Stock-based compensation effect on basic and diluted loss per share in €	(0.04)	(0.02)

Cash received from stock option exercises was €0 and €19 million during the fiscal years ended September 30, 2006 and 2007, respectively. The amount of stock-based compensation expense which was capitalized and remained in inventories for the fiscal years ended September 30, 2005, 2006 and 2007 was immaterial. Stock-based compensation expense does not reflect any income tax benefits, since stock options are granted in tax jurisdictions where the expense is not deductible for tax purposes.

Prior to the 2006 fiscal year, the Company applied the provisions of APB No. 25, as permitted under SFAS No. 148.

If the Company had accounted for stock option grants and employee stock purchases under its plans according to the fair value method of SFAS No. 123, and thereby recognized compensation expense based on the above fair values over the respective option vesting periods, net loss and loss per share would have been increased to the pro forma amounts indicated below, pursuant to the provisions of SFAS No. 148 (€ in millions, except for share data):

	2005
Net loss:	
As reported	(312)
Deduct: Stock-based employee compensation expense included in reported net loss, net of related tax effects	—
Add: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)
Pro forma	(351)
Basic and diluted loss per share in €:	
As reported	(0,42)
Pro forma	(0,47)



29. OTHER COMPREHENSIVE LOSS

The changes in the components of other comprehensive loss for the years ended September 30, 2005, 2006 and 2007 are as follows (€ in millions):

	2005			2006			2007		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	13	(1)	12	6	(1)	5	(7)	—	(7)
Reclassification adjustment for losses (gains) included in net income or loss	(4)	—	(4)	(13)	1	(12)	(6)	1	(5)
Net unrealized (losses) gains, net	9	(1)	8	(7)	—	(7)	(13)	1	(12)
Unrealized gains (losses) on cash flow hedges	(25)	—	(25)	5	—	5	2	—	2
Additional minimum pension liability/Defined benefit plans	(85)	1	(84)	(3)	—	(3)	95	(5)	90
Foreign currency translation adjustment	64	—	64	(69)	—	(69)	(105)	—	(105)
Other comprehensive loss	(37)	—	(37)	(74)	—	(74)	(21)	(4)	(25)

30. SUPPLEMENTAL CASH FLOW INFORMATION

(€ in millions)	2005	2006	2007
Cash paid for:			
Interest	91	116	100
Income taxes	79	117	134
Non-cash investing activities:			
Construction grants deducted from cost of fixed assets (note 7)	—	49	1
Molstanda (note 4)	—	—	(41)
Non-cash financing activities:			
Molstanda (note 4)	—	—	76

31. RELATED PARTIES

The Company has transactions in the normal course of business with Associated and Related Companies ("Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Transactions between the Company and ALTIS subsequent to the consolidation of ALTIS during the first quarter of the 2006 fiscal year are no longer reflected as Related Party transactions (see notes 5 and 17).

On April 3, 2006, Siemens disposed of its remaining shareholding in the Company. Transactions between the Company and Siemens subsequent to this date are no longer reflected as Related Party transactions.

Related Party receivables at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Current:		
Associated and Related Companies – trade (note 13)	8	16
Associated and Related Companies – financial and other receivables (note 15)	1	59
Employee receivables (note 15)	7	8
	16	83
Non-current:		
Employee receivables (note 18)	2	1
Total Related Party receivables	18	84

Related Party payables at September 30, 2006 and 2007 consist of the following (€ in millions):

	2006	2007
Associated and Related Companies – trade (note 20)	80	157
Associated and Related Companies – financial and other payables (note 22)	9	12
Total Related Party payables	89	169

Related Party receivables and payables as of September 30, 2007, have been segregated first between amounts owed by or to companies in which the Company has an ownership interest, and second based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of products and services. Financial and other receivables and payables represent amounts owed relating to loans and advances and accrue interest at interbank rates.

At September 30, 2007, current Associated and Related Companies – financial and other receivables included a revolving term loan of €52 million due from ALTIS.

Transactions with Related Parties during the years ended September 30, 2005, 2006 and 2007, include the following (€ in millions):

	2005	2006	2007
Sales to Related Parties:			
Siemens group companies	861	322	—
Associated and Related Companies	55	61	57
Total sales to Related Parties	916	383	57
Purchases from Related Parties:			
Siemens group companies	226	73	—
Associated and Related Companies ¹	615	575	593
Total purchases from Related Parties	841	648	593

¹ The decrease during the fiscal year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

Purchases from Associated and Related Companies during the years ended September 30, 2005, 2006 and 2007 are principally related to products purchased from Inotera.

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €38 million and €21 million for the years ended September 30, 2005 and 2006, respectively. Purchases from Siemens group companies primarily include purchases of fixed assets, inventory, IT services, and administrative services.

32. PENSION PLANS

Pension benefits provided by the Company are currently organized primarily through defined benefit pension plans which cover a significant portion of the Company's employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on ranking (both salary level and position). The measurement date for the Company's pension plans is June 30.

In February 2007, the Company transferred the majority of its existing domestic (German) pension plans into a new Infineon pension plan with effect from October 1, 2006. Under the new plan, employee benefits are predominantly based on contributions made by the Company, although defined benefit provisions are retained. The plan qualifies as a defined benefit plan and, accordingly, the change from the previous defined benefit plans is treated as a plan amendment pursuant to SFAS No. 87. In com-

parison to the existing domestic pension obligation, the additional impact on projected benefit obligation consists of unrecognized prior service cost about €4 million and is reflected as a separate component of accumulated other comprehensive income (see note 29), which will be amortized as part of net periodic pension cost over the expected years of future service.

As a result of the adoption of SFAS No. 158 as of the end of the fiscal year ending September 30, 2007, the Company must recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and recognize the change in that funded status in the year in which the changes occur through comprehensive income ("Recognition Provision"). Actuarial gains and losses and unrecognized prior service costs are to be recognized as a component of other comprehensive income, net of tax.

The following table summarizes the incremental effect as of September 30, 2007 resulting from the initial adoption of SFAS No. 158 (€ in millions):

	Before Adoption of SFAS No. 158	Adjustments to initially apply SFAS No. 158	After Adoption of SFAS No. 158
Prepaid pension costs	108	(108)	—
Current deferred income taxes	2	(5)	(3)
Intangible asset	4	(4)	—
Non-current pension asset	—	60	60
Short-term pension liability	—	(5)	(5)
Pension liabilities	(125)	14	(111)
Accumulated other comprehensive loss, net of tax	(3)	48	45

Information with respect to the Company's pension plans for the years ended September 30, 2005, 2006 and 2007

is presented for German ("Domestic") plans and non-German ("Foreign") plans (€ in millions):

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Accumulated benefit obligations end of year	(337)	(64)	(378)	(61)	(372)	(60)
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(271)	(78)	(392)	(85)	(443)	(75)
Service cost	(16)	(7)	(24)	(5)	(26)	(3)
Interest cost	(15)	(4)	(17)	(4)	(21)	(4)
Actuarial gains (losses)	(89)	(2)	(13)	8	94	(1)
Divestitures	1	4	—	—	2	—
Plan amendments	(8)	—	—	—	(4)	—
Benefits paid	2	2	3	2	5	3
Curtailement gain	4	1	—	7	—	1
Foreign currency effects	—	(1)	—	2	—	3
Projected benefit obligations end of year	(392)	(85)	(443)	(75)	(393)	(76)
Change in fair value of plan assets:						
Fair value at beginning of year	174	30	208	35	282	38
Contributions and transfers	17	4	63	4	65	5
Actual return on plan assets	19	2	14	2	27	4
Benefits paid	(2)	(2)	(3)	(2)	(5)	(3)
Foreign currency effects	—	1	—	(1)	—	(1)
Fair value at end of year	208	35	282	38	369	43
Funded status	(184)	(50)	(161)	(37)	(24)	(33)
Unrecognized actuarial (gains) losses	138	4	144	(8)	33	(7)
Unrecognized prior service cost (benefit)	14	(2)	13	—	16	—
Post measurement date contributions	16	1	16	1	1	—
Net asset (liability) recognized	(16)	(47)	12	(44)	26	(40)

The above amounts are recognized as follows in the accompanying consolidated balance sheets as of September 30 (€ in millions):

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Prepaid pension cost	—	—	—	1	—	—
Intangible asset (note 15)	14	—	13	—	—	—
Non-current pension asset	—	—	—	—	57	3
Current pension liability	—	—	—	—	(5)	—
Pension liabilities	(115)	(47)	(89)	(45)	(75)	(36)
Accumulated other comprehensive income	85	—	88	—	49	(7)
Net asset (liability) recognized	(16)	(47)	12	(44)	26	(40)

The amounts in accumulated other comprehensive income that are expected to be recognized as components of the net periodic benefit cost in the 2008 fiscal year are actuarial losses in an amount of less than €1 million and prior service cost in an amount of €1 million.

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets are as follows (€ in millions):

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Projected benefit obligation	392	85	443	64	108	63
Fair value of plan assets	208	35	282	26	27	26
Accumulated benefit obligations	337	57	378	54	99	47
Fair value of plan assets	208	26	282	26	27	19

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate in %	4.5	4.8	4.8	5.3	5.5	5.6
Rate of compensation increase in %	2.5	3.1	2.5	1.8	2.5	2.2
Projected future pension increases in %	1.3	2.2	1.8	2.2	1.8	2.7
Expected return on plan assets in %	7.3	6.9	6.5	6.9	6.1	6.9

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

INVESTMENT STRATEGIES

The investment approach of the Company's pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The Company's pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an on-

going basis through periodic portfolio reviews, meetings with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

PLAN ASSET ALLOCATION

As of September 30, 2006 and 2007 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2006		2007		Targeted Allocation	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities in %	33	59	38	58	52	57
Debt securities in %	33	26	35	24	21	22
Other in %	34	15	27	18	27	21
Total in %	100	100	100	100	100	100

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit

payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in shares of Infineon or Qimonda.

The components of net periodic pension cost for the years ended September 30, 2005, 2006 and 2007 are as follows (€ in millions):

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Service cost	(16)	(7)	(24)	(5)	(26)	(3)
Interest cost	(15)	(4)	(17)	(4)	(21)	(4)
Expected return on plan assets	13	2	13	3	17	3
Amortization of unrecognized prior service (cost) benefits	—	—	(1)	2	(1)	—
Amortization of unrecognized actuarial gains (losses)	(3)	—	(7)	—	(8)	1
Curtailed gain recognized ^z	1	1	—	3	—	1
Net periodic pension cost (note 8)	(20)	(8)	(36)	(1)	(39)	(2)

The prior service costs relating to the pension plans are amortized in equal amounts over the expected years of future service of each active employee who is expected to receive benefits from the pension plans.

Unrecognized gains or losses are included in the net pension cost for the year, if as of the beginning of the year, the unrecognized net gains or losses exceed 10 percent of the greater of the projected benefit obligation or the market value of the plan assets. The amortization is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Actuarial gains (losses) amounted to €(91) million, €(5) million and €93 million for the fiscal years ended September 30, 2005, 2006 and 2007, respectively. The decrease in actuarial losses in the 2006 fiscal year was primarily the result of the increase in the discount rate used to determine the benefit obligation. The increase in actuarial gains in the 2007 fiscal year was primarily the result of the increase in the discount rates used to determine the benefit obligation.

It is not planned nor anticipated that any plan assets will be returned to any business entity during the next fiscal year.

In September 2006, Qimonda established a separate pension trust for the purpose of funding future pension benefit payments for its employees in Germany. A portion of the Company's pension plan assets have been allocated to Qimonda for periods prior to its formation based on the proportion of Qimonda's projected benefit obligation to the total Company's projected benefit obligation. Accordingly, the Company transferred €26 million in cash from its Pension Trust into the Qimonda pension trust.

The effect of employee terminations, in connection with the Company's restructuring plans (see note 9), on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2005, 2006 and 2007 pursuant to the provisions of SFAS No. 88 "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The future benefit payments, which reflect future service, as appropriate, that are expected to be paid from the Company's pension plan for the next five fiscal years and thereafter are as follows (€ in millions):

Years ending September 30,	Domestic plans	Foreign plans
2008	19	1
2009	17	2
2010	23	2
2011	26	2
2012	20	2
2013–2017	135	18

During the year ended September 30, 2002, the Company established a deferred savings plan for its employees in Germany, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €17 million and €26 million as of September 30, 2006 and 2007, respectively, is actuarially determined and accounted for on the same basis as the Company's other pension plans.

33. FINANCIAL INSTRUMENTS

The Company periodically enters into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on the Company's foreign currency denominated net future cash flows. The Company does not enter into derivatives for trading or speculative purposes. Gains and losses on derivative financial instruments are included in determining net loss, with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other non-operating income (expense).

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2006 and 2007 are as follows (€ in millions):

	2006		2007	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold:				
U.S. dollar	682	1	735	25
Japanese yen	30	—	17	—
Great Britain pound	1	—	—	—
Malaysian ringgit	6	—	3	—
Norwegian krone	—	—	2	—
Forward contracts purchased:				
U.S. dollar	209	(1)	356	(20)
Japanese yen	24	—	73	(2)
Singapore dollar	27	—	24	—
Great Britain pound	7	—	6	—
Malaysian ringgit	35	—	83	(2)
Norwegian krone	—	—	7	—
Other currencies	—	—	1	—
Currency Options sold:				
U.S. dollar	259	(5)	—	—
Currency Options purchased:				
U.S. dollar	252	2	—	—
Interest rate swaps	1,200	5	700	(10)
Other	218	9	231	20
Fair value, net		11		11

The Company entered into interest rate swap agreements with independent financial institutions during the year ended September 30, 2004, which were designated as a cash flow hedge of interest rate fluctuations on forecasted future lease payments during the first 10 years of the Campeon lease agreement (see note 35). The ineffective portion of the cash flow hedge was €0 for the years ended September 30, 2005, 2006, and 2007. The effective portion of €(22) million was deferred in other comprehensive income until the commencement of the lease in the first quarter of the 2006 fiscal year, and is being amortized ratably into lease expense over the lease term of 15 years.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. At September 30, 2007, the subordinated convertible and exchangeable notes, both due 2010, were trading at a 22.1 percent and a 2.5 percent premium to par, respectively, based on quoted market values. The fair values of the Company's cash and cash equivalents, receivables and payables, as well as related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 12).

34. RISKS

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and financial derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers. Related Parties account for a considerable portion of sales and trade receivables. The credit risk with respect to cash equivalents, marketable securities and financial derivatives is limited by transactions with a number of large international financial institutions, with pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others of such intellectual property rights. Conversely, the Company is exposed to assertions by others of infringement by the Company of their intellectual property rights.

The Company, through its use of third-party foundry and joint venture arrangements, uses a significant portion of manufacturing capacity that is outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is exposed, to a certain extent, to fluctuations in product procurement cost.

The Company has established policies and procedures which serve as business conduct guidelines for its employees. Should these guidelines not be adhered to, the Company could be exposed to risks relating to wrongful actions by its employees.

Approximately 8,600 of the Company's employees are covered by collective bargaining agreements. The collective bargaining agreements pertain primarily to certain of the Company's non-management employees in Germany (affecting approximately 4,900 employees), Austria (affecting approximately 2,500 employees) and France (affecting approximately 1,200 employees, including ALTIS). The agreement in Germany is perpetual, but can be terminated by the trade union with a notice of two months prior to October 31, 2008. The agreement in Austria expires on May 1, 2008. The minimum salaries stipulated in the agreement in France are subject to yearly revision coming into effect on January 1 each year. The provisions of these agreements generally remain in effect until replaced by a subsequent agreement. Agreements for periods after expiration are to be negotiated with the respective trade unions through a process of collective negotiations.



35. COMMITMENTS AND CONTINGENCIES

LITIGATION AND INVESTIGATIONS

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice (“DOJ”) in connection with its investigation into alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of \$160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. The Company has a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price fixing charges related to DRAM sales to six Original Equipment Manufacturer (“OEM”) customers that manufacture computers and servers. The Company has entered into settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from the Company. The Company has secured individual settlements with eight direct customers in addition to those OEM customers.

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against the Company, its U.S. subsidiary Infineon Technologies North America Corporation (“IF North America”) and other DRAM suppliers.

Sixteen cases were filed between June and September 2002 in several U.S. federal district courts, purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period (the Direct U.S. Purchaser Class), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys’ fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation ordered that these federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation (“MDL”).

In September 2005, the Company and IF North America entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (subject to

approval by the U.S. District Court and to an opportunity for individual class members to opt out of the settlement). The settlement was approved on November 1, 2006. The court entered final judgment and dismissed the class action claims with prejudice in November 2006. Under the terms of the settlement agreement the Company agreed to pay approximately \$21 million. In addition to this settlement payment, the Company agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class (after opt-outs) during the settlement period exceeded \$208.1 million. The additional amount payable would be calculated by multiplying by 10.53 percent the amount by which those sales exceed \$208.1 million. The Company does not currently expect to pay any additional amount to the class.

In April 2006, Unisys Corporation (“Unisys”) filed a complaint against the Company and IF North America, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International, Inc. (“Honeywell”) filed a complaint against the Company and IF North America, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both Unisys and Honeywell opted out of the Direct U.S. Purchaser Class and settlement, so their claims are not barred by the settlement with the Direct U.S. Purchaser Class. Both of these complaints were filed in the Northern District of California and have been related to the MDL described above. In April 2007 the court dismissed the initial complaint with leave to amend. Unisys filed a First Amended Complaint in May 2007. The Company, IF North America, and the other defendants again filed a motion to dismiss certain portions of the Unisys First Amended Complaint in June 2007. After Honeywell had filed a stipulation of dismissal without prejudice of its lawsuit against Infineon, the court entered the dismissal order in April 2007.

In February and March 2007 four more opt-out cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc., and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. All four cases were filed in the Northern District

of California and have been related to the MDL described above. As with Unisys, the claims of these plaintiffs are not barred by the settlement with the Direct U.S. Purchaser Class, since they opted out of the Direct U.S. Purchaser Class and settlement.

Based upon the court's order dismissing portions of the initial Unisys complaint described above, the plaintiffs in all four of these opt-out cases filed amended complaints in May 2007. In June 2007, Infineon and IF North America answered the amended complaints filed by All American Semiconductor, Inc., Edge Electronics, Inc., and Jaco Electronics, Inc. and along with its co-defendants filed a joint motion to dismiss certain portions of the DRAM Claims Liquidation Trust amended complaint (see note 37).

Sixty-four additional cases were filed between August and October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except for one relating to foreign purchasers, which was subsequently dismissed with prejudice and as to which the plaintiffs have filed notice of appeal) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999 (the Indirect U.S. Purchaser Class). The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Twenty-three of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pretrial proceedings as part of the multi-district litigation described above. Nineteen of the twenty-three transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for pre-trial proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pre-trial proceedings. The defendants have filed two motions for judgment on the pleadings directed at several of the claims. Hearing on those motions took place in December 2006.

The court entered an order in June 2007 granting in part and denying in part the defendants' motions for judgment on the pleadings. The order dismissed a large percentage of the indirect purchaser plaintiffs' claims, and granted leave to amend with regard to claims under three specific state statutes. The court ruled that the indirect purchaser plaintiffs must file a motion for leave to amend the complaint with regard to any of the other dismissed claims. In June 2007, the indirect purchaser plaintiffs filed both a First Amended Complaint and a motion for leave to file a Second Amended Complaint that attempts to resurrect some of the claims that were dismissed. On August 17, 2007, the court entered an order granting the motion to file the Second Amended Complaint, which re-pleaded part of the previously dismissed claims.

In July 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against the Company, IF North America and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. In October 2006, this action was made part of the MDL proceeding described above. In July 2006, the attorneys general of Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, IF North America and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. In September 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery



of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. In October 2006 Infineon joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. On August 31, 2007, the court entered orders granting the motions in part and denying the motions in part. The court's order dismissed the claims on behalf of consumers, businesses and governmental entities in a number of states, and dismissed certain other claims with leave to amend, with any amended complaints to be filed by October 1, 2007. Between June 25 and August 15, 2007, the state attorneys general of four states, Alaska, Ohio, New Hampshire and Texas, filed requests for dismissal of their claims without prejudice.

In April 2003, the Company received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. In light of its plea agreement with the DOJ, the Company made an accrual during the 2004 fiscal year for an amount representing the probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although the Company cannot more accurately estimate the amount of the actual fine. The Company is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised IF North America that it, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. No formal steps (such as subpoenas) have been taken by the Competition Bureau to date. The Company is fully cooperating with the Competition Bureau in its inquiry.

Between December 2004 and February 2005 two putative class proceedings were filed in the Canadian province of Québec, and one was filed in each of Ontario and British Columbia against the Company, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased

DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM.

Between September and November 2004 seven securities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of purchasers of the Company's publicly-traded securities who purchased them during the period from March 2000 to July 2004 (the "Securities Class Actions"). The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend. In October 2006 the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. Plaintiffs filed a third amended complaint in July 2007. A hearing is scheduled for November 19, 2007.

The Company's directors' and officers' insurance carriers have denied coverage in the Securities Class Actions and the Company filed suit against the carriers in December 2005 and August 2006. The Company's claims against one D&O insurance carrier were finally dismissed in May 2007. The claim against the other insurance carrier is still pending.

In April 2007, Lin Packaging Technologies, Ltd. ("Lin") filed a lawsuit against the Company, IF North America and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products infringe two Lin patents.

ACCRUALS AND THE POTENTIAL EFFECT OF THESE LAWSUITS

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued. As of September 30, 2007, the Company had accrued liabilities in the amount of €95 million related to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses for the DOJ related and securities class action complaints.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on the Company's financial condition and results of operations.

An adverse final resolution of the investigations or lawsuits described above could result in significant financial liability to, and other adverse effects on, the Company, which would have a material adverse effect on its results of operations, financial condition and cash flows. In each of these matters, the Company is continu-

ously evaluating the merits of its respective claims and defending itself vigorously or seeking to arrive at alternative resolutions in the best interest of the Company, as it deems appropriate. Irrespective of the validity or the successful assertion of the claims described above, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations, financial condition and cash flows.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents, environmental matters, and other matters incidental to its businesses. The Company has accrued a liability for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material adverse effect on the Company's results of operations or cash flows in the period of settlement.

CONTRACTUAL COMMITMENTS

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2007 (€ in millions)^{1,2}:

Payments Due by Period	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	870	90	78	65	62	57	518
Unconditional purchase commitments	1,212	1,161	29	11	6	1	4
Other long-term commitments	77	71	2	2	1	1	—
Total Commitments	2,159	1,322	109	78	69	59	522

¹ Certain payments of obligations or expirations of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of payments or expirations in the particular case. Actual outcomes could differ from those estimates.

² Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not accurately quantifiable at September 30, 2007. Purchases under such arrangements aggregated €1,165 million for the year ended September 30, 2007.

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regu-

lar basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

OTHER CONTINGENCIES

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2007 (€ in millions)¹:

Expirations by Period	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Maximum potential future payments:							
Guarantees ²	209	25	22	1	14	30	117
Contingent government grants ³	462	125	40	56	171	30	40
Total contingencies	671	150	62	57	185	60	157

¹ Certain expirations of contingencies that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of expirations in the particular case. Actual outcomes could differ from those estimates.

² Guarantees are mainly issued for the payment of import duties, rentals of buildings, and contingent obligations related to government grants received.

³ Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not otherwise guaranteed and could be refundable if the total project requirements are not met.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2007, a maximum of €462 million of these subsidies could be refundable.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, enables the Company to centralize the majority of its Munich-area employees in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the gradual move of its employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for

the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in restricted cash as of September 30, 2007. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with SFAS No. 13, with monthly lease payments expensed on a straight-line basis over the lease term.

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition. A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2007 is presented in note 21.

36. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information".

The Company's current organizational structure became effective on May 1, 2006, following the legal separation of its memory products business into the stand-alone legal entity, Qimonda AG. The results of prior periods have been reclassified to conform to the current period presentation, as well as to facilitate analysis of current and future operating segment information. As a result of the reorganization, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to Infineon's logic segments.

The Company operates primarily in three major operating segments, two of which are application focused: Automotive, Industrial & Multimarket, and Communication Solutions; and one of which is product focused: Qimonda. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

Following the completion of the Qimonda carve-out the Other Operating Segments for the 2005, 2006 and 2007 fiscal years include net sales and earnings that Infineon's 200-millimeter production facility in Dresden records from the sale of wafers to Qimonda under foundry agreements. The Corporate and Eliminations segment reflects the elimination of these intra-group net sales and earnings.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). Each of the segments has a segment manager reporting directly to the Chief Executive Officer and Chief Financial Officer, who have been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and EBIT. The CODM does not review asset information by segment nor does he evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs. Information with respect to the Company's operating segments follows:

AUTOMOTIVE, INDUSTRIAL & MULTIMARKET

The Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.

COMMUNICATION SOLUTIONS

The Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.

QIMONDA

Qimonda designs memory technologies and develops, manufactures, and markets a large variety of memory products on a module, component and chip level.

OTHER OPERATING SEGMENTS

Remaining activities for certain product lines that have been disposed of, as well as other business activities, are included in the Other Operating Segments.



Selected segment data for the years ended September 30, 2005, 2006 and 2007 is as follows (€ in millions):

	2005	2006	2007
Net sales:			
Automotive, Industrial & Multimarket	2,516	2,839	3,017
Communication Solutions ¹	1,391	1,205	1,051
Other Operating Segments ²	285	310	219
Corporate and Eliminations ³	(258)	(240)	(213)
Subtotal	3,934	4,114	4,074
Qimonda	2,825	3,815	3,608
Infineon Group	6,759	7,929	7,682

1 Includes inter-segment sales of €30 million for fiscal year ended September 30, 2007, none in fiscal years 2005 and 2006, respectively, from sales of wireless communication applications to Qimonda.

2 Includes inter-segment sales of €273 million, €256 million and €189 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements.

3 Includes the elimination of inter-segment sales of €273 million, €256 million and €219 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

	2005	2006	2007
EBIT:			
Automotive, Industrial & Multimarket	134	246	300
Communication Solutions	(295)	(231)	(160)
Other Operating Segments	4	4	(12)
Corporate and Eliminations	(137)	(236)	(177)
Subtotal	(294)	(217)	(49)
Qimonda ¹	111	202	(207)
Infineon Group	(183)	(15)	(256)

1 EBIT results of Qimonda for the period following its IPO are reported net of minority interest results.

	2005	2006	2007
Depreciation and Amortization:			
Automotive, Industrial & Multimarket	431	411	401
Communication Solutions	309	246	186
Other Operating Segments	48	45	22
Corporate and Eliminations	—	—	—
Subtotal	788	702	609
Qimonda	528	703	667
Infineon Group	1,316	1,405	1,276

	2005	2006	2007
Equity in earnings (losses) of Associated Companies:			
Automotive, Industrial & Multimarket	—	—	—
Communication Solutions	4	(2)	—
Other Operating Segments	(2)	—	—
Corporate and Eliminations	10	—	—
Subtotal	12	(2)	—
Qimonda	45	80	117
Infineon Group	57	78	117

	2005	2006	2007
Inventories:			
Automotive, Industrial & Multimarket	336	365	402
Communication Solutions	201	214	243
Other Operating Segments	1	1	(47)
Corporate and Eliminations	—	—	—
Subtotal	538	580	598
Qimonda	484	622	619
Infineon Group	1,022	1,202	1,217

As of September 30, 2005, 2006 and 2007, all inventories were attributed to the respective operating segment, since they were under the direct control and responsibility of the respective operating segment managers.

	2006	2007
Goodwill:		
Automotive, Industrial & Multimarket	—	—
Communication Solutions	22	52
Other Operating Segments	6	—
Corporate and Eliminations	1	1
Subtotal	29	53
Qimonda	72	64
Infineon Group	101	117

Certain items are included in Corporate and Eliminations and are not allocated to the logic segments, consistent with the Company's internal management reporting. These include certain corporate headquarters costs, certain incubator and early stage technology investment

costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges and employee stock-based compensation expense are included in Corporate and Eliminations and not allocated to the logic segments for internal or external reporting purposes, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Eliminations. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in Corporate and Eliminations. Significant components of Corporate and Eliminations' EBIT for the years ended September 30, 2005, 2006 and 2007 are as follows (€ in millions):

	2005	2006	2007
Corporate and Eliminations:			
Unabsorbed excess capacity costs	(12)	(33)	(7)
Restructuring charges (note 9)	(78)	(23)	(45)
Stock-based compensation expense	—	(25)	(12)
Other, net ¹	(47)	(155)	(113)
Total	(137)	(236)	(177)

¹ Includes aggregate charges of approximately €80 million and €84 million in the 2006 and 2007 fiscal years, respectively, incurred primarily in connection with the issuance and/or sale of Qimonda ADSs.

The following is a summary of net sales and of property, plant and equipment by geographic area for the years ended September 30 (€ in millions):

	2005	2006	2007
Net sales:			
Germany	1,354	1,327	1,164
Other Europe	1,210	1,360	1,218
North America	1,504	2,126	1,887
Asia/Pacific	2,223	2,498	2,632
Japan	332	461	661
Other	136	157	120
Total	6,759	7,929	7,682

	2005	2006	2007
Property, plant and equipment:			
Germany	1,625	1,279	1,067
Other Europe	516	638	639
North America	1,093	1,105	1,100
Asia/Pacific	515	737	838
Japan	2	4	3
Other	—	1	—
Total	3,751	3,764	3,647

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 8.

Except for sales to Siemens, which are discussed in note 31, no single customer accounted for more than 10 percent of the Company's sales during the fiscal year ended September 30, 2005. Sales to Siemens were made primarily by the logic segments. No single customer accounted for more than 10 percent of the Company's sales during the fiscal years ended September 30, 2006 and 2007.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the Company's business and to evaluate its performance. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate operating segments. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, management finds a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for management to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing.



For the fiscal years ended September 30, 2005, 2006 and 2007, EBIT is determined as follows from the consolidated statements of operations (€ in millions):

	2005	2006	2007
Net loss	(312)	(268)	(368)
Adjust:			
Income tax expense	120	161	79
Interest expense, net	9	92	33
EBIT	(183)	(15)	(256)

37. SUBSEQUENT EVENTS

On October 2, 2007, Sony Corporation and Qimonda announced that they had signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of calendar year 2007, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, Qimonda entered into a rental agreement for a new headquarters office south of Munich, Germany. The agreement provides for the construction of a building by a third-party developer-lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. Qimonda has an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 million over the initial lease term. The lease provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term (see note 4).

On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Claims Liquidation Trust cases with prejudice. On October 29, 2007, the Company answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, the Company answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses (see note 35).

On October 24, 2007, the Company completed its acquisition of the mobility products business of LSI (see note 4).

On October 25, 2007, 1.25 million Qimonda ADSs that had been borrowed by an affiliate of J.P. Morgan Securities Inc. in connection with the exchangeable subordinated notes due 2010 described in note 23 were returned to the Company.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. District Court for the Eastern District of Texas against Westell Technologies, Inc. and 16 other defendants, including Infineon Technologies AG and Infineon Technologies North America Corp. The complaint alleges infringement of 3 U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants.

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION TO THE U.S. GAAP CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO THE GERMAN COMMERCIAL CODE IMPLEMENTATION ACT ("EINFÜHRUNGSGESETZ ZUM HGB-EGHGB"), ARTICLE 58, PARAGRAPH 5

The Company has prepared consolidated financial statements and a group management report for the fiscal year ended September 30, 2007 in accordance with the German Commercial Code (the "Statutory Report"). The Company has elected to prepare its financial information on the basis of U.S. GAAP in compliance with the requirements of the German Commercial Code. The Statutory Report includes the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, Supplemental Disclosures, and Group Management Report.

SIGNIFICANT DIFFERENCES BETWEEN GERMAN GAAP AND U.S. GAAP

Introduction

Infineon Technologies AG, as a German parent company, is subject to the German Commercial Code (“Handelsgesetzbuch”, or “HGB”), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations (“German GAAP”). Pursuant to the German Commercial Code Implementation Act (“Einführungsgesetz zum HGB-EGHGB”), Article 58, paragraph 5, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein. The following is a description of the significant differences between German GAAP and U.S. GAAP. Additionally, as a U.S. listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the U.S. Securities and Exchange Commission (“SEC”).

Fundamental Differences

German GAAP and U.S. GAAP are based on different conceptual frameworks. The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. German GAAP is oriented towards the protection of creditors placing emphasis on the prudence concept.

Basis of Consolidation

Under German GAAP as well as under U.S. GAAP, investments in companies in which an ownership interest of 20 percent or more is held and that are not controlled are accounted for using the equity method of accounting. Other equity investments in which an ownership interest of less than 20 percent is held are recorded at cost. The effects of all significant intercompany transactions are eliminated. In addition, under U.S. GAAP, as opposed to German GAAP, companies are required to evaluate relationships with entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51”, and to assess whether they are the primary beneficiary of such entities. If the determination is made that a company is the primary beneficiary, then that entity is included in the consolidated financial statements of the company for U.S. GAAP purposes.

Financial Statement Presentation

The balance sheet presentation under U.S. GAAP is based on the planned realization of assets and the maturity of liabilities in the normal course of business. The balance sheet presentation under German GAAP is principally defined in HGB section 266, and is based on the enterprise’s planned holding time for the respective asset, liability or equity.

Revenue Recognition

Revenue recognition is generally the same under German GAAP and U.S. GAAP, whereby revenue is recognized when realized and earned. Differences in the timing of recognition can exist in transactions when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

Marketable Securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under U.S. GAAP, the Company’s marketable securities are classified as available for sale and valued at fair market value as of the balance sheet date. Unrealized gains and losses are reported in other comprehensive income net of deferred taxes.

Inventories

Inventory valuation is based on manufacturing costs under both German GAAP and U.S. GAAP. Manufacturing costs under U.S. GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs. Under German GAAP certain overhead costs can be excluded from the valuation of inventory.

Goodwill

Under U.S. GAAP, pursuant to SFAS No. 141, “Business Combinations”, in connection with SFAS No. 142, “Goodwill and other Intangible Assets”, goodwill arising from business combinations accounted for as a purchase after June 30, 2001 is no longer amortized, but rather tested for impairment at the reporting unit level at least annually. Under German GAAP, such goodwill is amortized over four years or its estimated useful life.



In-process Research and Development

Under German GAAP, in-process research and development projects acquired in a business combination are not specifically identified but rather included as part of goodwill. Under U.S. GAAP, acquired in-process research and development is specifically identified, valued and charged to expense at the date of acquisition.

Derivative Financial Instruments

Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealized gains are not recognized whereas unrealized losses are accrued for. Under U.S. GAAP derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in results of operations or other comprehensive income, depending on whether the derivative financial instrument is designated as part of a hedge transaction and on the type of hedge transaction.

Deferred Taxes

The main difference in accounting for deferred taxes relates to the fact that under German GAAP, deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed "more likely than not" that the deferred tax asset will not be realized.

Pension and other post-retirement Obligations

Under U.S. GAAP, pension obligations are recognized based on the projected benefit obligation using the projected unit credit method. This is also permitted under German GAAP.

Furthermore different interest rates are used for the evaluation of accrued liabilities.

Under U.S. GAAP, establishing and funding a trust, independent of the Company, results under certain conditions in a corresponding reduction in pension obligations from the balance sheet. Under German GAAP, pension assets and obligations are recorded gross on the balance sheet until such obligations are legally settled.

Stock-based Compensation

Through October 1, 2005, the Company recorded stock-based compensation expense under German GAAP for the excess of the trading price of the Company's stock and the exercise price of the stock-option instrument. Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) "Share-based Payment". Accordingly, for U.S. GAAP purposes stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. Under German GAAP, in accordance with section 272 paragraph 2 No. 2 HGB, the fair value of the awards as determined under SFAS No. 123 (revised 2004) is recorded at date of grant within additional paid-in capital, and compensation cost is recognized as expense over the period during which the employee is required to provide service in exchange for the award.

Equity Offering Costs

Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under U.S. GAAP such costs are recorded as a reduction of additional paid in capital.

Accrued Liabilities

Under German GAAP, certain costs can be accrued for anticipated future events under certain circumstances. Under U.S. GAAP, recognition of an accrued liability represents an existing obligation to third parties and must meet very specific recognition criteria.

Foreign Currency Translation

Under German GAAP, foreign currency denominated assets and liabilities are recorded at the spot rate on the transaction date, with only unrealized losses reflected in results of operations at the balance sheet date. Under U.S. GAAP foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealized gains and losses reflected in results of operations.

Grants Subsidies

Under German GAAP, non-taxable investment subsidies and interest subsidies can be recognized in results of operations when received. Under U.S. GAAP, these amounts are deferred and recognized in results of operations during the periods over which the related expense is incurred.

Depreciation on Property, Plant and Equipment

Under U.S. GAAP, depreciation on property, plant and equipment is based on the estimated economic useful life of the asset. Under German GAAP, depreciation on property, plant and equipment is predominantly based on the depreciation rate used for tax purposes.

Equity Method Accounting

Under German GAAP, consolidated financial statements could include the equity in earnings of associated companies accounted for pursuant to local accounting principles. Under U.S. GAAP, equity in earnings is determined pursuant to U.S. GAAP.

Gain on Associated Company Share Issuance

Under German GAAP, a capital increase of an associated company which increases the proportional valuation of the Company's investment is reflected in results of operations. Under U.S. GAAP and specific SEC regulations, statement of operations recognition is subject to additional criteria, which, if not met, requires recognition as an adjustment to shareholders' equity.

Minority Interest

Under German GAAP, the consideration of minority interest within the first consolidation and the allocation of the investor's share of the results of operations of the investee, is based on the legal ownership percentage. Under U.S. GAAP the consolidation of minority interest is based on economic interests in the investee and therefore the accounting for minority interest can differ under German GAAP from U.S. GAAP.

APPLICATION OF EXCEPTION REGULATIONS

Pursuant to HGB section 264a, partnerships, where unlimited liability is not held by a natural person, or another partnership with a natural person as the unlimited liability partner, are required to prepare financial statements similar to a limited liability corporation.

For the following companies

- Infineon Technologies Dresden GmbH & Co. OHG, Dresden,
 - Infineon Technologies Bipolar GmbH & Co. KG, Warstein, and
 - Qimonda Dresden GmbH & Co. OHG, Dresden,
- the Company utilizes the exception pursuant to HGB section 264b, exempting these partnerships from the requirement to prepare separate financial statements, because they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the respective partnership.

Pursuant to HGB section 264 paragraph 3, the Company also utilizes the exception from preparing separate financial statements due to a profit-transfer agreement of the following companies:

- COMNEON GmbH, Nuremberg,
- Infineon Technologies Finance GmbH, Munich,
- Qimonda Europe GmbH, Munich, and
- Qimonda Flash GmbH, Dresden.

Pursuant to HGB section 291 paragraph 1, the Company also utilizes the exception from preparing separate financial statements of Qimonda AG, Munich, due to the fact that it is a subsidiary of an entity which prepares separate financial statements.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 2 CORPORATE ACT (AKTG)

The Company did not make use of the authorization to acquire and to use own shares as granted by the general shareholders' meeting on February 15, 2007, and did not acquire any own shares in the 2007 fiscal year. As of September 30, 2007, the Company did not hold any own shares.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 8 CORPORATE ACT (AKTG)

On February 23, 2007, Franklin Resources, Inc., San Mateo, CA, USA, notified the Company on behalf of Templeton Global Advisors Limited, Templeton Building, Lyford Cay, P.O. Box N7759, Nassau, Bahamas, pursuant to section 21, paragraph 1, WpHG that the share of the total voting rights of Templeton Global Advisors Limited in Infineon exceeded the threshold of 5 percent on February 7, 2007, and amounted on that date to 5.17 percent (representing 38,674,360 voting rights). All of these voting rights were attributable to Templeton Global Advisors Limited pursuant to section 22, paragraph 1, sentence 1, No. 6 WpHG.

On August 21, 2007, Templeton Funds, Inc., 500 E. Broward Blvd., Suite 2100, Fort Lauderdale, Florida, FL 33394-3091, United States, notified the Company pursuant to Section 21, paragraph 1, WpHG that its share of the total voting rights in Infineon exceeded the threshold of 3 percent on May 18, 2007, and amounted to 3.003 percent (representing 22,503,490 voting rights).

On August 30, 2007, Fidelity notified the Company on behalf of, and as attorneys-in-fact for, Fidelity Management & Research Company, 82 Devonshire Street, Boston, Massachusetts 02109, USA, pursuant to section 21, paragraph 1, WpHG that the proportion of voting rights of Fidelity Management & Research Company in Infineon fell below the threshold of 3 percent on August 28, 2007, and amounted to 2.78 percent (representing 20,803,500 voting rights). The voting rights are attributed to Fidelity Management & Research Company according to section 22, paragraph 1, sentence 1, No. 6 WpHG.

On September 4, 2007, Fidelity notified the Company on behalf of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA pursuant to section 21, paragraph 1, WpHG that the proportion of voting rights of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA, in Infineon exceeded the threshold of 3 percent on August 31, 2007, and amounted to 3.05 percent (representing 22,881,790 voting rights). The voting rights are attributed to FMR Corp. pursuant to section 22, paragraph 1, sentence 1, No. 6 WpHG.

On November 1, 2007, Fidelity notified the Company that as a result of an internal merger reorganisation effective from October 1, 2007, FMR LLC. with its principal place of business in Boston, USA, as successor entity to FMR Corp. assumed all its rights and obligations and thus the proportion of voting rights of FMR LLC. in Infineon exceeded the threshold of 3 percent on October 1, 2007, and amounted to 3.49 percent (representing 26,158,004 voting rights). The voting rights are attributed to FMR LLC. according to section 22, paragraph 1, sentence 1, No. 6 and sentence 2 WpHG.

On November 9, 2007, FMR LLC Boston, Massachusetts, USA, notified the Company according to section 21, paragraph 1, WpHG that the proportion of voting rights in Infineon fell below the threshold of 3 percent on November 7, 2007, and amounted to 2.96 percent (representing 22,210,421 voting rights). The voting rights are attributed to FMR LLC according to section 22.

INFORMATION PURSUANT SECTION 6.6 GERMAN CORPORATE GOVERNANCE

On March 1, 2007, Prof. Dr. Hermann Eul, member of the management board of the Company, sold 1,000 shares of the Company at a price of €11.28 per share upon the exercise of stock options.

As of September 30, 2007, the entire holdings of shares in Infineon Technologies AG of all members of the management board and supervisory board did not exceed 1 percent of the shares issued by the company.

INFORMATION PURSUANT TO SECTION 161 GERMAN CORPORATE ACT (AKTG)

The compliance declaration prescribed by section 161 AktG was made available to the shareholders on a continuous basis via the internet.

ACCOUNTING FEES PURSUANT SECTION 314 PARAGRAPH 1 NO. 9 HGB

Year-end Audit Fees

In the 2007 fiscal year, the audit fees charged by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft ("KPMG"), the Company's independent auditors, amounted to €4.3 million (thereof €2.7 million charged by the auditor engaged to audit the consolidated financial statements) in connection with professional services rendered for the annual audit of the Company's consolidated financial statements, including the audit of internal control over financial reporting as required for the 2007 fiscal year, as well as services normally provided by them in connection with statutory and regulatory filings or other compliance engagements.

Other Audit Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €1.5 million (thereof €1.3 million charged by the auditor engaged to audit the consolidated financial statements) in the 2007 fiscal year for other audit services. These services consisted of the carve-out audit of Qimonda and quarterly reviews.

Tax Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €0 (thereof €0 charged by the auditor engaged to audit the consolidated financial statements) in the 2007 fiscal year for professional services related primarily to tax compliance.

Other Fees

Fees of €0.7 million (thereof €0.4 million charged by the auditor engaged to audit the consolidated financial statements) were charged by KPMG in the 2007 fiscal year for other services. These services consisted of transaction and accounting advisory services, IT system audits, and services related to the transition to IFRS.

MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT COMPENSATION IN FISCAL YEAR 2007

In the 2007 fiscal year, the active members of the Management Board received total compensation of €6.5 million. This includes 550,000 stock options with a fair value of €1.1 million (determined in accordance with the Monte Carlo simulation model). No performance-related bonuses were paid for the 2007 fiscal year.

The total aggregate cash compensation of the members of the Supervisory Board was €0.6 million in the 2007 fiscal year. In addition, each member of the Supervisory Board received 1,500 share appreciation rights with a fair value of €2.03 each (determined in accordance with the Monte Carlo simulation model).

Regarding the required information pursuant to HGB section 314 par. 1 No. 6 subsection a, sentence 5 to 9, reference is made to the Compensation Report which is part of the Operating and Financial Review.

Former members of the Management Board received total payments of €1.3 million (severance and pension payments) in the 2007 fiscal year. This includes a severance payment of €1.2 million to Mr. Günther.

As required by U.S. GAAP, a total of €1.4 million was added to pension reserves for current pensions and entitlements of former Management Board members; as of September 30, 2007, these pension reserves amount to €13.6 million.



MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

Members of our Management Board and Supervisory Board as of September 30, 2007 are as follows:

MANAGEMENT BOARD

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Dr. Wolfgang Ziebart	57	August 31, 2009	Chairman of the Management Board, President and Chief Executive Officer	Member of the Board of Directors of <ul style="list-style-type: none"> ◦ Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China ◦ Infineon Technologies Asia Pacific Pte., Ltd., Singapore ◦ Infineon Technologies Japan K.K., Tokyo, Japan ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA
Peter Bauer	47	September 30, 2008	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of <ul style="list-style-type: none"> ◦ Infineon Technologies Austria AG, Villach, Austria (from April 30, 2007 until June 1, 2007, Chairman)
Prof. Dr. Hermann Eul	48	August 31, 2012	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of <ul style="list-style-type: none"> ◦ 7Layers AG, Ratingen
Peter J. Fischl (resigned April 30, 2007; reappointed as of August 7, 2007)	61	March 31, 2008	Member of the Management Board, Executive Vice President and Chief Financial Officer	Chairman of the Supervisory Board of <ul style="list-style-type: none"> ◦ Qimonda AG, Munich ◦ Infineon Technologies Austria AG, Villach, Austria (until April 30, 2007) Member of the Board of Directors of <ul style="list-style-type: none"> ◦ Infineon Technologies Asia Pacific Pte., Ltd., Singapore (until May 1, 2007; reappointed September 10, 2007) ◦ Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until May 1, 2007; reappointed August 22, 2007) ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA (until May 1, 2007; reappointed August 6, 2007) ◦ Infineon Technologies Japan K.K., Tokyo, Japan (until May 1, 2007)
Dr. Reinhard Ploss (since June 1, 2007)	51	May 31, 2012	Member of the Management Board and Executive Vice President	Chairman of the Supervisory Board of <ul style="list-style-type: none"> ◦ Infineon Technologies Austria AG, Villach, Austria (since June 1, 2007) Member of the Board of Directors of <ul style="list-style-type: none"> ◦ Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia Chairman of the Executive Board of <ul style="list-style-type: none"> ◦ Infineon Technologies Austria AG, Villach, Austria (until May 31, 2007)
Resigned Members of the Management Board				
Rüdiger Andreas Günther (from April 1, 2007 until August 6, 2007)	49		Member of the Management Board, Executive Vice President (from May 1, 2007 until August 6, 2007 Chief Financial Officer)	Member of the Supervisory Board of <ul style="list-style-type: none"> ◦ Infineon Technologies Austria AG, Villach, Austria (from May 16, 2007 until August 22, 2007) Member of the Board of Directors of <ul style="list-style-type: none"> ◦ Infineon Technologies Asia Pacific Pte., Ltd., Singapore (from May 22, 2007 until August 23, 2007) ◦ Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (from May 18, 2007 until August 22, 2007) ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA (from May 1, 2007 until August 6, 2007) ◦ Infineon Technologies Japan K.K., Tokyo, Japan (from May 15, 2007 until August 27, 2007)

SUPERVISORY BOARD

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Max Dietrich Kley Chairman	67	2010	Lawyer	<p>Chairman of the Supervisory Board of</p> <ul style="list-style-type: none"> ◦ SGL Carbon AG, Wiesbaden <p>Member of the Supervisory Board of</p> <ul style="list-style-type: none"> ◦ BASF AG, Ludwigshafen ◦ HeidelbergCement AG, Heidelberg ◦ Schott AG, Mainz <p>Member of the Board of Directors of</p> <ul style="list-style-type: none"> ◦ UniCredito Italiano S.p.A., Milan, Italy
Gerd Schmidt ¹ Deputy Chairman (since February 15, 2007)	53	2009	Chairman of	<ul style="list-style-type: none"> ◦ Infineon Central Works Council ◦ Infineon Works Council, Regensburg
Wigand Cramer ¹	54	2009	Labor union clerk IG Metall, Berlin	
Alfred Eibl ¹	58	2009	Chairman of the Infineon Works Council Munich-Campeon (since November 8, 2006)	
Prof. Johannes Feldmayer	51	2010	Member of the Corporate Executive Committee of	<p>Member of the Supervisory Board of</p> <ul style="list-style-type: none"> ◦ Exxon Mobil Central Europe Holding GmbH, Hamburg <p>Until May 24, 2007:</p> <p>Chairman of the Board of Administration of</p> <ul style="list-style-type: none"> ◦ Siemens A.E., Athens, Greece <p>Chairman of the Supervisory Board of</p> <ul style="list-style-type: none"> ◦ Siemens Rt., Budapest, Hungary ◦ Siemens Sp. zo.o., Warsaw, Poland <p>Chairman of shareholders' representatives committee of</p> <ul style="list-style-type: none"> ◦ Siemens s.r.o., Prague, Czech Republic <p>Deputy Chairman of the Board of Administration of</p> <ul style="list-style-type: none"> ◦ Siemens S.A., Madrid, Spain ◦ Siemens S.p.A., Milan, Italy ◦ Siemens Schweiz AG, Zurich, Switzerland <p>Member of the Board of Administration of</p> <ul style="list-style-type: none"> ◦ Siemens France S.A., Saint-Denis, France ◦ Siemens A.S., Istanbul, Turkey ◦ Siemens A.S., Copenhagen, Denmark ◦ Siemens A.S., Oslo, Norway (from October 1, 2006) <p>Member of the Supervisory Board of</p> <ul style="list-style-type: none"> ◦ Siemens Holdings plc, Bracknell, Great Britain ◦ Siemens AB, Stockholm, Sweden ◦ Siemens AG, Vienna, Austria ◦ Siemens Nederland N.V., Den Haag, The Netherlands (from October 1, 2006)
Jakob Hauser ¹	55	2009	Chairman of the Works Council	<ul style="list-style-type: none"> ◦ Qimonda AG, Munich
Gerhard Hobbach ¹ (since February 15, 2007)	45	2009	Deputy Chairman of the Works Council	<ul style="list-style-type: none"> ◦ Infineon Munich-Campeon

SUPERVISORY BOARD

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Prof. Dr. Renate Köcher	55	2010	Managing Director of ◦ Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of ◦ Allianz SE, Munich ◦ BASF AG, Ludwigshafen ◦ MAN AG, Munich
Dr. Siegfried Luther	63	2010	Managing Director of ◦ Reinhard Mohn Verwaltungs GmbH, Gütersloh	Member of the Supervisory Board of ◦ Druck- und Verlagshaus Gruner & Jahr AG, Hamburg (until August 28, 2007) ◦ WestLB AG, Duesseldorf/Muenster ◦ Wintershall Holding AG, Kassel (since November 21, 2006) Chairman of the Board of Administration of ◦ RTL Group S.A., Luxembourg Member of the Board of Administration of ◦ Compagnie Nationale à Portefeuille S.A. Loverval, Belgium (since April 19, 2007)
Michael Ruth ¹ Representative of Senior Management	47	2009	Corporate Vice President Reporting, Planning and Controlling ◦ Infineon Technologies AG	
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	54	2010	Professor ◦ Munich Technical University, Munich	
Kerstin Schulzendorf ¹	45	2009	Member of the Works Council ◦ Infineon Dresden	
Dr. Eckart Sünner (since August 2, 2007)	63	2010	President Legal, Taxes & Insurance ◦ BASF AG, Ludwigshafen	Chairman of the Supervisory Board of ◦ Lucura Rückversicherungs AG, Ludwigshafen Member of the Supervisory Board of ◦ K+S AG, Kassel Member of the Board of Directors of ◦ BASF Corporation, Florham Park, New Jersey, USA
Alexander Trüby ¹	37	2009	Member of the Works Council ◦ Infineon Dresden	
Prof. Dr. rer. nat. Martin Winterkorn	60	2010	Chairman of the Management Board of ◦ Audi AG, Ingolstadt (until December 31, 2006) ◦ Volkswagen AG, Wolfsburg (since January 1, 2007)	Chairman of the Supervisory Board of ◦ Audi AG, Ingolstadt (since January 1, 2007) Member of the Supervisory Board of ◦ Salzgitter AG, Salzgitter ◦ FC Bayern München AG, Munich ◦ TÜV Süddeutschland Holding AG, Munich Chairman of the Board of Administration of ◦ SEAT S.A., Barcelona, Spain (until June 14, 2007) ◦ Automobili Lamborghini Holding S.p.A., Sant'Agata Bolognese, Bologna, Italy (until February 12, 2007) Member of the Board of Administration of ◦ SEAT S.A., Barcelona, Spain (since June 14, 2007)

SUPERVISORY BOARD

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	63	2010	Member of the Corporate Executive Committee of ◦ Siemens AG, Munich	Member of the Supervisory Board of ◦ Deutsche Messe AG, Hanover ◦ BSH Bosch und Siemens Hausgeräte GmbH, Munich ◦ Leoni AG, Nuremberg (since May 3, 2007) ◦ SAP AG, Walldorf (since May 10, 2007) Chairman of the Board of Administration of ◦ Siemens Ltd., Beijing, People's Republic of China ◦ Siemens K.K., Tokyo, Japan (until February 26, 2007) ◦ Siemens S.A., Lisbon, Portugal ◦ Siemens Ltd., Mumbai, India
Resigned Members				
Klaus Luschtinetz ¹ Deputy Chairman (resigned February 15, 2007)	64	2007	Employee of ◦ Infineon Technologies AG	
Dr. Stefan Jentzsch (resigned August 2, 2007)	46	2007	Member of the Management Board of ◦ Dresdner Bank AG, Frankfurt	Member of the Supervisory Board of ◦ Premiere AG, Munich

¹ Employee representative



THE SUPERVISORY BOARD MAINTAINS THE FOLLOWING PRINCIPAL COMMITTEES

Executive Committee

Max Dietrich Kley

Klaus Luschtinetz (resigned February 15, 2007)

Gerd Schmidt (since February 15, 2007)

Prof. Dr. rer. nat. Martin Winterkorn

Investment, Finance and Audit Committee

Max Dietrich Kley

Dr. Siegfried Luther

Klaus Luschtinetz (resigned February 15, 2007)

Gerd Schmidt (since February 15, 2007)

Mediation Committee

Max Dietrich Kley

Klaus Luschtinetz (resigned February 15, 2007)

Gerd Schmidt (since February 15, 2007)

Alexander Trüby

Prof. Dr. rer. nat. Martin Winterkorn

Strategy and Technology Committee

Alfred Eibl

Jakob Hauser

Alexander Trüby

Prof. Dr. rer. nat. Doris Schmitt-Landsiedel

Prof. Dr. rer. nat. Martin Winterkorn

Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES
 AS OF SEPTEMBER 30, 2007

Name and location of company	Share in Capital
Infineon Group:	
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100%
Infineon Technologies Austria AG, Villach, Austria	100%
Infineon Technologies Bipolar GmbH & Co. KG, Warstein, Germany	100%
Infineon Technologies China Co. Ltd., Shanghai, China	100%
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany	100%
Infineon Technologies Finance GmbH, Neubiberg, Germany	100%
Infineon Technologies France S.A.S., Saint Denis, France	100%
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	100%
Infineon Technologies Investment B.V., Rotterdam, The Netherlands	100%
Infineon Technologies Japan K.K., Tokyo, Japan	100%
Infineon Technologies North America Corp., Wilmington, Delaware, USA	100%
Infineon Technologies SensoNor AS, Horten, Norway	100%
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia	100%
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100%
ALTIS Semiconductor S.N.C., Essonnes, France	50%
Qimonda Group¹	
Qimonda AG, Munich, Germany	78%
Qimonda Asia Pacific Pte. Ltd., Singapore	78%
Qimonda Dresden GmbH & Co. OHG, Dresden, Germany	78%
Qimonda Europe GmbH, Munich, Germany	78%
Qimonda Holding B.V., Rotterdam, The Netherlands	78%
Qimonda Investment B.V., Rotterdam, The Netherlands	78%
Qimonda Japan K.K., Tokyo, Japan	78%
Qimonda Malaysia Sdn. Bhd., Malacca, Malaysia	78%
Qimonda Module (Suzhou) Co., Ltd., Suzhou, China	78%
Qimonda North America Corp., Wilmington, Delaware, USA	78%
Qimonda Portugal S.A., Vila do Conde, Portugal	78%
Qimonda Richmond, LLC, Wilmington, Delaware, USA	78%
Qimonda Technologies (Suzhou) Co., Ltd., Suzhou, China	49%
Inotera Memories Inc., Taoyuan, Taiwan	28%

¹ Ownership percentages are net of Qimonda's minority interest.

Neubiberg, November 12, 2007
 Infineon Technologies AG
 The Management Board

Consolidated Financial Data 2003–2007

CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG¹ € IN MILLIONS

As of and for the fiscal year ended September 30,	2003	2004	2005	2006	2007
SUMMARY CONSOLIDATED STATEMENTS OF OPERATING DATA					
Net sales	6,152	7,195	6,759	7,929	7,682
By region:					
Germany	1,535	1,675	1,354	1,327	1,164
Other Europe	1,112	1,263	1,210	1,360	1,218
North America	1,393	1,524	1,504	2,126	1,887
Asia/Pacific	1,821	2,263	2,223	2,498	2,632
Japan	256	364	332	461	661
Others	35	106	136	157	120
By Segment²:					
Automotive, Industrial & Multimarket	2,186	2,540	2,516	2,839	3,017
Communication Solutions	1,428	1,689	1,391	1,205	1,051
Other Operating Segments	28	16	285	310	219
Corporate and Eliminations	(34)	(58)	(258)	(240)	(213)
Subtotal	3,608	4,187	3,934	4,114	4,074
Qimonda	2,544	3,008	2,825	3,815	3,608
Cost of goods sold	4,614	4,670	4,909	5,854	6,092
Gross profit	1,538	2,525	1,850	2,075	1,590
Research and development expenses	1,089	1,219	1,293	1,249	1,169
Selling, general and administrative expenses	679	718	655	751	700
Restructuring charges	29	17	78	23	45
Other operating expense, net	85	257	92	108	46
Operating (loss) income	(344)	314	(268)	(56)	(370)
Interest expense, net	(52)	(41)	(9)	(92)	(33)
Equity in earnings (losses) of associated companies, net	18	(14)	57	78	117
Gains (losses) on subsidiaries and associated companies share issuance	(2)	2	—	19	—
Other non-operating income (expense), net	21	(64)	26	(33)	13
Minority interests	8	18	2	(23)	19
Income (loss) before income taxes	(351)	215	(192)	(107)	(254)
Income tax expense	(84)	(154)	(120)	(161)	(79)
Net (loss) income before extraordinary loss	(435)	61	(312)	(268)	(333)
Extraordinary loss, net of tax	—	—	—	—	(35)
Net (loss) income	(435)	61	(312)	(268)	(368)
Basic and diluted net income (loss) per share before extraordinary loss	(0.60)	0.08	(0.42)	(0.36)	(0.45)
Net income (loss) per share (euro)	(0.60)	0.08	(0.42)	(0.36)	(0.49)
EBIT	(299)	256	(183)	(15)	(256)
By Segment²:					
Automotive, Industrial & Multimarket	148	252	134	246	300
Communication Solutions	(213)	(44)	(295)	(231)	(160)
Other Operating Segments	(50)	(75)	4	4	(12)
Corporate and Eliminations	(199)	(39)	(137)	(236)	(177)
Subtotal	(314)	94	(294)	(217)	(49)
Qimonda	15	162	111	202	(207)

CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG¹ CONTINUATION
€ IN MILLIONS

As of and for the fiscal year ended September 30,	2003	2004	2005	2006	2007
SUMMARY CONSOLIDATED BALANCE SHEET DATA					
Cash and cash equivalents	969	608	1,148	2,040	1,819
Marketable securities	1,784	1,938	858	615	475
Trade accounts receivable, net	876	1,056	952	1,245	894
Inventories	959	960	1,022	1,202	1,217
Deferred income taxes	113	140	125	97	66
Other current assets	675	590	469	482	807
Total current assets	5,376	5,292	4,574	5,681	5,278
Property, plant and equipment, net	3,817	3,587	3,751	3,764	3,647
Intangible Assets, net	411	398	315	230	232
Long-term investments	425	708	779	659	652
Restricted cash	67	109	88	78	77
Deferred income taxes	705	541	550	627	593
Pension asset	—	—	—	—	60
Other assets	74	229	227	146	140
Total non-current assets	5,499	5,572	5,710	5,504	5,401
Total assets	10,875	10,864	10,284	11,185	10,679
Short-term debt and current maturities	149	571	99	797	336
Long-term debt, excluding current portion	2,343	1,427	1,566	1,208	1,376
Shareholders' equity	5,666	5,978	5,629	5,315	4,914
SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash provided by operating activities	731	1,857	1,090	1,003	1,207
Net cash used in investing activities	(1,522)	(1,809)	(289)	(853)	(867)
Depreciation and amortization	1,437	1,320	1,316	1,405	1,276
Purchases of property, plant and equipment	(872)	(1,163)	(1,368)	(1,253)	(1,375)
The IFX Share (as of September 30)					
Dividend per share (euro)	0	0	0	0	0
Closing price Xetra Trading System in €	11.22	8.22	8.18	9.35	12.09
Closing price New York Stock Exchange (NYSE) (US Dollar)	12.89	10.22	9.92	11.83	17.18
Shares outstanding (million)	720.9	747.6	747.6	747.6	749.7
Market capitalization	8,088	6,145	6,115	6,990	9,064
Market capitalization (US Dollar million)	9,292	7,640	7,416	8,844	12,880
Key Figures					
Equity-assets ratio	52%	55%	55%	48%	46%
Debt-equity ratio	44%	33%	30%	38%	35%
Return on Capital Employed (RoCE) ³	(5%)	4%	(3%)	0%	(4%)
Net cash position (as of September 30) ⁴	261	548	341	650	582
Employees (period end in total figures)					
Total	32,308	35,570	36,440	41,651	43,079
By Region:					
Germany	16,166	16,387	16,119	15,736	15,223
Other Europe	5,034	5,631	5,482	7,244	7,739
North America	2,757	2,982	3,193	3,295	3,536
Asia/Pacific	8,116	10,340	11,451	15,148	16,365
Japan	118	133	158	187	216
Others	117	97	37	41	—
By Function:					
Production	22,405	24,540	25,114	29,641	30,210
Research & development	5,935	7,160	7,401	7,745	8,339
Sales & marketing	2,048	1,948	2,016	2,101	2,223
Administrative	1,920	1,922	1,909	2,164	2,307

1 Columns may not add due to rounding.

2 Effective January 1, 2005, we reorganized certain of our business units to better reflect our customer and market profiles. Accordingly, the segment results for prior years have been reclassified to be consistent with the reporting structure and presentation of the 2005 financial year, and to facilitate analysis of current and future operating segment information.

3 Return on Capital Employed (RoCE) = EBIT divided by capital employed.

4 Cash and equivalents plus marketable securities minus short and long-term debt.

Financial and Technology Glossary

FINANCIAL GLOSSARY

ACCUMULATED BENEFIT OBLIGATION (ABO) ◦ An approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed.

ADS ◦ American Depositary Shares – ADS are U.S.-traded stock certificates for non-U.S. stocks. These certificates simplify access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S.-based companies. Infineon's ADS are listed on the New York Stock Exchange (NYSE) at a 1:1 ratio.

CARVE-OUT ◦ Legal separation of business operations (e.g. business units).

CASH FLOW ◦ The cash-effective balance arising from inflows and outflows of funds over the financial year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash the company spent for investment, or cash it raised from divestitures), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

DAX ◦ Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

DEFERRED TAXES ◦ Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results

from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

DERIVATIVE ◦ A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

EBIT ◦ Infineon defines EBIT as "Earnings Before Interest and Taxes." This is the measure that Infineon uses to evaluate the operating performance of its segments.

EBIT MARGIN ◦ An indicator of operating performance, calculated as the percentage of EBIT in relation to net sales.

EPS ◦ Earnings (loss) Per Share – basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

EQUITY METHOD ◦ Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

FREE CASH FLOW ◦ Inflow and outflow of cash from operating and investing activities excluding purchases or sales of marketable securities.

GOODWILL ◦ An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under U.S. GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year.

GROSS CASH POSITION ◦ Total of cash and cash equivalents and marketable securities.

GROSS PROFIT OR MARGIN ◦ Net sales less cost of goods sold.

JOINT VENTURE ◦ A form of business partnership between companies engaging in a commercial enterprise.

MINORITY INTEREST ◦ Proportional share in net income not ascribed to the consolidated group but to outside shareholders that hold a minority share in the equity of the company's subsidiaries.

NET CASH POSITION ◦ Gross cash position less long-term and short-term debt.

PROJECTED BENEFIT OBLIGATION (PBO) ◦ A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

REGISTERED SHARES ◦ Shares registered in the name of a certain person. This person's details and number of shares are registered in the company's share ledger in accordance with securities regulations. Only individuals registered in the company's share ledger are considered shareholders of the company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

SEC ◦ Securities and Exchange Commission. The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.

U.S. GAAP ◦ Accounting principles generally accepted in the United States of America. Infineon prepares its consolidated financial statements according to U.S. GAAP.

TECHNOLOGY GLOSSARY

2G ◦ Second generation of mobile communications, i.e. digital mobile telephony. Subsequent to the first generation (analog), 2G digital signals offer good overall sound quality and numerous data services. Second generation mobile communications standard in Europe: GSM.

2.5G ◦ Currently most commonly used mobile communications infrastructure. 2.5-generation mobile communications standard in Europe: GPRS.

3G ◦ Third generation of mobile communications. Provides broadband transmission of voice and data with considerably higher capacity compared to second generation. Third generation mobile communications standard in Europe: UMTS.

300-MILLIMETER TECHNOLOGY ◦ Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters.

300-MILLIMETER PRODUCTION SITE ◦ A semiconductor production site which can process wafers with a diameter of 300 millimeters.

ABS ◦ The antilock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

ACCESS LINE ◦ The subscriber line, also called exchange line or last mile, is the part of the telephone network that connects the telephone exchange of the service provider with the telephone connection inside the user's/subscriber's house.

ADSL2, ADSL2+ ◦ ADSL2 and ADSL2+ are further developments of the ADSL (Asymmetric Digital Subscriber Line) standard, which above all improve the data rates and range of ADSL connections. The increased range allows network providers to offer ADSL to a higher number of potential customers, while the increased data



rates allow for new services like high-definition television (HDTV) over the Internet. ADSL2+ increases the maximum data rate to 25 megabits per second downstream compared to the 16 megabits per second with ADSL2. These data rates easily allow the transmission of multiple TV or single HDTV channels.

ASIC ◦ Application-Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

ASSP ◦ Application-Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

BACK-END ◦ The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

BASEBAND IC ◦ A baseband IC processes the digital signals received and those to be sent. This complex component usually contains a digital signal processor, microcontroller, memory and analog circuits. Essentially, it is the core of a wireless communications system.

BIT ◦ Information unit; can take one of two values: "true" / "false" or "0" / "1".

BLUETOOTH ◦ Technology for wireless voice and data transmission over short distances.

BYTE ◦ Unit of information in data processing components. One byte is equivalent to 8 bits.

CHIP CARD ◦ Plastic card with built-in memory chip or microprocessor, which can be combined with a Personal Identification Number (PIN).

CMOS ◦ Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to produce microchips with low power usage and a high level of integration.

CPE ◦ Customer Premises Equipment are user end devices in a computer network, telephone network or in telephone systems. Such end devices are normally the property of the end consumer or customer and are connected to a telephone or data network (Internet or LAN). Telephones, fax machines and modems are the most frequently found CPE devices. In the context of DSL, the term "CPE" designates DSL modems.

DDR ◦ Double Data Rate. A technique that increases data transmission rates of semiconductor memories by reading and writing data on both the rising and falling edges of the clock signal, leading to a doubled data transmission rate compared to the use of only one clock signal edge.

DDR2 ◦ A further development of DDR technology. This is currently the commonly used DRAM memory interface technology for PCs and notebooks. (see DDR)

DECT ◦ Digital Enhanced Cordless Telecommunications. Uniform European standard for digital wireless communications systems.

DRAM ◦ Dynamic Random Access Memory. Widely used, low-cost memory chip technology based on high-level integration. Examples of DRAM chips: SDRAM, DDR SDRAM, Graphics RAM, Mobile-RAM. (see RAM)

DSL ◦ Digital Subscriber Line. A broadband digital access line over the telephone network.

EDGE ◦ Enhanced Data Rates for GSM Evolution. Describes a technology for an increased data rate in GSM mobile communications networks. Like GPRS, EDGE is a further evolutionary development of the GSM technology, and can be introduced in mobile communications networks with moderate effort.

ESP ◦ Electronic Stability Program. A vehicular technology system that uses sensors and computers to brake individual wheels in order to prevent skidding.

ETT ◦ Electric triggered thyristors serve the same function as LTTs (see LTT) but are controlled / triggered by an electric pulse.

FAB ◦ See back-end (manufacturing) or front-end (manufacturing).

FB-DIMM ◦ Fully Buffered Dual-Inline Memory Module. Represents a novel memory module technology for the server environment. It ensures that despite higher memory clock rates, the maximum memory system capacity need not be decreased, but can even be increased.

FRONT-END ◦ Front-end process is the designation for all process steps that the entire wafer must complete. These are mainly lithography, ion implantation and application of metal layers. At the end of the front-end process, the wafer may have been through as many as 500 individual process steps. The processed wafer will be shipped to the back-end-fab. (see back-end)

GIGA ◦ 2^{30} , in information technology, e.g. Gigabit (Gbit), Gigabyte (GByte).

GPRS ◦ General Packet Radio Service. New generation of mobile communications (2.5 group) for higher data transmission rates (up to 115 kbits per second) in GSM networks.

GPS ◦ Global Positioning System. Satellite-based location identification and positioning system based on the transit-time differences of received signals.

GRAPHICS RAM ◦ A special, advanced variant of memory components, optimized for graphics applications and used on high-end graphics cards. By using an internal command pipeline, access sequences can be buffered on the chip, leading to increased data transmission.

GSM/GPRS ◦ Global System for Mobile Communications. Currently the most widely used digital mobile communications standard in the world. (see 2G and 2.5G)

HDTV ◦ High Definition Television is a generic term for a number of television standards characterized by an increased vertical, horizontal and/or temporal resolution compared to conventional television. This is accompanied by the transition from the 4:3 to the 16:9 aspect ratio.

HERTZ ◦ Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz. The frequency is the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

HOME GATEWAY ◦ This allows high-speed data transmissions from and to private homes. It can be considered as the next evolutionary step following the set-top box (decoder).

HSDPA ◦ High-Speed Download Packet Access. A third-generation (UMTS) mobile phone communications protocol. HSDPA allows for the rapid transmission of data from the base station to the mobile phone unit at up to 7.2 megabit per second. This makes it possible for large amounts of data such as films, pictures, Internet pages and e-mail to be downloaded to a mobile phone at high speeds. HSDPA is not only used in mobile phones, laptop users also work via data cards with the fast mobile data link.

HSUPA ◦ High-Speed Uplink Packet Access. A third-generation (UMTS) mobile phone communications protocol, like HSDPA. HSUPA allows for the rapid transmission of data from the mobile phone unit to the base station at currently up to 5.8 megabit per second. This makes it possible for large amounts of data such as films, pictures and e-mail to be uploaded fast from a mobile phone. HSUPA is currently in an early stage of roll-out.

IAD ◦ Integrated Access Device. Customer premises equipment for the next generation network (NGN) that combine telephone, Internet and television signals, provided to customers through their telephone jacks. Users can connect their computers, telephones and television decoders to IADs.



IC ◦ Integrated Circuit. Electronic component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes are integrated and interconnected.

IGBT MODULE ◦ Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high breakdown voltage, and their ability to be triggered with negligible power. Modules are formed using several IGBTs in parallel within a single casing. These modules are used to drive electric motors both in automotive and industrial applications. Motor speed and torque can be regulated along a gradual scale. Trains such as Germany's ICE and France's TGV use IGBT modules for an efficient electrical drive control.

IPTV ◦ Internet Protocol Television. Describes the digital transmission of TV programs and movies over a digital data network, and uses the Internet Protocol (IP) on which the Internet is based. The transmission of digital video signals demands a high data rate (about six to eight megabits per second for HDTV). Therefore, IPTV was not possible before the wide spread of broadband Internet connections to customers (e.g. ADSL2/2+, VDSL2 or cable modem) and introduction of new compression algorithms.

ISDN ◦ Integrated Services Digital Network. Type of connection standard, integrating telecommunications services such as telephone, fax or data transmissions into one single network.

KILO ◦ 2^{10} , in information technology, e.g. Kilobit (Kbit), Kilobyte (KByte).

LTT ◦ Light-triggered thyristors are semiconductor components that can switch very high voltages (up to 8,000 volts). LTTs are used primarily in high-voltage direct current (HVDC) transmission, an energy-efficient way to transmit power over very long distances. The component works much like a switch and is controlled/triggered by an optical pulse. By linking several thousand LTTs on each side of a transmission line, electricity can be transformed from alternating current to direct current – which

can be transmitted more efficiently – and back again to alternating current for local distribution. The light pulses that are used to trigger LTTs are not susceptible to electromagnetic interference. LTTs are round in shape, and are composed of a complete 5-inch wafer with a heavy ceramic casing. LTTs weigh approximately 4 kilogram and are 17 centimeters in diameter.

MEGA ◦ 2^{20} , in information technology, e.g. Megabit (Mbit), Megabyte (MByte).

MICROCONTROLLER ◦ A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of very high complexity can be designed in a microcontroller and controlled by software.

MICRON (MICROMETER) ◦ Metric linear measure, corresponding to the millionth part of a meter (10^{-6} m). Symbol: μm . As an example, the diameter of a single human hair is 0.1 millimeters, or 100 μm .

MOBILE-PHONE PLATFORM ◦ This platform is a working mobile phone, to which the customer only needs to add peripheral items such as the casing, keyboard, battery and display. Customers can therefore design, produce and distribute a mobile phone without the need for great technical expertise.

MOBILE-RAM ◦ Low-power DRAM designed for mobile applications like PDAs and smart phones as well as entertainment devices.

MP3 PLAYER ◦ A battery-powered device which plays digital audio data stored in MP3 format.

NAND FLASH ◦ A type of flash memory which is used for data-intensive multimedia applications. NAND Flash can store large amounts of data and is therefore favored for use in MP3 players, USB sticks, and memory cards for digital cameras. NAND technology is well suited for rapid data reading and writing.

PDA ◦ Personal Digital Assistant. An electronic device with the functionality of an address book, appointment calendar and notes; usually synchronized with the user's PC.

PLATFORM ◦ See mobile-phone platform.

POWER SEMICONDUCTOR ◦ Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the "open" and the "closed" state. With the fast sequences of on/off pulses, almost any form of energy flow can be created, for example a sinus wave.

RADIO-FREQUENCY (RF) TRANSCEIVER ◦ The term "transceiver," created from the words "transmitter" and "receiver," is used to describe a combination of transmitter and receiver in a single component that is used in wireline and wireless communications. RF transceivers are used in wireless communications, for example in mobile phones and cordless telephones.

RAM ◦ Random Access Memory. Semiconductor memory that can be accessed in any order. The name is derived from, and is in contrast to, the sequential access memory of a tape storage medium. Data memory, known as main memory, contains programs and data. Examples: SRAM and SDRAM. (See "DRAM")

ROM ◦ Read-Only Memory. Digital, non-volatile data memory in which data can be permanently stored regardless of the power supply. The most recent developments are in the form of flash memories (NAND and NOR).

SEMICONDUCTOR ◦ Crystalline material; its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

SERVER ◦ General term used to describe powerful computers within computer networks which fulfill various tasks. Examples are print servers, Web servers, mail servers, database servers etc.

SILICON ◦ A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

SINGLE-CHIP SOLUTION ◦ This type of chip combines the functions of several other chips. Single-chip solutions for example used in mobile phones, combine the three most important mobile-phone chips into one: baseband chip, radio-frequency transceiver chip, and power management chip. Memory is also included into more recent single-chip generations. Single-chip solutions reduce the number of required components, thereby lowering costs for testing and mounting.

SIM CARDS ◦ Subscriber Identity Module cards. Chip cards that are inserted into mobile phones in order to identify the user within the network. They are used by mobile phone networks to provide connections to their customers.

SMART PHONE ◦ A smart phone combines the performance of a PDA with a mobile phone. Depending on the manufacturer, the device will be more PDA or more mobile phone. This means that smart phones can log on to a mobile phone network or, as small computers, also run applications like a PDA.

TRUSTED PLATFORM MODULE ◦ The Trusted Platform Module (TPM) is a chip designed to make computers more secure. It is equivalent to a permanently embedded smart card, the main difference being that it is associated with a system, not a particular user. In addition to its use in PCs, it will be integrated into PDAs, mobile phones and consumer electronics. The chip cannot directly influence the boot process or the operation of the device. It contains a unique identifier and allows for the identification of the computer.

UMTS ◦ Universal Mobile Telecommunications System. Designed to be the future global digital standard for mobile communications. UMTS enables data transmission of up to two megabits per second. (see 3G)



VDSL, VDSL2 ◦ Very High Data Rate Digital Subscriber Line. VDSL, like ADSL, is a digital transmission technology for the connection of customers using copper wires. It offers significantly higher data rates of up to 52 megabits per second. This decreases the maximum length of the local loop to a maximum of 1.5 kilometers. The use of VDSL is therefore restricted to hybrid networks as an extension to an already existing fiber-optics connection. The successor VDSL2 will offer bandwidths of up to 100 megabits per second. The targeted range for this speed is about 200 meters.

VOICE-OVER-IP (VOIP) ◦ IP telephony is the ability to telephone via a computer network using the Internet Protocol. IP telephony used to conduct conversations over the Internet is referred to as Internet telephony. The essential difference to conventional telephony is that voice data is not transmitted via a switched connection through a telephone network, but split up into IP packages which travel through the network to their destination along an unspecified route. IP telephony can share the infrastructure, i.e. the network, with other communications services.

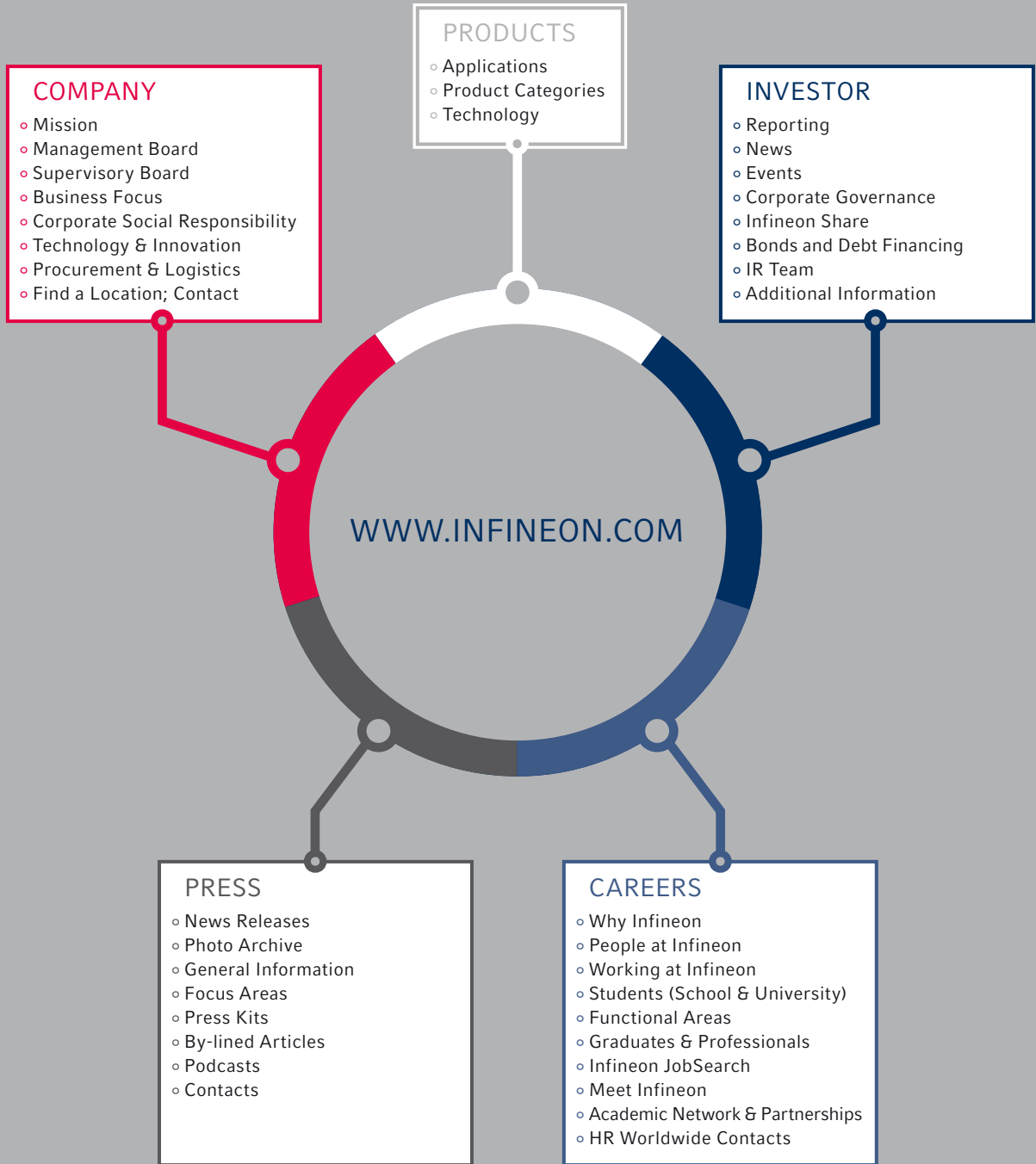
WAFER ◦ Disc made of semiconductor material, such as silicon, with a diameter of up to 300 millimeters.

WLAN ◦ Wireless Local Area Network. A local computer network which connects computers with each other or the Internet via a radio connection.

WORKSTATION ◦ Very capable PC.

XDSL ◦ xDigital Subscriber Line. Generic term for various technical concepts for broadband digital data transmission via existing twisted copper wires. Depending on the configuration, the “x” stands for Asymmetric (A), High bit-rate (H), Single line (S), Symmetric high bit-rate (SH) or Very high bit-rate (V).

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○ Infineon Technologies ○ Important Financial Dates*

IFX • 2008

Thursday, February 7

Publication of first quarter 2008 results

Thursday, February 14, 10:00 a.m. CET

2008 Shareholders' Annual General Meeting in Munich, Germany
at the ICM (Internationales Congress Center München)

Wednesday, April 23

Publication of second quarter 2008 results

Friday, July 25

Publication of third quarter 2008 results

Wednesday, December 3

Publication of fourth quarter and fiscal year 2008 results

*preliminary

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