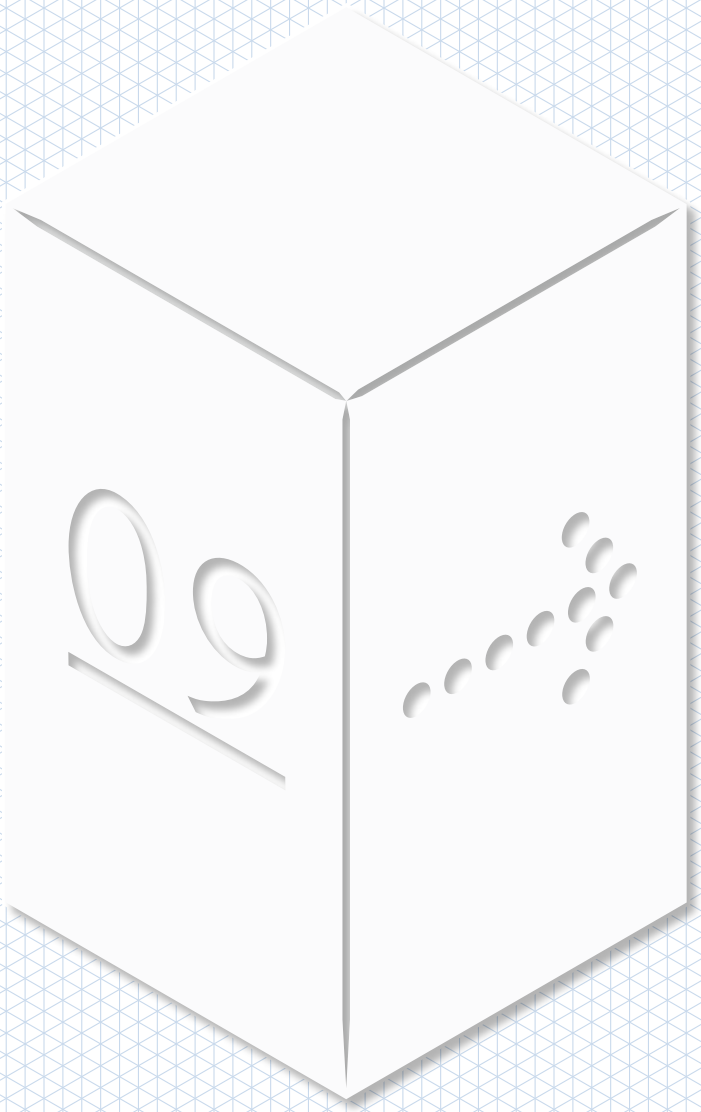
# OUR PATH TO THE FUTURE

Infineon Technologies AG

Annual Report 2009



# Infineon Technologies AG
# Annual Report 2009

## OUR COMPANY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**Caption:**

see **figure** for further information

see **text** for further information

**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 AND FOR THE FISCAL YEARS ENDED SEPTEMBER 30 (UNDER IFRS) [1]

| Fiscal year from October 1 to September 30 | 2008 | | 2009 | | 2009/2008 |
|---|---|---|---|---|---|
| | € millions | As % of net sales | € millions | As % of net sales | Change in % |
| **Revenue by region** | 3,903 | | 3,027 | | (22) |
| Germany | 820 | 21 | 545 | 18 | (34) |
| Other Europe | 754 | 19 | 543 | 18 | (28) |
| North America | 483 | 12 | 409 | 13 | (15) |
| Asia/Pacific | 1,597 | 41 | 1,358 | 45 | (15) |
| Japan | 191 | 5 | 143 | 5 | (25) |
| Other | 58 | 2 | 29 | 1 | (50) |
| | | | | | |
| **Revenue by segment** | 3,903 | | 3,027 | | (22) |
| Automotive | 1,257 | 32 | 839 | 28 | (33) |
| Industrial & Multimarket | 1,171 | 30 | 905 | 30 | (23) |
| Chip Card & Security | 465 | 12 | 341 | 11 | (27) |
| Wireless Solutions | 941 | 24 | 917 | 30 | (3) |
| Other Operating Segments | 171 | 4 | 17 | 1 | (90) |
| Corporate and Eliminations | (102) | (3) | 8 | 0 | +++ |
| | | | | | |
| **Gross profit** Gross margin | 1,332 | 34 | 659 | 22 | (51) |
| Research and development expenses | 606 | 16 | 468 | 15 | (23) |
| Selling, general and administrative expenses | 517 | 13 | 392 | 13 | (24) |
| Operating income (loss) | (46) | | (220) | | --- |
| Loss from continuing operations | (204) | | (273) | | (34) |
| Loss from discontinued operations, net of income taxes | (3,543) | | (398) | | 89 |
| Net income (loss) | (3,747) | | (671) | | 82 |
| Segment result margin | 237 | 6 | (167) | (6) | --- |
| Property, plant and equipment | 1,310 | | 928 | | (29) |
| Total assets | 6,982 | | 4,606 | | (34) |
| Total shareholders' equity | 2,161 | | 2,333 | | 8 |
| Net cash provided by operating activities from continuing operations | 540 | | 268 | | (50) |
| Net cash used in investing activities from continuing operations | (652) | | (14) | | 98 |
| Net cash provided by (used in) financing activities from continuing operations | (230) | | 391 | | +++ |
| Free cash flow [2] | (139) | | 221 | | +++ |
| Depreciation and amortization | 552 | | 513 | | (7) |
| Impairment charges | 137 | | 3 | | (98) |
| Purchases of property, plant and equipment and purchases of intangible assets | 357 | | 154 | | (57) |
| Gross cash position [3] | 883 | | 1,507 | | 71 |
| Net cash position [4] | (287) | | 657 | | +++ |
| **Net income (loss) per share – basic and diluted** in € | (3.61) | | (0.73) | | 80 |
| **Dividend per share** in € | – | | – | | |
| Equity ratio | 31% | | 51% | | 64 |
| Return on equity [5] | (92%) | | (30%) | | 67 |
| Return on assets [6] | (43%) | | (12%) | | 72 |
| Equity-to-fixed assets ratio [7] | 165% | | 251% | | 52 |
| Debt-to-equity ratio [8] | 54% | | 36% | | (33) |
| Debt-to-total-capital ratio [9] | 17% | | 18% | | 6 |
| Return on Capital Employed (RoCE) [10] | (3%) | | (12%) | | --- |
| | | | | | |
| **Employees Infineon** as of September 30 | 29,119 | | 26,464 | | (9) |

1 Columns may not add due to rounding.
2 Free cash flow = net cash provided by (used in) operating activities from continuing operations and net cash provided by (used in) investing activities from continuing operations adjusted for net proceeds from (sales) purchases of available-for-sale financial assets.
3 Gross cash position = cash and cash equivalents and available-for-sale financial assets.
4 Net cash position = Gross cash position less 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 property, plant and equipment.
8 Debt-to-equity ratio = Short-term and long-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 = NOPAT (Net Operating Profit After Tax) divided by capital employed.

# FOCUS AREAS AND TARGET MARKETS

## THE COMPANY

Infineon provides semiconductor and system solutions, focusing on three central needs of our modern society: energy efficiency, communications and security. With approximately 25,650 employees worldwide, Infineon achieved 3.03 billion euros in sales in the 2009 fiscal year. The Company's shares are listed in Frankfurt with the ticker symbol IFX and in New York (NYSE) on the over-the-counter market OTCQX International Premier with the ticker symbol IFNNY.

ENERGY EFFICIENCY

### AUTOMOTIVE

› PAGE 31

Powertrain (engine and transmission control) ◦ Hybrid and electric cars ◦ Car body and comfort electronics (steering, suspension, lights, air conditioning, sunroof, power windows, windshield wipers, central body control units, door electronics) ◦ Safety (ABS, airbags, ESP) ◦ Emergency call system (eCall)

**KEY CUSTOMERS**[1]
Autoliv ◦ Bosch ◦ Continental ◦ Delphi ◦ Denso ◦ Hella ◦ Hyundai ◦ Kostal ◦ Lear ◦ Mitsubishi ◦ TRW ◦ Valeo

**MAIN COMPETITORS**[2]
Freescale ◦ Fujitsu ◦ NEC ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba

**MARKET POSITION**[3]
9.5 %

2

Source: Strategy Analytics, May 2009

### INDUSTRIAL & MULTIMARKET

› PAGE 32

Electric drive control for industrial applications and home appliances ◦ Modules for renewable energy generation, transmission and conversion ◦ Semiconductor components for light management systems and LED lighting ◦ Power supplies for servers, PCs, notebooks, netbooks, game consoles, entertainment electronics ◦ Customized components for PC peripherals (e.g. mouse), game consoles and medical engineering applications ◦ RF and protection devices for communication (e.g. GPS, UMTS, WLAN, digital TV) and tuner systems ◦ Silicon MEMS microphones

**KEY CUSTOMERS**[1]
ABB ◦ Alstom ◦ Dell ◦ Delta ◦ Emerson ◦ Enercon ◦ General Electric ◦ HP ◦ LG Electronics ◦ Microsoft ◦ Motorola ◦ Nokia ◦ Osram ◦ Philips ◦ RIM ◦ Rockwell ◦ Samsung ◦ Siemens ◦ Schneider Electric ◦ SMA Solar Technology ◦ Sony ◦ Toshiba

**MAIN COMPETITORS**[2]
Fairchild ◦ Fuji ◦ International Rectifier ◦ Mitsubishi ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba ◦ Vishay

**MARKET POSITION**[3]
with 10.2 % for power semiconductors and modules.

1

Source: IMS Research, July 2009


SECURITY — COMMUNICATIONS

## CHIP CARD & SECURITY

› PAGE 33

SIM cards for mobile phones ◦ Payment systems ◦ Electronic passports, ID cards, healthcare cards and driver's licenses ◦ Personal identification ◦ Object identification ◦ Pay TV ◦ Platform security for computers and networks ◦ Authentication and system integrity e.g. in game consoles, printers, industrial control

**KEY CUSTOMERS**[1]
Avnet ◦ Beijing Watch Data ◦ Cisco ◦ Conax ◦ Fundamenture Holding ◦ Gemalto ◦ Giesecke & Devrient ◦ Oberthur Card Systems ◦ Sagem Orga ◦ U.S. Government Printing Office

**MAIN COMPETITORS**[2]
Atmel ◦ NXP ◦ Renesas ◦ Samsung ◦ STMicroelectronics

**MARKET POSITION**[3]
25.5 %

1

Source: Frost & Sullivan, October 2009

## WIRELESS SOLUTIONS

› PAGE 34

Baseband processors, radio-frequency solutions and power management chips, mostly also available as single-chip solutions ◦ Complete platforms including software for mobile phones (GSM, EDGE, HSPA, LTE) ◦ Bluetooth and GPS receivers ◦ Analog and digital TV tuners for stationary and mobile TV receivers ◦ Transceivers for satellite radio ◦ Power transistors for amplifiers in cellular base stations

**KEY CUSTOMERS**[1]
Ericsson ◦ Hon Hai ◦ Huawei ◦ LG Electronics ◦ Nokia ◦ Panasonic ◦ RIM ◦ Samsung ◦ Sony Ericsson Mobile Communications ◦ ZTE

**MAIN COMPETITORS**[2]
Broadcom ◦ Mediatek ◦ Qualcomm ◦ ST-Ericsson

**MARKET POSITION**[3]
with 5.9 % for wireless ASSPs.

4

Source: iSuppli, March 2009

## WIRELINE COMMUNICATIONS

› PAGE 35

Customer premises equipment (broadband CPE, voice CPE) ◦ Home networks ◦ Cordless DECT telephones ◦ Broadband access networks ◦ Voice networks ◦ Mobile communications infrastructure ◦ Corporate communications solutions ◦ ISDN

**KEY CUSTOMERS**[1]
Alcatel-Lucent ◦ Arcadyan ◦ AVM ◦ Ericsson ◦ Huawei ◦ Nokia Siemens Networks ◦ Sagem ◦ ZTE ◦ Zyxel

**MAIN COMPETITORS**[2]
Broadcom ◦ Ikanos ◦ PMC Sierra ◦ Zarlink

**MARKET POSITION**[3]
with 27 % for broadband access solutions[4]

1

Source: Gartner, Infineon, June 2009

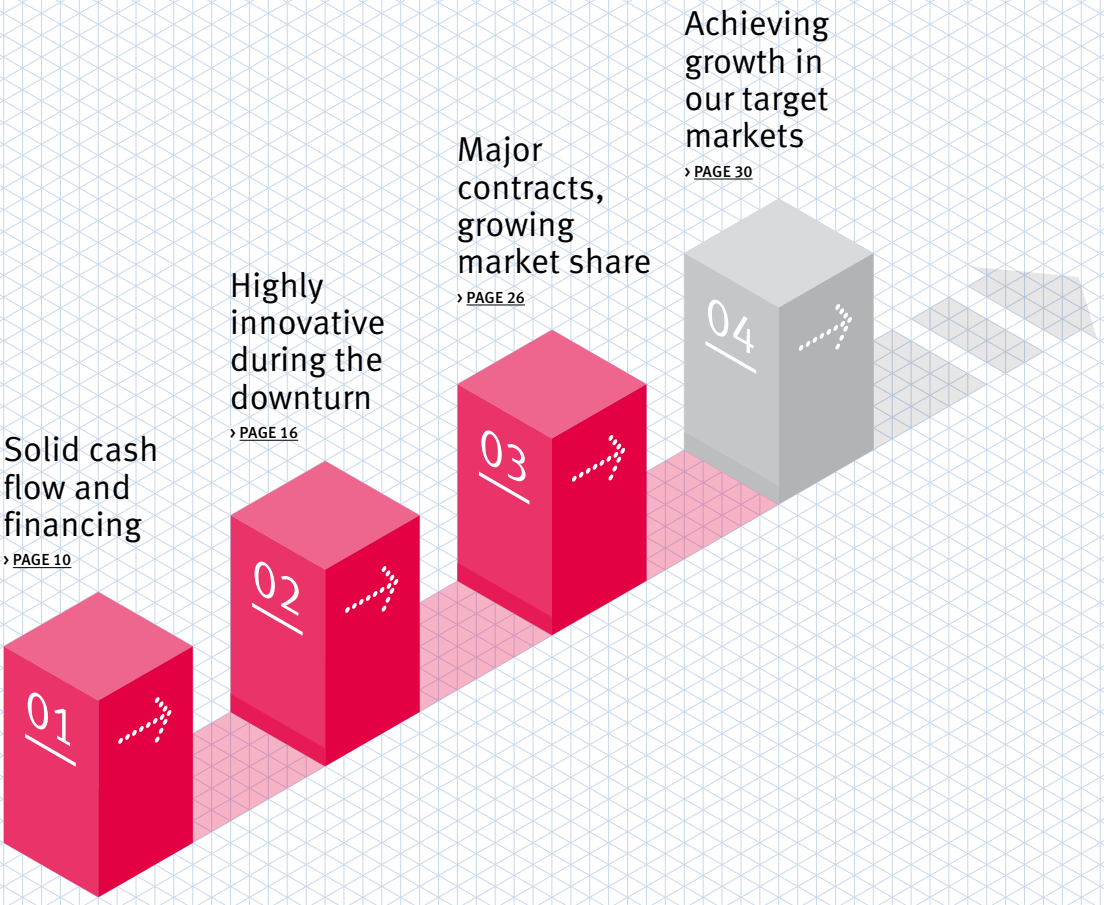
1 In alphabetical order. Infineon's major distributor customers are Arrow, Avnet, Rutronik, Beijing Jingchuan, Rutronik, Tomen, Toyotsu and WPG Holding.
2 In alphabetical order.
3 All figures for 2008 calendar year.
4 Defined as: DSL, PON, VoIP, T/E-Carrier, analog line card ICs and ISDN.

**2009 WAS A CRITICAL YEAR FOR OUR COMPANY.**

We ended the fiscal year with a healthy balance sheet, thus laying a strong foundation for adding long-term value for Infineon's shareholders.

The 2009 Annual Report documents how we have successfully defined our way into the future on the basis of technology leadership, trusting cooperation with our customers, as well as cost reduction and financing measures.

# SUCCESS: OUR PATH TO THE FUTURE




Solid cash flow and financing
› PAGE 10

Highly innovative during the downturn
› PAGE 16

Major contracts, growing market share
› PAGE 26

Achieving growth in our target markets
› PAGE 30

# THE MANAGEMENT BOARD OF INFINEON TECHNOLOGIES AG



**DR. REINHARD PLOSS**
Head of Operations

**PETER BAUER**
Chief Executive Officer (CEO)

**DR. MARCO SCHRÖTER**
Chief Financial Officer (CFO) and Labor Director

**PROF. DR. HERMANN EUL**
Head of Sales, Marketing, Technology and R&D

## THE MANAGEMENT BOARD OF INFINEON TECHNOLOGIES AG (FROM LEFT)

### DR. REINHARD PLOSS

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

### PETER BAUER

Chief Executive Officer (CEO)
Electrical engineer (Dipl.-Ing.)
Member of the Management Board since April 1999

### DR. MARCO SCHRÖTER

Chief Financial Officer (CFO) and Labor Director
Doctorate in business management (Dr. rer. oec.)
Member of the Management Board since April 2008

### PROF. DR. HERMANN EUL

Head of Sales, Marketing, Technology and R&D
Doctorate in electrical engineering (Dr.-Ing.), Professor
Member of the Management Board since July 2005

**PETER BAUER**
CHIEF EXECUTIVE OFFICER

**Dear Shareholders,**

In the decade since Infineon's creation as an independent company there has hardly been another year that has been more critical for our Company than the 2009 fiscal year. Amidst a financial crisis and the resulting global recession, we faced the task of simultaneously resolving our refinancing requirements and aligning the Company for the future. By launching the IFX10+ cost reduction program in June 2008, we quickly created a cost base that allowed us again to generate a positive Segment Result and cash inflows in the fourth quarter of the fiscal year under review. That in turn was an important prerequisite for gaining the trust of the capital markets and securing the solid financing and equity base over the course of the year. These cost reduction and financing achievements have put Infineon in a position to continue investing in the development of excellent products in spite of the financial crisis. The continuing high number of customer orders and the positive development of market share in our target markets are proof of our success and the trust bestowed upon us by our customers. Even though it is too early to talk of an end to the global recession, we look ahead with optimism. The energy efficiency, communications, and security trends continue to gain in social importance and promise great growth potential. We want to make use of this growth potential as well as of the rapid expansion of the Asian markets. We are also aware that steady and solid improvements in profits are the only way to add value for our shareholders. For this reason, we will also work toward improving processes within the Company in the current fiscal year, reducing the number of internal interfaces in our organization, and leveraging untapped efficiency potential.
I would now like to take a closer look at not only share price and earnings developments, but also the key performance elements of the past fiscal year – cost reduction and financing measures, technological milestones, and customer orders. We have made these elements the focus of the entire Annual Report.

**Following a recession-induced decline, the share price benefits from cost reduction and financing measures**

From a level of around 3.50 euros at the beginning of the 2009 fiscal year, our share price fell to a low of 0.35 euros in March 2009. This dramatic decline in the share price was partly due to the global recession, as well as to concerns among investors about the fall-out from the very difficult situation at Qimonda, which unfortunately ended in insolvency, and about our ability to repay or refinance in time our notes maturing in summer 2010. In March, the fall in the Infineon share price also led to the stock's exclusion from the German DAX Stock Index. As the year went on, we allayed the capital market's fears about our financing by implementing an array of cost reduction and financing measures. At the end of the fiscal year, Infineon shares were traded at 3.86 euros. Infineon reentered the DAX on September 21, 2009.

**The 2009 fiscal year: Global recession causes losses**
In the 2009 fiscal year, revenue fell by 22 percent to 3,027 million euros year-on-year, leading to a decline in Segment Result from 237 million euros in 2008 to minus 167 million euros.The first six months were clearly driven by the global recession. Our cost-cutting measures as part of IFX10+ and a recovery in revenue brought noticeable improvements in the second half of the year.

The net loss for the 2009 fiscal year was 671 million euros and thus significantly lower than the previous year's loss of 3,747 million euros. This improvement was achieved in spite of the decline in Segment Result, because the core business did not require any further restructuring provisions to be recognized, and among non-core activities there was a sharp decline in losses by and expenses incurred in connection with Qimonda.

**IFX10+ lays foundation for improved earnings; solid financing base achieved**
In the course of the 2009 fiscal year, we turned a negative Segment Result of 106 million euros in the first quarter into a profit of 52 million euros in the fourth quarter. In spite of the collapse in revenue and the cash outflows in connection with restructuring measures and the insolvency of Qimonda, we achieved a positive free cash flow of 221 million euros in the 2009 fiscal year.
This was the result of the IFX10+ cost reduction program initiated in summer 2008 and additional liquidity boosting measures. In the 2009 fiscal year, we realized year-on-year savings of 263 million euros in operating costs (selling, general and administration as well as research and development) alone. Whilst some savings were temporary in nature, e.g., through short-time work, we also achieved significant permanent cost reductions. In addition to savings in operating expenses, we achieved savings in our manufacturing costs amounting to hundreds of millions. With regard to liquidity, we generated a net cash inflow from working capital of about 250 million euros between September 30, 2008 and September 30, 2009. Moreover, we reduced capital expenditures and other investments by approximately 200 million euros year-on-year to 154 million euros. Overall, the array of measures helped deliver a positive Segment Result of 52 million euros and positive free cash flow of 151 million euros in the fourth quarter of the 2009 fiscal year.

The relatively rapid recovery of Segment Result and free cash flow laid the foundation for successful financing transactions ahead of the maturity of our bonds in the 2010 fiscal year. Because of decisive operational action, we were able to buy back early a par amount of 367 million euros of our notes. In May 2009, we also issued a new convertible bond, which led to cash inflows before transaction costs of 182 million euros. The last financing transaction was a capital increase, implemented in August 2009, with issue proceeds before transaction costs of 725 million euros. Infineon's balance sheet as of September 30, 2009 includes gross liabilities of 850 million euros, shareholders´ equity of 2,333 million euros and cash and cash equivalents of 1,507 million euros. This solid equity and liquidity base is set to improve further as a result of the sale of the Wireline Communications business, which has meanwhile been completed. We expect this to result in a gain of more than 100 million euros and cash inflows of 243 million euros. Our balance sheet gives us a competitive advantage over competitors that have a weaker equity and liquidity base and allows us to play an active role in possible consolidation activities in the industry.

**Leading products continue to make great development progress**

Of course the financial crisis and general cost pressures made a reduction in research and development expenses unavoidable. They fell from 606 million euros in 2008 to 468 million euros in the 2009 fiscal year. However, we are fully aware that customers appreciate high levels of investment in technologically advanced products especially in difficult economic times. For this reason, we focused the reductions on areas where customers had slowed down or discontinued their own development. Likewise, we ceased activities that were not sufficiently profitable and pooled expenses in key areas. Temporary reductions in personnel costs, especially through short-time work, also made a contribution. But overall, strict cost and liquidity management allowed us to maintain a relatively high level of innovation and development activity compared with our competition. In the area of automotive chips, for example, we presented a technique that allows high voltages and currents to be switched on the same chip while simultaneously accomodating large numbers of highly sensitive logic circuits. In the area of industrial semiconductors, Infineon supplies a new generation of power modules for wind turbines being installed at Germany's first offshore wind farm west of Helgoland. We are also active in the area of small-signal components. For example, the world's smallest protective diode against electrostatic discharge comes from us. For chipcard ICs, a new product generation of security controllers with an innovative security concept has been introduced to the market and has already won the chipcard industry's respected Sesames Award. Finally, in mobile communications we have presented two new-generation transmit and receive components for radio-frequency (RF) signals, known as RF transceivers: one component covering the GSM, GPRS, EDGE, and HSDPA standards on a single chip and another chip for the HSDPA and LTE standards, the next-generation standard for mobile communications.

**A partner our customers value in times of crisis; increased market shares**

Especially in turbulent times, the rapid pace of innovation described above helps secure the trust of our customers on the basis of long-standing excellent trading relations. In return for Infineon's performance and constantly high level of reliability and commitment, our customers awarded us contracts and engaged in partnerships with us. For example, in the automotive area, we entered into a technology and production alliance with Bosch. In the renewable energy and industrial and multimarket sectors, power semiconductors from Infineon are included in the Vatican's first solar power installation on the roof of the Pope's audience hall. In the area of chipcard ICs, more than 60 countries now rely on our secure chips for official identity documents and passports. Recently, Infineon won a competitive bid for diplomatic passports in India, where the conversion to electronic passports has just begun. Last but not least, in mobile communications we have won a contract from Nokia for our single-chip solution using the EDGE standard, our highly integrated XMM™ 2130 platform. The shipment of these products will start in the second half of the 2010 calendar year.

**Outlook: Build on the progress made in 2009**

Dear shareholders, in the past fiscal year we created an excellent base for the future: through profitability and positive cash flow, a solid balance sheet, highly competitive research and development expenses, significant customer contracts, and leading market positions. However, we are

fully aware that this is merely a prerequisite for long-term value added. We will do everything in our power to realize this value added by generating sustainable and growing profits. Our future growth is secured through the continuing relevance of our products driven by the pursuit for ever increasing demand for energy efficiency, security and communications. This is reinforced by the economic growth in Asia, where we already generate around 50 percent of the Group's revenue. Infineon has a solid basis in Asia, which we will use to expand our business further in targeted areas. Growth in renewable energies, especially wind power, and the expansion of China's rail network and rail fleet are only two examples of the large new markets we are addressing in Asia. On the cost side, we will maintain the discipline we applied in the past fiscal year. During short-time work, we identified further efficiency potential which we plan to leverage: We will further reduce the variety of processes and the number of interfaces in the Company and further increase our operating efficiency. In doing so, we expect to realize profit growth and add value. For the current fiscal year, we have set ourselves a revenue growth target of at least 10 percent compared with the 2009 fiscal year and, assuming a continuously high capacity utilization, a Segment Result with a positive mid-single digit margin.

**Employees deserve our gratitude**

On behalf of the entire Management Board, I would like to take this opportunity to express our sincere gratitude to our employees. We are fully aware that the operational improvements and the successful refinancing would not have been possible without their unwavering support. We are also aware that our employees delivered this support during very difficult times, while facing job insecurity and in some cases significant material sacrifices. For this unparalleled commitment to the Company they have earned our gratitude.

Neubiberg, December 2009

**Peter Bauer**
Chief Executive Officer

2009

# REVIEW OF THE YEAR

QUARTER 1

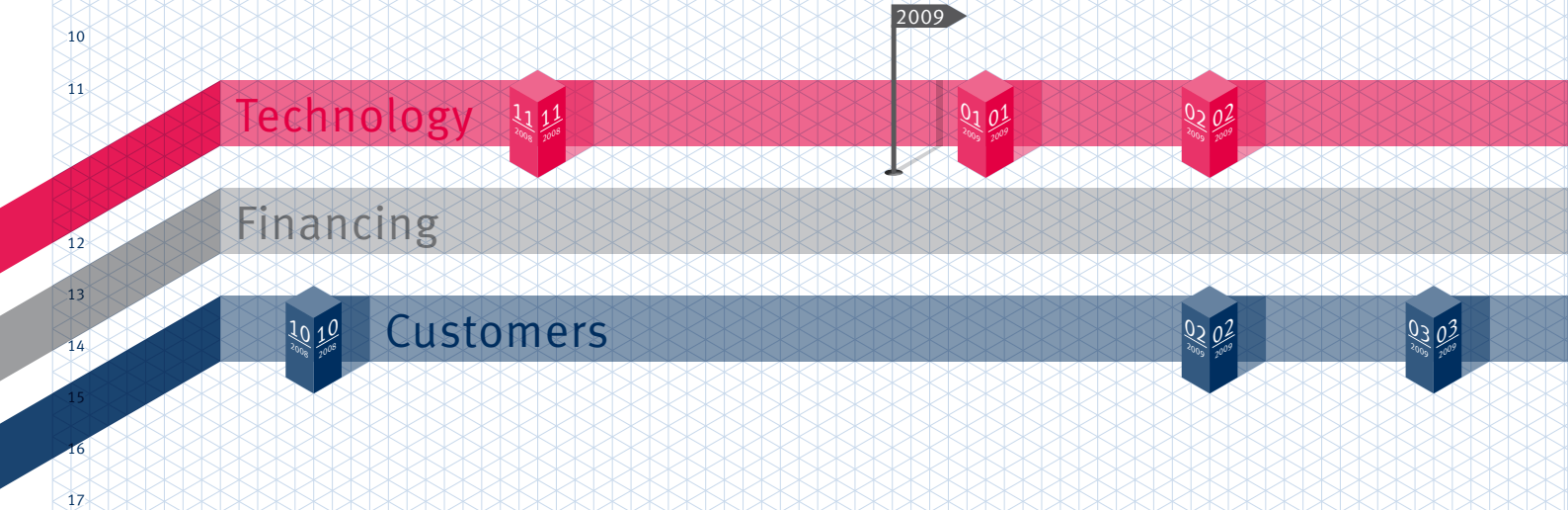
**OCT-28-2008 ›** Power semiconductors for Autoliv's new generation of seatbelt tensioning systems p. 27 14 e (p. 24)

**04-NOV-2008 ›** Presentation of SLE 78 security controller offering revolutionary digital security functions p. 23

**04-NOV-2008 ›** SLE 78 security controller receives Sesames Award for the best hardware innovation p. 23 14 b (p. 24)

**11-NOV-2008 ›** Market launch of the world's smallest ESD protection diode for RF antennas p. 20 14 h (p. 24)

**18-NOV-2008 ›** X-GOLD™ 102, the single-chip solution for GSM mobile phones, is launched




QUARTER 2

**JAN-14-2009 ›** Announcement of SMARTi™ LU and SMARTi™ UEmicro RF transceivers

**JAN-20-2009 ›** X-GOLD™ 110, the most highly-integrated chip for ultra-low-cost mobile phones, is unveiled p. 21 14 l (p. 25)

**JAN-20-2009 ›** German Industry's Innovation Award received for X-GOLD™ 101 mobile communication chip. Over 100 million chips for ultra-low-cost mobile phones sold p. 21 14 a (p. 24)

**FEB-11-2009 ›** Development cooperation with Epson for A-GPS chip XPOSYS™ announced

**FEB-16-2009 ›** Cost-optimized 3G mobile communication platform XMM™ 6130 is presented 14 m (p. 25)

**FEB-16-2009 ›** Product launch for the third generation of SiC diodes p. 20 14 g (p. 24)

**MAR-03-2009 ›** Infineon supplies security chips for electronic diplomatic passports in India p. 28

**MAR-19-2009 ›** Master agreement signed with Huawei for switching centers and subscriber handsets p. 29

**MAR-23-2009 ›** Cooperation agreement for power semiconductors concluded with Bosch p. 27

**MAR-23-2009 ›** Move from DAX to TecDAX p. 37

QUARTER 3

**APR-01-2009 ›** Infineon celebrates ten-year company anniversary

**APR-01-2009 ›** Agreement signed with SkyTerra and TerreStar for the development of satellite-terrestrial communications based on SDR technology

**APR-22-2009 ›** Cooperation with Nokia announced for low-cost mobile communication platforms XMM™ 1100 (GSM/GPRS) and XMM™ 2130 (EDGE) T p. 29

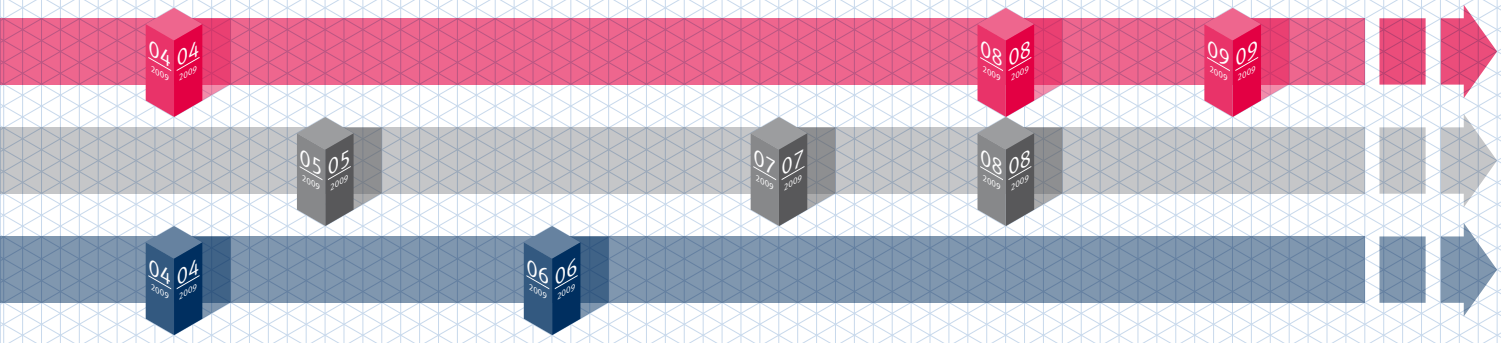
**APR-24-2009 ›** Delisting from the New York Stock Exchange T p. 37

**APR-27-2009 ›** Development cooperation with Analog Devices announced for airbag systems

**MAY-12-2009 ›** Debt reduced by a nominal 53 million euros after repurchase of notes T p. 13 06 (p. 13)

**MAY-18-2009 ›** Launch of convertible notes due 2014 T p. 13

**JUN-09-2009 ›** LS Power Semitech, a joint venture between LS Industrial Systems (Korea) and Infineon, is founded T p. 28




QUARTER 4

**JUL-07-2009 ›** Sale of Wireline Communications to US investor Golden Gate Capital announced T p. 14

**AUG-04-2009 ›** Capital increase fully placed, yielding 725 million euros gross T p. 13

**AUG-13-2009 ›** Announcement of single-chip XWAY™ WAVE100 family for WLAN home gateways T p. 22

**SEP-07-2009 ›** Product launch for VDSL single-chip XWAY™ VRX200 family T p. 22 14 o (p. 25)

**SEP-07-2009 ›** Presentation of multi-channel test chip for all-IP networks T p. 22

**SEP-21-2009 ›** Readmittance to the DAX T p. 38

**NOV-06-2009 ›** Sale of the Wireline Communications to Golden Gate Capital concluded. New name announced: Lantiq

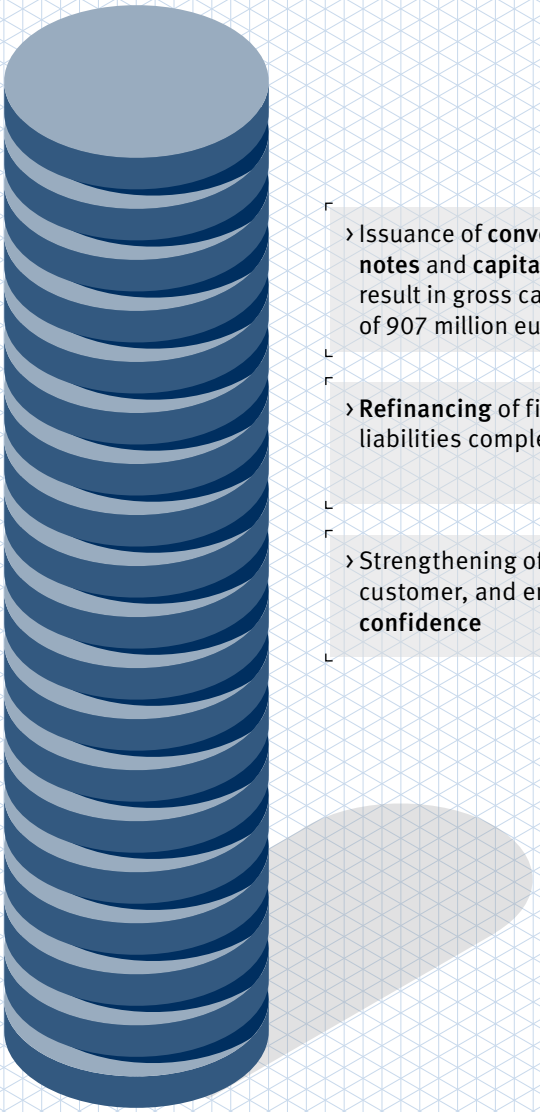
FINANCING

# SOLID OPERATIONAL PERFORMANCE

## COST REDUCTION AND LIQUIDITY MEASURES LAY FOUNDATION FOR SUCCESSFUL CAPITAL MARKET TRANSACTIONS

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23

2,333
**- € MILLION -**
SHAREHOLDERS' EQUITY 2009



› Positive **free cash flow** of 221 million euros in the 2009 fiscal year

› Reduced costs, working capital, and investments strengthen **internal scope** for action

› Investment in **technologically leading** products continued

› Issuance of **convertible notes** and **capital increase** result in gross cash inflow of 907 million euros

› **Refinancing** of financial liabilities completed

› Strengthening of investor, customer, and employee **confidence**

# FINANCIAL DEVELOPMENT IN THE 2009 FISCAL YEAR

With income from continuing operations of 24 million euros, positive free cash flow from continuing operations of 151 million euros, and net cash of 657 million euros as of the end of the fourth quarter, Infineon has ended its fiscal year with a significantly strengthened balance sheet, despite the impact on its operations resulting from a serious contraction in the global economy. Through decisive and timely cost reductions over the course of the year, the Company was able to turn negative Segment Result of 106 million euros in the first quarter and 113 million euros in the second quarter into a clearly positive Segment Result of 52 million euros in the fourth quarter of the fiscal year.

## STRONG CASH FLOWS THROUGH COST REDUCTIONS AND OTHER LIQUIDITY-INCREASING MEASURES

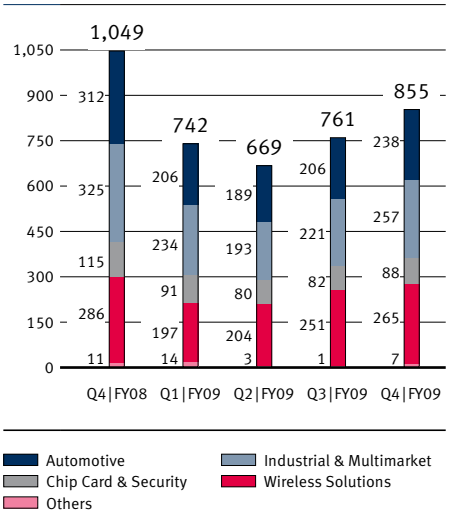
04, 05

The beginning of the 2009 fiscal year coincided with the sharpest contraction in the global economy Infineon has had to face in its history. Due to the global recession, revenue and earnings in all divisions contracted abruptly. The capital market was anxious about the very difficult situation at Qimonda and because of concerns that the Company would not be able to timely refinance its financial liabilities of 864 million euros at nominal values, maturing in the 2010 fiscal year.

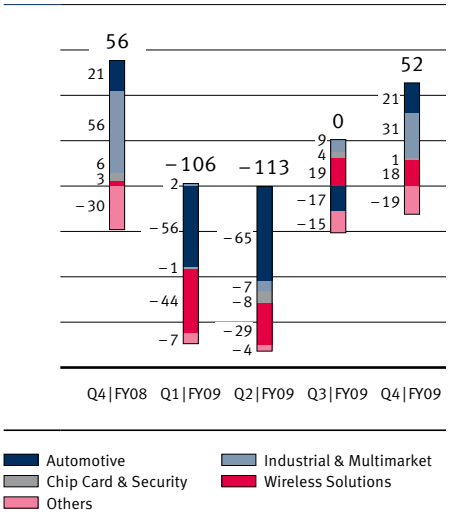
07

Since the Company had initiated the IFX10+ cost savings program in early summer 2008, it had timely access to plans to increase efficiency and reduce total costs. In view of the financial and economic crisis, which started to spread from fall 2008, the original savings target of more than 200 million euros was continuously increased until the second quarter of the fiscal year. 263 million euros of this amount was attributable alone to the reduction in operating expenses (total of research and development (R&D) expenses and selling, general and administrative expenses). The reduction was, among others, driven by temporary measures, such as short-time work and unpaid leave. Triple-digit savings in the Company's production facitilites came on top of the savings in operating expenses.

04 DEVELOPMENT OF REVENUE
€ IN MILLIONS




05 DEVELOPMENT OF SEGMENT RESULT
€ IN MILLIONS



08 09 In addition to the cost reductions, Infineon sought to further strengthen its free cash flow in the 2009 fiscal year by aggressively lowering its working capital and reducing investment in property, plant, and equipment to boost liquidity.

The measures were successful: At the end of the fiscal year, the working capital amounted to 35 million euros, 258 million euros down on the prior-year figure and including the assets and liabilities of the Wireline Communications business classified as held for disposal. Excluding the Wireline Communications business, working capital was minus 3 million euros as of September 30, 2009. Infineon achieved this above all by managing receivables, inventories, and payables in a focused way, optimizing them continuously in the course of the year. Including the assets and liabilities of Wireline Communications, trade accounts receivable and other receivables as of the end of the fiscal year fell by 285 euros year-on-year, while inventories were down 162 million euros. Trade accounts payable and other liabilities, on the other hand, fell by 113 million euros. Non-operating payments also had an impact on working capital in the 2009 fiscal year. Infineon received 120 million euros from the German bank deposit protection fund as reimbursement of deposits with the insolvent investment bank Lehman Brothers Deutschland. Cash outflows for restructuring expenses of 118 million euros under the IFX10+ cost reduction program offset this amount.

10, 11, 12

Infineon also significantly limited investment in property, plant, and equipment and capitalized intangible assets, spending 154 million euros on these items in the 2009 fiscal year, compared with 357 million euros in the 2008 fiscal year. With this achievement, capital expenditures in the 2009 fiscal year were significantly below depreciation and amortization which decreased from 552 million euros in the 2008 fiscal year to 513 million euros in the 2009 fiscal year.

The combination of cost reductions and further liquidity-increasing measures bore fruit: In the 2009 fiscal year, Infineon generated free cash flow from continuing operations of 221 million euros.

### NOTES BOUGHT BACK WITH CASH FROM OPERATING ACTIVITIES

The gradual improvement in cash flows formed the basis for the Company's refinancing measures and allowed it increasingly to buy back, through the capital market, portions of its subordinated convertible and exchangeable notes maturing in 2010 ahead of maturity and significantly below their nominal values. This not only reduced the volume of outstanding notes, but also signaled that the Company was able to find a way out of its liquidity bottleneck from its own resources.

## 06 REPURCHASE OF CONVERTIBLE AND EXCHANGEABLE NOTES IN THE 2009 FISCAL YEAR
€ IN MILLIONS

| | Buybacks | | | | | | | | | | Status |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 \| FY09 | | Q2 \| FY09 | | Q3 \| FY09 | | Q4 \| FY09 | | FY09 | | Sept. 30, 2009 |
| | Nominal value | Market value | Nominal value | Market value | Nominal value | Market value | Nominal value | Market value | Nominal value | Market value | Nominal value |
| Convertible Notes[1] | 22 | 10 | — | — | 56 | 47 | 74 | 74 | 152 | 131 | 448 |
| Exchangeable Notes[2] | 95 | 60 | 35 | 20 | 38 | 27 | 48 | 47 | 215 | 154 | 0 |
| **Total** | 117 | 70 | 35 | 20 | 94 | 74 | 122 | 121 | 367 | 285 | 448 |

**1** due June 5, 2010
**2** due August 31, 2010; fully repaid in FY09

In the first six months of the fiscal year, the Company repurchased notes at nominal value of 152 million euros for cash of 90 million euros. This was followed in early May by the offer to buy back notes for cash in a public auction process. This resulted in the additional repurchase of notes with a nominal value of 53 million euros for cash of 43 million euros. In the third and fourth quarters, Infineon continued to repurchase notes through the market, ultimately repaying the exchangeable notes in full around one year before maturity.

### SUCCESSFUL CAPITAL MARKET TRANSACTIONS COMPLETE REFINANCING

The steady improvement in operating results and progress made with liquidity strengthened the capital market's trust in Infineon tremendously. This was also reflected in the continuous increase in Infineon's share price. Starting in the early summer, the Company was able to access the capital markets.

New subordinated convertible notes were issued at the end of May 2009, in a total nominal amount of 196 million euros, maturity of five years and a coupon of 7.5 percent. The issue of this significantly oversubscribed bond generated gross proceeds of 182 million euros.

By issuing 337 million new shares to Infineon shareholders and the anchor investor Apollo Global Management LLC in August 2009, Infineon generated further gross cash inflows of 725 million euros, thus allaying any remaining concerns in the capital market over the refinancing of liabilities in 2010.

Moreover, in July 2009 Infineon entered into an agreement to sell the Wireline Communications (WLC) business to the U.S. investor Golden Gate Capital for 243 million euros. The book gain of more than Euro 100 million from this sale will further strengthen the balance sheet and liquidity in the 2010 fiscal year.

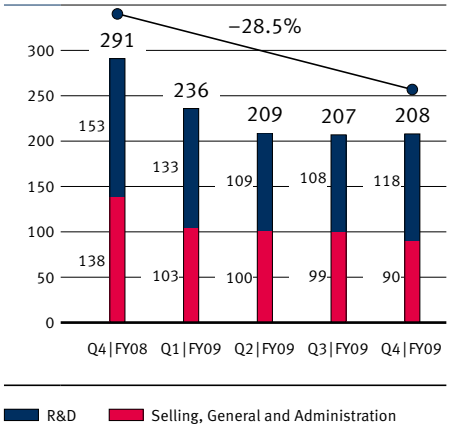
The consistent improvements in Infineon's liquidity and financial position was rewarded sustainably by the capital market: The price of Infineon shares rose to 3.86 euros (Xetra closing price) as of the end of the fiscal year, compared with 3.50[1] euros as of September 30, 2008 and a year low of 0.35[1] euros as of March 9, 2009.

## BALANCE SHEET CREATES FREEDOM IN COMPETITION FOR MARKET SHARE AND STRATEGIC MEASURES

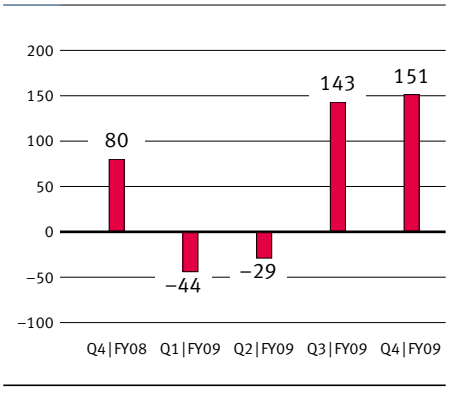
With free cash flow from continuing operations of 151 million euros and a segment result of 52 million euros in the fourth quarter of the 2009 fiscal year, Infineon's earnings and liquidity parameters came out relatively well after a fiscal year overshadowed by the global recession. Moreover, Infineon's balance sheet as of September 30, 2009 was solid. Financial liabilities amounted to 850 million euros, shareholders' equity was 2,333 million euros and the gross cash position was 1,507 million euros. This resulted in a robust equity-to-debt ratio of 36 percent and a comfortable Group net cash position of 657 million euros.

The Infineon Group's net loss for the 2009 fiscal year was 671 million euros and thus significantly lower than the previous year's loss of 3,747 million euros. This improvement is attributable to the fact that, in spite of the decline in operating results, the Company did not have to recognize any further expenses for restructuring and incurred significantly lower losses and expenses in connection with Qimonda. As of the end of the 2009 fiscal year, Infineon had stabilized its finances and has the trust of its customers, research partners, shareholders, financing partners, and employees. The solid earnings and sound balance sheet in the fourth quarter of the 2009 fiscal year should provide a good basis in 2010 in competition for market share and create room for strategic measures in the ongoing consolidation of the semiconductor industry. Now that Infineon has secured its ability to refinance its maturing debt obligations, the primary corporate goal remains to increase revenue and earnings on a sustainable basis and to add value for our shareholders.

07 DEVELOPMENT OF OPERATING EXPENSES
€ IN MILLIONS

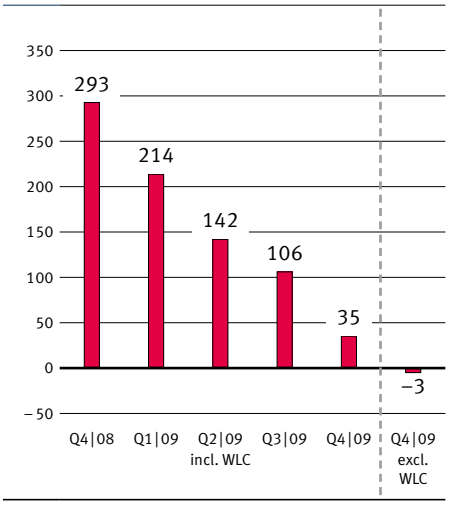



08 DEVELOPMENT OF FREE CASH FLOW FROM CONTINUING OPERATIONS
€ IN MILLIONS

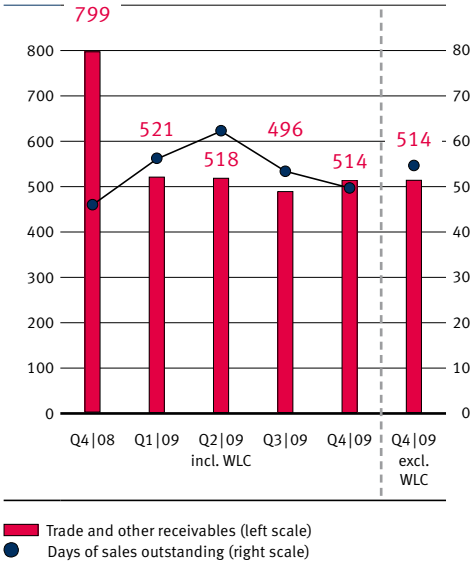



1 The Infineon share price trades ex subscription rights after the capital increase. Historical prices have been adapted.

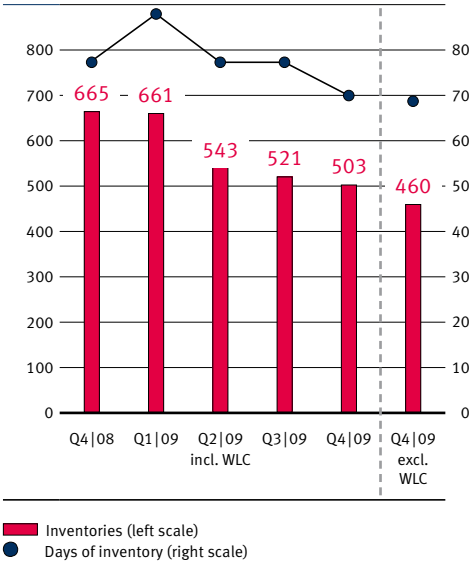
## 09 DEVELOPMENT OF WORKING CAPITAL
€ IN MILLIONS



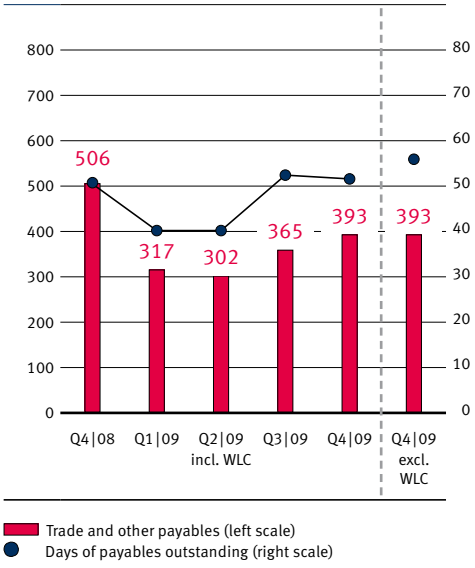

## 10 TRADE AND OTHER RECEIVABLES
€ IN MILLIONS




## 11 INVENTORIES
€ IN MILLIONS



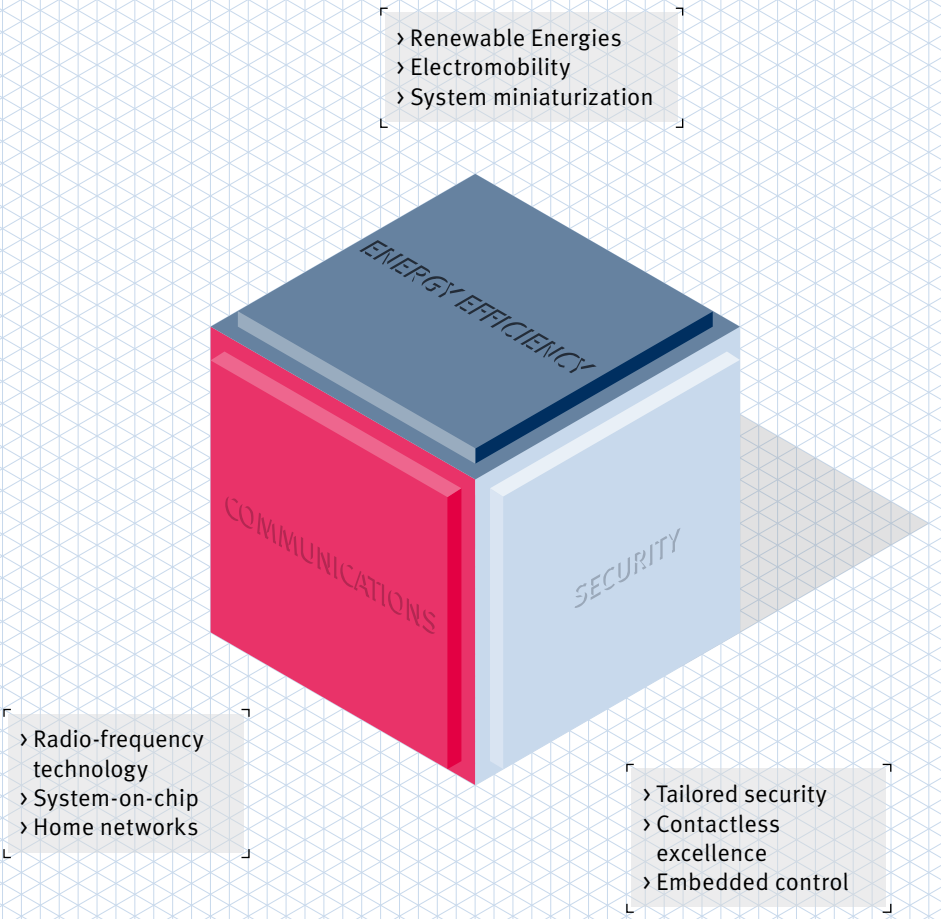

## 12 TRADE AND OTHER PAYABLES
€ IN MILLIONS



RESEARCH & DEVELOPMENT

# HIGH LEVEL OF INVESTMENT IN TECHNOLOGICALLY LEADING PRODUCTS

## DESPITE COST SAVINGS, UNQUALIFIED INVESTMENT IN KEY RESEARCH ACTIVITIES



# RESEARCH & DEVELOPMENT

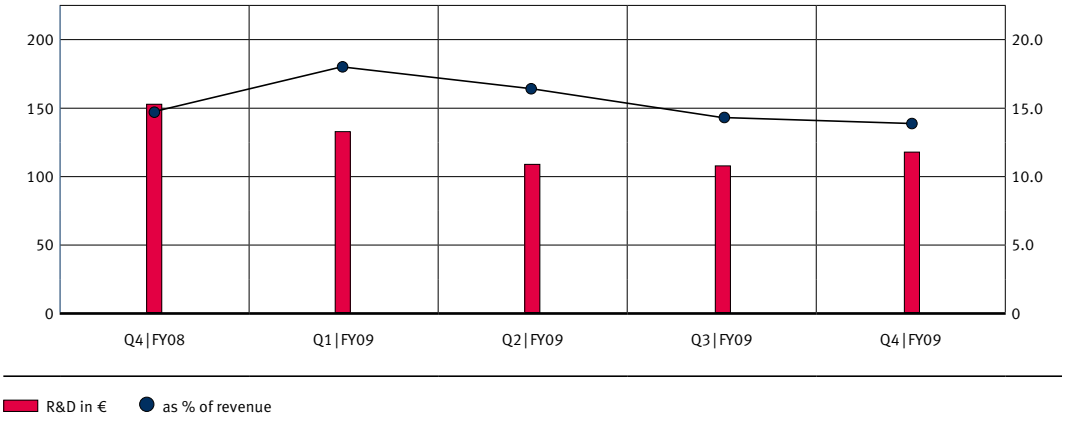
In view of the global economic crisis and in order to achieve our savings targets under the IFX10+ cost reduction program it was also imperative for us to reduce our research and development (R&D) expenses. This was cut from 606 million euros in fiscal 2008 to 468 million euros in fiscal 2009.

On the other hand it is above all in a time of crisis that our customers appreciate a continuing high level of investment in technologically leading products. Moreover, it is scarcely possible, in certain areas of the fast-moving semiconductor industry at least, to sit out or skip a product or development cycle. For these reasons Infineon attaches the greatest importance to providing continued and unqualified support for the projects embarked upon with customers, despite necessary cutbacks in the spending on research and development. We have therefore targeted reductions at those areas where our customers have also slowed or suspended developments on account of the crisis. Further savings have been achieved as a result of reduced travel costs, adjusted bonus and premium payments, short-time work and unpaid leave. In spite of the cost reductions, therefore, sufficient funds were available to enable continued investment in key research activities.

The R&D expenses fell in line with the decline in revenue and in the 2008 and 2009 fiscal year amounted to around 15 percent of revenue.

We are confident that by taking the measures described above we have succeeded in remaining a reliable partner to our customers, also and especially during the economically straitened phase. Details of development cooperation ventures that have been successfully concluded can be found here and in the chapter “Customers”.

13 **R&D EXPENSES** € IN MILLIONS (left scale)
**AND IN % OF REVENUE** (right scale)



# ENERGY EFFICIENCY

No other topic in industry has received so much attention of late as the efficient use of energy and resources. Electricity as an energy source plays an increasingly important role here. Electricity can be produced in an environmentally responsible way, transferred highly efficiently over long distances, and consumed with low conversion losses. Concepts such as Desertec, smart grids, high-voltage direct-current transmission, intelligent electricity meters, the electric car and electromobility have meanwhile become public talking points. In all cases what is at stake is the generation, transmission and conversion of electric current. With its products, Infineon occupies a leading role in these processes.

## POWERTRAIN ELECTRIFICATION AT THE HEART OF DEVELOPMENT ACTIVITIES

In addition to the many small electrical loads operating almost unnoticed while driving – including, for example, pumps, motors, lights, air conditioning system, entertainment electronics, and GPS – and not infrequently consuming as much as 1,000 watts in total, the electrification of the powertrain is becoming a key topic in automotive electronics. Cars with an alternative drive system – whether based on hybrid technology or electric motor – are at the center of the development activities of virtually all automobile manufacturers. In hybrid or electric cars our semiconductors are present in all three core application fields: engine management, battery management and charging unit.

- **Engine management:** Electric motors rated at up to 50 kilowatts in mild-hybrid cars and 150 kilowatts in full-hybrids must be controlled. That is why European, American and Korean car makers choose our best-in-class HybridPACK™2 IGBT modules. 14 c

- **Battery management:** Batteries must be treated with respect if they are to achieve a long service life with the maximum number of charge cycles and maintain a high storage capacity over time. When referring to the condition of a battery, automotive specialists use the acronym SOH (State of Health). With our power transistors, voltage sensors and microcontrollers, we succeed in maintaining the SOH at its original value for the maximum length of time.

- **Charging unit:** Rapid charging is what is wanted here, which is why a high charging current flows. The power spectrum ranges from 3.6 to 40 kilowatts. Important features of the control unit are a small form factor and high power density. That is precisely what our discrete IGBTs, silicon carbide (SiC) diodes and power transistors offer. 14 d

### WORLD'S FIRST 130-NANOMETER SMART POWER TECHNOLOGY FOR AUTOMOTIVE ELECTRONICS AVAILABLE

In order to satisfy the demands of today's automotive applications for more functionality as well as compact and cost-optimized solutions, an increasing amount of digital logic is required in state-of-the-art power semiconductors. The implementation of complex function blocks using leading-edge production technologies enables semiconductor devices that are specifically tailored to the customer's requirements. In addition to the digital logic, sensor systems, interfaces and power electronics are also used, depending on application. For technical and economic reasons it is even absolutely essential in many cases to combine all these functional elements on one chip. Since fewer components are required, the vulnerability of such control systems to faults is reduced into the bargain.

With the SPT9 (Smart Power Technology, 9th Generation) manufacturing technology brought to production readiness in the current fiscal year, we are pursuing precisely this highly integrated system solutions approach – based on Infineon's many years' experience in 130-nanometer process technology. With SPT9, Infineon is building on its leading position in this sector. Our new products with integrated microcontroller and power output stages for controlling electric motors are used in key in-car applications, e.g. comfort electronics. Products for safety-relevant application fields such as airbags and bus systems for realtime communication are already in development.

### POWER MODULES FOR GERMANY'S FIRST OFFSHORE WIND FARM

Feeding generated electrical energy into the grid with minimum loss is a key part of the energy supply process. This is true in particular in the case of fluctuating primary energy sources such as wind and solar. Maximum efficiency is what counts in the converters of wind turbines and the AC inverters of photovoltaic systems.

This is where Infineon's PrimePACK™ and IHM power modules for up to 6 megawatts and our Econo modules for up to one megawatt come into their own. These modules feature the very latest chip technology and consequently also increase the reliability and useful life of wind turbines. In the "Bard Offshore 1" project, Germany's first commercial offshore wind farm, located off the island of Borkum, we are represented by our IHM 1700V power modules, which are installed in the AC converters of the windmills.

14 f

With almost 60 years' experience in the power semiconductor field, Infineon will continue to rely on innovations to provide the best price/performance ratio at system level and to achieve further miniaturization and lowest system costs.

### INFINEON: A PIONEER IN SILICON CARBIDE TECHNOLOGY

A few years ago the efficiency of an AC inverter was below 98 percent. Today the record stands at 98.7 percent; now the aim is to reach 99 percent. At first glance these may appear tiny improvements, but increasing efficiency by just one percentage point is equivalent to halving losses. Lower losses reduce not only the power consumption but also the cooling requirements of a system, which means the size and number of heatsinks and fans can also be reduced. Lower system costs and a higher level of reliability are the benefits.

14 g  With its third-generation thinQ!™ silicon carbide (SiC) Schottky diodes, Infineon, a pioneer in SiC-based Schottky diodes, is in addition to motor control also addressing the solar inverter market. The new generation boasts features which further improve system efficiency, particularly at higher switching frequencies and low load. And higher switching frequencies permit the use of smaller and cheaper passive components, resulting in designs with a higher power density.

Infineon was the world's first provider of SiC Schottky diodes, introducing its first products as far back as 2001. In the past eight years we have made significant improvements to our SiC Schottky diodes, enabling the advantages of SiC technology to be used in more and more applications, one example being in active power factor correction (PFC) circuits for switched-mode power supplies.

### INFINEON PRODUCES WORLD'S SMALLEST ESD PROTECTION DIODE FOR RF ANTENNAS

Infineon is one of the technology leaders in diodes and supplied the world's smallest antenna protection diode as early as December 2007. This was followed in November 2008 by its successor, once again the world's smallest diode, typically used in applications such as GPS, mobile TV reception and FM radio, as well as remote keyless entry (RKE) and tire pressure monitoring systems (TPMS) in automobiles. The diode was developed to protect state-of-the-art communication and entertainment electronics equipment against electrostatic discharges reaching voltages as high as 20,000 volts, and does this up to the highest frequencies.

14 h  The new protection diode measures a mere 0.62 millimeters by 0.32 millimeters and is only 0.31 millimeters high. It not only saves space on the increasingly densely packed printed circuit boards, but can also be integrated into modules and even into filter or IC packages.

# COMMUNICATIONS

Increasing numbers of people want to have access to telephones, emails and the internet anytime and anywhere. Network operators and the mobile communications industry are therefore working at building faster and faster data networks for both DSL broadband access and cellular mobile telephony.

In the wireless solutions segment, Infineon is a reliable and innovative partner with its three core competencies: radio frequency technology, system-on-chip integration and system software.

## LEADING IN RADIO FREQUENCY TECHNOLOGY

Infineon is the market leader in the radio frequency (RF) transceiver sector and shipped more than 240 million units in the 2009 fiscal year. In February 2009 we unveiled the current generation of our SMARTi™ UE chip, the world's first single-chip EDGE/W-CDMA transceiver featuring a digital transceiver-to-baseband interface conforming to the DigRF 3.09 standard.

14 k The name gives away no clues, but with the SMARTi™ UE2 successor chip we not only produced a next-generation development, but also adopted a new, revolutionary approach. The transmitter architecture in the new generation is defined such that the different modulation types of the major international wireless standards are combined in one signal path in the chip. This is a first in the mobile communications industry. Whereas previously the transmission took place via multiple transmit paths and power amplifiers (PA) that were combined only at the antenna via a complex network of external components, the new, so-called "single-chain PA" approach enables a host of power amplifiers, switches and filters to be replaced. This saves costs and creates space on the printed circuit board.

Manufactured in 65-nanometer technology, this all-rounder supports the most popular standards like GSM, GPRS, EDGE, W-CDMA, HSDPA, HSUPA and HSPA+. Peak data rates attainable with HSPA+ are 28.8 megabits per second in the downlink and 14.4 megabits in the uplink. The SMARTi™ UE2 thus addresses the market in its latest and most powerful incarnation and supports all features of the popular smartphones for mobile internet. The chip will go into production in 2010.

## MORE THAN 130 MILLION SINGLE-CHIP SOLUTIONS SOLD

Sales exceeding one hundred million units were achieved already with the second-generation cell phone single-chip, the X-GOLD™ 101. In January 2009 Infineon received the German Industry's
14 a Innovation Award for the best technological innovation in the "Large Enterprises" category for this mobile communication chip. It is a highly integrated baseband chip for GSM/GPRS and stands out by virtue of unbeatably low system costs. It combines elementary mobile communication components such as baseband processor, transmit and receive unit, power management and memory. Together with the predecessor model, Infineon has meanwhile sold over 130 million chips for the Ultra-Low-Cost (ULC) segment of the mobile phone market.

14 l The third generation of Infineon's ULC mobile communication chip was also announced in January 2009. The new X-GOLD™ 110 is offered in feature sizes of 65 nanometers and, as well as being extremely affordable, is currently the world's most highly integrated single-chip solution for ultra-low-cost GSM/GPRS telephones. The new platform supports color displays, MP3 playback, FM radio and USB charging function, and is ready for dual-SIM operation and camera solutions.

With these ULC devices, system software and customer support, Infineon has cut its customers' development cycles from one year to just three to four months. The number of electronic components in a simple mobile telephone is also shrinking from in excess of 200 to less than 50.

### EXPANSION OF THE XWAY™ PRODUCT FAMILY FOR HOME GATEWAYS

Infineon's portfolio of chips and system solutions for customer premises equipment (CPE) was recently augmented with two important product families, one aimed at maximum data transfer by VDSL for HD-IPTV (high definition internet TV), the other at wireless internet access via WLAN.

140 With the XWAY™ VRX200 family, a highly integrated system solution produced in 65-nanometer technology, we are addressing the steadily rising demand for more bandwidth and quality of service in order to ensure high-quality reception of HDTV programs. Once again Infineon is setting the standard in this field with the world's most compact VDSL/ADSL reference design.

Another innovation in the CPE segment is the XWAY™ WAVE100 family, enabling compact and cost-effective solutions for WLAN access points. This will allow wireless connections operating at up to 150 megabits per second to be set up in the home. User interest will doubtless be attracted by the various power management operating modes, which can reduce power consumption by at least 25 percent compared with existing solutions.

### SIMPLIFIED LINE TEST FOR DSL LINES

For increasing numbers of telephone customers the last mile of the subscriber access line is being configured as a completely digital medium – what technical experts refer to as the Voice-over-IP solution. With this, the voice signal is packed into data packets in the customer premises equipment itself and then transferred via the DSL data stream. The operators of these digital networks need to implement new testing and diagnostic methods as well as methods for detecting and logging line faults.

Infineon has developed the MLT (Metallic Line Testing) chipset to meet these requirements. This enables network operators to test DSL links during online operation, without compromising data transfer rates. At the same time up to 90 percent of the test costs are eliminated because the MLT controller fits on the DSL linecard and no external test equipment is required. This compelling MLT technology is reaping the benefits of our many years of experience with analog linecards and DSL.

What's more, all of Infineon's new products effortlessly satisfy the requirements of the EU CoC (European Union Code of Conduct) in terms of the energy demands of broadband equipment and so enable Infineon customers to implement "green" products. There are millions of such devices in circulation, so a saving of a few watts quickly adds up to the size of a power station.

# SECURITY

In this key subject area we have been entrusted for years with the most demanding and largest-scale smartcard projects, but our attention is also directed at applications that go beyond the traditional plastic card. Here, we are focusing our R&D activities on the following three core competencies: Tailored Security, Contactless Excellence and Embedded Control. What lies behind all this?

- **Tailored Security:** By this we mean the implementation of made-to-measure security functions which fulfill application-specific security needs. In order to withstand future attack scenarios as well, we have implemented the revolutionary Integrity Guard security concept in the new SLE 78 family, and for this we received the prestigious Sesames Award of the smart card industry.

14 b

- **Contactless Excellence:** Fast, reliable and secure transfer of the data stored on the card or in the identification document is a top priority if delays are to be avoided, especially in mass transit, identification and payment applications. A high data transfer rate is key to achieving a high level of acceptance and user friendliness in such contactless transactions. We are one of the world leaders in this field, and we intend to strengthen this position.

- **Embedded Control:** Our many years' experience in the hardware-based security field is most clearly evidenced by our ability to find an optimal balance between the requirements for the field of application in question. Here the trick is to reconcile diverse criteria such as performance, power consumption and security at best cost-performance-ratio.

Our innovations in these three areas of competence enable our customers to implement cutting-edge hardware-based security solutions. These create the necessary confidence in the new applications of the mobile data society and combine freedom and mobility with security and individual privacy.

With our R&D activities we believe we will continue to be the most expert and leading chip supplier for security solutions.

TECHNOLOGY

# INNOVATIONS FOR OUR CUSTOMERS

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23

## AWARDS FOR OUTSTANDING INNOVATIONS IN THE 2009 FISCAL YEAR

- a -

GERMAN INDUSTRY'S INNOVATION AWARD 2008 FOR X-GOLD™ 101

- b -

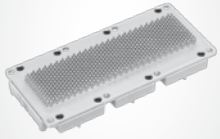
SESAMES AWARD FOR SLE 78 FAMILY


## AUTOMOTIVE

Our microcontrollers, sensors, and power semiconductors cover the three major automotive applications: powertrain, safety, as well as car body and comfort electronics.

- c -

HybridPACK™2 IGBT MODULE FOR ELECTRIC AND HYBRID DRIVETRAINS

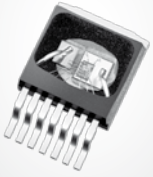


- d -

IGBT FOR ELECTRIC CAR BATTERY CHARGER


- e -

NovalithIC™ FOR SEATBELT TENSIONING SYSTEMS



## INDUSTRIAL & MULTIMARKET

The developments in this segment are driven by a quest for greater efficiency and component miniaturization. Greater power density means smaller modules and results in lower heat generation.

- f -

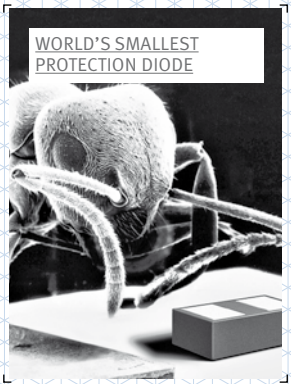
POWER MODULE IHM 1700V FOR WIND TURBINES

- g -

SILICON CARBIDE DIODE


- h -

WORLD'S SMALLEST PROTECTION DIODE



ENERGY EFFICIENCY SECURITY

## CHIP CARD & SECURITY

We have almost 25 years of experience in the development and manufacture of chipcards and security ICs and the related security aspects.

-i-

### CONTACTLESS ICs FOR ELECTRONIC PASSPORTS


-j-

### ELECTRONIC TICKETS FOR PUBLIC TRANSPORT


## WIRELESS SOLUTIONS

Time-to-market is critical for our customers. Through our single-chip mobile communication platforms, development tools, and customer support, we reduce development time to three to four months, compared with an industry average of twelve months.

-k-

### RF TRANSCEIVER SMARTi™ UE2


-l-

### ULTRA-LOW-COST SINGLE-CHIP SOLUTION X-GOLD™ 110


-m-

### 3G BASEBAND CHIP X-GOLD™ 613


## WIRELINE COMMUNICATIONS

Wireline Communications has become Lantiq. Lantiq drives broadband communication and offers the most comprehensive and innovative product portfolio for future network generations and digital home networks.

-n-

### DSL LINECARDS USED IN STREET CABINETS

-o-

### XWAY™ PRODUCT FAMILY FOR HOME GATEWAYS

CUSTOMERS

# PRODUCT QUALITY MAKES FOR A CONVINCING PARTNER

## FORGING NEW ALLIANCES AND SUCCESSFULLY CONCLUDING CUSTOMER PROJECTS



### AUTOMOTIVE

Cooperation agreement with global market leaders

### INDUSTRIAL & MULTIMARKET

Solar roof of Pope's audience hall in the Vatican with Infineon chips

### WIRELINE COMMUNICATIONS

Complex single-chip solutions for DSL, VoIP, and home networks

### CHIP CARD & SECURITY

One third of the UN's 192 member states use our chips

### WIRELESS SOLUTIONS

Over 130 million single-chip solutions sold

# CUSTOMERS

The fiscal year just ended was the most difficult in our history. Our customers and suppliers may also have watched with concern how our Company's value changed on the capital market and how the press reported on it to the public. It is therefore highly significant for us that we did not lose a single customer during this time of uncertainty. And what is more, our customers continued, as in previous years, to rely on us and the quality of our products. We are confident that we maintained or even expanded our market share in all segments in the 2009 fiscal year. The following examples of cooperation agreements, contracts, and customer projects provide the evidence.

## AUTOMOTIVE

### COOPERATION AGREEMENT FOR POWER SEMICONDUCTORS WITH BOSCH

Infineon and Bosch, the world's largest automotive supplier, look back on many years of cooperation. A new alliance, announced in March 2009, has two aspects. Firstly, Bosch will license from Infineon certain manufacturing processes for power semiconductors and the manufacturing technology necessary for their production. The second element of the cooperation is a second-source agreement, under which Infineon will continue, alongside the semiconductor manufacture by Bosch, to produce the components developed during this process and deliver them to Bosch. Through this cooperation, Infineon is not only increasing its market shares for the area of power semiconductors in the automotive segment, but will also be Bosch's preferred supplier for systems to control high electrical power. This is particularly relevant for new drive technology in hybrid vehicles and as well as for pure electrical drives.

### AUTOLIV OPTS FOR SEMICONDUCTORS FROM INFINEON FOR ITS SAFETY SYSTEMS

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Autoliv, the world's largest supplier of vehicle safety systems, only uses power semiconductors from our NovalithIC™ product family in its new generation of seatbelt tensioning systems. Instead of irreversible pyrotechnic ignition, Autoliv uses an electric motor, which automatically loosens or tightens the seatbelt while driving, depending on the load. If the vehicle's safety systems report that a collision is imminent, the seatbelts are tightened within milliseconds, thus reducing the risk of injury to passengers. Our power semiconductors have to instantly control the high currents required for this response.

According to market research company Strategy Analytics, Infineon is one of the two global market leaders in semiconductors for automotive electronics, with a market share of 9.5 percent; it is also the number one in Europe, where it has a 14.3 percent share of the market.

## INDUSTRIAL & MULTIMARKET

### TECHNICALLY SUPERIOR POWER SEMICONDUCTORS IN PRESTIGIOUS BUILDINGS

The stadium built in Kaohsiung, Taiwan, for the 8th World Games 2009 is the world's first such facility to generate all its power needs through solar modules. Infineon was commissioned by the Taiwan-based Delta Group, the world's largest producer of switching power supplies, as the main supplier of power semiconductors for the inverters. Inverters convert the direct current produced in the solar modules into alternating current, which is the type normally supplied through the grid, and thus form

the core of any solar installation. Our CoolMOS™ power semiconductors help push efficiency (ratio of input to output energy) to more than 98 percent.

An all-German co-production agreement was entered into in November 2008. The Vatican inaugurated its first solar power installation on the roof of the Pope's audience hall. The Bonn-based company SolarWorld supplied the photovoltaic modules and the inverters came from our customer SMA Solar Technology from Niestetal near Kassel. For the inverters, we contributed not only the CoolMOS™ power transistors, but also our IGBT modules.

### JOINT VENTURE WINS NEW CUSTOMERS IN ASIA

To further expand our power module presence in Korea and the rest of Asia, we have established a joint venture (JV) with the Korean company LS Industrial Systems. The JV, named LS Power Semitech, focuses on the development, manufacture, and marketing of CIPOS™ (control integrated power system) power modules. They increase the energy efficiency and reliability of domestic appliances with electronically controlled motor drives, such as washing machines, refrigerators, or air conditioners, as well as that of other consumer and industrial applications.

### CLEAREST MARKET LEAD YET IN POWER SEMICONDUCTORS

2008 was the sixth year in succession that Infineon was the global market leader in power semiconductors and modules, further expanding its number 1 position. According to market research conducted by IMS Research, Infineon holds the largest share of this market, at 10.2 percent, compared with 9.6 percent in 2007. Moreover, given market shares of between six and seven percent for the four closest competitors, the gap between Infineon and the competition has widened.

## CHIP CARD & SECURITY

### SECURITY CHIPS FOR INDIA'S ELECTRONIC DIPLOMATIC PASSPORT

For years Infineon has been a key supplier and innovation driver for the entire chipcard industry. Our long-standing major customers Gemalto, Giesecke & Devrient and Oberthur Card Systems are themselves market leaders in their respective card segments and continued to put their trust in us in the 2009 fiscal year. On the basis of these economic links, we remained the global chipcard market leader for the twelfth year in succession, accounting for a share of 26 percent (according to Frost & Sullivan, September 2009).

In the area of electronic identity and travel documents, which comprises passports, ID documents, healthcare cards, driver's licenses, and social security cards, our customers again regarded us as a strong partner in fiscal 2009, which is reflected in the large number of new supply agreements. For example, security chips from Infineon are used in all current national identification systems in Europe and in the Gulf states. In heavily-populated India, Infineon also won the contract for the supply of chips for diplomatic passports. However, this is not the only growth driver for chipcards. The boom in electronic tickets for public transport also continues. Especially in Asia's large conurbations, an increasing number of operators are switching to fast and easy payment for tickets and other small items using contactless cards. In total, around one third of the 192 UN member states, representing more than three billion people, use our security chips in the public sector.

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# WIRELESS SOLUTIONS

### COOPERATION WITH NOKIA EXTENDED TO INCLUDE EDGE PLATFORM

We have been supplying our ultra-low-cost XMM™ 1010 GSM platform to Nokia, the global leader in mobile communications, since October 2008. In April 2009, we expanded this cooperation by adding two platforms. Thus Nokia again opted for Infineon for the successor to the GSM platform. From the beginning of 2010, we will offer the XMM™ 1100 GSM/GPRS platform manufactured with 65-nanometer technology, an even more cost-effective solution for the low-cost phones in demand around the world. Another sign of trust and an extension to the existing supply relationship is the contract for the single-chip XMM™ 2130 EDGE platform, which represents the next step up in terms of complexity and functionality. This single-chip solution, which is also manufactured with 65-nanometer technology, allows manufacturers to offer mobile phones that give users even more cost-effective access to the rapidly expanding market for mobile internet. Delivery is expected to commence in fall 2010.

### EPSON: NEW PARTNER FOR ULTRA-SENSITIVE AND ULTRA-COMPACT GPS RECEIVERS

As a result of our development cooperation with Japan's Epson, we announced a new member of the A-GPS (advanced global positioning system) technology family in February 2009. The new chip, known as XPOSYS™, has been optimized for low power consumption and a small footprint. For this reason, it is used in mobile devices, especially mobile phones with navigation capabilities. Here XPOSYS™ is the ideal complement to our comprehensive product portfolio of powerful smartphone solutions. XPOSYS™' sensitivity has been pushed to levels not reached before, allowing extremely accurate positioning, even in buildings or narrow thoroughfares. At the same time, power consumption has been reduced by 50 percent and the footprint on the circuit board by 25 percent.

Epson's globally leading GPS baseband solutions and Infineon's high-frequency know-how form a perfectly symbiotic relationship. Moreover, Epson is the leading company in Japan's domestic market.

# WIRELINE COMMUNICATIONS

### INFINEON AND HUAWEI SIGN MASTER AGREEMENT FOR COMMUNICATION ICS

Infineon has a lasting business relationship with Huawei Technologies in China. In March 2009, Huawei and Infineon signed a master agreement for the supply of communication ICs and end-to-end chip solutions for Huawei's wireline and wireless communication systems. As a result of entering into this agreement, Huawei bought semiconductor solutions from Infineon worth 68 million U.S. dollars for use in central offices, CPE equipment, and mobile phone platforms in 2009.

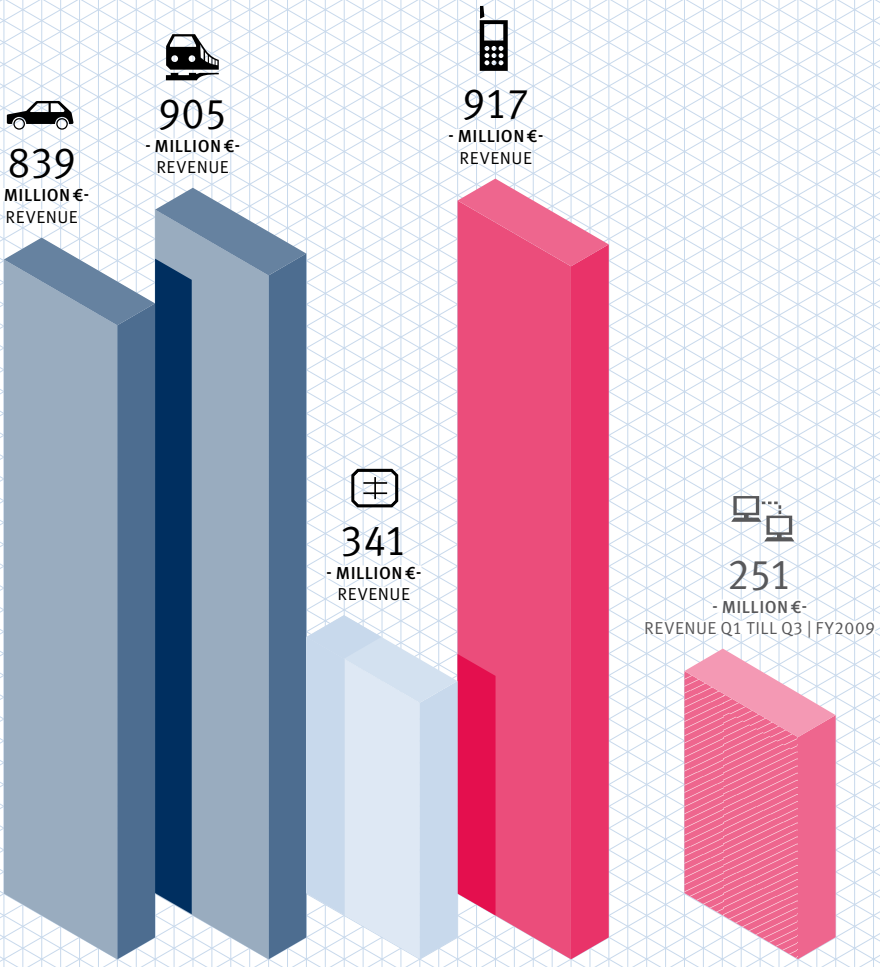
### INFINEON BENEFITS FROM THE EXPANSION OF CHINA'S COMMUNICATION INFRASTRUCTURE

The Broadband Access segment also benefits from the upgrading of infrastructure in China. Infineon firstly supplies components for wireline networks, in particular FTTB (fiber-to-the-building) networks. Secondly, our products benefit from the upgrading of the 3G mobile communications infrastructure – in all three air interface standards (W-CDMA, TD-SCDMA, and CDMA2000) used here.

THE DIVISIONS

# EXPANSION OF OUR SHARE IN OUR TARGET MARKETS

## PRODUCT RANGE FOCUSED ON MARKET SEGMENTS WITH THE GREATEST POTENTIAL FOR GROWTH




| | AUTOMOTIVE | INDUSTRIAL & MULTIMARKET | CHIP CARD & SECURITY | WIRELESS SOLUTIONS | WIRELINE COMMUNICATIONS |
|---|---|---|---|---|---|
| Market position [1] | 2 | 1 | 1 | 4 | 1 |
| Market share [1] | 9.5 % | 10.2 % | 25.5 % | 5.9 % | 27.0 % |

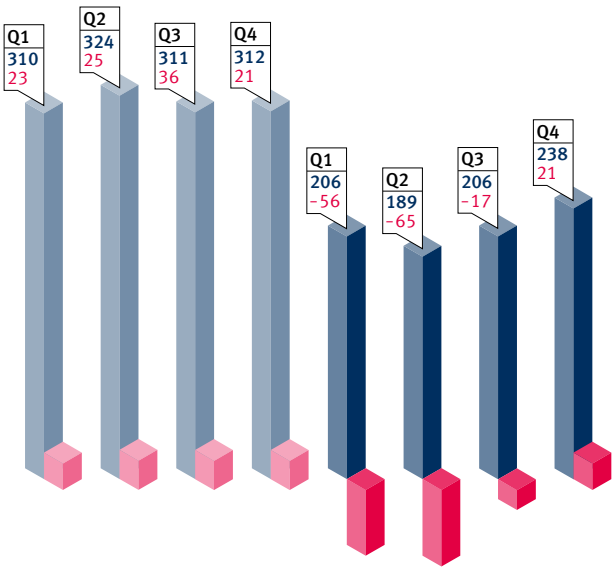
1 Source: see “At a Glance” (Cover)

ENERGY EFFICIENCY — SECURITY — COMMUNICATIONS

# THE DIVISIONS

## AUTOMOTIVE

INFINEON ACHIEVED REVENUE WORTH 839 MILLION EUROS IN THE AUTOMOTIVE SEGMENT IN THE 2009 FISCAL YEAR. THIS IS EQUIVALENT TO AROUND ONE THIRD OF THE REVENUE FROM CONTINUED OPERATIONS. THE SEGMENT RESULT AMOUNTED TO MINUS 117 MILLION EUROS.




Of all divisions, Automotive was hit hardest by the global downturn. Revenue fell by more than 30 percent compared to the previous year – the most severe year-on-year sequential decline in the company's history. After two quarters posting high losses, our restructuring efforts and the increasing utilization of fab capacity nonetheless began bearing fruit in the third quarter. With revenue totaling 230 million euros in the fourth quarter, we once again achieved a positive Segment Result.

2008 Revenue (in € million)
Segment Result (in € million)
2009 Revenue (in € million)
Segment Result (in € million)

With its microcontrollers, sensors and power semiconductors, the segment covers all the major automotive applications: powertrain, chassis electronics, safety and comfort electronics. Infineon is number one in the automotive electronics market in Europe, and number two worldwide. This success is founded on a bedrock of customer proximity, innovative products and technologies, as well as an industry-leading quality assurance program.

### ENVIRONMENT, SAFETY, AFFORDABLE CARS

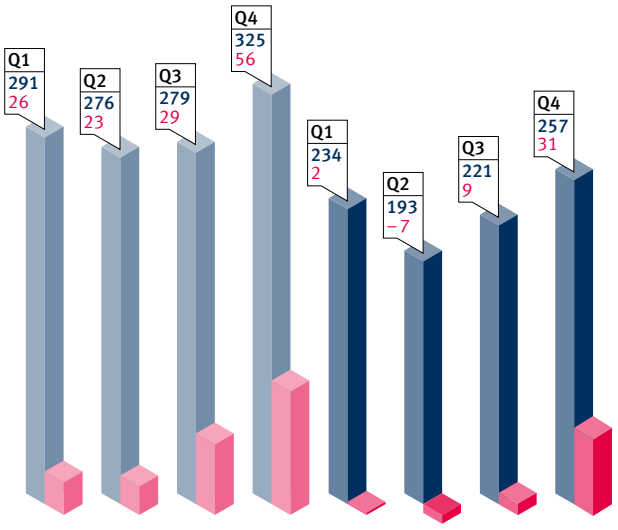
In its efforts to cut $CO_2$ emissions the automobile industry is seeking to improve conventional drives as well as working on the electrification of the powertrain – ranging from mild hybrid with automatic start-stop system, to full-hybrid cars, to vehicles powered by electric-only systems. With its power components and modules, Infineon is ideally positioned to compete in this key field.

Another priority is driver and passenger safety – Infineon supplies chips for active (radar, ESP, tire pressure monitoring systems) and passive (airbags, seatbelt pretensioners and side impact protection) safety systems.

In growth regions, too, the automobile has come to epitomize individual mobility. In countries like India and China there is one thing it must be above all else: affordable. Together with our customers we are striving not just to design vehicles that match people's requirements but also to hit cost targets. In China, the topic of electromobility will also become increasingly important.

# INDUSTRIAL & MULTIMARKET

INFINEON ACHIEVED REVENUE WORTH 905 MILLIONS EUROS IN THE INDUSTRIAL & MULTIMARKET SEGMENT IN THE 2009 FISCAL YEAR. THIS IS EQUIVALENT TO AROUND ONE THIRD OF THE REVENUE FROM CONTINUED OPERATIONS. THE SEGMENT RESULT AMOUNTED TO 35 MILLION EUROS.




Revenue fell by around 23 percent compared to the previous year. Revenue in the seasonally weak second quarter accounted for the single loss posted in the course of the fiscal year. Revenue picked up again in the second half, driven by stronger end-customer demand primarily in the computer, communications and industry sectors.

A margin of more than 12 percent was achieved in the Segment Result following strong fourth-quarter sales.

2008 Revenue (in € million)
Segment Result (in € million)
2009 Revenue (in € million)
Segment Result (in € million)

Supplying power in an environmentally responsible way means generating electrical energy from sustainable sources, transferring it efficiently, distributing it reliably and in turn using it efficiently. Infineon is the only company worldwide to provide power semiconductors and power modules for the entire process of generating, transmitting and converting electrical energy. Our products are hugely significant for energy supply in the future – both in the use of renewable energies and in the efficient use of energy. For example, our components control the energy input for electric drives, domestic appliances and lighting.

The market segments in which our products are used are as diverse as our product range. As well as being used in traditional industry segments, our power components and modules, custom ICs and RF and protection devices are also to be found in fields such as medical electronics, consumer electronics, computing and communications.

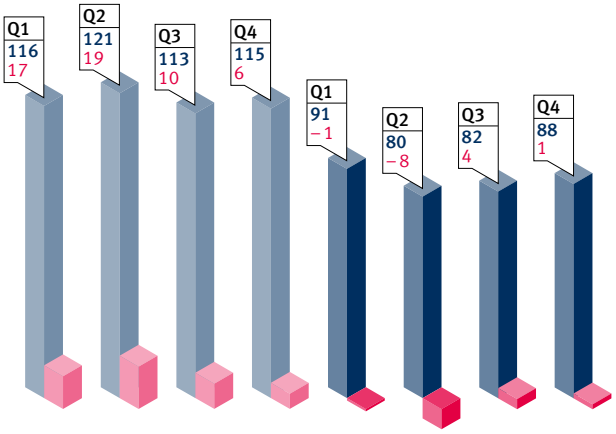
### ENERGY EFFICIENCY AND SYSTEM MINIATURIZATION

Alongside the demand for more efficient use of electrical energy, we see the desire for increasingly space-saving systems as a strong engine for growth. This means making the control electronics for electrical equipment smaller and more energy-efficient and enabling steadily shrinking enclosure volumes for energy conversion. That is why our innovative solutions are found in power supplies for notebooks and mobile phone chargers, as well as in rail vehicles or wind turbines. Apart from their significantly higher power density, key features of new module generations include lower losses and improved interconnect and packaging technology.

For RF and protection devices, the spotlight is turned on improving the radio frequency characteristics and on protecting electronic components. These components are used in mobile devices, for example, and what counts most there, apart from power consumption, are functionality and external dimensions.

# CHIP CARD & SECURITY

INFINEON ACHIEVED REVENUE WORTH 341 MILLION EUROS IN THE CHIP CARD & SECURITY DIVISION IN THE 2009 FISCAL YEAR. THIS IS EQUIVALENT TO AROUND TEN PERCENT OF THE REVENUE FROM CONTINUED OPERATIONS. THE SEGMENT RESULT AMOUNTED TO MINUS 4 MILLION EUROS.




Revenue fell by close to 30 percent compared to the previous year. The reasons can be found firstly in the general market trend marked by the world economic crisis, and secondly in the decline in project-specific revenue.

2008 Revenue (in € million)
Segment Result (in € million)
2009 Revenue (in € million)
Segment Result (in € million)

For the twelfth year running, Infineon is the world's leading vendor of chips for passports, ID cards, bank cards, mobile subscriber authentication (SIM cards), access cards and trusted-computing solutions, as well as being a technology driver in the hardware-based security field.

Our success is based among other things on numerous innovations in three core competencies:
- security solutions matching customer requirements (tailored security),
- cutting-edge technology for contactless security applications (contactless excellence) and
- optimized chip concepts taking into account performance, power consumption and security requirements while at the same time optimizing costs (embedded control).

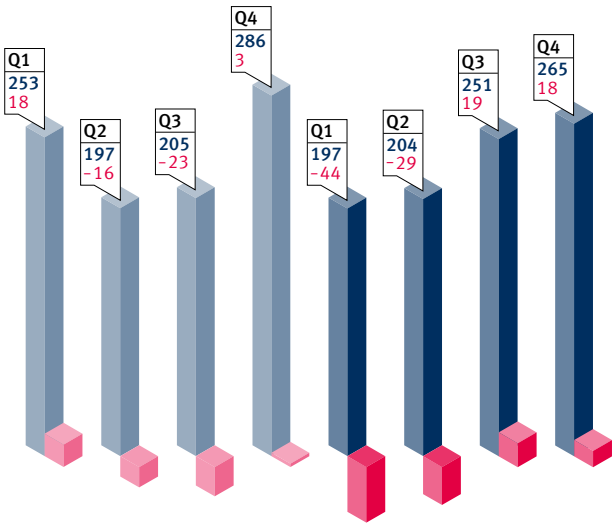
Deploying security solutions enables increasing numbers of forward-looking applications to be realized in communications, transportation and IT infrastructure. Infineon provides the industry's largest portfolio of chips and interfaces for fulfilling the security requirements in any particular field. Electronic personal documents is one of the fastest-growing application areas for security chips requiring the highest security and quality standards.

The Company is also expanding its business segments beyond the traditional plastic card with applications featuring other package designs, for example for measurement data acquisition in the field of machine-to-machine communication, security concepts for trademark protection or integrated security for payment and ticket functions in mobile phones via NFC (Near Field Communication).

With these initiatives Infineon is helping provide greater data security in today's information society. The Company's innovations in security and contactless technology combine increasing mobility and freedom with individual security and privacy.

# WIRELESS SOLUTIONS

INFINEON ACHIEVED REVENUE WORTH 917 MILLION EUROS IN THE WIRELESS SOLUTIONS DIVISION IN THE 2009 FISCAL YEAR. THIS IS EQUIVALENT TO AROUND ONE THIRD OF THE REVENUE FROM CONTINUED OPERATIONS. THIS MADE WIRELESS COMMUNICATIONS THE LARGEST DIVISION WITHIN THE INFINEON GROUP. THE SEGMENT RESULT AMOUNTED TO MINUS 36 MILLION EUROS.




Revenue fell by only three percent compared to the previous year – an outstanding result considering the global economic environment. This can be attributed to the successful market launch of our 3G mobile platforms starting in the second quarter of the fiscal year. Following further losses in the first two quarters, we were once again able to achieve gains in the second half.

2008 Revenue (in € million)
Segment Result (in € million)
2009 Revenue (in € million)
Segment Result (in € million)

Infineon not only manufactures traditional mobile phone components such as baseband processors, radio frequency transceivers and power management chips for the devices; it also provides complete platforms including software solutions, customizing and essential interoperability tests. The large mobile phone manufacturers are relying more and more on these integrated platform solutions and reducing their inhouse development in equal measure. Infineon sees itself as leading in the fields of RF technology, system-on-chip integration and system software.

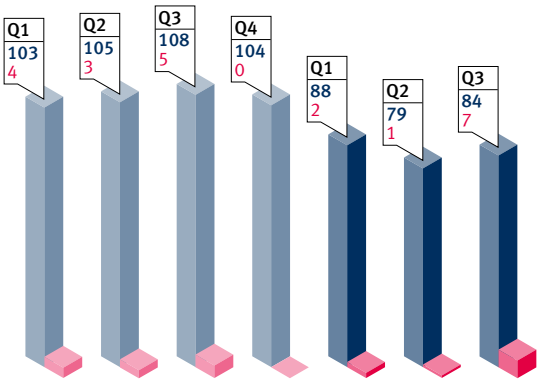
Two segments boasting substantial growth rates are mobile phones supporting high data rates and an extensive set of applications on the one hand, and extremely affordable Ultra-Low-Cost (ULC) mobile phones on the other.

Mobile use of the internet is seen as one of the greatest drivers of growth in the industry. In fact, mobile phones are the only means of accessing the internet for many users. That is why it is becoming increasingly important to make the advantages of fast 3G connections available not just in the premium segment, but also in the low-end price segment of the market. We are catering for both trends with our high-performance HSPA as well as our low-cost 3G platforms, both of which enjoy a high level of acceptance among our customers.

The ULC segment is driven by the strong demand for extremely cheap mobile phones from first-time buyers in emerging markets. We are benefiting from this development with our single-chip solutions, which integrate the most important mobile communication elements such as baseband processor, transmit and receive unit, power management and memory monolithically on one chip. The impressive total of more than 130 million single-chip solutions sold to date speaks for itself.

# WIRELINE COMMUNICATIONS

DURING THE FIRST THREE QUARTERS OF THE 2009 FISCAL YEAR THE WIRELINE COMMUNICATIONS DIVISION ACHIEVED REVENUE OF 251 MILLION EUROS AND A SEGMENT RESULT OF 10 MILLION EUROS. REVENUE AND SEGMENT RESULT FOR THE FOURTH QUARTER WERE SHOWN AS DISCONTINUED OPERATIONS.




Revenue in the Wireline Communications division fell by around 20 percent compared to the corresponding quarters of the previous year. Encouragingly, no loss was reported in any quarter. At 10 million euros, the Segment Result of the first three quarters was only slightly behind the Segment Result of 12 million euros for the same comparable period last year. Revenue and Segment Result for the fourth quarter of the 2009 fiscal year were shown as discontinued operations.

2008 Revenue (in € million)
Segment Result (in € million)
2009 Revenue (in € million)
Segment Result (in € million)

In July 2009 Infineon announced its intention to sell Wireline Communications to the U.S.-based investor Golden Gate Capital. The transaction was completed on November 06, 2009 with the transfer of all products, projects and locations to the new, independent company named Lantiq.

Lantiq powers broadband communications, offering the broadest and most innovative product portfolio for next-generation networks and the digital home. Growth is expected above all in areas such as interactive television (IPTV), home networking and IP-based networks.

14 h The new company is one the few vendors able to provide a complete end-to-end product portfolio and integrate DSL, VoIP and home networking into complex single-chip solutions. New services like IPTV require powerful broadband connections – from the central office to every point in the home. Lantiq is ideally positioned in precisely this sector.

14 o Acquiring most significance in today's market are solutions for customer premises equipment (CPE), the next generation of which will support all transmission standards: WLAN 11n, DECT/CAT-iq, Gigabit Ethernet and the DSL variants ADSL2+/VDSL2 with data transfer rates of up to 100 megabits per second.

Lantiq employs around 900 people at 14 locations worldwide.

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

| As of | September 30, 2008 | September 30, 2009 | Change |
|---|---|---|---|
| Share capital in € millions | 1,499 | 2,173 | +45 % |
| Shares outstanding in millions [1] | 750 | 1,087 | +45 % |
| Yearly average in millions [2] | 813 | 855 | +5 % |
| Market capitalization in € millions | 2,624 | 4,189 | +60 % |
| Market capitalization in U.S. $ millions | 3,790 | 6,129 | +62 % |

**1** undiluted **2** diluted

## SHARE INFORMATION

| | |
|---|---|
| Share types | Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of 2.00 euros each (ADS:shares = 1:1). |
| Share capital | €2.173 million (as of Sept. 30, 2009) |
| Shares outstanding | 1,087 million (as of Sept. 30, 2009) |
| Listings | Shares: Frankfurt Stock Exchange (FSE) |
| | ADS: over the counter market (OTCQX) |
| Options on trading | Shares: inter alia Eurex |
| Initial Public Offering (IPO) | March 13, 2000 on FSE and New York Stock Exchange (NYSE) |
| IPO issue price [1] | €31.31 per share |
| | U.S. $30.35 per ADS |
| Ticker symbol | IFX, IFNNY |
| ISIN Code | DE0006231004 |
| German Security Identification Number (WKN) | 623100 |
| CUSIP | 45662N103 |
| Bloomberg | IFX.GY (Xetra trading system), IFNNY US |
| Reuters | IFXGn.DE |
| Index membership (selected) | DAX-30<br>Dow-Jones-German-Titans-30<br>Dow Jones Euro Stoxx Technology<br>MSCI Germany<br>S&P-Europe-350 |

## INFINEON SHARE STATISTICS
FISCAL YEAR ENDING SEPTEMBER 30

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Europe: Xetra close** in € | | | |
| Fiscal year close [1] (end September) | 10.82 | 3.50 | 3.86 |
| Year high [1] | 12.02 | 10.69 | 4.00 |
| Year low [1] | 8.28 | 3.27 | 0.35 |
| Daily average shares traded | 11,728,323 | 16,992,529 | 24,100,158 |
| Of which Xetra trading in % | 98 | 98 | 92 |
| **USA: NYSE close (2007, 2008), QTCQX close (2009)** in U.S. $ | | | |
| Fiscal year close [1] (end September) | 15.89 | 5.17 | 5.60 |
| Year high [1] | 17.27 | 15.84 | 5.82 |
| Year low [1] | 10.88 | 4.85 | 0.43 |
| Daily average ADS traded | 2,433,757 | 2,895,908 | 1,578,963 |

**1** The Infineon share price trades ex subscription rights after the capital increase. Historical prices have been adapted.

## SHAREHOLDER STRUCTURE [1]

| | |
|---|---|
| Dodge & Cox (as per Aug. 05, 2009) | 9.95% |
| Capital Group International (as per June 07, 2006) | 4.95% |
| Odey Asset Management LLP (as per Apr. 27, 2009) | 3.16% |

**1** In accordance with compulsory notifications known to Infineon. The number of shares held by the investors listed in the table above is taken from the respective latest shareholder notification to Infineon. The stated percentages refer to the existing share capital at the date of the respective notification (until August 4, 2009: 749,742,085 shares; until August 11, 2009: 1,072,569,049 shares; as of August 11, 2009: 1,086,742,085 shares).

Freefloat: 100% according to the definition used by FTSE.

**FOR FURTHER INFORMATION PLEASE CONTACT INFINEON'S INVESTOR RELATIONS TEAM:**
PHONE: +49 89 234 26655 ∘ FAX: +49 89 234 955 2987 ∘ E-MAIL: INVESTOR.RELATIONS@INFINEON.COM

# THE INFINEON SHARE

## GLOBAL RECESSION AND UNRESOLVED REFINANCING IMPACT THE SHARE PRICE IN THE FIRST HALF OF THE FISCAL YEAR

The Infineon share price rose by 10 percent in the 2009 fiscal year, from 3.50[1] euros as of September 30, 2008 to 3.86 euros (Xetra closing price) as of the end of September 2009.

Because of the financial crisis and the global recession, which had led to an abrupt collapse in revenue and earnings, the price of Infineon shares fell sharply until the beginning of March 2009. For example, the Infineon share price decreased by 40 percent when the Company announced in December 2008 that it expected revenue to contract by around 30 percent in the first quarter of the 2009 fiscal year. Moreover, the capital market doubted the Company's ability to refinance its convertible and exchangeable notes maturing in June and August 2010. Weakness in the memory business and the uncertain financial situation at Qimonda, its application to open insolvency proceedings in January 2009, and the risks remaining after insolvency also had a negative impact on the Infineon share price.

The invitation to the 2009 Annual General Meeting of Shareholders, which included a proposal to increase the Authorized Capital, and a better-than-expected outlook for the second half of the fiscal year only gave a temporary boost to the share price in January and February 2009.

The share price fell to its low for the year of 0.35[1] euros on March 9, 2009, thus trading at 90 percent below its level at the end of September 2008. The continuous collapse of the share price led to Infineon being excluded from the Philadelphia Stock Exchange Semiconductor Index (SOX) in March. On March 23, it moved from the German DAX Stock Index to the TecDax. In addition, on April 24, Infineon delisted its American Depositary Shares (ADSs) from the New York Stock Exchange (NYSE) and listed them on the over-the-counter OTCQX market.

Comparable indices also saw a downward trend in the first half of the 2009 fiscal year. Thus by March 31, 2009, the Dow Jones U.S. Semiconductor Index had lost 22 percent, the Philadelphia Stock Exchange Semiconductor Index 25 percent, and the German DAX Stock Index 30 percent. The Infineon share price had fallen by 78 percent in the same period.

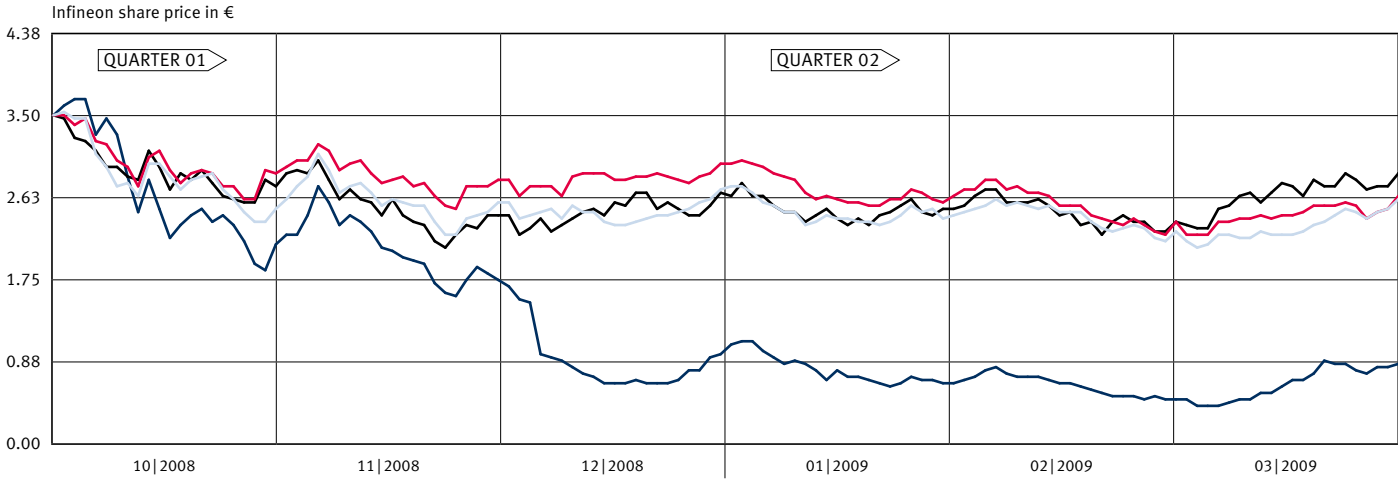
## SHARE PRICE BENEFITS FROM ECONOMIC RECOVERY AND OPERATING SUCCESS IN THE SECOND HALF OF THE FISCAL YEAR

In the middle of March 2009, the economic situation started to stabilize and the mood in the financial markets began to turn gradually. Infineon also saw a turnaround in its share price development in the second half of the fiscal year. The share price responded positively in particular to the successful refinancing of the financial liabilities, cost reductions, and the upward trend in the operating business.

The ultimately decisive factor for the vigorous recovery in Infineon's share price was the Company's activity in spring and summer 2009 to stabilize the financial situation. The offer presented to bondholders in May to buy back some of the bonds maturing in 2010 led to a sustained increase in the share price. The market also responded positively to the issue of new subordinated convertible notes. At that point, some analysts significantly increased their earnings estimates and the target price of Infineon shares. The announcement of the sale of Wireline Communications to Golden Gate Capital and the successful implementation of a capital increase, backed by anchor investor Apollo Global Management LLC, drove the share price up further during the summer months. It reached its high for the year of 4.00 euros on September 11, 2009.

**1** The Infineon share price trades ex subscription rights after the capital increase. Historical prices have been adapted.

16 **DEVELOPMENT OF THE INFINEON TECHNOLOGIES AG SHARE COMPARED TO GERMANY'S DAX INDEX AND TECDAX INDEX AND THE DOW JONES U.S. SEMICONDUCTOR INDEX FROM THE BEGINNING OF THE 2009 FISCAL YEAR** (DAILY CLOSING PRICES)




In addition to announcements relating to the refinancing, news from the operating business also had a positive effect in the second half of the fiscal year. For example, Infineon announced an alliance with Bosch in the area of power semiconductors and intensified its cooperation with Nokia on low-cost mobile phone platforms.

The Infineon share price ended the fiscal year at 3.86 euros as of September 30, 2009, approximately an elevenfold increase over its low of 0.35[1] euros on March 9, 2009. The market capitalization as of the end of the fiscal year, which is based on the new number of shares outstanding of around 1,087 million, was around 4.2 billion euros, as against 262 million euros based on around 750 million shares as of March 9, 2009. The good performance of the Infineon share price led to the stock's readmittance to the DAX on September 21.

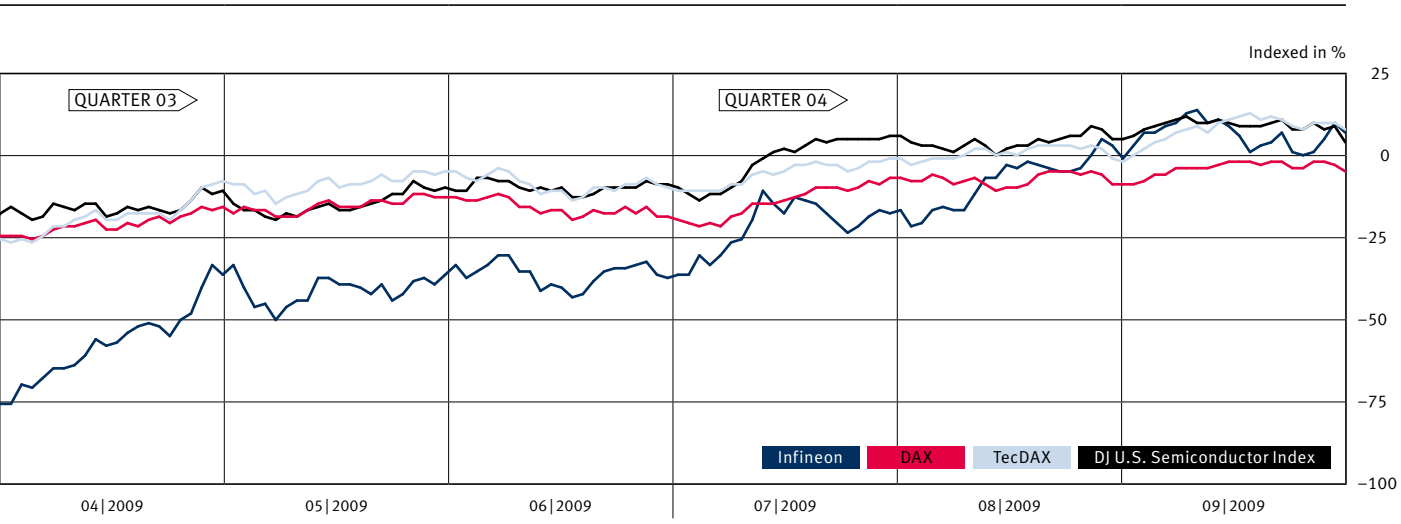
The stabilization of the global economy in the second half of the fiscal year also boosted the relevant benchmark indices. The Dow Jones U.S. Semiconductor Index and the Philadelphia Stock Exchange Semiconductor Index each rose by 41 percent between March 31 and the end of September 2009, while the TecDax increased by 58 percent and the German DAX Stock Index by 39 percent. The price of Infineon shares rose by 396 percent in the same period.

## CAPITAL INCREASE RAISES NUMBER OF SHARES OUTSTANDING; LIVELY TRADE IN INFINEON SHARES

Infineon placed 337 million new shares as part of the capital increase. Following entry in the Commercial Register, the total number of Infineon shares outstanding rose to around 1,087 million, up from around 750 million shares before the capital increase. As of September 30, 2009, three shareholders each held more than 3 percent of the shares outstanding in relation to the share capital in existence at the time of the respective compulsory notification.

15

1 The Infineon share price trades ex subscription rights after the capital increase. Historical prices have been adapted.




## 17 RELATIVE PERFORMANCE OF THE INFINEON SHARE AND WORLDWIDE INDICES

| Through end September 2009 | Since end September 2007 | **Since end September 2008** |
|---|---|---|
| **Europe** | | |
| Infineon (Xetra) | (64.33%) | +10.29% |
| DAX | (27.81%) | (2.67%) |
| TecDAX | (21.56%) | +10.48% |
| DJ-Stoxx-50 | (35.77%) | (6.88%) |

| Through end September 2009 | Since end September 2007 | **Since end September 2008** |
|---|---|---|
| **USA** | | |
| Infineon (OTCQX) | (67.40%) | +8.32% |
| DJ U.S. Semiconductor Index | (29.84%) | +9.26% |
| Philadelphia Semiconductor Index (SOX) | (35.41%) | +6.15% |

15 The volatility in the global markets and Infineon's refinancing activities led to an increased volume of Infineon shares being traded in the 2009 fiscal year. Trading volume increased by a total of 42 percent on Xetra, the Frankfurt Stock Exchange, and German regional stock exchanges, with an average of 24.1 million Infineon shares traded every day (2008 fiscal year: 17.0 million). By contrast, the volume of ADSs traded on the New York Stock Exchange and the over-the-counter OTCQX market fell to an average of 1.6 million ADSs traded a day, compared with 2.9 million in the previous year. ADSs as a proportion of the total number of Infineon shares outstanding decreased in the period under review: There were 106.6 million ADSs in circulation at the beginning of the fiscal year, and 36.8 million by the end of the fiscal year.

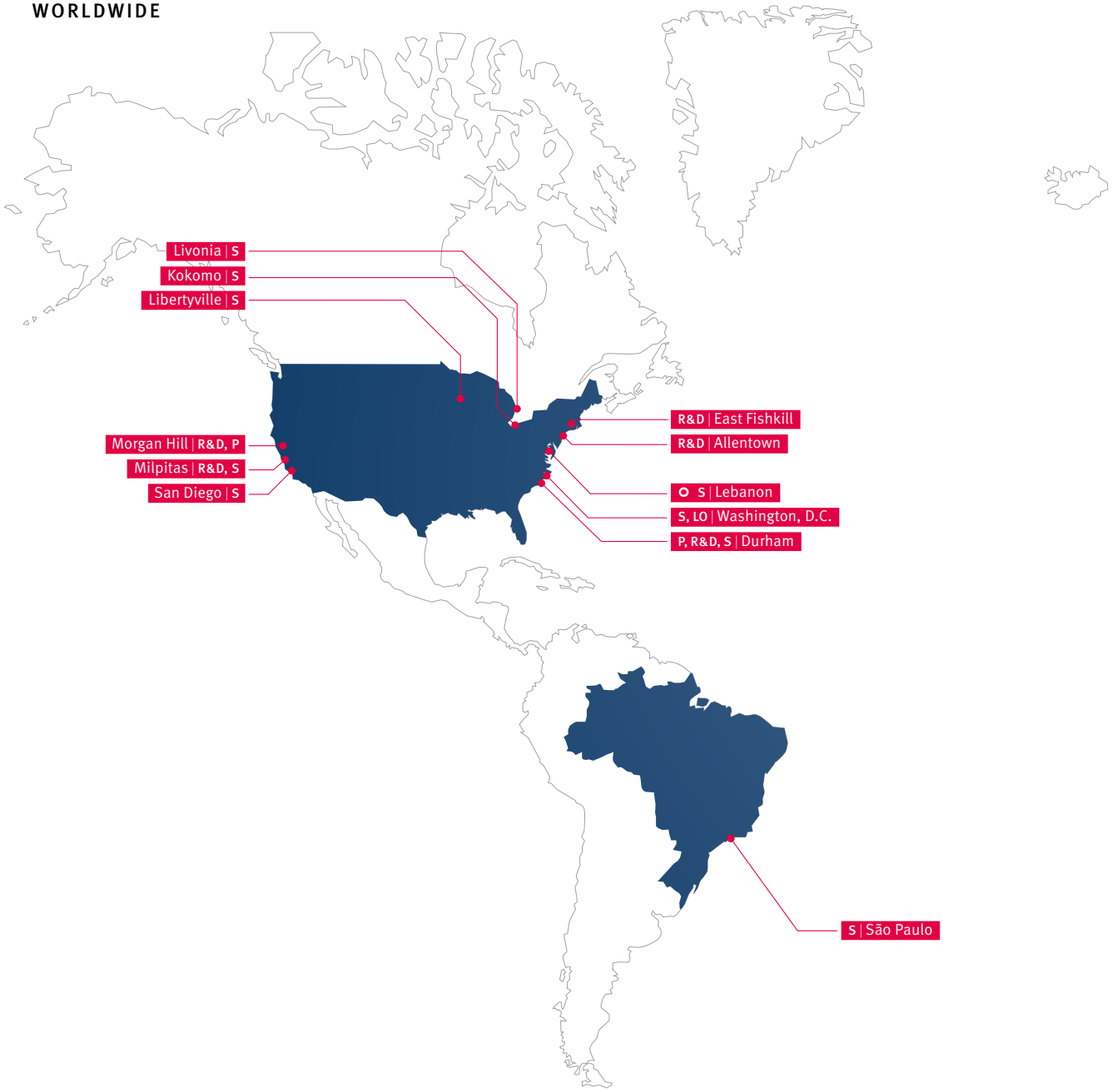
As in previous years, the Management Board and Supervisory Board will not propose a dividend to the Annual General Meeting of Shareholders, reflecting the fact that the Group's parent company, Infineon Technologies AG, did not achieve an accumulated net income for the fiscal year. The accumulated deficit at the end of the 2009 fiscal year amounted to 5,940 million euros (2008 fiscal year: 5,252 million euros).

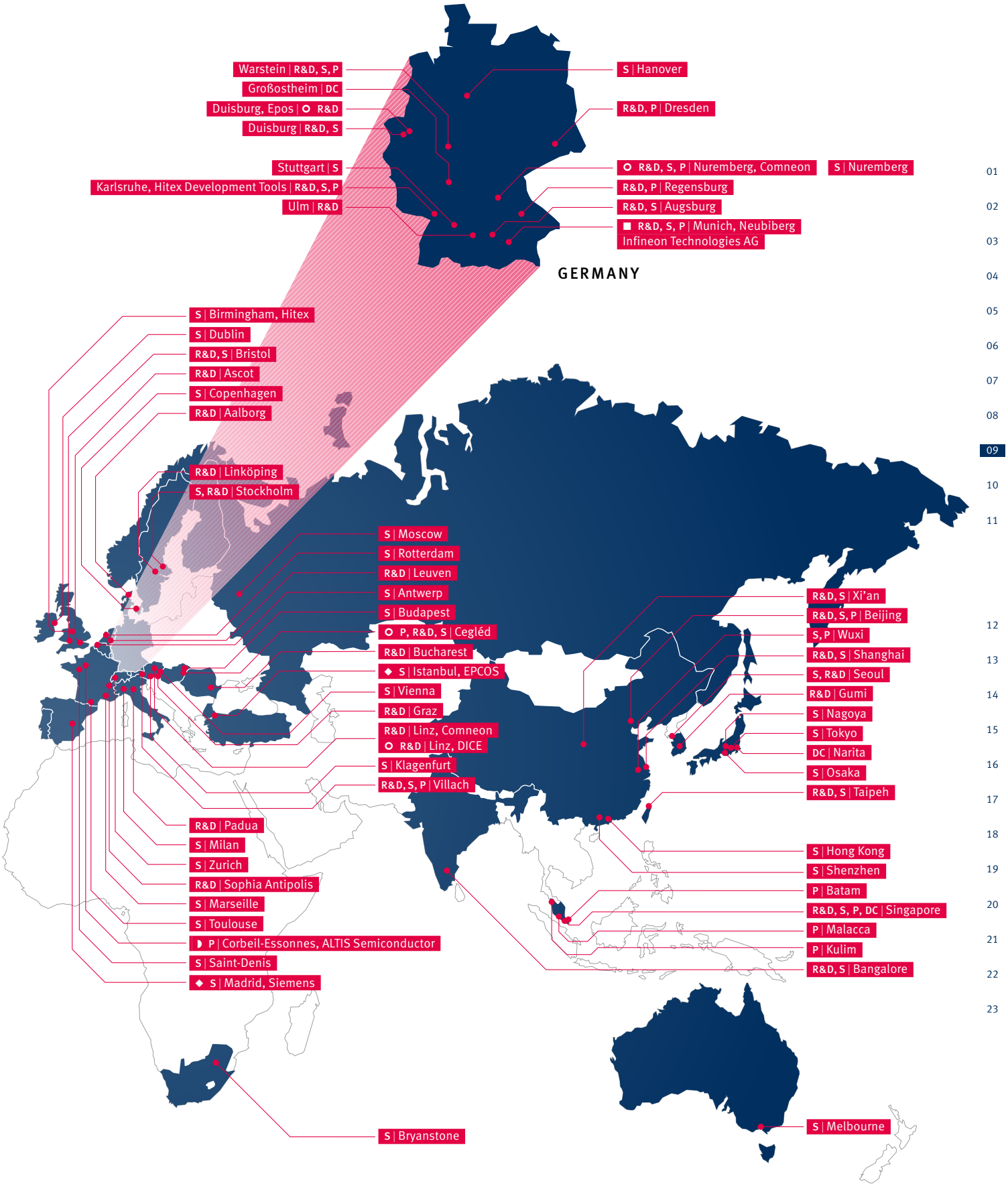
01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23

Infineon sites

- ■ Headquarters
- ◗ Joint Venture
- ○ Majority holding
- ◆ Representative office
- P Production
- R&D Research & Development
- S Sales
- DC Distribution center
- LO Liaison office

## WORLDWIDE






01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23

# RESPONSIBILITY – FOR THE BENEFIT OF PEOPLE AND THE ENVIRONMENT

Sustainable management requires voluntary responsibility taking. At Infineon, we have been taking sustainability and therefore environmental protection very seriously for many years. We do so efficiently: On the basis of an analysis of our own "ecological footprint", we have defined our key areas for action and implemented concrete optimization programs where it results in genuine ecological benefit.

The manufacture of semiconductors, like virtually any industrial production process, is not possible without the use of energy, especially electricity. In this regard we focus on our front-end manufacturing, where silicon wafers are structured, for technology reasons. Through consistent optimization, we have reduced the specific energy consumption of these sites in the EU by around 20 percent in the past seven years. Figure 19 shows what is known as "negajoules" in relation to the 2001 base year, i.e., the cumulated energy consumption avoided by increasing efficiency. The around 2.2 terawatt hours saved until 2008 are equivalent to the annual power consumption of a large city with 2 million inhabitants.

Another key parameter that we consistently optimize as a major contribution to climate protection is the use, and thus the emission, of gases specified in the Kyoto Protocol. Thus, as early as 2007 our Company achieved the sector's voluntary commitment in Europe – by implementing knowledgeable concepts using alternative chemicals and intelligent ways of exhaust air treatment.

But we do not rest on our laurels, and instead continuously drive optimization and encourage our partners and suppliers in the industry to follow our approach. The analysis of a company's ecological footprint must not stop at its own factory gate, but has to adequately take into account the economic life-time of the products made. Ultimately, the question needs to be asked whether the use of resources to manufacture a product can be justified from an ecological point of view.

In addition to enhancing security and allowing modern communication, supporting energy-efficient concepts and end products and making them feasible in diverse application areas is a key objective for our Company. One example are our semiconductors for stand-by applications, which are integrated into the power supply unit of desktop computers. During a PC's average useful life of 6.6 years, our semiconductor saves around 45 kilograms of carbon dioxide compared with conventional products, while only 800 grams of carbon dioxide arise during its production.

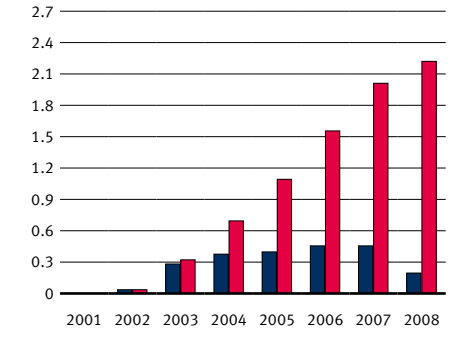
This example illustrates that innovation and ecological responsibility go hand-in-hand at Infineon. The use of our products also makes sense from an ecological point of view – it pays off for the environment.

In these achievements, our Company is always guided by the lead principle of voluntary social responsibility, which we have practiced for years as signatories to the UN Global Compact initiative. Other examples include our modern occupational health and safety concepts, which we subject to consistent and transparent reviews in order to identify further optimization potential. Our global statistics for accidents in the workplace per year and per 1,000 employees illustrate that we have made great strides in this area. According to these statistics, our worldwide accident figures are significantly below the average of the German Institution for Statutory Accident Insurance and Prevention in the Energy, Textile, and Electric Sectors even though we record accidents resulting in at least one day's absence from work.

This success is not the outcome of a static concept, but of a dynamic process that has its origins in the awareness of each individual employee and partner. And this is what we build on: With systematic training and information exchange across national borders and locations, we are always on the lookout for new improvement opportunities we can implement.

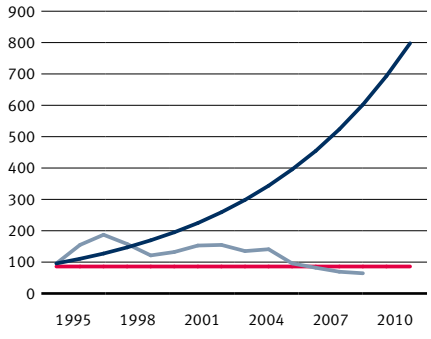
To take responsibility for people and the environment is the basic idea of the modern integrative concept, which pools the areas of activity described above and on which we base our actions at Infineon. These ideas have been developed in concert with the principles of the UN Global Compact and implemented in our Company through defined processes and rules. However, the most important aspect is that social and ecological principles are lived at Infineon, at our manufacturing facilities, in our products, and in our day-to-day behavior.

**19 NEGAJOULES**
TWh



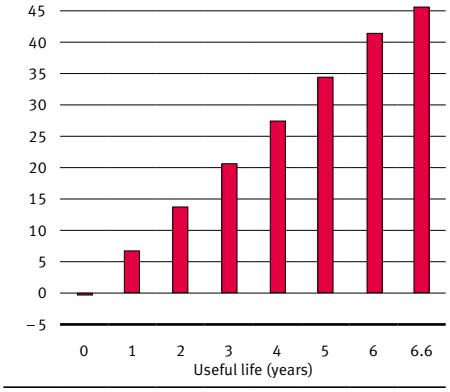

Negajoules
Negajoules cumulated

**20 PFC EMISSIONS 1995 TO 2010 (EU)**
$CO_2$ EQUIVALENTS (%)



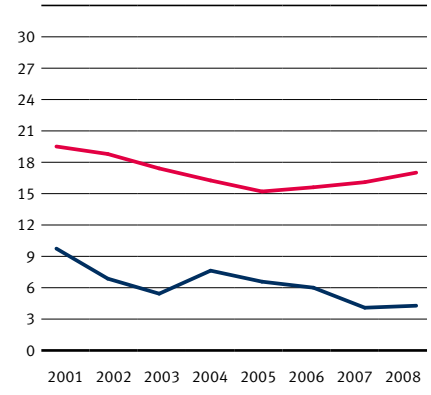

Estimated emissions
Goal based on the voluntary commitment
Real emissions

**21 $CO_2$ SAVED WITH AN INTEGRATED INFINEON PRODUCT** kg




Comparison of state-of-the-art semiconductor with new Infineon product

**22 STATISTICS ON OCCUPATIONAL ACCIDENTS**
PER 1,000 EMPLOYEES




Infineon (worldwide): accidents as of 1 day of absence
German Institution for Statutory Accident Insurance and Prevention in the Energy, Textile and Electric Sectors: accidents as of 3 days of absence

# HR WORK AS PART OF CRISIS MANAGEMENT

In fiscal year 2009, Infineon made massive cost savings under the IFX10+ program and countered the effects of the financial and economic crisis with intensive crisis management. In this regard, Human Resources faced challenges on several fronts at the same time: Considerable personnel cost savings and organizational changes had to be actively initiated and their implementation supported and monitored. These included the HR aspects of implementing strategic reorganization and divestiture projects, such as the sale of the Wireline Communications Division. In supporting the savings measures and change projects, our aim was to take our managers and employees, including employee representatives, along with us on this difficult journey, to simplify HR processes, as well as to maintain a minimum level of normal HR work.

## IMPORTANT CONTRIBUTIONS TO COST AND CASH MANAGEMENT

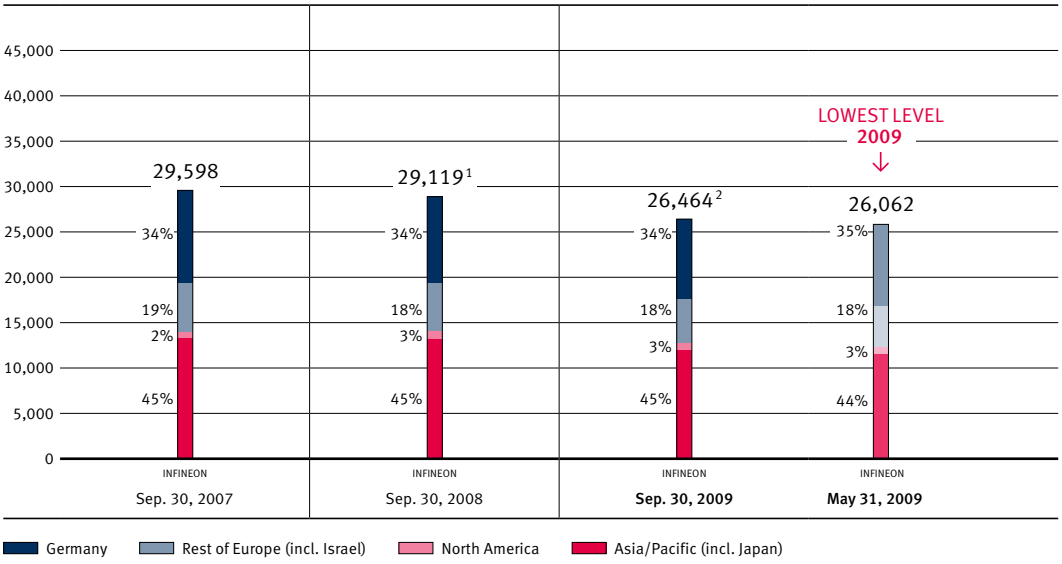
The personnel-related measures under IFX10+ consisted firstly of a workforce reduction: As early as July 2008, a reduction by 3,000 employees was announced. Most of the reduction was implemented in the 2009 fiscal year. By May 2009, the extent of the job cuts had peaked at 3,057 permanent and approximately 300 temporary employees worldwide, compared with the beginning of the fiscal year. Until fall 2009, as demand recovered, triggering the need to expand capacity again, the plants not only reduced the extent of short-time work, but some locations even created permanent and, in particular, temporary jobs. A total of 26,464 people were employed at Infineon at the end of the fiscal year on September 30, 2009. Compared to the previous year, the number of employees as at September 30 has therefore decreased by 2,655.

23

In addition, we developed and implemented a large number of individual measures to reduce personnel costs: Some of them were temporary, such as the implementation of short-time work and the unpaid leave program (for managers around the world and at our international locations as an equivalent of short-time work in Germany), travel restrictions with the aim of halving global travel expenses, and a cut in external training and development measures. Our withdrawal from the Employers' Association of Bavarian Electrical and Metalworking Industries (VBM) and the subsequent suspension of salary increases for payscale and non-payscale employees was likewise intended to make our labor costs more flexible. We decided to take this step so that we can adapt our wage and salary costs in Germany more easily to the rapid changes in the semiconductor market. In addition, we aligned our global bonus and incentive rules for non-payscale employees with our return on capital employed (RoCE) and thus made it robust enough to deal with crises. Other measures of a more permanent nature included the curtailment or termination of social benefits, such as the abolition of long service bonuses and a reduction in staff restaurant subsidies.

This shows that the cost savings were implemented across the board; there were no "sacred cows". The measures to reduce personnel costs delivered the largest single contribution to IFX10+, but also put considerable strain on employees and management alike.

23 **EMPLOYEES BY REGIONS**
BASIS: CONSOLIDATED IFX COMPANIES, NOMINAL




**1** Includes 602 employees directly assigned to our Wireline Communications business, as of Sep. 30, 2008.
**2** Includes 574 employees directly assigned to our Wireline Communications business, as of Sep. 30, 2009.

Approximately 860 employees are to be transferred to Lantiq upon closing of the sale of the Wireline Communications business.

### INTENSIVE EMPLOYEE COMMUNICATION AND INVOLVEMENT

It would not have been possible to implement IFX10+ without the continuous and constructive cooperation with the employee representatives and intensive involvement of the employees themselves. By integrating the Internal Communications department into Human Resources, we achieved a completely novel way of closely interlinking HR work and employee communications. The focus was on intensifying the CEO/Management Board communication, quarterly communication, and crisis project communication, while providing targeted support for change management. We used tools such as CEO videos, e-mails from the Management Board, management briefings by phone, and employee meetings at our locations around the world to provide regular reports on our Company's performance and the status of cost and crisis management programs. Queries and requests from employees were addressed all the time and responded to either directly by Human Resources or through line management. For specific issues, such as conducting severance dialogs, introducing short-time working, or managing personnel in difficult times, our internal HR specialists and consultants designed and conducted training events for managers.

### STABLE FACTORS IN HR WORK

A crisis year like the one just ended demands adjustments on all sides, so that some established HR programs had to be discontinued or reconfigured. Nevertheless, we felt it was important to maintain selected HR programs and processes of critical importance to the Company – of course in a way that was appropriate to the external circumstances. These anchors of HR work also reflect our focus on certain basic values:

In personnel management and development, for example, we implemented a leaner version of our STEPS employee development process, maintaining the feedback dialog between line manager and employee as a core element. Moreover, we have turned our previous two-day assessment centers for high potentials into focused internal assessment interviews. Where there were insufficient funds for external measures, we regarded this as an opportunity for managers and experts to take charge themselves, with support from the HR department. These initiatives ranged from internal coaching and mentoring through inhouse knowledge transfer and specific job rotation and project activities.

We continued with our emphasis on diversity and international cooperation by organizing ad-hoc activities and measures within a local context. Examples include our signing of the European Diversity Charter or local activities relating to part-time work and the work-life balance. In terms of global communication and cooperation, the use of telephone and video conferencing has taken on an even more significant role for us. In spite of travel restrictions, we thus maintained close relations in our day-to-day business across the continents while making our global meetings and work processes even more efficient: In this way we took advantage of the crisis to trim down any excess.

With regard to technical skills and innovation, we started to align our skills development processes even more rigorously with our business potential. On the basis of our Technical Ladder career path model for technical staff, we created the necessary transparency and facilitated the respective discussions between management and technical experts. Through inhouse learning programs and knowledge transfer events, we targeted the development of technical expertise and initiated innovation processes, for example as part of the global Innovation Fab program.

“We supported crisis management, ensured employee involvement, and made HR processes simpler and more efficient” sums up the past fiscal year in a nutshell from HR’s perspective. Even though it was challenging on the whole, it made us focus on the essential. We have become more professional and more results-oriented: not only the Company as a whole, but the Human Resources department in particular. And we have maintained the exemplary commitment of our workforce and the close cooperation with corporate management, thus creating a sound basis for passing the test of sustained profitability as our next step.

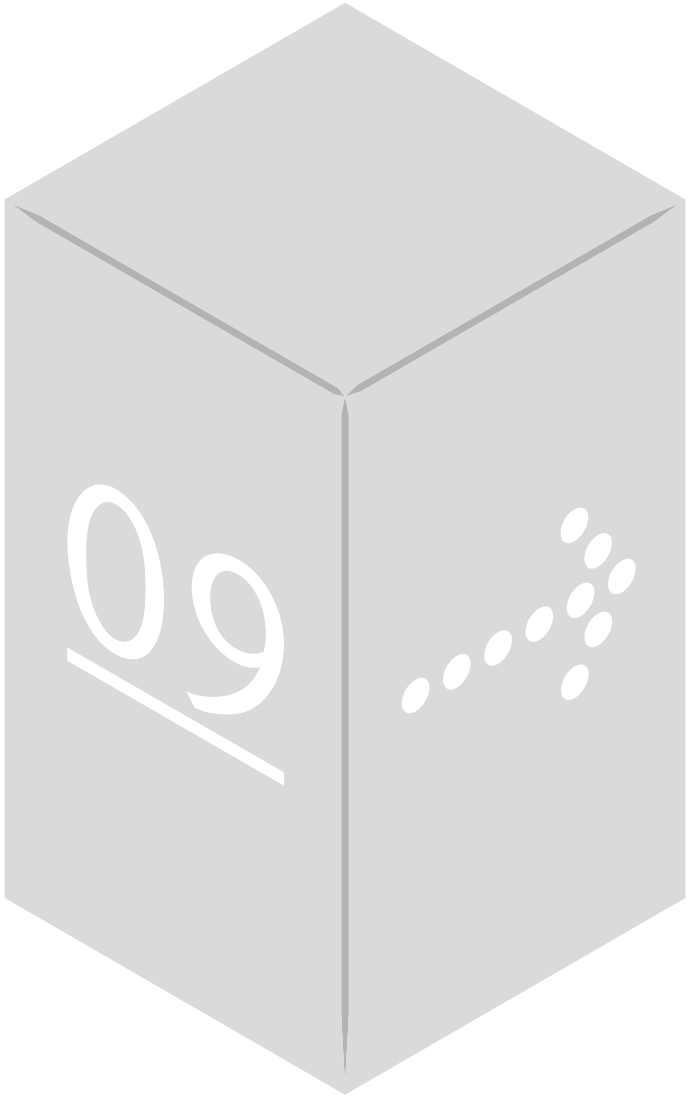
In 2009, we resolved our critical tasks together with investors, customers, and employees.

This has paved the way for the future development of our Company and for long-term value added.

We will now work on this.

# OUR PATH TO THE FUTURE

Infineon Technologies AG
Financial Review 2009



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# REPORT OF THE SUPERVISORY BOARD
## TO THE GENERAL SHAREHOLDERS' MEETING

**MAX DIETRICH KLEY**
CHAIRMAN OF THE SUPERVISORY BOARD

**Ladies and Gentlemen,**

The Supervisory Board hereby presents its report on the performance of its duties in the 2009 fiscal year. The year proved an extraordinarily difficult one for Infineon and our report consequently describes a period of very intense activity for the Supervisory Board.

The Supervisory Board monitored the Management Board's management of the Company regularly and provided advice to assist the Management Board. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company. At the ordinary meetings of the Supervisory Board, the Management Board reported comprehensively and promptly 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. Matters of concern were discussed thoroughly with the Management Board. The Management Board also reported verbally or in writing between meetings on events of particular importance. 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, risks and material lawsuits. The Supervisory Board also obtained regular detailed reports on the status of the refinancing efforts and the associated issues were the subject of intensive discussions between Supervisory Board and Management Board.

The Supervisory Board discussed the information submitted by the Management Board in depth in the course of its meetings. In addition, the Chairman of the Supervisory Board and the Chairman of the Investment, Finance and Audit Committee were kept continually informed of significant developments and decisions within the Company in individual discussions with the Management Board.

The Supervisory Board convened in four ordinary and four extraordinary meetings during the fiscal year. Three of the extraordinary meetings took the form of a telephone conference. In addition, urgent resolutions were passed by written resolution. No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings over the course of the fiscal year ended.

**Main Activities of the Supervisory Board**

**Insolvency of Qimonda AG and impact on Infineon.** In the course of the year under review, the Supervisory Board dealt in depth with the critical situation and subsequent insolvency of Qimonda AG and the possible impact on Infineon. At its meetings, it received regular information about the progress of the insolvency proceedings from the Management Board. At the meeting held December 11, 2008, the Management Board explained in detail the critical situation at Qimonda AG and the progress of the negotiations with the government of the Free State of Saxony about a financing package to support Qimonda. In this context, the possibility of granting a loan to Qimonda AG was also discussed in detail. The Supervisory Board approved in principle Infineon's involvement in the financing package by granting a loan in an amount considered reasonable in terms of Infineon's financial position on the one hand and the risks for Infineon that may result if Qimonda were to become insolvent on the other. This assessment was preceded by an explanation, given by the Management Board, of possible risks for the Infineon Group that may result if Qimonda were to become insolvent. The Supervisory Board and Management Board were in agreement that Infineon's continued existence would not be in jeopardy even if Qimonda AG were to become insolvent.

**Measures to improve profitability and cost management.** At all its meetings, the Supervisory Board considered in detail the actual business position and expected business development of the different segments. In addition, it concerned itself at great length with the impact of the financial and economic crisis on the Infineon Group. It asked the Management Board members responsible and the Chief Executive Officer to provide detailed reports on

Infineon's revenue development and performance as compared with its main competitors. The Supervisory Board supported the Management Board in its efforts to practice consistent crisis management, to ensure strict cash and cost discipline and to implement the necessary restructuring measures with vigor.

The Supervisory Board gave detailed attention to the Company-wide IFX10+ program devised by the Management Board and the package of measures to secure Infineon's future devised by the Management Board. It also discussed the impact of short-time work at the various locations on delivery capability, research and development activities and Infineon's cost situation.

**Refinancing.** The Company's refinancing was a focal point of the Supervisory Board's work in the year under review. The Supervisory Board received regular comprehensive updates from the Management Board on the status of the refinancing activities. The various alternatives and the measures ultimately implemented (the repurchase of the bonds, the issue of a new convertible bond and a capital increase) were discussed in detail with the Management Board over the course of a number of meetings. At the Supervisory Board's extraordinary meeting on July 9, 2009, the Management Board explained the reasons behind the planned capital increase and the associated requirement to publish key preliminary financial figures in the prospectus. The advantages and disadvantages of the planned capital increase and the possible entry of an investor were discussed in depth. The Supervisory Board concluded that the capital increase, backed by an anchor investor, appeared the most promising alternative for refinancing the Company.

**Transactions requiring approval.** The Rules of Procedure for the Supervisory Board give it responsibility for approving the financial and investment planning (including the investment budget and the setting of limits for financial indebtedness), investments in fixed assets, equity investments, financial investments and divestments in cases where a single project exceeds 10 percent of the applicable total investment budget.

In the context of this approval requirement, the Supervisory Board discussed at its meetings on December 11, 2008 and February 12, 2009 the financial and investment planning, including the investment budget, for the 2009 fiscal year on the basis of different scenarios for future revenue development. Given the unclear market development, the Supervisory Board approved the provisional financial and investment planning in both meetings, each time under the condition of a later review. It also set a limit for financial indebtedness as part of this process. The Supervisory Board approved the final financial and investment planning on April 2, 2009.

At its meeting on December 11, 2008, the Supervisory Board discussed and approved in principle a loan to Qimonda AG. On December 29, 2008, the Supervisory Board approved the granting of a loan of up to 75 million euros to Qimonda AG, which was to form part of the financing package for Qimonda AG developed jointly with the Free State of Saxony and Portugal.

At the meetings held on May 15 and July 1, 2009, the Management Board gave a detailed report to the Supervisory Board on the efforts to sell the Wireline Communications Division to a private equity investor and discussed the economic reasons for this sale. The Supervisory Board approved this project by written resolution on July 3, 2009, contingent on certain conditions being met.

In addition, the Supervisory Board regularly received information about the efforts relating to the sale of its participation in ALTIS Semiconductor S.N.C., Essonnes (France).

At an extraordinary meeting held on July 9, 2009, the Supervisory Board asked the Management Board for an in-depth explanation of the reasons for and details of the planned capital increase from existing authorized capital and the signing of a backstop agreement with the investment company Apollo and approved both projects. At the meeting on August 4, 2009, the Management Board reported to the Supervisory Board on the results of the capital increase. The Supervisory Board approved the Management Board's decisions relating to further details of the implementation of the capital increase and resolved the respective changes to the wording of the Articles of Association.

**Management Board compensation.** At the meeting held on August 4, 2009, the Supervisory Board was briefed on the main aspects of the new German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG) and any action the Supervisory Board needed to take as a result. Against this background, the Supervisory Board addressed the question of the appropriateness of Dr. Ziebart's compensation, including the pension entitlements, on August 21, 2009 and decided on a reduction. The Executive Committee was asked, with support from an independent external compensation expert, to review the existing Management Board compensation system. At its meeting on November 26, 2009, the Supervisory Board debated the provisional results of this review. The Supervisory Board believes that action needs to be taken to modify the existing compensation system and therefore resolved to have a modified Management Board compensation system developed.

## Corporate Governance

As in previous years, the Supervisory Board regularly reviewed German and international corporate governance rules and their implementation in the Company. At its meeting on November 26, 2009, it discussed the changes to the German Corporate Governance Code agreed by the Government Commission in June 2009.

The Supervisory Board discussed the efficiency of its own work, including its interaction with the Management Board, on August 4, 2009. This discussion was based on the results of a survey of Supervisory Board members conducted using a set of questions designed to address the different elements and factors in the Supervisory Board's tasks. In addition to several recommendations relating to an improvement in efficiency which were implemented consistently, the Management Board and Supervisory Board agreed that from time to time representatives of second tier management should report to the Supervisory Board on their areas of responsibility.

The Supervisory Board resolved the 2008 Declaration of Compliance in accordance with section 161 of the Aktiengesetz (German Stock Corporation Act, AktG) in December 2008 and the 2009 Declaration of Compliance in November 2009. The 2009 Declaration of Compliance was published on the Company's website on November 26, 2009. 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.

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. Material transactions between the company and members of the Management Board or any persons in close association with them require the approval of the Supervisory Board. No conflicts of interest arose among the members of the Management Board and the Supervisory Board in the 2009 fiscal year.

## Composition of the Supervisory Board

The term of office of the employee representatives in the Supervisory Board expired as scheduled at the end of the last General Shareholders' Meeting. Mr. Wigand Cramer, Mr. Alfred Eibl, Mr. Peter Gruber, Mr. Gerhard Hobbach, Mr. Gerd Schmidt, Mr. Horst Schuler, Ms. Kerstin Schulzendorf and Mr. Alexander Trüby were elected as employee representatives to the Supervisory Board of Infineon Technologies AG. Mr. Jakob Hauser and Mr. Michael Ruth thus

left the Supervisory Board on February 12, 2009 and Mr. Peter Gruber and Mr. Horst Schuler were elected as new members to the Supervisory Board. Their term of office began at the end of the General Shareholders' Meeting on February 12, 2009.

Prof. Winterkorn resigned his membership of the Infineon Technologies AG Supervisory Board with effect from January 31, 2009. On January 23, 2009, the Munich District Court appointed Mr. Arnaud de Weert to the Supervisory Board as Prof. Winterkorn's successor with effect from February 1, 2009. Moreover, in a letter dated February 18, 2009, Prof. Johannes Feldmayer resigned his membership of the Infineon Technologies AG Supervisory Board with immediate effect. On July 30, 2009, the Munich District Court appointed Dr. Manfred Puffer to the Supervisory Board as Prof. Feldmayer's successor. The next General Shareholders' Meeting in 2010 will conduct new elections for all shareholder representatives in the Supervisory Board.

The Supervisory Board would like to thank all members who have left the Board for their constructive and trusting cooperation.

The election of new employee representatives and Prof. Winterkorn's resignation necessitated several elections within the Supervisory Board. In accordance with the German Codetermination Act (Mitbestimmungsgesetz, MitbestG), Mr. Gerd Schmidt was again elected Deputy Chairman of the Supervisory Board. He was also elected as employee representative to the Investment, Finance and Audit Committee. In addition, Mr. Wigand Cramer, Mr. Alfred Eibl and Mr. Gerhard Hobbach were elected as employee representatives to the Strategy and Technology Committee. Mr. Arnaud de Weert was elected as shareholder representative on the Strategy and Technology Committee. Prof. Klaus Wucherer was elected to the Executive Committee and the Mediation Committee. In addition, Mr. Alfred Eibl was elected as employee representative to the Mediation Committee.

Article 6 (1) of the Articles of Association of Infineon Technologies AG stipulates that the Supervisory Board should have the minimum number of members prescribed by law. The Company previously had more than 10,000 employees in Germany and the Supervisory Board accordingly consisted of 16 members according to Article 7 Part 1 (1) 2. of the German Codetermination Act. Since the number of employees working at Infineon Technologies AG and its subsidiaries in Germany has since fallen below 10,000, the Management Board instituted status proceedings in July 2009 to reduce the size of the Supervisory Board to 12 members. To this end, the shareholders (through the 2010 General Shareholders' Meeting) and the employees (through their delegates) will each have to elect six new

Supervisory Board members. This means that the Supervisory Board will in future consist of only six shareholder and six employee representatives.

**Supervisory Board Committee Report**

In the year under review, the **Investment, Finance and Audit Committee** convened in seven meetings. Three of the meetings took the form of a telephone conference. The Committee's activities focused on the examination of the interim reports, the preliminary audit of the annual financial statements, consolidated financial statements and combined operating and financial reviews (Lagebericht), the discussion of the audit report with the auditor, the examination of the finance and investment planning and the discussion of the limit for financial indebtedness.

The Committee's duties also included defining the key audit areas in the 2009 fiscal year and monitoring the independence of the auditor. The Chief Financial Officer informed the Committee about the completion of the annual assessment of internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act. This assessment determined that there were no material weaknesses.

At its meeting held on December 23, 2008, the Committee had also discussed the granting of a loan to Qimonda AG as part of the financing package to support Qimonda. After Qimonda AG had filed for insolvency, the Committee dealt in depth with the impact of Qimonda AG's insolvency on Infineon. The Committee engaged in detailed discussion of the impact on the balance sheet and the recognition of provisions in particular. The Management Board informed the Committee at its meetings about the progress of the insolvency proceedings of Qimonda AG and any resulting risks for Infineon.

Another focal point of the Committee's activities was the discussion of the issuing of a convertible bond by Infineon Technologies Holding B.V. in May 2009. The Committee approved the issue of such a convertible bond and the assumption of a guarantee for this convertible bond by Infineon Technologies AG in a written resolution on May 12, 2009. To ensure that the placement was implemented as soon as possible, shareholders' pre-emptive rights were excluded. After completion of the bookbuilding procedure, the Committee approved at its meeting on May 18, 2009 the assumption of a guarantee by Infineon Technologies AG for a convertible bond to be issued by Infineon Technologies B.V. in a total nominal amount of 195.6 million euros, subject to the specific terms and conditions set by the Management Board.

The Management Board also provided information in Committee meetings on the status of the different activities to refinance the Company, the various cash management measures and the progress of the IFX10+ program.

At the meeting held on April 27, 2009, the Management Board explained the risk management system in place at Infineon and at its meeting held November 11, 2009, the Committee discussed the implementation of the provisions of the German Act to Modernize Accounting Law (Gesetz zur Modernisierung des Bilanzrechts), especially the procedure for testing the efficiency of the risk management system and the effectiveness of internal control over financial reporting. Internal Audit's plans and the results of the audits conducted in the past fiscal year were also discussed.

The **Strategy and Technology Committee** convened in four meetings in the year under review, addressing the following topics in particular:

- Market position, business strategies and portfolio decisions of the five Divisions
- Backend technology and strategy as well as productivity improvements in operations
- Innovation Fab and establishment of skills networks
- Cooperation between Infineon and automotive manufacturers and suppliers
- Focusing on sensor technology

In the year under review, the **Executive Committee** convened in two meetings and passed one written resolution. One of the issues addressed by the Committee was the granting of stock options to the members of the Management Board. On December 11, 2008, it was decided that in light of the poor profitability situation, no stock options would be granted to Management Board members. Accordingly, the members of the Supervisory Board also waived their share appreciation rights provided by the Articles of Association. In view of the German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung), which came into effect in August, the Chairman of the Supervisory Board engaged an independent external compensation expert to review the compensation system for the Management Board. At a meeting held October 27, 2009, the Executive Committee discussed the preliminary results of this review and resolved a proposal for the next steps, which is to be presented to the full Supervisory Board.

In accordance with a recommendation of the German Corporate Governance Code, the **Nomination Committee**, which consists exclusively of shareholder representatives, proposes to the Supervisory Board suitable candidates for recommendation to the General

Shareholders' Meeting. In the course of the year under review, the Committee convened in two meetings. One of the meetings took the form of a telephone conference. One written resolution was also passed. Following the resignation of Prof. Martin Winterkorn, the Committee decided by written resolution in January to approve the nomination of Mr. Arnaud de Weert for appointment to the Supervisory Board by the court. In a telephone conference in July, the Nomination Committee then approved the nomination of Dr. Manfred Puffer as Prof. Feldmayer's successor for appointment to the Supervisory Board by the court. Moreover, in view of the election of new shareholder representatives in February 2010, the Nomination Committee convened on October 27, 2009 to determine candidates to be proposed to the full Supervisory Board for recommendation to the General Shareholders Meeting. At this meeting, the Nomination Committee also resolved to propose to the full Supervisory Board Prof. Wucherer as candidate for Chairman of the future Supervisory Board.

All Committees regularly gave the Supervisory Board detailed information about their work.

The **Mediation Committee** formed in accordance with section 27 (3) of the German Codetermination Act, was not convened.

The Supervisory Board decided at its meeting of July 31, 2008 to create a Special Committee and to transfer to this committee the authority to approve any sale of Infineon's interest in Qimonda. After Qimonda AG had filed for insolvency, this committee was no longer needed and the Supervisory Board therefore resolved at its meeting on February 12, 2009 to dissolve it again.

### Financial Statements and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the annual financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2009 as well as the combined operating and financial reviews (Lagebericht) of Infineon Technologies AG and of the Infineon Group and gave them an unqualified audit opinion. The half-yearly financial report was also subjected to an audit review by KPMG.

The annual financial statements prepared by the Management Board, the consolidated financial statements prepared in accordance with IFRSs and the combined operating and financial reviews were submitted to all members of the Supervisory Board at the beginning of November 2009.

The reports by KPMG on the audit of the annual financial statements, the consolidated financial statements and the combined operating and financial reviews were also presented to all members of the Supervisory Board. An initial detailed discussion of these reports with KPMG took place at the meeting of the Investment, Finance and Audit Committee on November 11, 2009. The Investment, Finance and Audit Committee resolved to recommend to the Supervisory Board that these reports should be approved. The Chairman of the Investment, Finance and Audit Committee explained the Committee's recommendations at the Supervisory Board meeting on November 26, 2009. The documents were examined thoroughly in the presence of the auditor at this meeting and were scrutinized by the Supervisory Board to ensure in particular that they were lawful, compliant and reasonable. The Management Board also reported in detail on the scope, key areas and costs of the audit and explained the risk management system. The combined operating and financial reviews corresponded to the Management Board's reports to the Supervisory Board. The Supervisory Board concurs with the statements on the future development of the Company. Following the final result of the review by the Supervisory Board, the Supervisory Board does not raise any objections to the financial statements and their audit. The Supervisory Board agreed with the results of the audit on November 26, 2009 and approved the annual and consolidated financial statements of Infineon Technologies AG and of the Infineon Group. The annual financial statements have thus been adopted.

The Supervisory Board would like to express its thanks to the employee representatives for their good cooperation and to the Management Board and all employees for their great efforts and achievements over the past fiscal year.

Neubiberg, December 2009
On behalf of the Supervisory Board

**Max Dietrich Kley**
Chairman of the Supervisory Board

CORPORATE GOVERNANCE

# OUR GOALS

TRANSPARENCY

DIALOGUE

CONTROL

# CORPORATE GOVERNANCE: REPORT OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

## CORPORATE GOVERNANCE – STANDARDS FOR EFFECTIVE AND RESPONSIBLE CORPORATE MANAGEMENT

The Management Board and the Supervisory Board of Infineon Technologies AG view Corporate Governance as a comprehensive concept for responsible, transparent, and value-driven corporate management. Good Corporate Governance promotes the trust of national and international investors, the financial markets, business partners, and employees, as well as the public in our Company. The Management Board, the Supervisory Board, and executive management ensure that Corporate Governance is actively lived and continuously developed in all parts of the Company. Beyond the German Corporate Governance Code, Corporate Governance at Infineon encompasses the standards of the internal control system, compliance, in particular the Infineon Business Conduct Guidelines, and regulations on the Company's organizational and supervisory tasks.

Infineon has appointed a Corporate Governance Officer who reports directly to the Management and Supervisory Boards.

### LEGAL FRAMEWORK

As a market-listed company headquartered in Germany, Infineon Technologies AG follows, in particular, the requirements of the German Stock Corporation Act (Aktiengesetz) and the German Corporate Governance Code. It is our goal to provide our shareholders and the general public with open and comprehensive information on our Company.

### CAPITAL MARKET REGULATIONS IN THE UNITED STATES

Until April 24, 2009, the shares of Infineon Technologies AG were also listed on the New York Stock Exchange (NYSE) as American Depositary Shares (ADSs). This made the Company subject to certain corporate governance regulations of the NYSE applicable to non-U.S. companies.

The Company has voluntarily delisted from the NYSE. Following the delisting on April 24, 2009, the ADSs of Infineon Technologies AG are currently traded on the OTCQX International premier listing platform under the IFNNY ticker symbol. However, Infineon is still subject to certain rules of the U.S. Securities and Exchange Commission (SEC), which also apply to non-U.S. companies, and will continue to submit the electronic reports required under the Securities Exchange Act of 1934 (Exchange Act) using the EDGAR System for as long as the Company is subject to the Exchange Act.

Infineon Technologies AG intends to apply to delist and thus to terminate its disclosure obligations under the Exchange Act as soon as the legal requirements are fulfilled. But even after delisting, Infineon will maintain a high level of transparency in order to meet the expectations of the international financial markets. Financial reports, press releases, and other information will continue to be available in English on Infineon's website.

## MANAGEMENT STRUCTURE AND CORPORATE CONTROL

Infineon Technologies AG 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. However, the Management Board and the Supervisory Board cooperate closely in the interest of the Company.

### MANAGEMENT BOARD

Infineon Technologies AG's Management Board currently has four 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 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.

### RISK MANAGEMENT

As part of good Corporate Governance, the Management Board ensures adequate risk management, because the systematic and effective management of risks and opportunities is one of our key success factors. It forms an integral part of our business operations and ensures that risks are detected early and risk exposure is minimized.

Our Company-wide risk and opportunity management system consists of the elements risk identification, risk analysis, risk control, and risk monitoring and is continuously adapted to changes in circumstances. Its effectiveness is regularly reviewed by the Supervisory Board.

## 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 exposure, and agrees corporate strategy and implementation thereof with the Supervisory Board. The Supervisory Board discusses the quarterly reports, and reviews and approves both the annual financial statements and the consolidated financial statements of Infineon Technologies AG and the Infineon Group. 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. 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 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 General Shareholders' Meeting; the last election took place in the 2005 fiscal year. The next election will take place at the 2010 General Shareholders' Meeting. Employee representatives are elected by employee delegates at Infineon's German facilities in accordance with the regulations of the German Co-Determination Act. The last election took place in the 2009 fiscal year.

Article 6 (1) of the Articles of Association stipulates that the Supervisory Board should have the minimum number of members prescribed by law. Until recently, the Company had more than 10,000 employees in Germany, with the result that, in accordance with section 7 (1) sentence 1 no. 2 of the German Co-Determination Act, the Supervisory Board has 16 members. Since the number of employees working at Infineon Technologies AG and its subsidiaries in Germany has since fallen below 10,000, the Management Board instituted status proceedings in July 2009 to reduce the size of the Supervisory Board to 12 members. To this end, the shareholders (through the 2010 General Shareholders' Meeting) and the employees (through their delegates) will each have to elect six new Supervisory Board members. The Company expects these proceedings to be completed with the General Shareholders' Meeting scheduled for early 2010.

The regular term of office of Supervisory Board members is five years. The duties of the Supervisory Board and its committees are regulated in the Articles of Association and in the rules of procedure of the Supervisory Board and its committees. Once a year, the Supervisory Board reviews the efficiency of its work. The last efficiency review took place in August 2009. The efficiency of the Supervisory Board's work, including its cooperation with the Management Board, was determined on the basis of a catalog of questions, which addresses different areas and criteria of Supervisory Board work, and subsequently discussed at a Supervisory Board meeting.

## 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; at the beginning of the 2008 fiscal year, a Nomination Committee was established as recommended by the German Corporate Governance Code.

The tasks of the **Executive Committee**, composed of the Chairman of the Supervisory Board, the Vice-Chairman, and one shareholder representative, include preparations for the appointment and dismissal of members of the Management Board and for the resolution of the Supervisory Board plenum on the Management Board members' compensation. It is also responsible for entering into, amending, and terminating contracts with Management Board members.

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. All members of the Audit Committee are independent in terms of the U.S. regulations applicable to the Company. 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 process, discusses and examines annual financial statements and the consolidated financial statements prepared by the Management Board, and the combined operating and financial reviews (Lagebericht) as well as the quaterly and half year financial reports. Based on the independent auditors' report, the Audit Committee gives recommendations with respect to the approval of the annual financial statements and the consolidated financial statements by the Supervisory Board. The Audit Committee engages the independent auditors elected at the General Shareholders' Meeting to audit the annual financial statements and the consolidated financial statements, determines the key audit areas, and is responsible for determining the independent auditors' compensation.

The Audit Committee's tasks also include overseeing the effectiveness of the internal control system, the internal audit system, and the risk management system. For this purpose, it is entitled to refer directly to all Company employees and to call in external support. Internal Audit reports annually to the Audit Committee, which can also determine the audit plan and its key audit areas.

Responsibility for compliance has also been transferred to the Audit Committee. The Management Board and the Corporate Compliance Officer regularly report to the Audit Committee on the compliance organization, and on any particular compliance issues. Employees can anonymously provide information to the Audit Committee about violations of internal guidelines and statutory accounting rules.

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 members of the Management Board if the first round of the election on the appointment does not result in the required majority of two thirds of the members of the Supervisory Board.

The **Strategy and Technology Committee**, which consists of three shareholder representatives and three employee representatives, deals with topics concerning the Company's business strategy and important technology issues.

The **Nomination Committee**, which consists of all shareholder representatives, proposes to the Supervisory Board suitable candidates for recommendation to the General Shareholders' Meeting.

## SHAREHOLDERS AND THE GENERAL SHAREHOLDERS' MEETING

Infineon shareholders take their decisions at the General Shareholders' Meeting, which is held at least once a year. Each share carries one vote. Shareholders can attend the General Shareholders' Meeting as long as they are registered in the share register and have signed up for the meeting in time. The General Shareholders' Meeting decides on all issues assigned to it by law, most notably on the formal approval of the conduct of business by the Management Board and the Supervisory Board, the election of the auditors, and amendments to the Articles of Association. Shareholders are entitled to make counterproposals to motions introduced by management, speak and ask questions at the General Shareholders' Meeting, and, under certain circumstances, have the right to challenge resolutions of the General Shareholders' 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 control.

We intend to support our shareholders as far as possible in the exercise of their rights. Shareholders, for example, can register for our General Shareholders' Meeting electronically, can participate in votes by sending online instructions to their proxies, and can follow the general debate via the internet. All documents and information relating to the General Shareholders' Meeting are available on our website. In addition, our Investor Relations Department can be contacted throughout the year, both by telephone and electronically, to ensure the exchange of information between us and our shareholders.

## PUBLICATIONS AND REPORTS

In accordance with our financial calendar, we submit a regular quarterly report to our shareholders, covering our business developments and the company's financial position and performance. 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. All notifications and information are normally available on our website, where they can also be accessed in English.

A detailed list of all information relevant to the capital markets published in the 2009 fiscal year can be found in the Annual Document that we publish on our website in accordance with section 10 of the German Securities Prospectus Act (Wertpapierprospektgesetz, WpPG).

We have set up a Disclosure Committee, which reviews and approves the publications of certain financial and other material information. According to German law, the Management Board has to render a responsibility statement and the CEO and CFO are further obliged under U.S. law to render certain certifications with regard to the reports to be submitted to the SEC. The required information is confirmed internally vis-à-vis the Management Board by senior executives bearing management responsibility.

## FINANCIAL REPORTING AND AUDITING

With effect from October 1, 2008, Infineon Technologies AG prepares its consolidated financial statements exclusively in accordance with International Financial Reporting Standards (IFRSs). The annual financial statements of Infineon Technologies AG continue to follow HGB guidelines.

Our Company's financial statements were again audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, in the 2009 fiscal year. KPMG audited the annual financial statements of Infineon Technologies AG and the consolidated financial statements of the Infineon Group for the fiscal year ended September 30, 2009, as well as the combined operating and financial reviews (Lagebericht) of Infineon Technologies AG and the Infineon Group and rendered an unqualified audit opinion (uneingeschränkter Bestätigungsvermerk). The half-yearly financial report was also subjected to an auditors' review by KPMG. We have agreed with KPMG that the Chairman of the Audit Committee should be informed immediately if any

possible reasons for exclusion or prejudice occur during the audit, unless they can be eliminated immediately. The auditors should also report immediately on all findings material to the Supervisory Board's work that arise while the audit is being conducted. In addition, the auditors should inform the Supervisory Board or note in the auditors' report, if they identify any facts during the conduct of the audit that point to any inaccuracy in the declaration of compliance the Management Board and Supervisory Board have issued in accordance with section 161 of the German Stock Corporation Act.

### COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Details of the compensation of the Management Board and the Supervisory Board in the 2009 fiscal year are provided in our comprehensive compensation report, which is printed below and forms part of the combined operating and financial reviews of Infineon Technologies AG and the Infineon Group.

### THE 2006 INFINEON STOCK OPTION PLAN

On February 16, 2006, the General Shareholders' Meeting resolved the 2006 Infineon Stock Option Plan. The absolute exercise threshold was raised from 5 percent in the previous Stock Option Plan to 20 percent. The relative threshold requires that the Infineon share price exceeds the performance of a benchmark index, i.e., the PHLX Semiconductor Index (SOX) of the Philadelphia Stock Exchange, on at least three consecutive days during the life of the option. The 2006 Infineon Stock Option Plan had a term of three years and expired on September 30, 2009. The plan is described in detail in note 32 to the consolidated financial statements; the full text of the Plan is available on the internet at **www.infineon.com**, under „About Infineon/Investor/Corporate Governance/Stock Option Plan". As the 2006 Infineon Stock Option Plan expired at the end of the 2009 fiscal year, a new long-term incentive plan is being developed that will focus on the long-term success of the company.

## IINTEGRITY

### 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 are their most important element and have been published on our website, are binding on the Management Board and all Infineon employees worldwide. The Business Conduct Guidelines are regularly reviewed and updated. They 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 for us under the Sarbanes-Oxley Act.

### CORPORATE COMPLIANCE OFFICER AND COMPLIANCE PANEL

The Corporate Compliance Officer of Infineon Technologies AG reports directly to the Management Board and is responsible for coordinating the Infineon Compliance Program and receiving complaints and suggestions, which may be submitted anonymously. The Officer is supported by regional Compliance Officers. We have also introduced a Compliance Panel, composed of experienced management members of the legal, human resources, audit, and security departments. The members of the Compliance Panel meet regularly and advise the Compliance Officer.

### AVOIDANCE OF CONFLICTS OF INTEREST

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board immediately. Significant transactions between the Company and members of the Management Board or related parties require the approval of the Supervisory Board. No conflicts of interest arose among the members of the Management Board and Supervisory Board in the 2009 fiscal year.

### SHAREHOLDINGS OF MANAGEMENT AND SUPERVISORY BOARD MEMBERS

As of September 30, 2009, the shares in Infineon Technologies AG held by 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 management responsibility with regular access to inside information, as well as related parties are required pursuant to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) 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 of the transactions made by one of the above managers or related parties is EUR 5,000 or more within one calendar year. These notifications are published on our website at **www.infineon.com**, under „About Infineon/Investor/Corporate Governance/Directors' Dealings" and are transmitted to the company register. The notification is also reported to BaFin.

In the past fiscal year, the Company was notified of the following transactions:

| | | |
|---|---|---|
| | Date of transaction | August 4, 2009 |
| 01 | Last name, first name | Bauer, Peter |
| | Function | Member of the Management Board |
| 02 | Description | Shares in Infineon Technologies AG |
| 03 | ISIN/WKN | DE0006231004 / 623 100 |
| | Purchase/sale | Rights exercise under a capital increase |
| 04 | | |
| | Price (per unit) | EUR 2.15 |
| 05 | Number of units | 3,868 |
| 06 | Total volume | EUR 8,316.20 |
| 07 | Transaction location | Frankfurt Stock Exchange |

| | | |
|---|---|---|
| 08 | Date of transaction | August 4, 2009 |
| | Last name, first name | Kley, Max Dietrich |
| 09 | Function | Chairman of the Supervisory Board |
| 10 | Description | Shares in Infineon Technologies AG |
| | ISIN/WKN | DE0006231004 / 623 100 |
| 11 | Purchase/sale | Rights exercise under a capital increase |
| | Price (per unit) | EUR 2.15 |
| | Number of units | 8,432 |
| 12 | Total volume | EUR 18,128.80 |
| | Transaction location | Frankfurt Stock Exchange |
| 13 | | |

| | | |
|---|---|---|
| 14 | Date of transaction | August 4, 2009 |
| | Last name, first name | Kley, Monika-Marlene |
| 15 | Function | Wife of Max Dietrich Kley, Chairman of the Supervisory Board |
| 16 | | |
| | Description | Shares in Infineon Technologies AG |
| 17 | ISIN/WKN | DE0006231004 / 623 100 |
| 18 | Purchase/sale | Rights exercise under a capital increase |
| 19 | Price (per unit) | EUR 2.15 |
| 20 | Number of units | 3,600 |
| | Total volume | EUR 7,740.00 |
| 21 | Transaction location | Frankfurt Stock Exchange |
| 22 | | |

| | | |
|---|---|---|
| | Date of transaction | August 4, 2009 |
| 23 | Last name, first name | Schuler, Horst |
| | Function | Member of the Supervisory Board |
| | Description | Shares in Infineon Technologies AG |
| | ISIN/WKN | DE0006231004 / 623 100 |
| | Purchase/sale | Rights exercise under a capital increase |
| | Price (per unit) | EUR 2.15 |
| | Number of units | 4,028 |
| | Total volume | EUR 8,660.20 |
| | Transaction location | Frankfurt Stock Exchange |

## DECLARATION OF COMPLIANCE 2009 IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Since the submission of the last Declaration of Compliance on December 11, 2008, Infineon Technologies AG complied with all recommendations of the Government Commission's German Corporate Governance Code (in the version of June 6, 2008) in accordance with Section 161 of the German Stock Corporation Act, with the following exception:

- Payments in the event of premature termination of a Management Board member's contract due to a change of control may in individual cases exceed 150 percent of the severance payment cap (divergence from section 4.2.3).

Infineon Technologies AG complies, and will also comply in future, with the recommendations of the Government Commission's German Corporate Governance Code (in the version of June 18, 2009) with the following exceptions:

- Payments in the event of premature termination of a Management Board member's contract due to a change of control may in individual cases exceed 150 percent of the severance payment cap (divergence from section 4.2.3).

  In the 2007 fiscal year, all Management Board contracts were modified to include change-of-control clauses according to which members of the Management Board, if they retire within the scope of a change of control, shall be entitled to a continuation of their annual target income for the full remaining duration of their service contract; in particular cases, this may exceed the limit of three years as stipulated in the German Corporate Governance Code. We consider this provision adequate because it shall ensure that, in the event of a takeover situation, the Management Board members shall act in the best interest of the company. Furthermore, the rights in the event of a change of control only exist if there is no serious breach of duty.

- In the D&O insurance no deductible in accordance with the statutory rules for Management Board members was agreed for the members of the Supervisory Board (divergence from section 3.8).

  In derogation from the recommendation of section 3.8 of the German Corporate Governance Code, Infineon Technologies AG obtained personal undertakings from the members of the Supervisory Board, according to which the members of the Supervisory Board undertake to pay for each calendar year a deductible in the amount of 100 percent of the fixed compensation due to them per calendar year for their activity as a member of the Supervisory Board and its Committees. The Company does not consider a direct agreement with the insurance company necessary as the members of the

Supervisory Board are equally committed by their personal undertakings. The Company considers the current deductible of 100 percent of the annual fixed compensation adequate and is of the opinion that an increased deductible of 150 percent of the annual fixed compensation, as provided for Management Board members in the German Stock Corporation Act, is not required.

- When determining the variable compensation components, negative developments were only taken into account to a limited extent in the Management Board contracts currently in force (divergence from section 4.2.3 para. 2 sentence 4).

  The recommendation also to take negative developments into account when determining variable compensation components was newly added to the German Corporate Governance Code in the version of the German Corporate Governance Code dated June 18, 2009 (published in the electronic version of the German Federal Gazette on August 5, 2009). The Management Board contracts currently in force had all already been concluded and could not therefore take this recommendation into account. The compensation system for the Management Board is currently being reviewed by an independent external compensation expert. Taking into account the proposals of the compensation expert, the Management Board and Supervisory Board intend to observe this recommendation when concluding new Management Board contracts in future.

Furthermore, Infineon has adopted all the suggestions of the German Corporate Governance Code.

More information on corporate governance at Infineon can be found on the internet at **www.infineon.com** („About Infineon/Investor/Corporate Governance“). The current version of the Government Commission's 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

In compliance with legal requirements and the recommendations of the German Corporate Governance Code as amended on June 18, 2009, 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. This compensation report is part of the operating and financial review.

## COMPENSATION OF THE MANAGEMENT BOARD

### COMPENSATION STRUCTURE

So far, the Supervisory Board plenum was responsible for resolving the Management Board compensation system while the compensation of the individual members of the Management Board was determined by the executive committee of the Supervisory Board (the “Executive Committee”). Since the respective legal provisions became effective, Management Board compensation is determined and regularly reviewed by the Supervisory Board plenum at the proposal of the Executive Committee. The compensation of the members of the Management Board is intended to reflect our size and global presence, its economic condition and performance, and the typical level and structure of the compensation paid to management boards of comparable companies within Germany and abroad. Additional factors taken into account are the duties, responsibilities and the performance of each member of the Management Board as well as our compensation structure. Their compensation 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 generally re-evaluated every two years, taking into account an analysis of the income paid to executives of comparable companies. Currently, the compensation structure is reviewed by an independent external compensation expert.

In the 2009 fiscal year, the compensation of the Management Board comprised 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, referred to below as the 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 Supervisory Board in a two-phase process. In a first step, a target bonus amount is determined from a table agreed in the service agreements on the basis of the return on assets. The Supervisory Board 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 stock options. Management Board members are eligible to receive stock options under the 2006 Stock Option Plan approved by the Infineon Shareholders' Annual General Meeting (the "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 Supervisory Board is responsible for all decisions on granting options to members of the Management Board. In the 2009 fiscal year, no options were granted to members of the Management Board. Further details of the Company's 2006 Stock Option Plan are described in note 32 to our consolidated financial statements for the year ended September 30, 2009 and are available in full text on the internet at **www.infineon.com**.

As the 2006 Stock Option Plan expired at the end of the 2009 fiscal year, a new long-term incentive plan is being developed that will focus on the long-term success of the company.

## COMPENSATION OF THE MANAGEMENT BOARD IN THE 2009 FISCAL YEAR

In the 2009 fiscal year, the current members of the Management Board received total compensation of €3,605,108 (previous year: €3,309,687, pro rata to the duration of membership on the Management Board during the fiscal year). The total annual compensation for all members of the Management Board who were active in the previous fiscal year amounted to €4,920,006 and included the compensation for Mr. Fischl and Dr. Ziebart who retired during the 2008 fiscal year. In view of the economic situation, the members of the Management Board decided in February 2009 to voluntarily forego part of their fixed salaries for the 2009 fiscal year (the CEO will forego 20 percent, the other members of the Management Board will forego 10 percent). The annual lump sum payment was reduced accordingly. No performance-related bonuses were paid for the 2009 fiscal year.

The total annual compensation paid in the 2009 fiscal year (gross without statutory deductions) consisted of the following elements:

01 OVERVIEW OF THE TOTAL COMPENSATION
IN €

| | | Non-performance-related compensation | | | |
|---|---|---|---|---|---|
| | | Annual Base Salary[1] | | | |
| Management Board member | Fiscal year | Amount paid in monthly installments | Annual Lump Sum | Other[2] | Total cash compensation |
| Peter Bauer (CEO as of June 1, 2008) | 2009 | 700,000 | 420,000 | 35,087 | 1,155,087 |
| | 2008 | 533,333 | 533,333 | 22,948 | 1,089,614 |
| Prof. Dr. Hermann Eul | 2009 | 450,000 | 360,000 | 13,590 | 823,590 |
| | 2008 | 450,000 | 450,000 | 14,457 | 914,457 |
| Dr. Reinhard Ploss | 2009 | 350,000 | 280,000 | 10,616 | 640,616 |
| | 2008 | 350,000 | 350,000 | 20,859 | 720,859 |
| Dr. Marco Schröter (as of April 1, 2008) | 2009 | 500,000 | 400,000 | 85,815 | 985,815 |
| | 2008 | 250,000 | 250,000 | 84,757 | 584,757 |
| **Total** | 2009 | 2,000,000 | 1,460,000 | 145,108 | 3,605,108 |
| | 2008 | 1,583,333 | 1,583,333 | 143,021 | 3,309,687 |

1 Each in accordance with the duration of membership on the Management Board during the respective fiscal year.
2 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 Dr. Schröter, the reimbursement of expenses for the maintenance of double residences.

### STOCK-BASED COMPENSATION

As in the previous year, no stock options were granted to members of the Management Board in the 2009 fiscal year. In the 2009 fiscal year, no member of the Management Board exercised stock options.

## COMMITMENTS TO THE MANAGEMENT BOARD UPON TERMINATION OF EMPLOYMENT

### ALLOWANCES AND PENSION ENTITLEMENTS IN THE 2009 FISCAL YEAR

The current members of the Management Board are contractually entitled to a fixed pension payment, which increases by €5,000 (and in the case of Mr. Bauer by €10,000) annually until a maximum amount is attained. In accordance with IFRS, for the current members of the Management Board, a total of €786,292 was expensed and added to pension reserves in the 2009 fiscal year (previous year: €534,275). Upon termination of membership on the Management Board, pension entitlements normally begin from age 60 but may be paid earlier in case of retirement for medical reasons. Our agreement with Mr. Bauer deviates from this model, and he is entitled to a pension before age 60 if his contract is not renewed, provided that there is no good cause for a revocation of the appointment in accordance with Section 84(3) of the German Stock Corporation Act. In any case of pension payment before age 60, however, the income from other employment and self-employed activities would be set off against up to 50 percent of the respective pension entitlements.

The following overview represents the annual pension entitlements, as of the beginning of retirement, for current Management Board members on the basis of the entitlements vested through September 30, 2009.

02 **PENSION ENTITLEMENTS**
IN €

| Management Board member | Pension entitlements (annual) as of beginning of pension period | Maximum amount | Expenses in connection with increase in pension reserves in fiscal year 2009 (IFRS) |
|---|---|---|---|
| Peter Bauer (CEO) | 290,000 | 400,000 | 235,967 |
| Prof. Dr. Hermann Eul | 205,000 | 270,000 | 202,178 |
| Dr. Reinhard Ploss | 175,000 | 210,000 | 173,184 |
| Dr. Marco Schröter | 255,000 | 350,000 | 174,963 |
| **Total** | 925,000 | 1,230,000 | 786,292 |

Furthermore, our contract with Mr. Bauer provides for a one-time transitional allowance upon termination of his employment under certain circumstances, including due to retirement or another reason. 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. The transitional allowance will not be paid in the event of termination by a member of the Management Board not prompted by us, or if we have good cause for the termination.

### EARLY TERMINATION OF EMPLOYMENT

The contracts with the members of the Management Board include change-of-control clauses: A change of control within the meaning of these clauses occurs when a third party, individually or in cooperation with another party, acquires 30 percent of the voting rights in Infineon as stipulated by Section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz-WpHG). The Management Board members have the right to resign and terminate their contracts within a period of 12 months after the announcement of such change of control if the exercise of their office and the fulfillment of their 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 applicable to the resigning member at the time of his resignation and the variable components assuming a 6 percent return on our assets. In the event of a termination by Infineon of the contracts of the Management Board members within 12 months after the announcement of a change of control, the Management Board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of three years. 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 by the respective Management Board member.

Furthermore, the contract of Dr. Schröter provides for a transitional allowance equivalent to 30 percent of his annual base salary. This transitional allowance is paid until the beginning of the pension payments if Dr. Schröter leaves our company except for (i) resignation by Dr. Schröter or (ii) our company having good cause for a revocation of the appointment in accordance with Section 84(3) of the German Stock Corporation Act. His income from other employment and self-employed activities, however, would be set off against the transitional allowance.

Other than described above, the Management Board contracts do not generally provide for severance payments in the event of their early termination.

### FRINGE BENEFITS AND OTHER AWARDS IN THE 2009 FISCAL YEAR

- The members of the Management Board received no fringe benefits besides the elements listed under "Other" in the compensation table.
- We do not provide loans to the members of the Management Board.
- The members of the Management Board received no compensation or promise of compensation with regard to their activities on the Management Board from third parties in the 2009 fiscal year.
- We maintain directors' and officers' group liability insurance ("D&O insurance"). The D&O insurance policy covers personal liability in the event of claims made against members of the Management Board for indemnification of losses incurred in the exercise of their duties. According to the existing contracts with the Management Board members, the D&O insurance provides for a deductible of 25 percent of such member's fixed annual base salary (which is compliant with the deductible provisions as outlined in Section 93(2)3 of the German Stock Corporation Act in connection with Section 23(1) of the introductory provisions to the German Stock Corporation Act).
- We have entered into a restitution agreement with each member of the Management Board. According to the restitution agreements, we cover all costs incurred in connection with proceedings brought against members of the Management Board by courts, government authorities, regulatory bodies or parliamentary committees due to the exercise of their duties, to the extent legally permitted. The agreements do not cover, in particular, any restitution of costs incurred due to an infringement of their duties as management board members pursuant to Section 93(2) of the German Stock Corporation Act.

### PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE 2009 FISCAL YEAR

Former members of the Management Board received total severance and pension payments of €1,798,225 (previous year: €916,896) in the 2009 fiscal year.

As of September 30, 2009, pension reserves for former members of the Management Board amount to €27,034,008 (previous year: €26,566,664).

## COMPENSATION OF THE SUPERVISORY BOARD

### COMPENSATION STRUCTURE

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

- Fixed compensation of €25,000 per year and member.
- 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 2006 approved by the Shareholders' Annual General Meeting. These share appreciation rights, however, do not entitle the holder to purchase shares but only to a settlement in cash. The basic principles of our 2006 Stock Option Plan are described in note 32 to our consolidated financial statements for the year ended September 30, 2009 and are available in full text on the internet at **www.infineon.com**.

Additional compensation is paid for certain functions on 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 Nomination Committee and the Mediation Committee, receives an additional 50 percent of their fixed compensation.

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

## COMPENSATION OF THE SUPERVISORY BOARD IN THE 2009 FISCAL YEAR

In the 2009 fiscal year, the members of the Supervisory Board waived their share appreciation rights. The Supervisory Board compensation otherwise remained unchanged from the previous year. The individual current members of the Supervisory Board received the following cash compensation (excluding 19 percent VAT), in the 2009 fiscal year:

03 COMPENSATION OF THE SUPERVISORY BOARD IN THE 2009 FISCAL YEAR
IN €

| Supervisory Board member | Base compensation | Additional compensation for special functions | Total payment |
|---|---|---|---|
| Max Dietrich Kley | 25,000 | 25,000 | 50,000 |
| Wigand Cramer | 25,000 | 8,333[1] | 33,333 |
| Alfred Eibl | 25,000 | 12,500 | 37,500 |
| Prof. Johannes Feldmayer | 10,417[2] | — | 10,417 |
| Peter Gruber | 16,667[1] | — | 16,667 |
| Jakob Hauser | 8,333[3] | 4,167[3] | 12,500 |
| Gerhard Hobbach | 25,000 | 8,333[1] | 33,333 |
| Prof. Dr. Renate Köcher | 25,000 | — | 25,000 |
| Dr. Siegfried Luther | 25,000 | 12,500 | 37,500 |
| Michael Ruth | 8,333[3] | — | 8,333 |
| Manfred Puffer | 4,167[5] | — | 4,167 |
| Gerd Schmidt | 25,000 | 12,500 | 37,500 |
| Prof. Dr. Doris Schmitt-Landsiedel | 25,000 | 12,500 | 37,500 |
| Horst Schuler | 16,667[1] | — | 16,667 |
| Kerstin Schulzendorf | 25,000 | — | 25,000 |
| Dr. Eckart Sünner | 25,000 | — | 25,000 |
| Alexander Trüby | 25,000 | 4,167[3] | 29,167 |
| Arnaud de Weert | 16,667[6] | 8,333[1] | 25,000 |
| Prof. Dr. Martin Winterkorn | 8,333[4] | 4,167[4] | 12,500 |
| Prof. Dr.-Ing. Klaus Wucherer | 25,000 | 12,500 | 37,500 |
| **Total** | 389,584 | 125,000 | 514,584 |

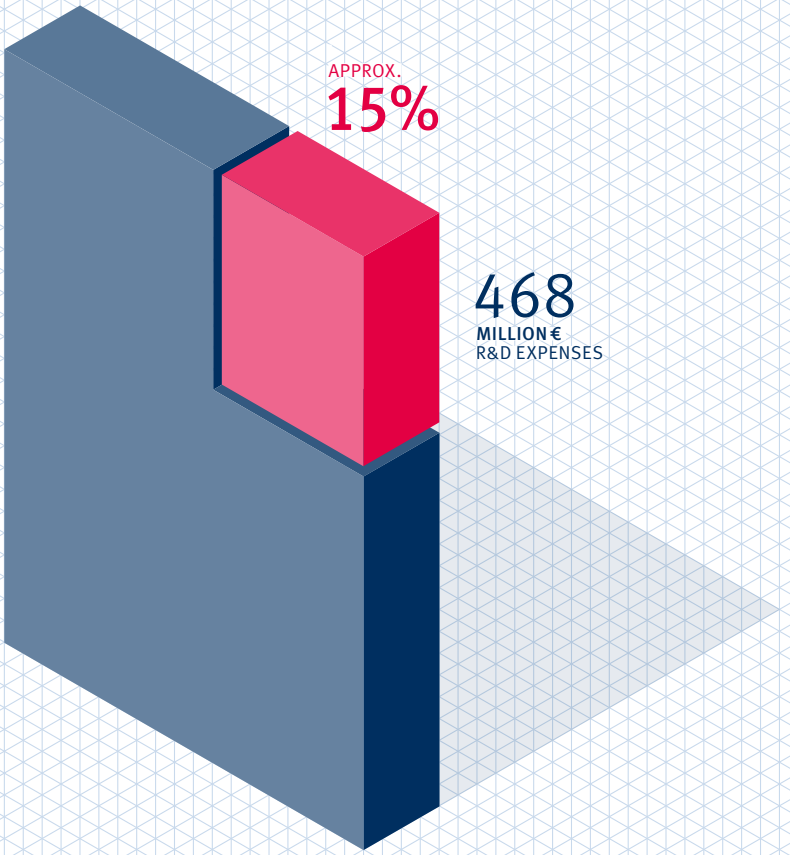
**1** Prorated from appointment on February 12, 2009.
**2** Prorated up to retirement from office on February 18, 2009.
**3** Prorated up to retirement from office on February 12, 2009.
**4** Prorated up to retirement from office on January 31, 2009.
**5** Prorated from appointment on July 30, 2009.
**6** Prorated from appointment on February 1, 2009.

## OTHER

- We do not provide loans to the members of the Supervisory Board.
- We maintain D&O insurance. The insurance covers personal liability in the event of claims made against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties. Each member of the Supervisory Board has agreed to an appropriate deductible.

OPERATING AND FINANCIAL REVIEW

# RESEARCH AND DEVELOPMENT EXPENSES IN THE 2009 FISCAL YEAR



# OPERATING AND FINANCIAL REVIEW FOR THE 2009 FISCAL YEAR

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 policies and 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 and subsidiaries (collectively "Infineon" or "the Company") with the operating and financial review of the stand-alone entity Infineon Technologies AG.

This operating and financial review 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.

Effective October 1, 2008, to better align our business with its target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications. Furthermore, our Management Board changed the measure it uses to assess the operating performance of our operating segments to Segment Result[1]. In July 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. As a result of the planned sale, the Management Board determined that Wireline Communications ceased to be an operating segment in September 2009. All periods presented have been recast to reflect the new segment presentation (see note 39 to our consolidated financial statements). All assets and liabilities of the Wireline Communications business to be sold are presented as "Assets classified as held for disposal" and "Liabilities associated with assets classified as held for disposal" in our consolidated balance sheet as of September 30, 2009, and the results of the Wireline Communications business to be sold are presented as "Discontinued operations, net of income taxes" in our consolidated statements of operations for all periods presented.

## OVERVIEW OF THE 2009 FISCAL YEAR

During our 2009 fiscal year, which ended September 30, the world economy entered into its deepest recession of the last 60 years. The global semiconductor market contracted 20 percent (in U.S. dollar terms) in the 2009 fiscal year compared to the prior fiscal year, according to WSTS (September 2009).

The following were the key developments in our business during the 2009 fiscal year:

### FINANCIAL RESULTS

- Our 2009 fiscal year was significantly impacted by the overall economic slowdown, resulting in an overall 22 percent decrease in our revenues from €3,903 million in the 2008 fiscal year to €3,027 million in the 2009 fiscal year. In particular, during the first half of the 2009 fiscal year we experienced a sharp decline in revenues, while in the second half and particularly in the fourth quarter, we experienced a partial recovery of our revenues. All our operating segments faced revenue decreases in the 2009 fiscal year compared to the 2008 fiscal year. Revenues of our operating segments in the 2009 fiscal year were as follows: Automotive revenues were €839 million (2008 fiscal year: €1,257 million), Industrial & Multimarket revenues were €905 million (2008 fiscal year: €1,171 million), Chip Card & Security revenues were €341 million (2008 fiscal year: €465 million), and Wireless Solutions revenues were €917 million (2008 fiscal year: €941 million). With a revenue decline of 33 percent, our Automotive segment was affected most by the worldwide recession, while the revenue decline in our Wireless Solutions segment was only 3 percent, which, among others, reflects the successful ramp-up of our 3G-mobilephone-platform.

1 We define Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net, share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs.

- The Segment Result of our operating segments in the 2009 fiscal year was as follows: Automotive was negative €117 million (2008 fiscal year: €105 million), Industrial & Multimarket was €35 million (2008 fiscal year: €134 million), Chip Card & Security was negative €4 million (2008 fiscal year: €52 million), and Wireless Solutions was negative €36 million (2008 fiscal year: negative €18 million). Thus, the Segment Results for all our operating segments decreased in the 2009 fiscal year compared to the 2008 fiscal year, primarily reflecting the decrease in revenues and resulting increased idle capacity cost, which could only be partially offset by cost savings realized through the 2009 fiscal year. With a decrease in Segment Result of €222 million, our Automotive segment was impacted the most by the economic slowdown compared to our other segments. We experienced a partial recovery in the Segment Results during the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year as a result of higher revenues, which also led to lower idle capacity cost, and the positive impact of cost savings realized under our IFX10+ cost-reduction program and from short-time work and unpaid leave. In particular, our Wireless Solutions segment improved its Segment Result during the second half of the 2009 fiscal year compared to the first half of the fiscal year and the second half of the 2008 fiscal year. For all other operating segments, their respective Segment Results in the second half of the 2009 fiscal year were lower than their respective Segment Results in the second half of the 2008 fiscal year. Segment Result of Other Operating Segments was negative €13 million (2008 fiscal year: negative €12 million) and Corporate and Elimination Segment Result was negative €32 million (2008 fiscal year: negative €24 million).
- Our loss from continuing operations before income taxes increased by €103 million from negative €165 million in the 2008 fiscal year to negative €268 million in the 2009 fiscal year. This increase primarily reflected decreased gross profit due to decreased revenues and corresponding higher idle capacity cost, which was only partly offset by decreases in research and development expenses as well as selling, general and administrative expenses and other operating expenses. Furthermore, the increase of financial income by €43 million and the decrease of financial expense by €25 million in the 2009 fiscal year compared to the 2008 fiscal year positively impacted our results from continuing operations before income taxes for the 2009 fiscal year.
- Loss from discontinued operations, net of income taxes, in the 2009 fiscal year was €398 million compared to €3,543 million for the prior fiscal year. Loss from discontinued operations, net of income taxes, attributable to Qimonda AG (“Qimonda”) was €420 million. This amount primarily reflected the realization of accumulated currency translation losses totaling €188 million and charges for provisions and allowances of €227 million, in connection with Qimonda’s insolvency proceedings. The results attributable to the Wireline Communications business in the 2009 fiscal year which are presented in loss from discontinued operations, net of income taxes, of positive €22 million only partially offset the negative impact of Qimonda. In the 2008 fiscal year, loss from discontinued operations, net of income taxes, was €3,543 million, including Qimonda’s negative results of €2,084 million and an after tax write-down of €1,475 million in order to remeasure Qimonda to its estimated fair value less costs to sell as of September 30, 2008. Also included in loss from discontinued operations, net of income taxes, for the 2008 fiscal year is positive €16 million from the Wireline Communications business.
- As a result of the developments described above, our net loss decreased from €3,747 million in the 2008 fiscal year to €671 million in the 2009 fiscal year. In particular, we incurred significant net losses during the first half of the 2009 fiscal year resulting from the deconsolidation of Qimonda and the impact of Qimonda’s insolvency and the effects of the economic slowdown on our business. As a result of the partial recovery of our revenues during the second half of the 2009 fiscal year together with our cost savings efforts and lower charges in connection with Qimonda’s insolvency, our net loss in the second half of the 2009 fiscal year significantly decreased and we reached break even for the fourth quarter of the 2009 fiscal year.
- Our cash flow provided by operating activities from continuing operations decreased from €540 million in the 2008 fiscal year to €268 million in our 2009 fiscal year. Cash flow used in operating activities from discontinued operations was €380 million in the 2009 fiscal year, compared to €624 million in the prior year. The operating cash flow used in discontinued operations primarily reflects the losses incurred by Qimonda in the 2008 and 2009 fiscal years. The sum of our cash flows used in operating activities (continuing and discontinued operations combined) increased from €84 million during the 2008 fiscal year to €112 million during the 2009 fiscal year.

## CORPORATE ACTIVITIES

- In addition to dealing with the impact of the economic slowdown, our 2009 fiscal year was characterized by several measures to improve our financial condition:
  - During the 2009 fiscal year, we repurchased and redeemed notional amounts of €215 million of our exchangeable subordinated notes due 2010 and €152 million of our convertible subordinated notes due 2010. The repurchases were made out of available cash. We realized pre tax-gains of €61 million net of transaction costs, which were recognized in financial income for the 2009 fiscal year for repurchases totaling €167 million of our exchangeable subordinated notes due 2010 and €78 million of our convertible subordinated notes due 2010. For repurchases and redemptions totaling €48 million of our exchangeable subordinated notes due 2010 and €74 million of our convertible subordinated notes due 2010, we realized pre-tax losses of €6 million, which were recognized in financial expense during the 2009 fiscal year. As of September 30, 2009, the outstanding notional amount of our convertible subordinated notes due 2010 was €448 million. Our exchangeable subordinated notes due 2010 were fully redeemed as of September 30, 2009.
  - On May 26, 2009, through our subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, we issued new convertible subordinated notes due 2014 in the notional amount of €196 million at a discount of 7.2 percent. The subordinated notes due 2014 bear interest of 7.5 percent and were originally convertible, at the option of the holders, into a maximum of 74.9 million ordinary shares of Infineon, at a conversion price of €2.61 per share through maturity. As a result of our share capital increase described below, the conversion price has been adjusted to €2.33 in accordance with an antidilution provision contained in the notes. The subordinated notes due 2014 are listed on the Open Market (Freiverkehr ) of the Frankfurt Stock Exchange.
  - On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business to Lantiq, affiliates of Golden Gate Private Equity Inc. (“Lantiq”). The majority of the purchase price was paid at closing on November 6, 2009, in the amount of €223 million, with up to an additional €20 million of the purchase price being payable nine months after the closing date. The sale of the Wireline Communications business allows us to concentrate on our four remaining operating segments, while at the same time further improving our balance sheet and strengthening our liquidity position.
  - On July 16, 2009, we announced the launch of a rights issue for up to 337 million shares, with a subscription price of €2.15 per share and a subscription period from July 20, 2009 through August 3, 2009. The new shares were offered to our existing shareholders for subscription at a ratio of four new shares for every nine outstanding shares held. Settlement for the new shares subscribed for under the rights offering occurred August 5, 2009, resulting in the issuance of 323 million new shares. In connection with the rights issue, we entered into a backstop arrangement with a financial investor to purchase any unsubscribed shares, subject to certain conditions. In the second step of the rights issue, on August 11, 2009, 14 million shares were issued to Admiral Participations (Luxembourg) S.a.r.l., a subsidiary of a fund managed by Apollo Global Management LLC. After the execution of the capital increase, our share capital consisted of €2,173 million. The capital increase resulted in gross proceeds to us of €725 million. Costs incurred in connection with the capital increase amounted to €45 million.

- To address rising risks in the market environment, adverse currency trends and partially below benchmark margins, we implemented our cost-reduction program “IFX10+” in the third quarter of the 2008 fiscal year. Subsequent to the end of the 2008 fiscal year, and in light of continuing adverse developments in general economic conditions and in particular in our industry, we identified significant further costs savings in addition to those originally anticipated. In response to the continued and increasingly severe deterioration in the general market environment, additional substantial cost reductions and cash savings were achieved. Among others, we implemented reduced working hours and unpaid leave during the 2009 fiscal year. In addition, we changed our bonus schemes for the 2009 fiscal year, issued a tightened travel policy, and terminated a service anniversary bonus payment scheme. Our operating expenses (including research and development cost as well as selling, general and administrative expense) for the 2009 fiscal year decreased by €263 million compared to the 2008 fiscal year. Our management believes that these savings are primarily due to our IFX10+ cost-reduction program. This figure includes cost savings resulting from reduced working hours and unpaid leave, but excludes the cost savings realized in our Wireline Communications business, which are included in results from discontinued operations, net of income taxes. We also made significant progress in reducing the number of employees. As of September 30, 2009, our workforce was 26,464 compared to 29,119 as of September 30, 2008, a reduction of 9 percent. Compared to June 30, 2008, (before we implemented the IFX10+ cost-reduction program), we reduced our workforce by 10 percent.

- On March 4, 2009, we sold the business of our wholly-owned subsidiary Infineon Technologies SensoNor AS ("SensoNor"), including property, plant and equipment, inventories, and pension liabilities, and transferred employees of this subsidiary to a newly formed company called SensoNor Technologies AS, for cash consideration of €4 million and one share in the capital of the new company. In addition, we granted licenses for intellectual property and entered into a supply agreement through December 2011 with the new company. As a result of this transaction, we realized pre-tax losses of €17 million, which were recorded in other operating expense in the 2009 fiscal year. We have entered into business agreements with the new company to ensure a continued supply of the components for our tire pressure monitoring systems until we ramp up production at our Villach site.
- On June 9, 2009, we signed an agreement with LS Industrial Systems Co., Ltd., South Korea, to establish the joint venture LS Power Semitech Co., Ltd., to jointly develop, produce and market molded power modules for low power applications. We intend to license to the joint venture intellectual property ("IP"), technology and process know-how for our power module family CIPOS™ (Control Integrated Power System), and intend to transfer existing CIPOS backend manufacturing equipment from Regensburg, Germany to the joint venture. We will hold 46 percent of the joint venture, which will be headquartered in South Korea. The agreement is subject to regulatory approvals and is expected to close in calendar year 2009.
- As part of our ongoing efforts to improve our production processes and improve our cost position, we:
  - are currently ramping up production of products using 65-nanometer technology at several manufacturing partners and have begun to develop products based on 40-nanometer technology, which we currently plan to have manufactured by one of our manufacturing partners; and
  - are proceeding with our development agreements with International Business Machines Corporation ("IBM") and its development and manufacturing partners to develop 32-nanometer technology. This agreement builds on the success of earlier joint development and manufacturing agreements.

## PRODUCT AND TECHNOLOGY DEVELOPMENTS

- We continue to invest in research and development and achieved a number of significant milestones and product developments during the 2009 fiscal year:

### Energy Efficiency

- Further expanding our leading role in fluorescent, high-intensity discharge ("HID") and solid-state lighting applications, we launched our next-generation smart ballast controller for use in compact fluorescent lamps, linear fluorescent T5 and T8 lamps, dimmable fluorescent lamps and emergency lighting. Today, around one third of all energy consumption is electrical energy of which around 15 percent is consumed by lighting, creating a growing demand for efficient lighting systems. The new lamp ballast controller has been selected by a number of the world's leading lighting manufacturers.
- We and Robert Bosch GmbH ("Bosch") are widening our cooperation to include power semiconductors. The collaboration between the companies has two key aspects. First, Bosch licenses from us certain manufacturing processes for power semiconductors – specifically, for low-voltage power MOSFETs (metal oxide semiconductor field-effect transistors) – along with the requisite manufacturing technologies. Second, the collaboration includes a second-source agreement. Parallel to Bosch's own semiconductor manufacturing in Reutlingen, Germany, we will produce components developed on the basis of these processes and will supply Bosch with these components. We and Bosch are also working jointly on the development of enabling technologies for the production of power semiconductors.
- With the 600V CoolMOS™ C6 series, our latest high-performance power MOSFETs, we enable energy conversion applications such as PFC (Power Factor Correction) or PWM (Pulse Width Modulation) stages to be made significantly more energy efficient. CoolMOS™ C6 devices target various energy efficient applications such as power supplies or adapters for PCs, notebooks or mobile phones, lighting (HID) products, as well as displays (LCD or Plasma TV) and consumer applications like gaming consoles. Our latest power semiconductor generation allows for highly reliable end products compliant with today's high efficiency requirements and government regulations.

### Security

- We have maintained our strong position in the chip card and security IC market. U.S. market research company Frost & Sullivan named us, for the twelfth consecutive year, as the top supplier of chip card semiconductors. In 2008, our market share was 26 percent of the overall chip card IC (integrated circuit) market, which totals about 2.4 billion U.S. dollar according to Frost & Sullivan. Our strong market position is particularly driven by our leadership in the Government Identification ("ID") and payment market segments.

  In government ID applications, roughly half of all government ID documents (excluding the China national ID project) issued in 2008 incorporated one of our security chips. Government ID applications include electronic documents, such as passports, national ID cards, health cards, drivers licenses and social security cards. Today, our products are used in the public domain of about one third of the 192 UN member states. A key success factor in this sensitive market is the ability to provide long-term security and robust, high-quality products with excellent contactless performance. In the payment market we are also a key partner of the secure chip card industry. We are a major supplier for many of the world's largest financial card applications, including credit and debit card programs in France, Germany, the UK and Korea.
- Our position as key innovator in the chip card industry was again recognized when we were awarded the 2008 Sesame Award in the category of "Best Hardware" for our latest 16-bit security microcontroller family, SLE 78. We received the award because the new chips integrate a highly innovative self-checking security mechanism – called "Integrity Guard" – which we specifically developed for chip card and security applications. This is the fifth time we have received this prestigious award.

### Communications

- In January 2009, we won the Innovation Award of German Industry for the best technological innovation in the category of "large-scale enterprises" for our X-GOLD™ 101 mobile phone chip. This chip enables the production of a simple mobile phone from a single-chip, cutting the manufacturing cost of mobile phones by over 30 percent. It is the second time we have received this prestigious award.
- We announced our third-generation ultra-low-cost ("ULC") mobile phone chips. The X-GOLD™ 110 is the industry's most integrated and cost-effective one-chip solution for GSM/GPRS ultra low-cost phones. The bill of material for mobile phone manufacturers is approximately 20 percent lower compared to existing GSM/GPRS solutions. The new platform supports color display, MP3 playback, FM radio, and USB charging, and can be used in Dual-SIM and camera solutions.
- In our RF business, we announced the sampling of the second generation of our Long-Term-Evolution (LTE) RF transceiver. The SMARTi™ LU is a single-chip-65-nanometer CMOS RF transceiver providing LTE/3G/2G functionality with digital baseband interface in LTE networks for data rates up to 150 megabit per second. The latest revision of SMARTi™ LU adds LTE FDD/TDD mode and new frequency bands supporting leading operators in North America and China. SMARTi™ LU will ship in volume in the second half of the 2010 calendar year. In addition, we announced the third generation of our 3G RF transceiver family SMARTi™ UE. The SMARTi™ UEmicro is optimized for lowest cost 3G designs and enables a 40 percent lower bill of material than available solutions on the market. SMARTi™ UEmicro meets the feature requirements and cost targets of emerging 3G mass markets in China and India. Volume shipments are expected to start in the first half of the 2010 calendar year.

## 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 analog, digital, and mixed-signal applications. We have operations, investments, and customers located primarily in Europe, Asia and North America.

Our core business is currently organized in four operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions:

- The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, we offer corresponding system know-how and support to our customers.
- The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial applications and in applications with customer-specific product requirements.
- The Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications.
- The Wireless Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireless communication applications.

Our current segment structure reflects a reorganization of our operations effective October 1, 2008. To better align our business with our target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications. In July 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. As a result of the planned sale, our Management Board determined that the Wireline Communications business ceased to be an operating segment in September 2009, and the results of the Wireline Communications business are reported as discontinued operations in our consolidated statements of operations for all periods presented. Segment results for all periods presented have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information. Assets and liabilities of the Wireline Communications business in the consolidated balance sheet as of September 30, 2009 are classified as “held for disposal”.

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, and 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.

In addition, we currently hold a 77.5 percent interest in Qimonda, which was carved-out in 2006. On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG (“Qimonda Dresden”) filed an application to commence insolvency proceedings, and formal insolvency proceedings were opened on April 1, 2009. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The final resolution of the insolvency proceedings, including the final disposition of the remaining assets and liabilities of Qimonda, cannot be predicted at this time. As a result of the application, we deconsolidated Qimonda during the second quarter of the 2009 fiscal year. During the second quarter of the 2008 fiscal year, we committed to a plan to dispose of Qimonda. As a result, the assets and liabilities of Qimonda in the consolidated balance sheet as of September 30, 2008, were classified as “held for disposal”, and the results of Qimonda are reported in our consolidated statements of operations as discontinued operations through deconsolidation for all periods presented.

## THE SEMICONDUCTOR INDUSTRY AND FACTORS THAT IMPACT OUR BUSINESS

Our business and the semiconductor industry generally are highly cyclical and 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.

### CYCLICALITY

The market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins. According to WSTS (November 2009), the overall market growth (in U.S. dollar terms) compared to the previous year was 8.9 percent in 2006 and 3.2 percent in 2007, before decreasing by 2.8 percent in 2008. WSTS predicts that the overall market will contract by approximately 11 percent in the 2009 calendar year.

The industry's cyclicality results from a complex set of factors, including, in particular, fluctuations in demand for the end products that use semiconductors and fluctuations in manufacturing capacity. This cyclicality 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 attempt to mitigate the impact of cyclicality 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.

### SUBSTANTIAL CAPITAL AND RESEARCH & DEVELOPMENT 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, according to IC Insights, account for approximately 60 percent of the industry's projected 2009 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 commodity products in particular, is market-driven and largely beyond our control, a key factor in achieving and maintaining profitability is to continually lower our per-unit costs by reducing total costs and by increasing unit production output through productivity improvements.

To reduce total costs, we intend to continue to seek to share the costs of our research and development ("R&D") and manufacturing 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. Our principal alliances are with the International Semiconductor Development Alliance ("ISDA"), a technology alliance among IBM, GlobalFoundries Inc., Chartered Semiconductor Manufacturing Ltd. ("Chartered Semiconductor"), Freescale Seminconductor, Inc., NEC Corporation, Samsung Electronics Ltd., STMicroelectronics NV, Toshiba Corporation and Infineon for CMOS development and manufacturing at 45-nanometer and 32-nanometer process technologies. We have established foundry relationships with United Microelectronics Corporation ("UMC") for 130-nanometer, 90-nanometer and 65-nanometer manufacturing as well as with Chartered Semiconductor and Taiwan Semiconductor Manufacturing Company ("TSMC") for 65-nanometer manufacturing. Further, we announced in November 2009 the signing of a joint development agreement for 65-nanometer embedded Flash technology with TSMC.

In the backend field, STMicroelectronics NV, STATS ChipPAC Ltd. and Infineon are jointly developing the next-generation of embedded Wafer-Level Ball Grid Array ("eWLB") technology, based on our first-generation technology, for use in manufacturing future-generation semiconductor packages. This builds on our existing eWLB packaging technology, which we have licensed to our development partners. The new R&D effort, for which the resulting IP will be jointly owned by the three companies, will focus on using both sides of a

reconstituted wafer to provide solutions for semiconductor devices with a higher integration level and a greater number of contact elements.

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). Currently, a substantial portion of our capacity is based on 130-nanometer and 90-nanometer structure sizes. Our 130-nanometer process technology, with up to eight layers of copper metallization, is in volume production at several manufacturing sites, including our Dresden facility. Additional 130-nanometer process options have been developed to fulfill the needs of specialty applications. Our 90-nanometer technology is in production. We are currently manufacturing 65-nanometer technology at several foundry partners and are developing products based on 40-nanometer technology which we currently plan to manufacture initially at one of our manufacturing partners.

About half of our internal fab capacity is used for the manufacture of power semiconductors used in automotive and industrial applications. We have power semiconductor manufacturing sites in Regensburg, Germany, in Villach, Austria and in Kulim, Malaysia. We continue to focus on innovation for power semiconductors, introducing power copper metallization and special processes to fabricate ever thinner wafers to optimize electrical resistance.

### TECHNOLOGICAL DEVELOPMENT AND COMPETITION

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. Although logic products generally have a certain degree of application specification, unit sales prices for logic products typically decline over time as technology develops.

We aim to offset the effects of declining unit sales prices on total revenue 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, for example by moving to ever-smaller structure sizes.

### SEASONALITY

Our sales are affected by seasonal and cyclical influences, with sales historically strongest in our fourth 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 cyclicality 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 our 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 R&D, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any.

### ACQUISITION AND DIVESTITURE STRATEGY

A key element of our core 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 or businesses.

### 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 also derive modest revenues from the licensing of our IP, generally pursuant to cross licensing agreements. Our IP rights include patents, copyrights, trade secrets, trademarks, utility models and designs. The subjects of our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset not only to protect our investment in technology but also a vital prerequisite for cross licensing agreements with third parties.

As of September 30, 2009, we owned more than 20,800 patent applications and patents (both referred to as “patents” below) in over 40 countries throughout the world. These patents belong to approximately 8,150 “patent families” (each patent family containing all patents originating from the same invention). 1,900 of those patent applications and patents (approximately 820 patent families) were transferred to Lantiq upon the closing of the sale of our Wireline Communications business on November 6, 2009.

We record assets on our balance sheet for self-developed IP. Costs for development activities may be capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials,

direct labor and directly attributable general overhead expenditures that serve to prepare the asset for use. Costs of research activities which do not fulfill the criterias for capitalization are expensed as incurred. IP licensed from others or acquired through a business combination is also 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.

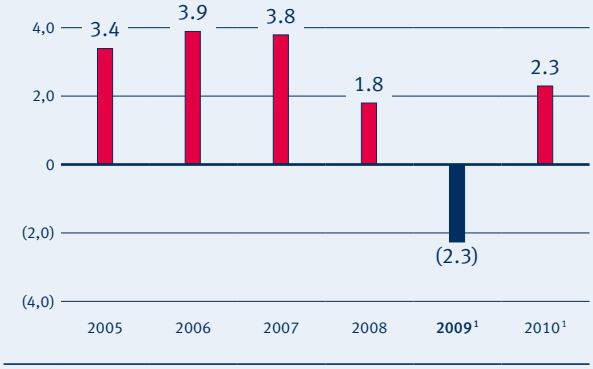
## CHALLENGES THAT LIE AHEAD

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 in 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 2009 FISCAL YEAR

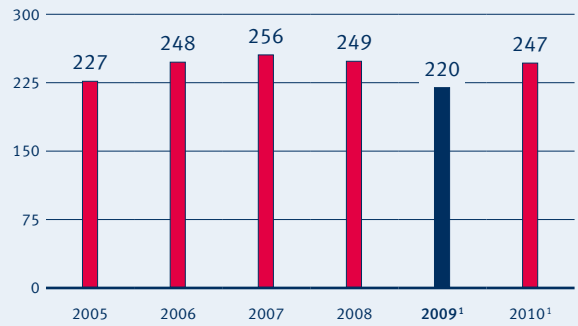
According to WSTS (September 2009), the global semiconductor market contracted (in U.S. dollar terms) by 20 percent through the first nine months of the 2009 calendar year compared to the same period in the prior year, following a market contraction of 2.8 percent in the 2008 calendar year. In November 2009, WSTS predicted the global semiconductor market would shrink by approximately 11 percent in the full 2009 calendar year. Sales in North America are expected to decrease by 1 percent and in Europe by 24 percent in the 2009 calendar year, according to WSTS. The semiconductor market in Asia/Pacific (excluding Japan) is expected to contract by 7 percent; the Japanese market is expected to contract by 21 percent compared to the 2008 calendar year. Sales of non-memory products (logic chips, analog, and discretes), which accounted for 81 percent of the entire market in the first nine months of the 2009 calendar year, are predicted to decrease by 12 percent compared with the 2008 calendar year. Sales of memory products are predicted to decline by 8 percent compared with the 2008 calendar year. In the 2008 calendar year, the memory market contracted by 20 percent (WSTS, November 2009).

**04 WORLD ECONOMIC GROWTH**
IN %




Source: International Monetary Fund; status: October 2009.
**1** Estimated.

**05 DEVELOPMENT OF THE SEMICONDUCTOR MARKET**
U.S. $ IN BILLIONS




Source: WSTS; status: November 2009.
**1** Estimated.

# RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS AS A PERCENTAGE OF REVENUE

The following table presents the various line items in our consolidated statements of operations expressed as percentages of revenue.

06 RESULTS OF OPERATIONS AS A PERCENTAGE OF REVENUE

| For the years ended September 30[1] | 2007 | 2008 | 2009 |
|---|---|---|---|
| Revenue | 100.0 | 100.0 | 100.0 |
| Cost of goods sold | (67.5) | (66.1) | (78.2) |
| **Gross profit** | 32.5 | 33.9 | 21.8 |
| Research and development expenses | (17.0) | (15.5) | (15.5) |
| Selling, general and administrative expenses | (12.3) | (13.3) | (13.0) |
| Other operating income | 1.0 | 3.1 | 1.0 |
| Other operating expenses | (1.5) | (9.4) | (1.6) |
| **Operating income (loss)** | 2.7 | (1.2) | (7.3) |
| Financial income | 3.0 | 1.5 | 3.3 |
| Financial expense | (6.6) | (4.6) | (5.1) |
| Income from investments accounted for using the equity method | — | 0.1 | 0.2 |
| **Loss from continuing operations before income taxes** | (0.9) | (4.2) | (8.9) |
| Income tax benefit (expense) | 0.1 | (1.0) | (0.1) |
| **Loss from continuing operations** | (0.8) | (5.2) | (9.0) |
| **Loss from discontinued operations, net of income taxes** | (9.3) | (90.8) | (13.2) |
| **Net loss** | (10.1) | (96.0) | (22.2) |
| Attributable to: | | | |
| Minority interests | (0.6) | (20.8) | (1.6) |
| Shareholders of Infineon Technologies AG | (9.5) | (75.2) | (20.6) |

1 Columns may not add up due to rounding.

## REORGANIZATION

Our organizational structure for the period through March 31, 2008, became effective on May 1, 2006, following the legal separation of our memory products business into the standalone legal company Qimonda. Effective March 31, 2008, the results of Qimonda until deconsolidation are reported as discontinued operations in our consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been classified as held for disposal in the consolidated balance sheet as of September 30, 2008.

Following the completion of the Qimonda carve-out, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to our segments. In addition, Other Operating Segments includes revenue and earnings that our 200-millimeter production facility in Dresden recorded from the sale of wafers to Qimonda under a foundry agreement, which was cancelled during the 2008 fiscal year. The Corporate and Eliminations segment reflects the elimination of these revenue and earnings. Also, effective October 1, 2007, we record gains and losses from sales of investments in marketable debt and equity securities in the Corporate and Eliminations segment.

Effective October 1, 2008, to better align our business with our target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions and Wireline Communications. On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business which closed on November 6, 2009. As a result of the planned sale, our Management Board determined that the Wireline Communications business ceased to be an operating segment in September 2009, and the results of the Wireline Communications business are reported as discontinued operations in our consolidated statements of operations for all periods presented, and the assets and liabilities of the Wireline Communications Business in the consolidated balance sheet as of September 30, 2009 are classified as “held for disposal”.

Segment results for all periods presented have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information.

## REVENUE

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. Our semiconductor products include a wide array of chips and components used in electronic applications ranging from wireless communication systems, to chip cards, automotive electronics, and industrial applications.

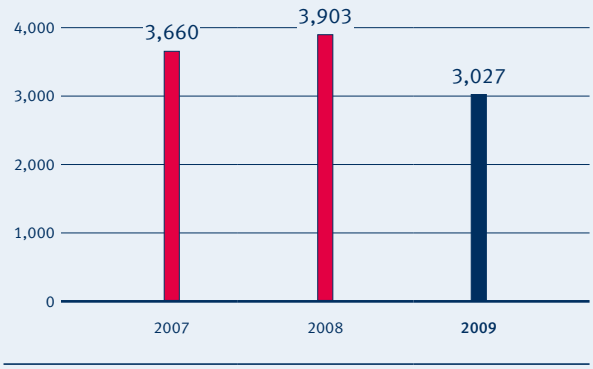
We generated the majority of our product revenues in the 2009 fiscal year through our direct sales force, with approximately 20 percent of revenues derived from sales made through distributors.

We derive our modest license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a 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 revenues fluctuate in response to a combination of factors, including the following:

- the market prices for our products, including fluctuations in currency exchange rates that affect our prices;
- our overall product mix and sales volumes;
- the stage of our products in their respective life cycles;
- the effects of competition and competitive pricing strategies;
- governmental regulations influencing our markets (e.g., energy efficiency regulations); and
- the global and regional economic cycles.

08 **REVENUES**
€ IN MILLIONS




In the 2008 fiscal year, revenues increased primarily as a result of the revenue increase in the Wireless Solutions segment, partially offset by the revenue decline in other operating segments due to the sale of our HDD business to LSI in April 2008. The slight revenue decreases in our Automotive and our Industrial & Multimarket segments were offset by revenue increases in our Chip Card & Security segment.

In the 2009 fiscal year, revenues decreased by 22 percent compared to the 2008 fiscal year, primarily due to the economic slowdown. Revenues decreased across all of our segments.

The strength of the Euro (primarily against the U.S. dollar) during the 2007 and 2008 fiscal years negatively impacted revenue, while the partial recovery of the U.S. dollar against the Euro in the 2009 fiscal year positively impacted our revenues. The effect of foreign exchange over the prior year is calculated as the estimated change in current year revenues if the average exchange rate for the preceding year were applied as a constant rate in the current year.

07 **REVENUE**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Revenue** | 3,660 | 3,903 | 3,027 |
| Changes year-on-year | | 7% | (22%) |
| Of which: | | | |
| License income | 19 | 53 | 18 |
| Percentage of revenue | 1% | 1% | 1% |
| Effect of foreign exchange over prior year | (154) | (239) | 169 |
| Percentage of revenue | (4%) | (6%) | 6% |
| Impact of acquisitions over prior year | — | 133 | — |
| Percentage of revenue | — | 3% | — |

Revenues for the 2008 fiscal year include the effect of the acquisition of the mobility products business from LSI from October 25, 2007 and Primarion Inc. from April 28, 2008. The impact of acquisitions over the prior fiscal year reflects the increase in revenue resulting from business acquisitions since the beginning of the prior fiscal year, and in particular the inclusion of a full-year consolidation of revenue from such acquisition in the year after the initial acquisition.

## ACTUAL REVENUES IN THE 2009 FISCAL YEAR COMPARED TO PREVIOUSLY REPORTED OUTLOOK

When we initially presented our outlook for the 2009 fiscal year, in December 2008, our visibility with respect to economic developments in the 2009 fiscal year was very limited. Based on forecasts at that time, we forecast that total revenues in the 2009 fiscal year would decrease by at least 15 percent compared to the 2008 fiscal year. In April 2009, we revised our outlook for the 2009 fiscal year; however, considerable uncertainties regarding the economic situation remained. Based on the results for the first six months of the 2009 fiscal year, as of April we forecasted revenues for the 2009 fiscal year to decrease by more than 20 percent compared to the 2008 fiscal year.

As expected, the economic slowdown during the 2009 fiscal year resulted in revenue decreases in all our segments. As we forecasted in April 2009 in our revised outlook for the 2009 fiscal year, our overall revenue decreased by 22 percent in the 2009 fiscal year compared to the 2008 fiscal year. Revenues of each of our operating segments, other than Wireless Solutions, decreased by more than 20 percent each in the 2009 fiscal year compared to the 2008 fiscal year. As we forecasted, the economic slowdown had the least impact on our Wireless Solutions segment, which experienced a decrease of revenues of only 3 percent in the 2009 fiscal year compared to the 2008 fiscal year.

## REVENUE BY SEGMENT

### Automotive

In the 2008 fiscal year, revenues were €1,257 million, and remained broadly unchanged compared to €1,267 million in the 2007 fiscal year. Higher sales volumes partially offset the continued pricing pressures caused by technological developments and competition. In the 2009 fiscal year, revenues were €839 million, a decrease of 33 percent compared to the 2008 fiscal year. The revenue decline was in line with the volume reduction in the automobile market driven by the economic downturn. In addition, we saw a market shift to smaller-sized cars with lower semiconductor content triggered by national car-scrap bonus programs and an economic stimulus program in China. During the second half of the 2009 fiscal year, revenues of the Automotive segment partially recovered compared to the first half of the 2009 fiscal year, however revenues in the second half of the 2009 fiscal year were still significantly lower compared to revenues in the second half of the 2008 fiscal year.

### Industrial & Multimarket

In the 2008 fiscal year, revenues slightly decreased due to the sale of an interest in Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") to Siemens AG, which is being consolidated under the equity method of accounting effective October 1, 2007. Revenues of the remaining businesses increased as higher sales volumes more than offset the continued pricing pressures caused by technological developments and

09 **REVENUE BY SEGMENT**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | % | 2008 | % | 2009 | % |
|---|---|---|---|---|---|---|
| Automotive | 1,267 | 35 | 1,257 | 32 | 839 | 28 |
| Industrial & Multimarket | 1,188 | 33 | 1,171 | 30 | 905 | 30 |
| Chip Card & Security | 438 | 12 | 465 | 12 | 341 | 11 |
| Wireless Solutions[1] | 637 | 17 | 941 | 24 | 917 | 30 |
| Other Operating Segments[2] | 343 | 9 | 171 | 4 | 17 | 1 |
| Corporate and Eliminations[3] | (213) | (6) | (102) | (2) | 8 | 0 |
| **Total** | 3,660 | 100 | 3,903 | 100 | 3,027 | 100 |

1 Includes revenues of €30 million, €10 million and €1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, from sales of wireless communication applications to Qimonda.
2 Includes revenues of €189 million and €79 million for fiscal years ended September 30, 2007, and 2008, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under a foundry agreement.
3 Includes the elimination of revenues of €219 million, €89 million and €1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, since these sales were not part of the Qimonda disposal plan.

competition. Growth in revenues was driven primarily by continued strong demand for industrial high power applications, and increases in sales of multimarket applications. In the 2009 fiscal year, revenues amounted to €905 million and were 23 percent below revenues for the 2008 fiscal year. Against the background of the global economic crisis, particularly in consumer oriented markets like computing, communication and automotive, sales declined. The primary causes for the decline were a significant slump in demand by end-consumers as well as stock clearance within the value chain. The industrial business showed a comparatively slight decline in sales compared to the 2008 fiscal year. Economic stimulus plans throughout the world helped to partially counterbalance the impact of the economic crisis in the industrial segment. Revenues increased in the second half of the 2009 fiscal year compared to the first half. In the fourth quarter of our 2009 fiscal year, revenues increased significantly compared to the third quarter of the 2009 fiscal year. This increase primarily reflected the seasonality typical in consumer oriented markets and was comparable to the growth rate in the fourth quarter of the 2008 fiscal year compared to the third quarter of the 2008 fiscal year.

### Chip Card & Security

In the 2008 fiscal year, revenues were €465 million, an increase of 6 percent compared to €438 million in the 2007 fiscal year. This increase primarily reflected growing demand for government ID applications, especially the introduction of electronic passports, as well as market share gains in Pay-TV and payment applications. In the 2009 fiscal year, revenues were €341 million, a decrease of 27 percent compared to the 2008 fiscal year. This decrease was driven by weaker demand for government ID as well as for platform security, Pay-TV, mobile communication and payment applications, caused primarily by the economic and financial crisis. Investments in infrastructure improvements were particularly delayed due to the crisis, which resulted in a slow down, for example, in the migration towards high-end products in payment applications. Additionally, the economic crisis negatively impacted worldwide travel activities, leading to significantly lower end-customer demand for electronic passports. In the fourth quarter of the 2009 fiscal year, revenue increased compared to the third quarter of the 2009 fiscal year. This increase was significantly higher than the increase in the fourth quarter of the 2008 fiscal year compared to the third quarter of the 2008 fiscal year. This was mainly driven by stronger demand for communication chips as well as a recovery of market demand for platform security chips in laptops and PCs.

### Wireless Solutions

In the 2008 fiscal year, revenues were €941 million, an increase of 48 percent compared to €637 million in the 2007 fiscal year, primarily resulting from a strong increase in mobile phone platform shipments and the consolidation of the mobility products business acquired from LSI. In the 2009 fiscal year, revenues were €917 million, a slight decrease of 3 percent compared to the 2008 fiscal year. Despite the turbulent market environment, particularly in the first half of the 2009 fiscal year, the segment succeeded in stabilizing revenues at the previous fiscal year's level. Our innovative ULC-, Entry Phone-, UMTS- and HSPA solutions were positively received and had strong market momentum.

### Other Operating Segments

In the 2007 and 2008 fiscal years, revenues comprised mainly inter-segment revenues of wafers from our 200-millimeter facility in Dresden to Qimonda under a foundry agreement, which are eliminated in the Corporate and Eliminations segment. Effective November 30, 2007, Qimonda canceled the foundry agreement with us, resulting in a significant decline in revenue during the 2008 and 2009 fiscal years. The last wafers were delivered to Qimonda in May 2008. The majority of the revenues in the 2009 fiscal year were derived from our HDD business which we sold to LSI in April 2008, and which were also included in the revenues of other operating segments in the 2007 and 2008 fiscal years.

## REVENUE BY REGION AND CUSTOMER

The absolute and relative increase in the share of revenues in Asia/Pacific in the 2008 fiscal year was primarily due to the acquisition of the mobility products business from LSI and higher shipments of mobile phone platforms solutions to customers in Asia/Pacific in our Wireless Solutions segment.

The regional distribution of revenues in the 2009 fiscal year changed slightly compared to the 2008 fiscal year, primarily reflecting changes in the revenues of the segments. The shift in the regional distribution from Germany, Other Europe, and North America to Asia/Pacific resulted primarily from the significant revenue decreases of our Automotive segment, whose customers are based largely in Germany, Other Europe and North America. Furthermore, increased revenues of our Wireless Solutions segment in Asia/Pacific during the 2009 fiscal year compared to the 2008 fiscal year contributed to the changes in the regional distribution of revenues.

No single customer accounted for more than 10 percent of our revenues in the 2009 fiscal year, while our top 25 customers accounted for 72 percent of our revenues.

## 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, including amortization of capitalized development cost;
- subcontracted expenses for assembly and test services;
- production support, including facilities, utilities, quality control, automated systems and management functions; and
- foundry production costs.

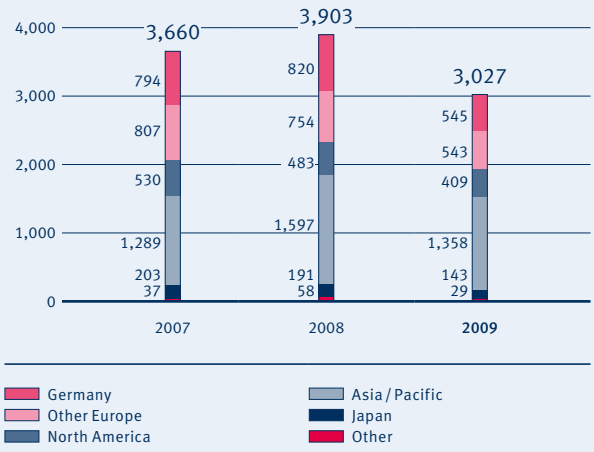
In addition to factors that affect our revenue, our gross margin is impacted by:

- factory utilization rates and related idle capacity costs;
- amortization of purchased intangible assets and capitalized development costs;
- 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. Our purchases from these associated and related companies amounted to €47 million, €148 million and €138 million in the 2007, 2008 and 2009 fiscal years, respectively.

During the 2008 fiscal year our gross margin slightly increased primarily as a result of productivity measures. In the 2009 fiscal year our gross margin decreased significantly from 34 percent to 22 percent. In particular during the first half of the 2009 fiscal year, lower sales volumes and significantly higher idle capacity costs, reflecting fixed cost in production that could not be reduced proportionately to the reduced sales volume, resulted in a significant decline of our gross margin. The increased sales volumes during the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year resulted in a partial recovery of our gross margin in the second half of the 2009 fiscal year.

11 REVENUES BY REGION
€ IN MILLIONS




### Automotive

In the 2008 fiscal year, gross profit of the segment remained broadly unchanged compared to the 2007 fiscal year due to measures to increase productivity and despite an increase in idle capacity cost. Compared to the 2008 fiscal year, gross profit in the 2009 fiscal year decreased due to volume decline and further increasing costs for idle capacity.

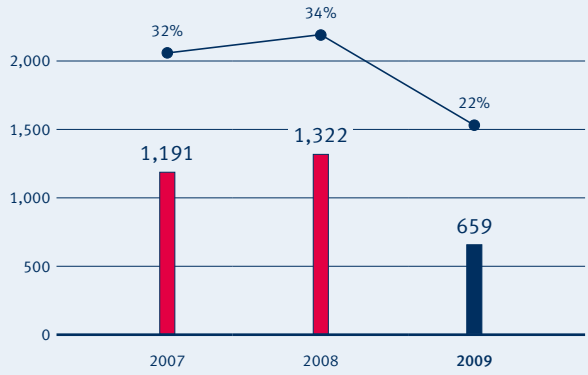
10 REVENUE BY REGION AND CUSTOMER
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | % | 2008 | % | 2009 | % |
|---|---|---|---|---|---|---|
| Germany | 794 | 22 | 820 | 21 | 545 | 18 |
| Other Europe | 807 | 22 | 754 | 19 | 543 | 18 |
| North America | 530 | 14 | 483 | 12 | 409 | 13 |
| Asia/Pacific | 1,289 | 35 | 1,597 | 41 | 1,358 | 45 |
| Japan | 203 | 6 | 191 | 5 | 143 | 5 |
| Other | 37 | 1 | 58 | 2 | 29 | 1 |
| **Total** | 3,660 | 100 | 3,903 | 100 | 3,027 | 100 |

**12** COST OF GOODS SOLD AND GROSS MARGIN
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Cost of goods sold | 2,469 | 2,581 | 2,368 |
| Changes year-on-year | | 5% | (8%) |
| Percentage of revenue | 68% | 66% | 78% |
| Gross profit | 1,191 | 1,322 | 659 |
| Percentage of revenue (gross margin) | 32% | 34% | 22% |

**13** GROSS MARGIN ABSOLUTE € IN MILLIONS AND IN PERCENTAGE OF REVENUE




### Industrial & Multimarket

In the 2008 fiscal year, gross profit of the segment remained broadly unchanged compared to the 2007 fiscal year due to measures to increase productivity and despite an increase in idle capacity cost. Due to significantly lower revenues and higher idle capacity cost in the 2009 fiscal year, gross profit declined in the 2009 fiscal year compared to the 2008 fiscal year. The decrease in gross profit was limited by structural improvements in our product portfolio and cost and process enhancements as well as by our significant savings measures. Price erosion affecting our products in the 2009 fiscal year remained on the same level as in the 2008 fiscal year.

### Chip Card & Security

In the 2008 fiscal year, gross profit of the segment increased significantly primarily due to the increase in revenue as well as changes in product mix, driven by our differentiation strategy in the product portfolio. In the 2009 fiscal year, gross profit decreased in line with revenues and due to higher idle capacity cost, reflecting reduced loading of the manufacturing facilities.

### Wireless Solutions

In the 2008 fiscal year, gross profit of the segment increased compared to that of the 2007 fiscal year, primarily due to the revenue increases, cost savings and productivity measures, despite the negative impact of currency fluctuations between the U.S. dollar and the Euro. In the 2009 fiscal year gross profit of the segment decreased compared to the 2008 fiscal year, reflecting higher idle capacity cost resulting from lower factory loading.

## RESEARCH AND DEVELOPMENT EXPENSES

R&D expenses consist primarily of salaries and benefits for R&D personnel, material costs, depreciation and maintenance of equipment used in our R&D efforts, and contracted technology development costs. R&D expenses also include our joint technology development arrangements with partners. Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serves to prepare the asset for use.

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

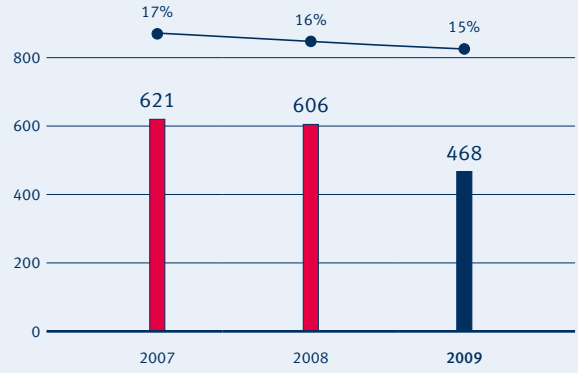
Some of our R&D projects qualify for subsidies from local and regional governments where we do business. If the criteria to receive a grant are met, the subsidies received reduce R&D expenses over the project term as expenses are incurred.

In the 2008 fiscal year R&D expenses decreased by €15 million or 2 percent compared to the 2007 fiscal year, and further decreased in the 2009 fiscal year by €138 million or 23 percent compared to the 2008 fiscal year. The absolute decline during our 2009 fiscal year resulted from our IFX10+ cost-reduction program, savings from short-time work and unpaid leave, and deferred R&D activities. Furthermore, reduced expenses reflecting lower profit-related bonuses contributed to cost reduction in the 2009 fiscal year. Continued increases in our R&D efficiency also contributed to the decline of R&D expenses in the 2009 fiscal year compared to the 2008 fiscal year. We believe that the cost savings achieved have not harmed our technological competitive position.

**14 RESEARCH AND DEVELOPMENT EXPENSES**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Research and development expenses | 621 | 606 | 468 |
| Changes year-on-year | | (2%) | (23%) |
| Percentage of revenue | 17% | 16% | 15% |
| Government subsidies | 87 | 59 | 50 |
| Percentage of revenue | 2% | 2% | 2% |
| Capitalized development costs | 22 | 38 | 43 |
| Percentage of research and development expenses | 4% | 6% | 9% |

**15 R&D EXPENSES € IN MILLIONS AND IN PERCENTAGE OF REVENUE**




We capitalized development costs of €22 million, €38 million and €43 million in the 2007, 2008 and 2009 fiscal year, respectively.

### Automotive

In the 2008 fiscal year, R&D expenses remained stable as a percentage of revenues and decreased in absolute terms. In the 2009 fiscal year, R&D cost was reduced in absolute terms; however R&D expense slightly increased as a percentage of revenue due to the significant reduction in revenue.

### Industrial & Multimarket

In the 2008 fiscal year, R&D expenses remained stable as a percentage of revenues and decreased in absolute terms. R&D expenses in the 2009 fiscal year declined in absolute terms, but increased as a percentage of revenues due to the significant reduction in revenue.

### Chip Card & Security

In the 2008 fiscal year, R&D expenses increased both as a percentage of revenues and in absolute terms. In the 2009 fiscal year, R&D expenses decreased strongly. As a percentage of revenues, R&D expenses of the segment increased slightly due to the reduction in revenues.

### Wireless Solutions

In the 2008 fiscal year, despite the acquisition of the mobility products business from LSI, R&D expenses decreased as efficiency gains and cost reduction measures initiated during the 2007 fiscal year for the first time were taking effect for a full fiscal year. As a percentage of revenue, R&D expenses declined sharply, mainly driven by the revenue increase. In the 2009 fiscal year, R&D expenses significantly decreased in both relative and absolute terms.

## SELLING, GENERAL AND ADMINISTRATIVE 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.

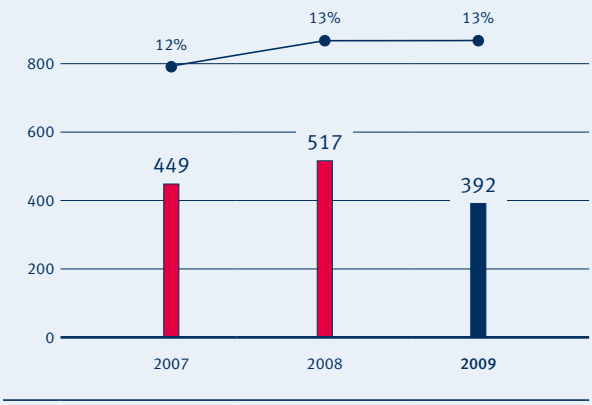
General and administrative expenses consist primarily of salaries and benefits for administrative personnel, non-manufacturing related overhead costs, and consultancy, legal and other fees for professional services.

The year-on-year increase in absolute terms in the 2008 fiscal year primarily reflects increased selling expenses following the acquisition of the mobility products business from LSI. In the 2009 fiscal year selling, general and administrative expenses decreased by €125 million or 24 percent compared to the 2008 fiscal year. This decrease reflects cost savings as a result of our IFX10+ cost-reduction program, short-time work, and unpaid leave. Additionally, the reversal of bonus provisions and lower bonus and incentive expenses due to our 2009 fiscal year results contributed to the decrease in selling, general and administrative expenses in the 2009 fiscal year. As a percentage of revenues, selling, general and administrative expenses remained broadly unchanged for the 2009 fiscal year compared to the 2008 fiscal year.

**16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Selling, general and administrative expenses | 449 | 517 | 392 |
| Changes year-on-year | | 15% | (24%) |
| Percentage of revenue | 12% | 13% | 13% |

17 **SG&A EXPENSES** € IN MILLIONS AND IN PERCENTAGE OF REVENUE




## OTHER OPERATING INCOME AND OTHER OPERATING EXPENSE

### Other Operating Income

In the 2007 fiscal year, other operating income consisted primarily of gains of €17 million from the sale of the Polymer Optical fiber ("POF") business to Avago Technologies Ltd. ("Avago"), and gains of €3 million from the sale of the Sci-Worx business to Silicon Image Inc. Other operating income increased by €83 million from €37 million in the 2007 fiscal year to €120 million in the 2008 fiscal year, and decreased to €29 million in the 2009 fiscal year. Other operating income in the 2008 fiscal year related primarily to the gains of €80 million from the sale of 40 percent of our interest in Bipolar to Siemens, the sale of our HDD business to LSI, and the sale of our bulk acoustic wave filter business ("BAW") to Avago. Additionally, we realized gains from disposals of long-term assets of €4 million in the 2008 fiscal year. Included in other operating income for the 2009 fiscal year were €10 million of payments from the insolvency administrator of BenQ, a former customer.

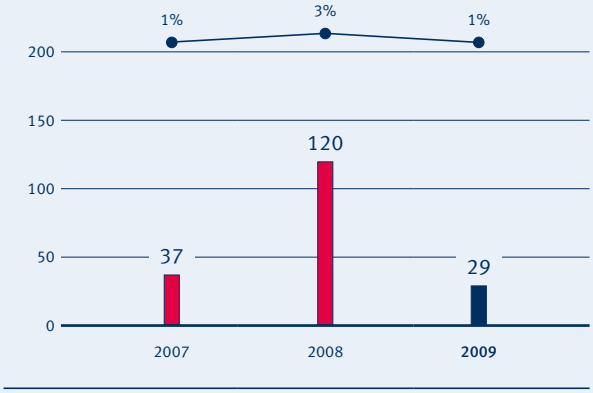
18 **OTHER OPERATING INCOME AND OTHER OPERATING EXPENSE** € IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Other operating income | 37 | 120 | 29 |
| Percentage of revenue | 1% | 3% | 1% |
| Other operating expense | (57) | (365) | (48) |
| Percentage of revenue | (2%) | (9%) | (2%) |

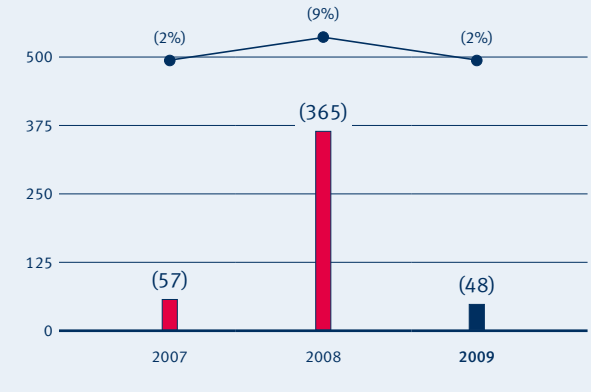
### Other Operating Expense

Other operating expense increased by €308 million from €57 million in the 2007 fiscal year to €365 million in the 2008 fiscal year, and decreased to €48 million in the 2009 fiscal year by €317 million compared to the 2008 fiscal year. Other operating expense in the 2008 fiscal year related primarily to higher restructuring and impairment charges in the 2008 fiscal year compared to the 2007 fiscal year. To address rising risks in the market environment, adverse currency trends and partially below benchmark margins, we implemented the IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. The IFX10+ cost-reduction program targeted certain areas to reduce costs including product portfolio

19 **OTHER OPERATING INCOME** € IN MILLIONS AND IN PERCENTAGE OF REVENUE




20 **OTHER OPERATING EXPENSE** € IN MILLIONS AND IN PERCENTAGE OF REVENUE



management, manufacturing costs reduction, value chain optimization, processes efficiency, reorganization of our structure along our target markets, and reductions in workforce. Approximately 10 percent of our workforce worldwide was impacted by IFX10+. In the 2008 fiscal year, we recorded restructuring charges totaling €188 million, of which €172 million was attributable to the IFX10+ cost-reduction program. We recorded impairment charges of €130 million on property, plant and equipment and intangible assets during the 2008 fiscal year, primarily relating to the write-down of ALTIS Semiconductor S.N.C, Essonnes, France ("ALTIS"), to its estimated fair value. In August 2007, we and IBM signed an agreement in principle to divest our shares in ALTIS via a sale to Advanced Electronic Systems AG ("AES"). As of September 30, 2008, negotiations with AES had not progressed as previously anticipated and could not be completed. Despite the fact that negotiations were ongoing with additional parties, the outcome of these negotiations was uncertain. As a result, we reclassified related assets and liabilities previously classified as "held for sale" into "held and used" in the consolidated balance sheet as of September 30, 2008, and recognized an impairment of ALTIS to its estimated fair value, which contributed to the increase in other operating expense in the 2008 fiscal year. Additionally, we recorded a write-down of in-process R&D acquired from LSI of €14 million as no future economic benefit from its use or disposal was expected in the 2008 fiscal year. In the 2009 fiscal year, impairment charges of only €3 million were recognized in other operating expense. Furthermore, in the 2009 fiscal year as most significant effects, we recognized a partial reversal of €25 million of provisions for expected termination benefits attributable to the IFX10+ cost-reduction program and €5 million of additional restructuring charges in other operating expense. Also included in other operating expense is a loss before tax of €17 million from the sale of the business of SensoNor. Other miscellaneous operating expenses in the 2009 fiscal year remained unchanged compared to the 2008 fiscal year.

## OPERATING INCOME (LOSS)

In the 2007 fiscal year, our operating income was €101 million, compared to an operating loss of €46 million and €220 million in the 2008 and 2009 fiscal years, respectively.

## SEGMENT RESULT

Segment Result for our separate reporting segments was as follows:

21 SEGMENT RESULT
€ IN MILLIONS

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Automotive | 122 | 105 | (117) |
| Industrial & Multimarket | 127 | 134 | 35 |
| Chip Card & Security | 20 | 52 | (4) |
| Wireless Solutions | (126) | (18) | (36) |
| Other Operating Segments | (6) | (12) | (13) |
| Corporate and Eliminations | 7 | (24) | (32) |
| **Total** | 144 | 237 | (167) |

In December 2008, we forecasted sharp decreases in revenue in combination with idle capacity costs caused by low capacity utilization to lead to a significant decrease in our total Segment Result in the 2009 fiscal year and expected total Segment Result for the 2009 fiscal year to be negative. After reviewing revenue developments in April 2009, we continued to forecast that our total Segment Result would decrease significantly and be negative for the 2009 fiscal year. As expected, our total Segment Result for the 2009 fiscal year was negative and decreased sharply, from the 2008 fiscal year.

Segment Result development for our reporting segments was as follows:

### Automotive

In the 2008 fiscal year, Segment Result was €105 million, a decline of 14 percent compared to €122 million in the 2007 fiscal year, primarily as a result of ongoing pricing pressure and higher idle capacity costs. In the 2009 fiscal year, Segment Result was negative €117 million compared to positive €105 million in the previous fiscal year. Despite ongoing price pressure, the negative result was primarily caused by the steep volume decline and higher cost for idle capacity, particularly in the first half of the 2009 fiscal year. Cost saving measures under our IFX10+ cost-reduction program partly compensated for the negative impact from the economic downturn. Higher sales volume and lower idle capacity cost in the second half of the 2009 fiscal year compared to the first half of the fiscal year, together with cost savings achieved under our IFX10+ cost-reduction program as well as short-time work and unpaid leave in all areas, resulted in a partial recovery of Segment Result in the second half of the 2009 fiscal year. For the fourth quarter of the 2009 fiscal year, Segment Result of the Automotive segment was positive.

### Industrial & Multimarket

In the 2008 fiscal year, Segment Result was €134 million, an increase of 6 percent compared to €127 million in the 2007 fiscal year, primarily reflecting the increase in gross profit as a result of changes in the product mix, despite ongoing pricing pressure. In the 2009 fiscal year, Segment Result was €35 million, a decrease of 74 percent compared to the 2008 fiscal year. This decline reflects significantly lower revenues and higher idle capacity cost, and therefore lower gross profit, which was partially offset by cost reductions in R&D and in selling, general and administrative expenses. These savings primarily resulted from short-time work and from our IFX10+ cost-reduction program. During the second half of the 2009 fiscal year, Segment Result significantly improved compared to the first half of the fiscal year but was still below the Segment Result for the second half of the 2008 fiscal year.

### Chip Card & Security

In the 2008 fiscal year, Segment Result was €52 million, which was an increase of €32 million from Segment Result of €20 million in the 2007 fiscal year. This increase primarily reflected the increase in revenues and productivity as well as effects from changes in product mix. Segment Result in the 2009 fiscal year was negative €4 million, a decrease of €56 million compared to the 2008 fiscal year. This decrease was primarily caused by reduced gross profit in line with the revenue decline and accompanied by increased idle capacity costs, in particular in the first half of the 2009 fiscal year. Substantial savings under the IFX10+ cost reduction program, short time work and unpaid leave measures only partially offset these effects. During the second half of the 2009 fiscal year, Segment Result significantly improved compared to the first half of the 2009 fiscal year and was positive, as idle capacity cost decreased significantly in the second half of the 2009 fiscal year due to increasing production volumes. Segment Result for the second half of the 2009 fiscal year was still below the Segment Result for the second half of the 2008 fiscal year, however.

### Wireless Solutions

In the 2008 fiscal year, Segment Result was negative €18 million, which was an improvement of 86 percent from Segment Result of negative €126 million in the 2007 fiscal year. Despite the negative impact of currency fluctuations between the U.S. dollar and the Euro, this increase was primarily driven by a strong increase in revenues and efficiency gains and cost reduction measures initiated during the 2007 fiscal year that were taking effect for a full fiscal year. In the 2009 fiscal year, Segment Result was negative €36 million, compared to negative €18 million in the 2008 fiscal year. This decrease was primarily due to the sales decline and high idle capacity costs in the first half of the 2009 fiscal year. These effects could be partially offset by the positive development of Segment Result in the second half of the 2009 fiscal year, primarily resulting from increasing revenues and lower idle capacity cost. Cost saving measures implemented under the IFX10+ cost-reduction program and savings from short-time work and unpaid leave also contributed to the increase in Segment Result in the second half of the 2009 fiscal year.

### Other Operating Segments

In the 2008 fiscal year, Segment Result was negative €12 million, which reflected a decline of €6 million compared with Segment Result of negative €6 million in the 2007 fiscal year. This decline resulted primarily from a decrease in revenues. In the 2009 fiscal year, Segment Result decreased further by €1 million to negative €13 million. Included in the Segment Result of Other Operating Segments for the 2007, 2008 and 2009 fiscal years are overhead costs of €9 million, €10 million and €7 million, respectively, which remain with us after the sale of the Wireline Communications business and which were previously allocated to the Wireline Communications business.

### Corporate and Eliminations

In the 2008 fiscal year, Segment Result was negative €24 million, which reflected a decline of €31 million against Segment Result of positive €7 million in the 2007 fiscal year. This decline resulted primarily from increased unabsorbed excess capacity cost. In the 2009 fiscal year, Segment Result further decreased by €8 million to negative €32 million, primarily due to a further increase in unabsorbed idle capacity cost of €20 million to €41 million, compared with €21 million in the 2008 fiscal year. This increase in unabsorbed idle capacity cost was partly offset by a reduction of provisions for staff anniversary bonus payments as we terminated the anniversary bonus payment scheme in the 2009 fiscal year.

The following table provides the reconciliation of Segment Result to our operating income (loss):

**22 RECONCILIATION OF SEGMENT RESULT TO THE OPERATING INCOME (LOSS)**
€ IN MILLIONS

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Total Segment Result** | 144 | 237 | (167) |
| Adjusted: | | | |
| Asset impairments, net of reversals | (5) | (132) | — |
| Restructuring charges and other related closure costs, net | (45) | (188) | 20 |
| Share-based compensation expense | (12) | (5) | (2) |
| Acquisition-related amortization and losses | (3) | (25) | (23) |
| Gains (losses) on sales of assets, businesses, or interests in subsidiaries | 28 | 70 | (18) |
| Other expense, net | (6) | (3) | (30) |
| **Operating income (loss)** | 101 | (46) | (220) |

## FINANCIAL INCOME AND EXPENSE

**23 FINANCIAL INCOME AND EXPENSE**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Financial Income | 107 | 58 | 101 |
| Percentage of revenue | 3% | 2% | 3% |
| Financial Expense | (242) | (181) | (156) |
| Percentage of revenue | (7%) | (5%) | (5%) |

### Financial Income

In the 2008 fiscal year, financial income decreased by €49 million compared to the 2007 fiscal year, primarily as a result of the negative impact of the worldwide financial crisis in the 2008 fiscal year. This resulted in lower income derived from the valuation of available-for-sale financial assets and gains realized on the sale of available-for-sale financial assets. This lower income was only partly offset by higher interest income in the 2008 fiscal year compared to the 2007 fiscal year, which we derive primarily from cash and cash equivalents and available-for-sale financial assets. In the 2009 fiscal year, financial income increased by €43 million to €101 million. This increase primarily resulted from the €61 million gain realized from the repurchase of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, which was partially offset by lower other interest income we realized during the 2009 fiscal year compared to the 2008 fiscal year. In addition, gains from the valuation of interest rate swaps contributed to the increase of financial income during the 2009 fiscal year.

### Financial Expense

In the 2007 fiscal year, financial expense was €242 million compared to €181 million in the 2008 fiscal year and €156 million in the 2009 fiscal year. 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 SIC 12 ”Consolidation – Special Purpose Entities”, we determined that Molstanda meets the criteria of a Special Purpose Entity (“SPE”) and, as a result of the agreements, we control it. Accordingly, we consolidated Molstanda’s assets with a fair value of €41 million and liabilities with a fair value of €76 million beginning in the second quarter of the 2007 fiscal year. The €35 million excess in fair value of liabilities over the fair value of identifiable assets was recorded as other financial expense during the second quarter of the 2007 fiscal year. Due to our 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. Furthermore, we incurred lower valuation charges and losses on sales of available-for-sale financial assets in the 2008 fiscal year compared to the 2007 fiscal year. This decrease was partially offset by the €8 million loss we incurred in connection with the repurchase during the 2008 fiscal year of notional amounts of €100 million of our convertible subordinated notes due 2010. In the 2009 fiscal year, financial expense further decreased by €25 million compared to the 2008 fiscal year to €156 million. This was due primarily to reduced interest expense of €24 million in the 2009 fiscal year compared to the 2008 fiscal year, which resulted from lower interest rates and lower indebtedness as well as lower losses incurred in connection with repurchases of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010.

### INCOME FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In the 2007, 2008 and 2009 fiscal years, income from investments accounted for using the equity method was €1 million, €4 million and €7 million, respectively, and primarily reflected our share in the net income of Bipolar.

### INCOME TAX BENEFIT (EXPENSE)

**24 INCOME TAXES**
€ IN MILLIONS, EXCEPT PERCENTAGES

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Income tax benefit (expense) | 2 | (39) | (5) |
| Percentage of revenue | 0% | (1%) | 0% |
| Effective tax rate | 6% | (24%) | (2%) |

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 2007, 2008 and 2009 fiscal years we continued to have a three-year cumulative loss in certain tax jurisdictions and, accordingly, we recorded increases in the valuation allowance of €25 million, €183 million and €88 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.

### LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda and the Wireline Communications business, which are presented in the consolidated statements of operations as discontinued operations for the 2007, 2008 and 2009 fiscal years, consist of the following components:

**25 LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES**
€ IN MILLIONS

| For the years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Qimonda**[1] | | | |
| Revenue | 3,608 | 1,785 | 314 |
| Costs and expenses | (3,956) | (3,773) | (779) |
| Reversal (write-down) of measurement to fair value less costs to sell | — | (1,475) | 460 |
| Expenses resulting from Qimonda's application to open insolvency proceedings | — | — | (227) |
| Losses resulting from the realization from accumulated losses related to unrecognized currency translation effects primarily upon deconsolidation and from Qimonda's sale of Inotera | — | — | (188) |
| **Loss before tax** | (348) | (3,463) | (420) |
| Income tax benefits (expense) | 21 | (96) | — |
| **Qimonda's share of discontinued operations, net of income taxes** | (327) | (3,559) | (420) |
| | | | |
| **Wireline Communications Business** | | | |
| Revenue | 414 | 418 | 333 |
| Costs and expenses | (424) | (400) | (309) |
| **Profit (loss) before tax** | (10) | 18 | 24 |
| Income tax expense | (2) | (2) | (2) |
| **Wireline Communication's share of discontinued operations, net of tax** | (12) | 16 | 22 |
| **Loss from discontinued operations, net of income taxes** | (339) | (3,543) | (398) |

1 No further information concerning Qimonda's condensed consolidated statements of operations is available for the period from January 1, 2009 to January 23, 2009, the date of the application by Qimonda to commence insolvency proceedings. As disclosed below, due to the write-down of Qimonda's net assets to zero as of September 30, 2008, the operating losses of Qimonda for the period from October 1, 2008 to January 23, 2009 did not affect our consolidated net income, but instead were eliminated via an offsetting partial reversal of previously recorded impairments. Therefore, while the amount of revenue and costs and expenses in the table above exclude amounts for the period from January 1, 2009 to January 23, 2009, the Qimonda's share of loss from discontinued operations, net of income taxes of €420 million is unaffected.

## Qimonda

In the 2008 fiscal year Qimonda's total revenues decreased by €1,823 million, or 51 percent, to €1,785 million from €3,608 million in the 2007 fiscal year. This decrease resulted primarily from a significant decrease in DRAM prices and to a lesser extent the average exchange rate of the U.S. dollar against the Euro. These decreases were partly offset by increases of higher bit shipments.

Cost and expenses of Qimonda decreased by €183 million from €3,956 million in the 2007 fiscal year to €3,773 million in the 2008 fiscal year, primarily as a result of a decrease in cost of goods sold. This decrease was partly offset by restructuring charges, impairment charges and higher R&D expenses primarily related to Qimonda's efforts in the new Buried Wordline technology for 65-nanometers and 46-nanometers. Restructuring expenses of Qimonda during the 2008 fiscal year related primarily to the relocation of the back-end production in Malaysia, the combination of the research centers in North America, a comprehensive cost reduction program, the shutdown of Qimonda's Flash activities in Italy and a global repositioning program. During the 2008 fiscal year, Qimonda recognized impairment charges for goodwill and for long-lived assets of the Richmond 200-millimeter facility. Additionally, as a result of Qimonda's agreement to sell its 35.6 percent interest in Inotera Memories Inc. ("Inotera") to Micron Technology, Inc. ("Micron") for U.S. dollar 400 million, Qimonda recognized impairment charges to reduce the carrying value of its investment in Inotera to the sales price less costs to sell. Furthermore, we recognized a write-down of €1,475 million to reduce Qimonda to its estimated fair value less cost to sell.

On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, we deconsolidated Qimonda in accordance with IAS 27 "Consolidated and Separate Financial Statements" during the second quarter of the 2009 fiscal year. On April 1, 2009, the insolvency proceedings formally opened. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The final resolution of the insolvency proceedings, including the final disposition of the remaining assets and liabilities of Qimonda, cannot be predicted at this time.

The results presented for Qimonda from October 1, 2008 through January 23, 2009 (the date of deconsolidation) are based on preliminary results provided by Qimonda prior to its insolvency filing, and were prepared on a going concern basis. Financial statements on a liquidation basis, which would be required when the going concern assumption is not assured, are not available from Qimonda. There can be no assurance that recorded book values of individual assets and liabilities held for disposal by us would not be materially different if presented on a liquidation basis; however, as the net assets of Qimonda held for disposal by us through deconsolidation are already valued at the fair value less costs to sell of zero as of September 30, 2008, the net value presented in the consolidated financial statements would not be impacted.

The operating losses of Qimonda from October 1, 2008 through the date of deconsolidation, exclusive of depreciation, amortization and impairment of long-lived assets, were offset by a partial reversal of €460 million of the write-downs recorded in the 2008 fiscal year to reduce the net assets of Qimonda to fair value less costs to sell of zero.

During the fiscal year 2009, Qimonda-related amounts included in loss from discontinued operations, net of income taxes consisted principally of:

- the realization of accumulated foreign currency translation losses of €88 million which were directly recorded in equity, and not included in assets and liabilities held for disposal as of September 30, 2008, mainly from Qimonda's sale of its interest in Inotera to Micron,
- the realization of accumulated foreign currency translation losses which were directly recorded in equity related to the deconsolidation of Qimonda totaling €100 million, and
- charges for provisions and allowances of €227 million in connection with Qimonda's insolvency (see below).

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to further potential liabilities arising in connection with the Qimonda business, which include, among others, the following:

- We are a named defendant in certain pending antitrust and securities law claims. Qimonda is required to indemnify us, in whole or in part, for such claims, including any related expenses. As a result of Qimonda's insolvency, however, we expect that Qimonda will not be able to indemnify us for these claims. For more information on these pending antitrust and securities law claims and their potential impact on us, see note 38 to our consolidated financial statements ("Commitments and Contingencies – Litigation and Government Inquiries – Antitrust Litigation", "– Other Government Inquiries", and "– Securities Litigation").
- We are the named defendant in a lawsuit in Delaware in which the plaintiffs are seeking to hold us liable for the payment of severance and other benefits allegedly due by Qimonda's North American subsidiaries in connection with the termination of employment related to Qimonda's insolvency. For more information on this suit, see note 38 to our consolidated financial statements ("Commitments and Contingencies – Litigation and Government Inquiries – Employment Litigation").
- We face potential liabilities arising from our former interest in Qimonda Dresden. Before the carve-out of the Qimonda business, we were a general partner of Qimonda Dresden, and as such may in certain circumstances, as a matter of law, be held liable for certain liabilities of Qimonda Dresden that originated prior to the carve-out. These include, among others, the potential repayment of governmental subsidies as well as employee-related claims, including salaries and social security contributions. We are in negotiations with the Free State of Saxony and the Qimonda insolvency administrator regarding these matters. We recorded provisions in connection with these matters, but disclosure of the amount of the provision could seriously prejudice our negotiations regarding these matters.
- We and our subsidiary Infineon Technologies Dresden GmbH ("Infineon Dresden") are subject to lawsuits by approximately 70 former employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and who seek to be re-employed by us. No reasonable estimated amount can be attributed at this time to the potential outcome of any such claims.

In addition to the matters described above, we may be subject to claims by the insolvency administrator under German insolvency laws for repayment of certain amounts received by us from Qimonda, such as payments for intra-group services and supplies during defined periods prior to the commencement of insolvency proceedings. Depending on future developments in Qimonda's operations in Portugal, there is a possibility that claims could be made against us in connection with governmental subsidies received by Qimonda Portugal, S.A. prior to the carve-out. No such claims have been made to date, and no reasonable estimated amount can be attributed at this time to the size or potential outcome of any such claims. The insolvency of Qimonda may also subject us to other claims arising in connection with the contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as we expect that Qimonda will not be able to fulfill its obligation to indemnify us against any such liabilities. Moreover, we may lose rights and licenses to Qimonda's intellectual property rights to which we are entitled under the contribution agreement in connection with the carve-out of the Qimonda business, due to fact that the administrator has declared non-performance of this agreement. We are evaluating the scope of any potentially affected intellectual property, and are unable to provide reasonable estimates at this time of any potential costs in this regard.

As of September 30, 2009, we recorded aggregate liabilities of €21 million and provisions of €163 million in connection with these matters. The recorded provisions are primarily reflected within "Current provisions", and the remainder are recorded within "Long-term provisions". The recorded provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters. Disclosure of individual amounts with respect to these matters could seriously prejudice our legal or negotiating position, and therefore have been omitted. No reasonable estimate can be made at this time related to those potential liabilities that may be incurred, but that are currently not viewed to be probable.

### Wireline Communications Business

In the 2008 fiscal year, revenues of the Wireline Communications business were €418 million, a slight increase compared to €414 million in the 2007 fiscal year, primarily due to growth in broadband solutions, mainly driven by the consolidation of the Customer Premises Equipment ("CPE") business acquired from Texas Instruments, Inc. The increase was partially offset by declining legacy revenues and negative currency effects. In the 2009 fiscal year, revenues decreased by 20 percent to €333 million. This decrease was primarily driven by the economic slowdown that affected both the CPE and the infrastructure businesses.

In the 2008 fiscal year, profit before tax of the Wireline Communications business was €18 million, an increase of €28 million compared to a loss before tax of €10 million in the 2007 fiscal year. This increase primarily resulted from efficiency gains and cost reduction measures initiated during the 2007 fiscal year.

In 2009 fiscal year, profit before tax of the Wireline Communications business was €24 million, an increase of €6 million compared to the 2008 fiscal year despite a 20 percent revenue decline compared to the 2008 fiscal year. This positive development was a result of the measures implemented under the IFX10+ cost-reduction program as well as cost reductions realized from short-time work and unpaid leave.

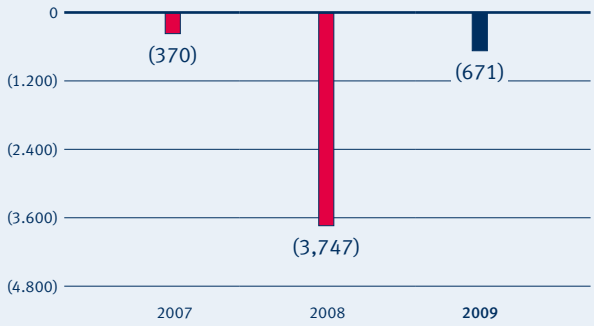
### Net Loss

In the 2007 fiscal year, net loss was significantly impacted by the results from discontinued operations, net of income tax, primarily due to Qimonda's net loss, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and consequently a significant decrease in Qimonda's gross margin. Net loss from discontinued operations in the 2007 fiscal year also included an €84 million loss from the sale of 28.75 million Qimonda ADSs. Restructuring charges of €45 million and the expenses of €35 million resulting from the consolidation of Molstanda also contributed to the net loss in the 2007 fiscal year.

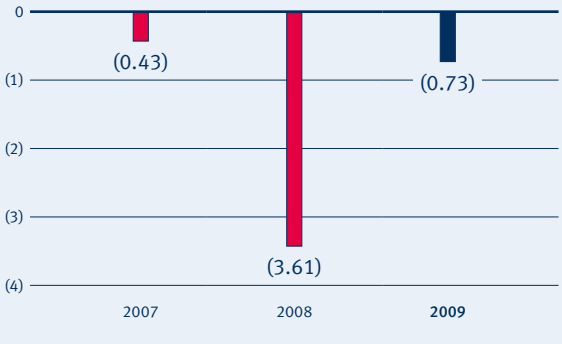
In the 2008 fiscal year, the increase in net loss to €3,747 million was primarily due to the increase in losses from discontinued operations, resulting from Qimonda's net loss and the write-downs of €1,475 million to reduce Qimonda to its estimated current fair value less costs to sell. Furthermore, restructuring charges of €188 million primarily related to the IFX10+ program, and impairment charges of €130 million on property, plant and equipment and intangible assets, contributed to the net loss in the 2008 fiscal year.

In the 2009 fiscal year, our net loss significantly decreased, to €671 million. Our operating segments were deeply impacted by the economic slowdown, in particular during the first half of the 2009 fiscal year. Additionally, the results of discontinued operations, net of income taxes, significantly impacted our net loss in the first half of the 2009 fiscal year, which primarily resulted from the deconsolidation of Qimonda and the charges for provisions and allowances in connection with Qimonda's insolvency. We experienced a significant reduction in our net loss in the second half of the 2009 fiscal year and reached break even for the fourth quarter of the 2009 fiscal year. This improvement resulted from the partial recovery of the economy during the second half of the 2009 fiscal year, together with the positive impact of our cost saving measures and significantly lower charges in connection with Qimonda's insolvency in the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year.

26 **NET LOSS**
€ IN MILLIONS




27 **LOSS PER SHARE**
IN €



## FINANCIAL CONDITION

**28 FINANCIAL CONDITION**
€ IN MILLIONS, EXCEPT PERCENTAGES

| As of September 30, | 2008 | 2009 | Change year-on-year |
|---|---|---|---|
| Current assets | 4,648 | 2,744 | (41%) |
| thereof: assets classified as held for disposal | 2,129 | 112 | (95%) |
| Non-current assets | 2,334 | 1,862 | (20%) |
| **Total assets** | 6,982 | 4,606 | (34%) |
| Current liabilities | 3,673 | 1,658 | (55%) |
| thereof: liabilities associated with assets classified as held for disposal | 2,123 | 9 | (99%) |
| Non-current liabilities | 1,148 | 615 | (46%) |
| **Total liabilities** | 4,821 | 2,273 | (53%) |
| Minority Interests | 70 | 60 | (14%) |
| Total equity attributable to shareholders of Infineon Technologies AG | 2,091 | 2,273 | 9% |
| **Total equity** | 2,161 | 2,333 | 8% |

As of September 30, 2009, our total assets decreased by 34 percent to €4,606 million from €6,982 million as of September 30, 2008. This decrease was primarily due to the deconsolidation of Qimonda, which led to a reduction in total assets of €2,129 million that were presented as assets classified as held for disposal in the prior year. In connection with the sale of the Wireline Communications business, assets and liabilities to be transferred to Lantiq were presented as assets and liabilities classified as held for disposal in the consolidated balance sheet as of September 30, 2009, thus decreasing non-current assets by €67 million and non-current liabilities by €1 million and increasing current assets and liabilities, accordingly.

Within current assets, cash and cash equivalents increased significantly, by €665 million from €749 million as of September 30, 2008 to €1,414 million as of September 30, 2009, primarily as a result of our share capital increase and the issuance of new convertible subordinated notes due 2014, which were partly offset by repurchases and redemptions of convertible subordinated notes and exchangeable subordinated notes due 2010. The receipt of €120 million from the German banks' deposit protection fund throughout the 2009 fiscal year also contributed positively to cash and cash equivalents. This increase in current assets was partly offset by a reduction of trade and other receivables by €285 million to €514 million and of inventory by €205 million to €460 million as of September 30, 2009, primarily due to lower revenues followed by improved working capital management. The change in inventory also relates to a reclassification of €43 million to assets held for disposal in connection with the sale of the Wireline Communications business. Furthermore, the receipt of €120 million from the German banks' deposit protection fund in the 2009 fiscal year and allowances for doubtful accounts recorded on receivables against Qimonda following Qimonda's insolvency proceedings contributed to the decrease in trade and other receivables.

Within non-current assets, property, plant and equipment decreased by €382 million from €1,310 million to €928 million, primarily as capital expenditures were more than offset by depreciation and amortization during the 2009 fiscal year. Furthermore, the sale of the SensoNor business contributed to the decrease in property, plant and equipment and €9 million were reclassified as assets held for disposal, mainly in connection with the sale of the Wireline Communications business. Out of goodwill and other intangible assets, €58 million in connection with our Wireline Communications business were classified as assets held for disposal, which also includes the goodwill relating to the acquisition of the CPE business from Texas Instruments Inc. (see note 4 of our consolidated financial statements).

Total liabilities decreased by €2,548 million, or 53 percent, from €4,821 million as of September 30, 2008, to €2,273 million as of September 30, 2009. This decrease was primarily caused by the deconsolidation of Qimonda, which led to a reduction in total liabilities of €2,123 million, which were classified as liabilities associated with assets held for disposal as of September 30, 2008.

Furthermore, in June 2009, we reclassified €487 million of our convertible subordinated notes due 2010 with notional amounts of €522 million from long-term debt into short-term debt and current maturities of long-term debt, as they mature in June 2010. Subsequently, we repurchased notional amounts of €74 million of our convertible subordinated notes due 2010. As of September 30, 2009, notional amounts of our

29 ASSETS
€ IN MILLIONS


30 LIABILITIES AND EQUITY
€ IN MILLIONS


convertible subordinated notes due 2010 of €448 million and a book value of €425 million were included in our short term debt. Other changes in current liabilities related to a decrease in trade and other payables as of September 30, 2009, by €113 million compared to September 30, 2008, primarily resulting from lower trade accounts payables due to lower purchased services and lower capital expenditures. Also, other current liabilities decreased by €116 million, resulting from the decrease of employee-related liabilities, primarily due to payments of termination benefits in connection with our IFX10+ cost-reduction program, which were recorded in the 2008 financial statements, and the reduction of liabilities for bonus payments.

Non-current liabilities decreased as of September 30, 2009, by €533 million compared to September 30, 2008. This was primarily due to the reclassification of convertible subordinated notes due 2010 from long-term debt into short-term debt and current maturities of long-term debt and due to repurchases and redemptions of notional amounts of our exchangeable subordinated notes due 2010 of €215 million and of our convertible subordinated notes due 2010 of €152 million including the repurchase of €74 million as described above. This decrease was partly offset by the issuance of new convertible subordinated notes due 2014 with a notional amount of €196 million, resulting in an increase of long-term debt by≈€145 million as September 30, 2009, net of debt issuance cost, discount and the conversion component recognized in equity. Long-term provisions increased by €62 million, primarily for potential liabilities resulting from Qimonda's insolvency.

Total equity increased by €172 million as of September 30, 2009, as a result of our share capital increase of €680 million, which was partly offset by the net loss incurred in the 2009 fiscal year.

## FINANCIAL RATIOS

In the 2008 fiscal year, the net loss incurred was primarily the result of Qimonda's operating losses and the recorded write-down in order to remeasure Qimonda to its current fair value less cost to sell. Accordingly, our equity and total assets decreased significantly compared to 2007. This resulted in significant decreases in non-current asset intensity, equity ratio, return on equity, and return on assets, while current asset intensity and debt to equity ratios increased. In the 2009 fiscal year, we deconsolidated Qimonda, which led to a further reduction in total assets, and thus led to an increase in non-current asset intensity and equity ratio.

In the 2008 fiscal year, lower net capital expenditures in property, plant and equipment resulted in an increase in our degree of wear of fixed assets and a decrease in our depreciation rate of fixed assets. This development continued in the 2009 fiscal year as a result of the ongoing decrease of our investing activities year-over-year.

While the debt-to-equity ratio significantly increased in the 2008 fiscal year compared to the 2007 fiscal year due to the equity decrease as a result of the Qimonda losses, in the 2009 fiscal year the debt-to-equity, equity and return on equity ratios improved considerably and decreased as a result of the share capital increase and repurchases and redemptions of exchangeable subordinated notes and convertible subordinated notes due 2010. This was partially offset by the issuance of new convertible subordinated notes due 2014.

The development of the ratios inventory turnover, inventory reach in days, and days sales outstanding was strongly impacted by the change in business environment, which occurred primarily in the first and second quarters of the 2009 fiscal year, followed by strict working capital management. This resulted in significantly lower accounts receivable and strong decreases in inventory throughout the 2009 fiscal year.

## 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.

31 FINANCIAL RATIOS

| As of September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Non-current asset intensity[1] | 51% | 33% | 40% |
| Current asset intensity[2] | 49% | 67% | 60% |
| Degree of wear of fixed assets[3] | 72% | 81% | 86% |
| Depreciation rate of fixed assets[4] | 10% | 7% | 7% |
| Inventory intensity[5] | 11% | 10% | 10% |
| Inventory turnover[6] | 2,0 | 2,8 | 4,2 |
| Inventory reach in days[7] | 119 | 86 | 67 |
| Days sales outstanding[8] | 117 | 89 | 78 |
| Equity ratio[9] | 57% | 31% | 51% |
| Return on equity[10] | (6%) | (92%) | (30%) |
| Return on assets[11] | (3%) | (43%) | (12%) |
| Equity-to-fixed-assets ratio[12] | 165% | 165% | 251% |
| Debt-to-equity ratio[13] | 26% | 54% | 36% |

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 property, plant and equipment = accumulated depreciation on property, plant and equipment/historical costs of property, plant and equipment at the end of the fiscal year
4 Depreciation rate of property, plant and equipment = annual depreciation of property, plant and equipment/historical costs of property, plant and equipment at the end of the fiscal year
5 Inventory intensity = inventory/total assets
6 Inventory turnover = Cost of goods sold/average inventory
7 Inventory reach in days = average inventory x 360 days/annual net revenues
8 Days sales outstanding = average trade and other receivables x 360 days/annual revenues
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.

Cash flows from investing and financing activities are both directly 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.

**32 CASH FLOW**
€ IN MILLIONS

| For the years ended September 30, | 2008 | 2009 |
|---|---|---|
| Net cash provided by operating activities from continuing operations | 540 | 268 |
| Net cash used in investing activities from continuing operations | (652) | (14) |
| Net cash (used in)/provided by financing activities from continuing operations | (230) | 391 |
| Net decrease in cash and cash equivalents from discontinued operations | (291) | (393) |
| **Net (decrease)/increase in cash and cash equivalents** | (633) | 252 |

## Cash flow from operating activities

Net cash provided by operating activities from continuing operations was €268 million in the 2009 fiscal year, and reflected primarily the loss from continuing operations of €273 million, excluding non-cash charges for depreciation and amortization of €513 million, and €17 million resulting from the sale of the SensoNor business. Net cash provided by operating activities from continuing operations included €19 million received from the German banks' deposit protection fund as well as €10 million received from the BenQ insolvency administrator, and was also positively impacted by income tax refunds received of €16 million and interest received of €21 million. Interest paid of €49 million reduced net cash provided by operating activities.

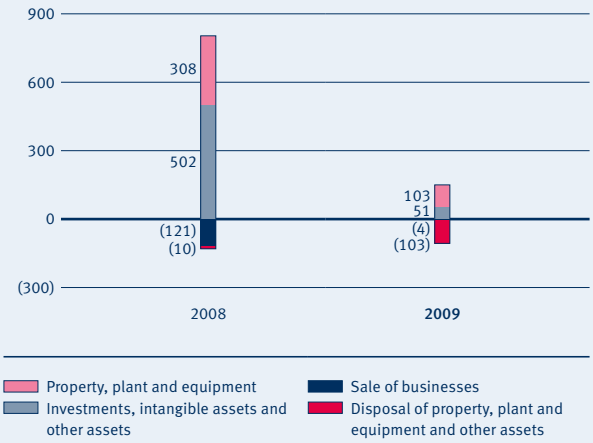
## Cash flow from investing activities

Net cash used in investing activities from continuing operations of €14 million in the 2009 fiscal year mainly reflects capital expenditures of €51 million for the capitalization of internally developed intangible assets and the purchase of intangible assets and of €103 million for the purchase of property, plant and equipment. This was offset by €101 million principal amount received from the German banks' deposit protection fund in the second and third quarters of the 2009 fiscal year for cash deposits. Furthermore, net proceeds (sales less purchases) of €33 million from available-for-sale financial assets and the consideration of €4 million received from the sale of the SensoNor business contributed positively to cash used in investing activities from continuing operations.

## Cash flow from financing activities

Net cash provided by financing activities from continuing operations was €391 million for the year ended September 30, 2009, compared to net cash used in financing activities from continuing operations of €230 million for the year ended September 30, 2008. In the 2009 fiscal year, we increased our ordinary share capital by €674 million, with the net excess issuance proceeds reflected in additional paid-in-capital. This increased our net cash provided by financing activities from continuing operations by €680 million. Further increases resulted from proceeds of €182 million, net of debt issuance cost and discount, from the issuance of convertible subordinated notes due 2014 with a notional amount of €196 million. This was partly offset by principal repayments of long-term debt of €455 million, of which the majority related to the repurchase and redemption of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010 for an aggregate of €285 million in cash including transaction costs of €3 million. Additional debt repayments related primarily to the repayment of our syndicated loan.

**33 INVESTMENTS/DISPOSITIONS[1]**
€ IN MILLIONS




1 Without available-for-sale financial assets.

### Change in cash and cash equivalents from discontinued operations

The net decrease in cash and cash equivalents from discontinued operations was €393 million in the 2009 fiscal year, compared to €291 million in the prior year. The net decrease in cash and cash equivalents from discontinued operations primarily reflected Qimonda's net cash used in operating activities of €416 million as well as cash used in financing activities of €40 million, which was partly offset by Qimonda's net cash provided by investing activities of €21 million. Qimonda's cash used in operating activities primarily reflected Qimonda's net loss in the first quarter, before Qimonda was deconsolidated. The net cash provided by investing activities of €21 million consisted primarily of cash received by Qimonda in connection with the sale of Inotera to Micron in November 2008 for 400 million U.S. dollars (approximately €296 million), partially offset, due to the deconsolidation of Qimonda, by the cash and cash equivalents totaling €286 million of Qimonda as of January 23, 2009, the date Qimonda filed an application to commence insolvency proceedings.

In the 2009 fiscal year our Wireline Communications business contributed €36 million to the operating cash flow from discontinued operations, primarily reflecting net income excluding depreciation and amortization, and contributed €6 million to net cash provided by investing activities from discontinued operations, reflecting €13 million received as a refund of contingent consideration from Texas Instruments Inc. due to the failure to achieve agreed revenue targets of the CPE business and €7 million paid for investments in intangible assets and property, plant and equipment.

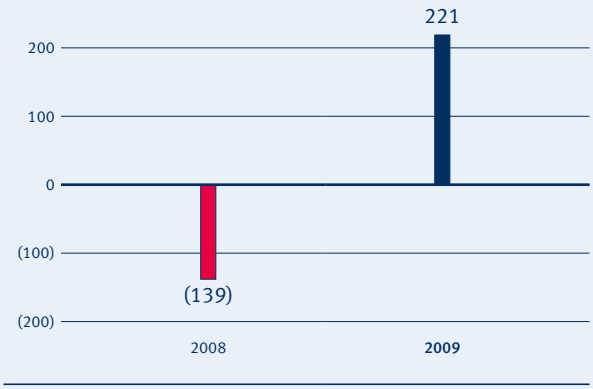
### FREE CASH FLOW

We define free cash flow as cash flow from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets. Since we hold a portion of our available monetary resources in the form of readily available-for-sale financial assets, 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. Free cash flow 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. Free cash flow includes only amounts from continuing operations, and is determined as follows from the consolidated statements of cash flows:

34 **FREE CASH FLOW**
€ IN MILLIONS

| For the years ended September 30, | 2008 | 2009 |
|---|---|---|
| Net cash provided by operating activities from continuing operations | 540 | 268 |
| Net cash used in investing activities from continuing operations | (652) | (14) |
| Sales of securities available-for-sale, net | (27) | (33) |
| **Free cash flow** | (139) | 221 |

35 **FREE CASH FLOW**
€ IN MILLIONS




Free cash flow was positive €221 million in the 2009 fiscal year, compared to negative €139 million in the 2008 fiscal year, a significant improvement of €360 million. Free cash flow in the 2008 fiscal year, compared to the 2009 fiscal year, included higher cash used in investing activities from continuing operations, due to the acquisitions of the mobility products business of LSI and Primarion Inc. for €353 million, and higher capital expenditures of €308 million for property, plant and equipment, which were only partly offset by higher cash provided by operating activities from continuing operations. Free cash flow in the 2009 fiscal year included cash inflow of €120 million from the German banks' deposit protection fund and cash outflows for our IFX10+ cost-reduction program.

## NET CASH/(DEBT) POSITION

The following table presents our gross and net cash/(debt) positions and the maturity of debt. It is not intended to be a forecast of cash available in future periods. Since we hold a portion of our available monetary resources in the form of readily available-for-sale financial assets, which for IFRS purposes are not considered to be "cash", we report our gross and net cash/(debt) positions to provide investors with an understanding of our overall liquidity. The gross and net cash/(debt) position is determined as follows from the consolidated balance sheets, without adjustment to the IFRS amounts presented:

36 NET CASH/(DEBT) POSITION
€ IN MILLIONS

| As of September 30, 2009 | Total | Less than 1 year | 1 – 2 Years | 2 – 3 Years | 3 – 4 Years | 4 – 5 Years | After 5 years |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1,414 | 1,414 | — | — | — | — | — |
| Available-for-sale financial assets | 93 | 93 | — | — | — | — | — |
| **Gross cash position** | 1,507 | 1,507 | — | — | — | — | — |
| Less: | | | | | | | |
| Long-term debt | 329 | — | 78 | 66 | 40 | 145 | — |
| Short-term debt and current maturities of long-term debt | 521 | 521 | — | — | — | — | — |
| **Total financial debt** | 850 | 521 | 78 | 66 | 40 | 145 | — |
| **Net cash/(debt) position** | 657 | 986 | (78) | (66) | (40) | (145) | — |

Our gross cash position, representing cash and cash equivalents plus available-for-sale financial assets, was €1,507 million at September 30, 2009, compared to €883 million at the prior year end. The increase resulted from our share capital increase of €680 million, positive free cash flow of €221 million, and the issuance of new convertible subordinated notes due 2014. The increase was partly offset by the repurchase and redemption of exchangeable subordinated notes due 2010 and convertible subordinated notes due 2010.

Our net cash/(debt) position as of September 30, 2009, defined as gross cash position less short and long-term debt, was €657 million, an improvement of €944 million from negative €287 million as of September 30, 2008, primarily reflecting the increase in gross cash position described above and a reduction in total financial debt of €320 million. The reduction in debt relates to repurchases and redemptions of exchangeable subordinated notes due 2010 and convertible subordinated notes due 2010, net of accretion, as well as repayments of other debt, partly offset by the issuance of new convertible subordinated notes due 2014.

Long-term debt and short-term debt principally consist of convertible 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 notional amount of outstanding convertible notes as of September 30, 2009, amounted to €644 million, of which €196 million are long-term for subordinated convertible notes due 2014 and €448 million are short-term for convertible subordinated notes due 2010.

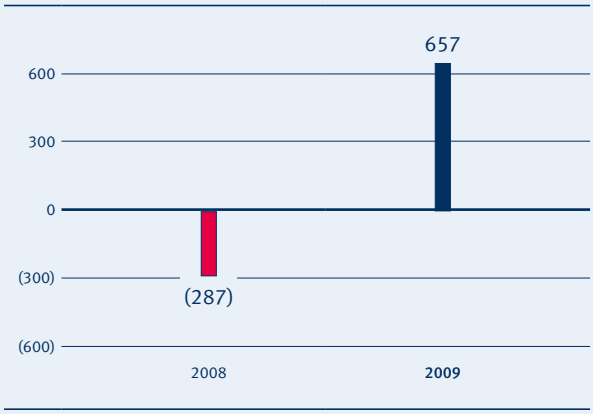
On June 5, 2003, we issued at par €700 million in convertible subordinated notes due 2010. The notes are unsecured and accrue interest at 5 percent per year. The notes were originally convertible, at the option of the noteholders, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of €10.23 per share through maturity. As a result of our share capital increase in August 2009 the conversion price has been adjusted to €9.14 in accordance with an antidilution provision contained in the notes. During the 2008 and 2009 fiscal years, we repurchased notional amounts of €100 million and €152 million, respectively, of convertible subordinated notes due 2010. The repurchases were made out of available cash. These notes were subsequently cancelled.

On September 26, 2007, we issued €215 million in exchangeable subordinated notes due 2010 at par. The notes were unsecured and accrued interest at 1.375 percent per year. In the 2009 fiscal year we repurchased and redeemed all of our notional amounts of €215 million of our exchangeable subordinated notes due 2010. The repurchases and redemptions were made out of available cash.

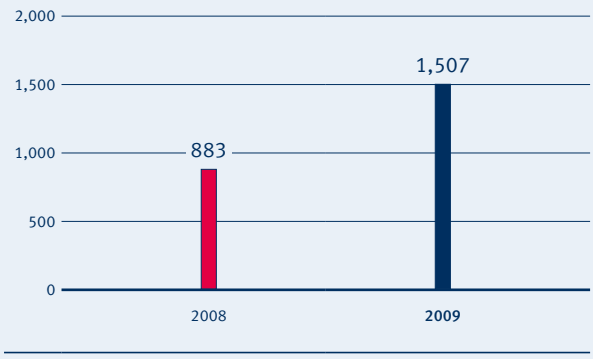
On May 26, 2009, we issued €196 million in new subordinated convertible notes due 2014 at a discount of 7.2 percent. The notes were originally convertible, at the option of the holders of the notes, into a maximum of 74.9 million of our ordinary shares at a conversion price of €2.61 per share through maturity. As a result of our share capital increase in August 2009, the conversion price has been adjusted to €2.33 in accordance with an antidilution provision contained in the notes. The notes accrue interest at 7.5 percent per year. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer.

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.

37 **NETTO-CASH/(DEBT)-POSITION**
€ IN MILLIONS




38 **BRUTTO-CASH-POSITION**
€ IN MILLIONS




## CAPITAL REQUIREMENTS

We require capital in our 2010 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, 2009, we require funds for the 2010 fiscal year aggregating €1,073 million, consisting of €521 million for short-term debt payments and €552 million for commitments. In addition, we may need up to €18 million for currently known and estimable contingencies. We also plan to invest approximately €220 million to €250 million in capital expenditures. As of September 30, 2009, we had a gross cash position of €1,507 million, and the ability to draw funds from available credit facilities of €211 million.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

### 39 CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES
€ IN MILLIONS

| As of September 30, 2009[1]. 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 obligations and commitments: | | | | | | | |
| Long-term debt and short-term debt obligations | 850 | 521 | 78 | 66 | 40 | 145 | — |
| Operating lease payments | 740 | 69 | 65 | 60 | 57 | 56 | 433 |
| Unconditional purchase commitments | 567 | 440 | 85 | 28 | 12 | 2 | — |
| Future interest payments | 110 | 43 | 19 | 17 | 15 | 15 | 1 |
| Other long-term liabilities | 31 | — | 31 | — | — | — | — |
| **Total commitments** | 2,298 | 1,073 | 278 | 171 | 124 | 218 | 434 |
| Other contingencies: | | | | | | | |
| Guarantees[2] | 81 | 10 | 8 | — | 5 | 2 | 56 |
| Contingent government grants[3] | 37 | 8 | 14 | 4 | 5 | 6 | — |
| **Total contingencies** | 118 | 18 | 22 | 4 | 10 | 8 | 56 |

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 Guarantees are primarily 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 guaranteed otherwise and could be refundable if the total project requirements are not met. They do not include any potential contingent government grants in relation to Qimonda.

The above table should be read together with note 38 to our consolidated financial statements for the year ended September 30, 2009.

### OFF-BALANCE SHEET ARRANGEMENTS

We issue guarantees in the normal course of business, primarily for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2009, the undiscounted amount of potential future payments for guarantees was €81 million.

### CAPITAL EXPENDITURES

### 40 CAPITAL EXPENDITURES
€ IN MILLIONS

| For the years ended September 30, | 2008 | 2009 |
|---|---|---|
| Property, plant and equipment | 308 | 103 |
| Intangible assets – internally developed | 38 | 43 |
| Intangible assets – purchased | 11 | 8 |
| **Total** | 357 | 154 |

In our 2009 fiscal year budget prepared in the prior year, we expected to invest approximately €200 million, primarily for our manufacturing facilities in Malacca, Malaysia, and in Kulim, Malaysia. As a result of the economic downturn, we reconsidered our investment decisions and considerably reduced actual investments in property, plant and equipment to €103 million in the 2009 fiscal year. As research and development activities are important for our business, we only reduced research and development activities to a limited extent as a result of the economic situation. The level of capitalized development cost remained substantially unchanged, and approximately the same absolute amount of development cost qualified for capitalization under IFRS compared to our 2008 fiscal year.

Depending on market developments and our business situation, we currently expect to invest approximately €220 million to €250 million in capital expenditures in the 2010 fiscal year. We also continuously seek to improve productivity and upgrade technology at existing facilities. As of September 30, 2009, €35 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.

## 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 aggregate €491 million, of which €211 million remained available at September 30, 2009, and comprise the following:

41 CREDIT FACILITIES
€ IN MILLIONS

| | | | As of September 30, 2009 | | |
|---|---|---|---|---|---|
| Term | Nature of financial institution commitment | Purpose/ intended use | Aggregate facility | Drawn | Available |
| Short-term | firm commitment | general corporate purposes, working capital, guarantees | 108 | 51 | 57 |
| Short-term | no firm commitment | working capital, cash management | 114 | — | 114 |
| Long-term[1] | firm commitment | project finance | 269 | 229 | 40 |
| **Total** | | | 491 | 280 | 211 |

1 Including current maturities.

In September 2004, we executed a $400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to $345/€300 million in August 2006. In January 2006, we drew $345 million under Tranche A, on the basis of a repayment schedule that consisted of equal installments falling due in March and September each year. On September 23, 2009, Tranche A was fully repaid at its final maturity. Tranche B, which was a multicurrency revolving facility to be used for general corporate purposes, expired undrawn at its final maturity on September 23, 2009.

In June 2009, local financial institutions granted working capital and project loan facilities to our subsidiary, Infineon Technologies (Wuxi) Co. Ltd., amounting to a total of $141 million (€97 million). These multi-year facilities are available for general corporate purposes and the expansion of manufacturing facilities in Wuxi, China, including intragroup asset transfers. As of September 30, 2009, there were no drawings outstanding under these facilities. Any amounts drawn under these facilities will be partially secured by an asset pledge and a corporate guarantee.

Furthermore, we have established various independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities, which are available for various funding purposes.

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.

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 2010 fiscal year.

## PENSION PLAN FUNDING

Our defined benefit obligation, which takes into account future compensation increases, amounted to €413 million at September 30, 2009, compared to €376 million at September 30, 2008. The fair value of plan assets as of September 30, 2009, was €319 million, compared to €333 million as of September 30, 2008.

The actual return on plan assets between the last measurement dates amounted to 2.4 percent, or €7 million, for domestic (German) plans and negative 6.0 percent, or negative €2 million, for foreign plans, compared to the expected return on plan assets for that period of 7.1 percent for domestic plans and 7.2 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 6.3 percent, or €18 million, for domestic plans and 7.2 percent, or €2 million, for foreign plans.

At September 30, 2008 and 2009, the combined funding status of our pension plans reflected an under-funding of €43 million and €94 million, respectively.

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 our 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. For further details regarding our financial risk management and risks arising in connection with financial instruments, see notes 36 and 37 to our consolidated financial statements.

## OVERALL STATEMENT OF THE MANAGEMENT BOARD WITH RESPECT TO OUR FINANCIAL CONDITION AS OF THE DATE OF THIS REPORT

Our 2009 fiscal year was significantly impacted by the overall slowdown of the economy. Our cost saving efforts, which we started to implement with our IFX10+ cost-reduction program during the fourth quarter of the 2008 fiscal year, helped us to reduce the negative impact of the economic slowdown. However, we must continue to improve our cost structure and product margin to adjust them to reduced revenues in order to reach our overall margin goal of a minimum of 10 percent while maintaining our technological leadership.

The successful financing measures we executed during the 2009 fiscal year resulted in a significant improvement in our financial condition. As of September 30, 2009, our debt to equity ratio is 36 percent and our net cash position amounts to €657 million compared to a debt-to-equity-ratio of 54 percent and a net debt position of €287 million as of September 30, 2008. This should give us a strong foundation to meet future obligations and our strategic objectives.

## OUR EMPLOYEES

### EMPLOYEES

The following table indicates the composition of our workforce by function and region at the end of the fiscal years indicated[1]:

42 EMPLOYEES

| As of September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| Function: | | | |
| Production | 20,376 | 19,358 | 17,338 |
| Research & Development | 5,833 | 6,273 | 5,971 |
| Sales & Marketing | 1,832 | 1,905 | 1,681 |
| Administrative | 1,557 | 1,583 | 1,474 |
| **Infineon** | 29,598 | 29,119 | 26,464 |
| Qimonda | 13,481 | 12,224 | — |
| **Total** | 43,079 | 41,343 | 26,464 |
| Region: | | | |
| Germany | 10,151 | 10,053 | 9,160 |
| Europe | 5,564 | 5,192 | 4,676 |
| North America | 581 | 821 | 687 |
| Asia/Pacific | 13,145 | 12,897 | 11,803 |
| Japan | 157 | 156 | 138 |
| **Infineon** | 29,598 | 29,119 | 26,464 |
| Qimonda | 13,481 | 12,224 | — |
| **Total** | 43,079 | 41,343 | 26,464 |

1 Approximately 860 employees are to be transferred to Lantiq upon closing of the sale of the Wireline Communications business.

During the 2008 fiscal year, the number of employees in our logic business decreased slightly, primarily due to the formation of the Bipolar joint venture with Siemens and further decreases in the number of production employees, primarily in Asia/Pacific. These decreases were partly offset by employees that joined the company as a result of the acquisitions we made during the year.

In the 2009 fiscal year, our workforce decreased throughout all functions and regions by 9 percent, primarily as a result of our IFX10+ cost-reduction program as well as the sale of the SensoNor business. Furthermore, Qimonda was deconsolidated upon filing for insolvency.

In addition to our own employees, we hire temporary staff in our different business areas; the number of hired temporary staff is adjusted flexibly based on our capacity needs.

### OUR RESPONSIBILITY IN OCCUPATIONAL SAFETY, IN ENVIRONMENT AND HEALTH PROTECTION

Our IMPRES System – Infineon Integrated Management Program for Environment, Safety and Health – has been implemented worldwide and incorporates all processes, strategies and objectives in the area of safety, health and environmental protection. IMPRES as an integrated system is efficient and is certified according to the standards ISO 14001 and OHSAS 18001.

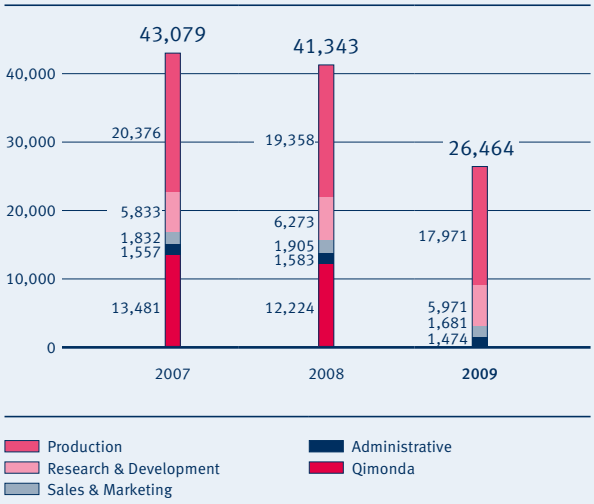
By ongoing improvements, we ensure that we not only comply with the minimum statutory and regulatory requirements, but also go above and beyond the minimum requirements in order to meet our commitment to continuing improvement in safety, health and environmental protection, and thus ensure sustainable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

The safe handling of chemicals that are an unavoidable necessity in our production processes is of high priority in our company. When we order and receive such chemicals, employees who are experts at handling such chemicals 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, world-wide requirements and restrictions involving the use of certain substances in electrical and electronic products and in our processes have increased, and we expect they will continue to increase. We intend to comply with any such requirements and restrictions.

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.

43 EMPLOYEES BY FUNCTION




## COMPENSATION REPORT

The compensation report is provided in the corporate governance report on pages 67 through 71 and is to be viewed as part of the group operating and financial review.

## RISK REPORT

### INTRODUCTION

To a greater degree than most other businesses, the semiconductor industry is characterized by periods of rapid growth which are historically followed by periods of significant market contraction. Such periods of market contraction are characterized by surplus capacity, increasing order cancellations and 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 extraordinarily rapid pace of technological change. In this environment we try to reduce our business risks and exploit the opportunities we face. Effective risk and opportunity management therefore is one of our important success factors. It is integrated in all of our business activities and supports our goal of sustainable profitable growth.

## RISK AND OPPORTUNITY MANAGEMENT SYSTEM: PROVEN PROCESS WITHIN THE FORECASTING CYCLE

Our group-wide risk and opportunity management system (RMS) is based on a risk policy which defines risk as the potential negative deviation from the financial forecast and which is not limited to the detection of developments that endanger our company's future. A substantial element of the RMS is the underlying risk management process, which consists of risk identification, risk analysis, risk steering and risk control. The systematic implementation of the risk management process improves our planning forecast accuracy, enhances transparency in decisions under uncertainty and supports our overall risk awareness.

The risk management organization consists of the central risk management department, which is assigned to the company's Chief Financial Officer, and so-called risk officers, who are responsible for the implementation of the risk management process in their respective organizational units. One of the most important tasks of a risk officer is to collect, evaluate and to document substantial risks and opportunities. They build the interface to the central risk management department, which is primarily in charge of the risk management process itself and methods for its implementation, as well as the presentation of risks and opportunities at the company group level.

The all-encompassing risk reporting approach uses a risk and opportunity catalogue, which is checked for completeness and whose content is assessed once a year. The quarterly risk and opportunity assessments are based on estimates of the probability of a risk event and the corresponding impact on net income. Additionally, risk mitigation measures are defined and the related implementation status is documented. All risks and opportunities above a defined threshold are rated as important and have to be reported in the quarterly risk report. During a quarter, risks and opportunities have to be reported if their impact on our results of operations is above the "ad-hoc" threshold.

The summarized risk reports of the organizational units are aggregated by the central risk management department while dependencies are validated. The aggregated risk report contains information on all critical risks and opportunities and is provided to the Management Board once per quarter.

The systematic development of our risk and opportunity management system fosters and supports the continuous improvement of our company's risk management system. This is also supported by our organized risk forums, which are a regular communication platform for the risk officers and implicitly strengthen their risk awareness.

The risk and opportunity management system is comprehensively documented and published on our intranet. Thus all employees have access to the details of the risk management system. It is periodically reviewed by internal audit to ensure its legal compliance.

Our independent auditor reviews the risk management system as part of its year-end-audit. Our auditor has confirmed that our Management Board has established an early warning system that is compliant with Section 91 paragraph 2 of the German Stock Corporation Act and that provides early detection of risks that could endanger our company's future.

The following are the categories of risk we face:

### Industry and Market Risks: Risk handling within volatile industries and markets

The worldwide semiconductor market is extremely volatile. Therefore, we face risks with respect to rapid market change in our target markets.

In addition to volume risks, significant price pressure and associated risks affect many of our businesses.

The quick pace of technological change can, for example, through delays in the introduction of new products, lead to a significant harm to our business and sometimes lead to loss of customer relationships.

Some of our products are purchased by a limited number of customers. This increases our dependency on the success of our customers in their respective markets. We react to such developments by constantly seeking to widen our customer base, which has proven to be a successful strategy in the past, leading to new customer and design wins.

As a global operating company, our business could suffer from periodic downturns in the global economy. Particularly, the downturn in the automotive industry market may result in lower revenues than originally expected. Furthermore, substantial changes in regional business environments around the globe may also have adverse effects on our business and results of operations. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world helps to mitigate the overall risk of such regional crises.

### Qimonda: Significant risks related to Qimonda insolvency

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to potential liabilities arising in connection with the Qimonda business. Such potential liabilities include, among others, pending antitrust and securities law claims, potential liabilities arising from our former participation in Qimonda Dresden, potential claims for repayment of governmental subsidies, claims by former employees of Qimonda and other employee-related contingencies.

In addition, we may be subject to claims by the insolvency administrator under German insolvency laws for repayment of certain amounts received by us from Qimonda, such as payments for intra-group services and supplies, during defined periods prior to the commencement of insolvency proceedings. Depending on future developments in Qimonda's operations in Portugal, there is also a risk that claims could be made against us in connection with governmental subsidiaries received by Qimonda Portugal S.A. prior to the carve-out. The insolvency of Qimonda may also subject us to other claims arising in connection with the contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as we expect that Qimonda will not be able to fulfill its obligation to indemnify us against any such liabilities.

Furthermore, we may lose rights and licenses to Qimonda's intellectual property that we are entitled to under the contribution agreement between us and Qimonda due the fact that the insolvency administrator has declared non-performance of this agreement. We are evaluating the scope of any potentially affected intellectual property, and we are unable to provide any reasonable estimate of any potential related costs to us.

As of September 30, 2009, we recorded aggregate liabilities of €21 million and provisions of €163 million in connection with these matters. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions and allowances recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Finally, there can be no assurance that the insolvency administrator or creditors of Qimonda will not seek to recover money from us by asserting claims that we cannot currently foresee. Even if a court were to dismiss or otherwise rule against such claims, defending against them could require us to expend significant time, money and management attention.

### Altis: A sale or closure of the ALTIS facility may result in material additional costs and charges

We and our joint venture partner IBM are currently involved in ongoing negotiations with strategic and financial partners regarding a divestiture of our respective shares in ALTIS, a manufacturing joint venture in France. The outcome of these negotiations cannot be predicted at this stage. In the event of a failure to reach an agreement with the potential buyers, we will have to reassess all options. All currently conceivable scenarios may result in our company incurring material additional costs and charges. In the event of a sale, we may incur, among others, expenses under a wafer supply agreement that is to be concluded between the joint venture partners and the potential buyer. In the event of a closure, we and IBM may incur material expenses relating to the closing. Although the exact amount of any such expenses cannot be reliably assessed as yet, such expenses could have a material adverse effect on our results of operations and financial position.

### Management Risks: Risks especially associated with acquisitions or cooperation arrangements

To develop or expand our business we may seek to acquire other companies or enter into different forms of acquisitions or cooperation arrangements, which could prove to be unsuccessful, particularly in terms of integration of people and products in existing business structures.

### Operational Risks: Manufacturing is key in terms of economic success

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.

We try to mitigate the risks caused by volume fluctuations, potential production interruptions and corresponding idle capacity costs by using flexible production management in terms of technology development and product shifts between our production sites.

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 Sourcing", "Focus-on-Value"). These programs consist of cross-functional expert teams responsible for the standardization of purchasing processes with respect to materials and equipment.

We cooperate with a number of different suppliers, who provide us with materials and services, or who take over parts of our supply chain. For some of these suppliers we do not always have alternative sources. Therefore, we face the risk of delays in delivery or quality issues.

In order to address quality risks in our products, we have established specific Quality Management strategies such as "Zero Defects" and "Six Sigma". The overall objective of these strategies is to prevent or solve problems, and to improve our business processes. Our quality management system has been certified on a worldwide basis according to ISO 9001 and ISO/TS 16949 for a number of years and includes supplier development as well.

### Financial Risks: High capital requirements

Because we operate our own manufacturing facilities, we require significant amounts of capital to build, expand, modernize and maintain them. We also require significant amounts of capital to fund R&D. These funding requirements should generally be 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 receive requested support on a timely basis or at all. We intend to continue to cooperate on R&D projects and production with other semiconductor companies in order to reduce our financing needs.

We are exposed to interest rate risk through our financial assets and debt instruments resulting from the issuance of bonds and credit facilities. Due to the high volatility of our core business and the need to maintain high operational flexibility our liquid financial assets are kept at a high level. These assets are primarily invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates. Interest rate derivatives are used to reduce the risk caused by any net gap between interest-bearing financial assets and liabilities.

Our involvement and participation in various regional markets around the world creates cash flows in a number of currencies other than the Euro — primarily in U.S. dollars. Therefore, a major portion of our sales volumes as well as the costs relating to sales, administration, and R&D are incurred in U.S. dollars. Exchange rate fluctuations against the Euro may have substantial effects on our sales, our costs and our overall results of operations.

In general, our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of our estimated net exposure for of the initial two-month period, at least 50 percent of our estimated net exposure for the third month and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Part 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 income and expenses.

Over the last several quarters, our operating results experienced high volatility. It is possible that this volatility will continue in the future due to circumstances which we can not fully control. If our results of operations do not meet investor and financial analyst expectations, the Infineon stock price could decrease.

### Information Technology Risks: Increasing dependence on IT systems in all processes

Like other global technology companies, we rely heavily on information technology and are increasingly dependent on information technology systems to support business processes as well as internal and external communications.

Despite implemented technical precautions, any significant disruption of these systems may result in loss of data and/or impairment of production and business processes.

All critical IT systems are hosted on high availability servers with redundancies in different data centers to minimize or eliminate the impact of hardware failures. Redundant network connections from different suppliers help reduce or eliminate the risk of losing connectivity between our sites. Constant automated monitoring of the IT infrastructure allows us to react quickly to unforeseen incidents.

Special precautions have been taken to address the risk of virus attacks, especially to manufacturing supporting IT equipment.

It is very important to us to protect highly confidential information from the risk of compromising confidentiality. Sophisticated encryption technology is used to store and transfer all highly confidential information. The most sensitive data is stored and processed in entirely isolated networks.

### Human Resource Risks: Requirement of qualified employees

One of our key success factors is to obtain and retain the required number of qualified employees. However, we are exposed to the general risks associated with employee turnover. Therefore, it is important to offer attractive working conditions in order to hire the desired employees and to keep them through motivational leadership.

The instruments we use for personal development and qualification help to ensure that we meet our present and future personnel requirements. We continuously use dedicated training programs to foster and broaden technical and personal skills.

### Legal Risks: We may incur substantial costs in defending against legal claims

Like other companies in the semiconductor industry, we have been exposed to patent claims, claims relating to alleged defective or faulty products, and claims relating to the alleged infringement of statutory duties. Regardless of the outcome of these claims, we may incur substantial costs in defending ourselves against these claims. We intend to exert significant efforts in defending ourselves vigorously against such claims. For more information, please refer to note 38 (“Litigation and Investigations”) to our consolidated financial statements.

In the area of intellectual property, we benefit from various cross-license agreements with other companies. We aim 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.

Tax, fair trade and stock exchange regulations can all include additional risks. To mitigate these risks, we rely upon the advice of internal and external experts.

Our global business strategy calls for maintaining R&D locations and manufacturing sites in various countries around the world including in order to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. 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 of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate. These risks could restrict our business activities in those countries.

We use insurance policies to cover risk of liability or losses impacting our results of operations, financial condition and cash flow.

## OVERALL INFINEON RISK SITUATION AT THE DATE OF THIS REPORT

At the date of this report we are not aware of any substantial risks which threaten the existence of our company.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report as well as in the “Annual Report on Form 20-F” filed with the U.S. Securities and Exchange Commission.

## INFINEON TECHNOLOGIES AG

Infineon Technologies AG is the parent company within the Infineon group and carries out the group's management and corporate functions. Infineon Technologies AG takes on 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; furthermore, it manages the logistical processes of the group. Infineon Technologies AG has its own production facilities in Regensburg and Warstein. Since Infineon Technologies AG conducts most of the transactions with derivative financial instruments on behalf of the Infineon group, the same terms and conditions for derivative financial instruments, as well as for covered risks, are valid both for Infineon Technologies AG and 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 ones which are defined for the Infineon group, as further described in the Risk Report and Outlook sections.

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

**44 STATEMENT OF OPERATIONS[1] (CONDENSED)**
€ IN MILLIONS

| For the years ended September 30 | 2007 | 2008 | 2009 |
|---|---|---|---|
| Revenue | 5,003 | 5,365 | 4,115 |
| Cost of goods sold | (4,231) | (4,425) | (3,747) |
| **Gross profit** | 772 | 940 | 368 |
| Operating expenses | (986) | (983) | (850) |
| Equity in earnings (losses) of associated companies, net | (174) | (2,555) | 47 |
| Other operating expense, net | (77) | (142) | (230) |
| **Income (loss) before tax** | (465) | (2,740) | (665) |
| Income tax | (6) | — | (1) |
| **Net loss before extraordinary loss** | (471) | (2,740) | (666) |
| Extraordinary loss | (34) | — | — |
| **Net loss** | (505) | (2,740) | (666) |
| Accumulated loss brought forward | (2,103) | (2,608) | (5,348) |
| **Accumulated loss at end of year** | (2,608) | (5,348) | (6,014) |

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's net loss in the 2009 fiscal year resulted primarily from significantly lower demand, reflecting the overall economic downturn. In addition, charges have been incurred due to the insolvency of Qimonda and Qimonda Dresden.

In the 2008 fiscal year, Infineon Technologies AG's net loss resulted primarily from impairments of the investment in Infineon Technologies Holding BV, Rotterdam, the Netherlands (€1.613 million) and Qimonda (€1.021 million). Restructuring charges incurred during the 2008 fiscal year (€172 million) also contributed to the reported net loss.

In the third quarter of the fiscal year 2008, Infineon Technologies AG implemented the IFX10+ cost-reduction program. The IFX10+ cost-program includes measured target areas, such as product portfolio management, manufacturing costs reduction, value chain optimization, process efficiency, reorganization of the company's structure and reductions in workforce. The decrease of total costs in the 2009 fiscal year resulted primarily from cost saving measures which were implemented under the scope of the IFX10+ cost-reduction program.

**45 BALANCE SHEETS[1] (CONDENSED)**
€ IN MILLIONS

| For the years ended September 30 | 2008 | 2009 |
|---|---|---|
| Fixed and intangible assets | 887 | 747 |
| Investments | 3,873 | 3,389 |
| **Non-current assets** | 4,760 | 4,136 |
| Inventories | 405 | 306 |
| Receivables and other assets | 985 | 870 |
| Cash and marketable securities | 722 | 1,280 |
| **Current assets** | 2,112 | 2,456 |
| **Total assets** | 6,872 | 6,592 |
| Shareholders' equity | 3,113 | 3,207 |
| Provisions | 645 | 847 |
| Payables and other liabilities | 3,114 | 2,538 |
| **Total liabilities and Shareholders' equity** | 6,872 | 6,592 |

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's financial position was primarily impacted by an increase in cash and marketable securities on the assets side and a correspondent increase in shareholders' equity on the liabilities and equity side. The increase is mainly related to the capital increase which took place in 2009 fiscal year which was partially offset by the net loss of €666 million incurred in fiscal year 2009.

The increase of provisions (€202 million) is primarily due to provisions in connection with the insolvency of Qimonda and Qimonda Dresden.

Investments were reduced by €484 million net. The decrease was primarily caused by a decline in capital reserves regarding SensoNor (€536 million).

Liabilities and deferred income decreased by €576 million net, primarily reflecting reduced liabilities due to affiliated companies (€472 million).

Infineon Technologies AG's shareholders' equity ratio as of September 30, 2009 is 49 percent compared to 45 percent as of September 30, 2008

### 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.

No dividends were paid for the 2007 and 2008 fiscal years since Infineon Technologies AG on a stand alone-basis incurred a cumulative loss (Bilanzverlust) for the 2007 and 2008 fiscal years. No earnings are available for distribution as a dividend for the 2009 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2009.

## SUBSEQUENT EVENTS

We closed the sale our Wireline Communications business to Lantiq on November 6, 2009. The final purchase price amounts to approximately €243 million reflecting customary adjustments in the asset purchase agreement. On the closing date we received cash consideration of €223 million. The final portion of the purchase price of up to €20 million will become due in the fourth quarter of the 2010 fiscal year.

## OUTLOOK

### INDUSTRY ENVIRONMENT AND OUTLOOK

In the fall of 2008, the world economy entered the deepest recession of the last 60 years, which significantly affected the global semiconductor market. Strong monetary and fiscal policy measures across advanced and emerging economies, however, supported demand and mitigated an imminent global financial collapse. In the summer of 2009, several Asian economies began growing again and economies elsewhere stabilized or began modest recoveries. Nevertheless, the pace of recovery is expected to be slow (International Monetary Fund, October 2009).

A return to growth in the world economy should positively affect the global semiconductor market. After a low double-digit contraction of the market in the 2009 calendar year, analysts expect the global semiconductor market to grow in the 2010 calendar year. WSTS, for example, forecasts in November 2009 that the overall market will increase by 12.2 percent (in U.S. dollar terms) in the 2010 calendar year (compared with its spring 2009 forecast of 7.3 percent growth). In November 2009, WSTS forecasts for the 2009 calendar year a decline of world semiconductor revenues of 11.5 percent, compared to a decline of 21.6 percent predicted in its spring 2009 forecast. For the 2011 calendar year, WSTS currently forecasts world semiconductor revenue-growth of 9.3 percent.

### OUTLOOK

#### Significant planning assumptions

When preparing this outlook, we made certain important planning assumptions.

Due to the fast pace of developments in the semiconductor market and the cyclical nature of our industry, we can only give an outlook for our 2010 fiscal year. Beyond the 2010 fiscal year, we can only comment on general trends in the semiconductor market.

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business to Lantiq. This transaction closed on November 6, 2009. We and Lantiq have entered into product supply agreements as well as into various transitional service agreements. Since closing, our business with Lantiq is reported in the Other Operating Segments.

All statements below reflect our operations without the former Wireline Communications business. In the future, we will focus on our four segments Automotive, Industrial & Multimarket, Chip Card & Security and Wireless Solutions, and will concentrate our resources more closely on growth and leadership in these four market segments.

Our Management Board uses Segment Result to assess the operating performance of the reportable segments and as a basis for allocating resources among our segments. We define Segment Result as operating income (loss), excluding asset impairments, net, restructuring and other related closure costs, net, stock-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. The gain from the sale of the Wireline Communications business will be included in results from discontinued operations, net of income taxes, for the first quarter of the 2010 fiscal year and therefore will have no impact on Segment Result.

The outlook for the 2010 fiscal year assumes that we will complete the sale of ALTIS, our manufacturing joint venture with IBM in France, in the first half of the 2010 fiscal year. Should this not be feasible, we have to re-assess all options. In all conceivable scenarios, we anticipate non-recurring charges as part of our non-segment result. Although the exact amount of such charges cannot be reliably assessed currently, such expenses could have a material adverse effect on our results and financial position.

For the purpose of forecasting our total Segment Result from continuing operations in the 2010 fiscal year, we assumed a U.S. dollar/Euro exchange rate of 1.50. About 50 percent of our revenues and 35 percent of our costs are exposed to the U.S. dollar or to currencies strongly correlated to the U.S. dollar. Any strengthening (weakening) of the U.S. dollar against the Euro would have a positive (negative) impact on revenues and earnings, primarily in the segments with the largest exposure to the U.S. dollar and currencies strongly correlated to the U.S. dollar, namely Industrial & Multimarket and Wireless Solutions. A fluctuation of the U.S. dollar/Euro exchange rate would not, however, have any material impact on earnings for the first half of the 2010 fiscal year, as we have already hedged a significant portion of the expected cash flow for this period. For the remainder of the 2010 fiscal year, however, fluctuations in the U.S. dollar/Euro exchange rate would have a material impact on revenues and earnings. If the exchange rate for the U.S. dollar against the Euro deviates from our forecast by one cent, we estimate that such deviation would lead to a corresponding deviation in combined Segment Result versus our planning assumption of approximately €1.5 million per quarter.

## Revenues

Orders have started to recover early in the 2009 calendar year and so far have continued to increase. General demand trends therefore appear positive. That said, the speed of the bookings recovery in the final months of our 2009 fiscal year leaves an element of uncertainty with regards to the sustainability of the pace of recovery. As such, the industry recovery as well as our outlook is subject to risks. Nonetheless, based on the current order backlog and outlook, we expect total revenues in the 2010 fiscal year, consisting of the operating segments Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions, as well as Other Operating Segments and Corporate & Eliminations, to increase by ten percent or more compared to the 2009 fiscal year. The year-over-year increase is expected to be driven by increases in revenues in all operating segments, particularly in our Automotive segment, with lower revenue increases in the Wireless Solutions and Industrial & Multimarket segments, and the lowest growth rate in the Chip Card & Security segment. Our product supply agreements with Lantiq are expected to positively impact revenues in the Other Operating Segments by a mid- to high double-digit million Euro amount.

Beyond the 2010 fiscal year, we believe that the three current global trends towards improved energy efficiency, security, and communications will continue to gain in importance, positively impacting revenue growth in our four operating segments. In particular, the need for energy efficient semiconductors predominantly drives demand for products in our Automotive and Industrial & Multimarket businesses. Data protection and secure authentication issues are mostly addressed by our Chip Card & Security segment, while our Wireless Solutions segment benefits from the continued growth in mobile communications and data access. In terms of regions, we expect the most important growth driver to be demand from Asia. In the 2009 fiscal year, we generated 45 percent of our total revenues in this region. Semiconductor demand growth in Asia is driven by general economic growth in the region and by country-specific trends. China, for example, is investing heavily in the build-out of its railway network along with its fleet of trains. Furthermore, Asian countries generally are building-out their electricity generation and distribution infrastructure and are focusing on high silicon content wind and solar power plants for energy generation. We expect that projects such as these will have a favorable impact on demand for the power semiconductors offered by our Industrial & Multimarket segment.

With regards to our individual operating segments, the Automotive segment is benefiting from end market demand for vehicles generally stabilizing and in some regions returning to growth. In addition to improving end demand trends, as a component supplier we anticipate benefiting from inventory replenishment throughout the supply chain. Finally, the shift from mid-range and high-end vehicles with comparatively higher semiconductor content towards small cars with comparatively lower silicon content appears to be coming to a halt and may potentially reverse. As one of the two leading automotive semiconductor companies worldwide, with a 9.5 percent market share in 2008 (Strategy Analytics, May 2009), we are well-positioned to benefit from these trends. Longer-term, our products will continue to support the electrification of the drive train and the increased market penetration of hybrid cars, which we serve with our HybridPACK™ modules and other automotive power components such as discrete IGBTs and Power MOSFETs.

We were the number one supplier of power semiconductors and power modules with a 10.2 percent market share in 2008 (IMS Research, July 2009). We expect revenues to increase in the Industrial & Multimarket segment in the 2010 fiscal year, driven by a recovery in end demand for computing, communications and industrial products and inventory replenishment throughout the supply chain. The expansion of infrastructure projects and building of power lines, mostly in China, should add to the 2010 revenue increase. Beyond 2010, the segment will, among others, benefit from growth in demand for power semiconductors for renewable energy applications. In terms of regions, Asia is expected to be a major contributor to such growth as local economic dynamics, including increased wealth and per capita income, support middle class demand for home appliances and electronic goods.

In the Wireless Solutions segment, where we were number four in the wireless ASSP business in the 2008 calendar year in terms of global market share (iSuppli, June 2009), we anticipate revenues will increase in the 2010 fiscal year. This is expected to be driven primarily by the ramp-up of single-chip mobile phone platforms at Nokia and other major customers as well as generally increased demand of major mobile phone platform customers for both HSDPA and Ultra Low Cost solutions. In the 2010 fiscal year, we also expect additional growth from the launch of our mobile phone platform for HSUPA solutions based on 65-nanometer structure size.

Finally, revenues in the Chip Card & Security segment are also anticipated to increase in the 2010 fiscal year compared to the 2009 fiscal year, mostly due to sales growth in the ID card (government ID, health cards, driver licenses, etc.), Pay-TV, and SIM card businesses. As the number one supplier of chip card and security solutions, with a 26 percent market share in 2008 (Frost & Sullivan, October 2009), we will focus on further developing our core competencies, tailored security, contactless applications and embedded control.

### Combined Segment Result

In the 2010 fiscal year, we expect combined Segment Result to improve considerably from the 2009 fiscal year and to be significantly positive, with a combined Segment Result margin of a mid single-digit percentage. This outlook is given under the assumption that our manufacturing capacity utilization will not experience any significant decline over the course of the 2010 fiscal year, which could occur, for example, as a result of lower customer orders due to renewed inventory correction in the supply chain. We expect an improvement in combined Segment Result despite the termination of temporary cost reduction measures initiated under our cost reduction program IFX10+ in the 2009 fiscal year. Most notably, our temporary labor cost reduction measures (short-time work and unpaid leave) ended on a world-wide basis effective October 1, 2009, which we anticipate will lead to an increase in quarterly expenses of around €25 million in the 2010 fiscal year, compared to the third and fourth quarters of the 2009 fiscal year. Despite such cost increases, we expect positive combined Segment Result for the 2010 fiscal year. This will be driven by generally higher revenues, significantly higher utilization rates in our manufacturing facilities and continued strict cost discipline. Regarding the latter, we will continue to streamline and reduce the number of processes and interfaces in the company. Beyond the 2010 fiscal year, and assuming continued revenue growth, we expect to realize earnings growth in excess of our revenue growth also driven by an effort to improve the gross margin of our product portfolio.

### Research and Development Expenses

We expect expenses for R&D in the 2010 fiscal year to increase broadly in line with revenues, compared to the 2009 fiscal year when excluding the effects of the termination of temporary cost reduction measures initiated under our cost reduction program IFX10+. The increase of our R&D expenses, aside from the end of our temporary labor cost reduction measures, will be driven by expenditures for new products and technologies. Beyond the 2010 fiscal year, we expect that expenditures for R&D will rise in order to support the maintenance and broadening of our product base, which will be required to address the numerous growth opportunities in our markets. The longer term growth rate of our R&D expenses, however, is expected to remain below the rate of revenue growth.

In the Automotive segment, our R&D efforts in the 2010 fiscal year are mainly focused on development of power, microcontroller, and sensor products based on CMOS, bipolar, embedded flash and smart power technologies.

Energy efficiency and system miniaturization are key drivers for R&D in the Industrial & Multimarket segment in the 2010 fiscal year. The development of next-generation power technologies for industrial drives, power supply applications and new package concepts are examples of areas of emphasis in our R&D efforts.

In the Chip Card & Security segment, we have intensified our R&D efforts in developing next-generation, highly secure technologies and platforms for use in many fields of application.

In the Wireless Solutions segment, our R&D spending is focused, for example, on developing next-generation system-on-a-chip products and system solutions for mobile phones. In addition, we develop process technologies in alliances with several partners and consortia in order to maintain a competitive technology roadmap at an affordable cost level.

## Fixed assets investment and depreciation

We continue to pursue a differentiated manufacturing strategy for our four operating segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, particularly 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 manufacturing process (so called CMOS technology).

Given the demand trends described above, we anticipate that our annual investment in property, plant and equipment and intangible assets, including capitalized development costs, will increase to approximately €220 million to €250 million in the 2010 fiscal year. This compares to an investment in property, plant and equipment and intangible assets including capitalized development costs of €154 million in the 2009 fiscal year. In subsequent fiscal years, we will tailor our capital investment to the demand development, but expect to limit such investments to less than 10 percent of our revenues.

In the 2010 fiscal year, we expect depreciation expense for tangible assets to decrease compared to the 2009 fiscal year and to total around €340 million. Additional amortization of intangible assets, including capitalized development costs, should be around €60 million. Total depreciation and amortization is therefore expected to be approximately €400 million in the 2010 fiscal year. In the 2009 fiscal year, depreciation was €466 million and amortization was €47 million, for total depreciation & amortization of €513 million. Beyond the 2010 fiscal year, we expect annual depreciation and amortization expense, including amortization charges for capitalized development costs, to decrease further and to approach our capital investment.

## Major financing measures

Having placed subordinated convertible notes due 2014 with a nominal value of €196 million and having issued 337 million new shares for a gross cash inflow of €725 million in the 2009 fiscal year, we currently do not foresee undertaking any major capital raising measures in the 2010 fiscal year in order to finance our operations or meet our debt maturities.

On June 5, 2010, our subordinated convertible notes with a book value outstanding as of September 30, 2009 of €425 million will come due. Given our gross cash position of €1,507 million as of September 30, 2009, our expected improvement in combined Segment Result and expected depreciation and amortization in excess of capital expenditures for the 2010 fiscal year, we expect to redeem these convertible notes out of existing cash reserves. Similarly, over the course of the 2010 fiscal year, we expect to make other debt repayments totaling €96 million out of existing cash reserves.

Over the course of the 2010 fiscal year, we anticipate that the expected improvement in combined Segment Result, lower cash outflows for restructuring measures, the cash inflow from the sale of our Wireline Communications business, and depreciation and amortization in excess of capital expenditures should contribute positively to free cash flow. Nonetheless, given the debt maturities described above, potential cash outflows in connection with ALTIS as well as the insolvency of Qimonda and given an increase in our net working capital, our gross cash position as of September 30, 2010 is expected to be below our gross cash position as of September 30, 2009. Nevertheless, we expect that we will have ample cash at the end of our 2010 fiscal year to meet all of our anticipated obligations.

## OPPORTUNITIES

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

In general we see volume opportunities in connection with greater demand in our target markets.

In particular, a recovery of the automotive market could lead to a better than expected development in demand. Our power semiconductor business may experience additional growth driven by energy efficiency requirements and government regulations in all market segments. For our wireless communication business, opportunities could arise particularly from a better than expected success of our mobile phone customers and from new customer projects. The continued worldwide introduction of electronic ID documents as well as migration towards electronic tickets in transport systems could open growth opportunities in the Chip Card & Security market.

## 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 Infineon Technologies AG totaled €2,173,484,170 as of September 30, 2009. It is divided into 1,086,742,085 no par value nominal shares, each of which represents a notional portion of the subscribed capital of €2. All shares carry the same rights and obligations. Each share carries one vote. Shares of Infineon Technologies AG are listed on the Frankfurt Stock Exchange (FSE) under the symbol “IFX” and were also listed on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (“ADS”) until April 24, 2009. Following the delisting on April 24, 2009, the Infineon Technologies AG ADS’s are now traded on the OTCQX International over-the-counter market under the ticker symbol “IFNNY” rather than on the NYSE. Each Infineon ADS represents one Infineon ordinary share.

### RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Restrictions on the voting rights of shares may, in particular, arise as the result of the regulations of the German Stock Corporation Act (“AktG”). For example, shareholders are prohibited, under certain conditions, from voting according to section 136 AktG and Infineon Technologies AG 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.

Pursuant to Section 67, paragraph 2 AktG, only those persons recorded in the share register of Infineon Technologies AG will be recognized as shareholders of Infineon Technologies AG. For purposes of recording the shares in share register Infineon Technologies AG, shareholders are required to submit to Infineon Technologies AG the number of shares held by them and their name or company name, address and date of birth. Pursuant to Section 67, paragraph 4 AktG, Infineon Technologies AG is entitled to request information from any party registered in share register Infineon Technologies AG regarding the extent to which the latter actually owns the shares for which it is registered as holder and, if this is not the case, to request the party concerned to submit the information necessary for the maintenance of the share register in relation to the party for whom it holds the shares. Section 67, paragraph 2 AktG stipulates that the shares concerned do not confer voting rights until such time as the information requested has been supplied.

### SHAREHOLDINGS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz) requires each person whose shareholding reaches, exceeds or, after exceeding, falls below the 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent voting rights thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht - “BaFin”) immediately. As of September 30, 2009, we have not been notified of any direct or indirect shareholdings reaching or exceeding 10% of the voting rights. The shareholdings notified to us are described as information pursuant to Section 160 Section 1 No. 8 Corporate Act (AktG) in our consolidated financial statements.

### 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 Infineon Technologies AG shall consist of at least two members. Currently, the Management Board of Infineon Technologies AG consists of four 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-thirds 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, paragraph 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-quarters 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 12, 2009, the Management Board has been authorized, in accordance with section 71, paragraph 1, No. 8 AktG, to purchase shares of Infineon Technologies AG through August 11, 2010, 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, for one or a number of purposes. The authorization may not be used for the purpose of trading in shares of Infineon Technologies AG. The authorization may also be used by dependent companies or companies, in which Infineon Technologies AG has a majority holding or by third parties acting on their own account or for dependent companies or companies in which Infineon Technologies AG has a majority holding.

The Management Board decides whether own shares are purchased (a) through the stock exchange or (b) by means of a public offer to purchase addressed to all shareholders or a public invitation to submit offers for sale (referred to below as "public purchase offer"). If shares are purchased through the stock exchange, the purchase price per share (excluding incidental costs) paid by Infineon Technologies AG may not be more than 10 percent above or below the price established in the Xetra (or comparable successor system) opening auction on the trading day. If shares are purchased by means of a public purchase offer, a fixed purchase price or purchase price range may be specified. The purchase price per share paid by Infineon Technologies AG (excluding incidental costs) in this case may not be more than 20 percent above or below the arithmetical average value of the closing prices of the share in Xetra trading (or a comparable successor system) on the fifth, fourth and third trading days prior to the day of publication of the public purchase offer ("effective date"). If significant price changes occur after the effective date, the purchase

price may be adjusted according to the calculation mentioned above; in this case the relevant time frame is the fifth, fourth and third trading days prior to the public announcement of any such adjustment. The volume of the purchase may be limited. If the total subscription for the public purchase offer exceeds this volume, Infineon Technologies AG adopts a quota-based purchase approach. Provision may be made for a preferred acceptance of smaller quantities (up to 100 offered shares per shareholder). The public purchase offer may also provide for further terms and conditions.

Infineon Technologies AG is authorized to sell its shares of Infineon Technologies AG that it purchases under this or a prior authorization via the stock exchange or by means of a public offer addressed to all shareholders, or to make use of them for the following purposes:

a) The shares may be recalled without this recall or its implementation requiring any further resolution of the Annual General Meeting. The Management Board may also decide that the share capital will not be affected by the recall and that the proportion of non-recalled shares in the share capital will be increased accordingly. The Management Board is authorized to amend the number of ordinary shares indicated in the Articles of Association in this case.
b) The shares may be offered and transferred to third parties in connection with mergers or the acquisition of companies, parts of companies or participations in companies.
c) The shares may be used to meet Infineon Technologies AG's obligations under bonds with warrants and convertible bonds issued or guaranteed by it in the past or in the future.
d) The shares may be used to meet obligations under the "Infineon Technologies AG Stock Option Plan 2006" ("Stock Option Plan 2006").
e) The shares may be offered for acquisition and transferred to people who are employed by Infineon Technologies AG or by a company affiliated with Infineon Technologies AG.

The authorizations for use may be used once or a number of times, individually or together and in their maximum value or in fractions of their maximum value. Subscription rights of the shareholders with respect to the shares affected by these measures shall be excluded insofar as the shares concerned are used in accordance with the aforementioned authorizations under clauses b), c), d) or e).

### Conditional Capital

Conditional Capital I – Section 4(4) of the Articles of Association provides that the share capital of Infineon Technologies AG is conditionally increased by an amount not to exceed €34,635,548 (Conditional Capital I, registered in the Commercial Register as "Conditional Capital 1999/I"). The conditional capital increase shall be effected by issuing up to 17,317,774 new registered no par value shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued only to the extent that the holders of subscription rights issued under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" based on the authorization granted on April 6, 2001 choose to exercise their subscription rights.

Conditional Capital 2007 – Section 4(5) of the Articles of Association provides that the share capital is conditionally increased by up to €149,900,000 by issuing up to 74,950,000 new no par value registered shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2007, registered in the Commercial Register as "Conditional Capital 2007/I"). The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by Infineon Technologies AG or a subordinated group company on the basis of the authorization of the Annual General Meeting of February 15, 2007. The conditional capital increase is to be effected only insofar as option and/or conversion rights relating to the bonds are exercised or any conversion obligations under these bonds are fulfilled and insofar as no cash settlement is granted and no own shares are used for servicing. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Conditional Capital III – Section 4(6) of the Articles of Association provides that the share capital is conditionally increased by up to €29,000,000 (Conditional Capital III, registered in the Commercial Register as "Conditional Capital 2001/I"). The conditional capital increase will be carried out by the issue of up to 14,500,000 new registered no par value shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued, although only to the extent that the holders of 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, or the holders of subscription rights granted under the "Infineon Technologies AG Share Option Plan 2006" on the basis of the authorization issued on February 16, 2006, exercise their subscription rights.

Conditional Capital 2002 – Section 4(7) of the Articles of Association provides that the share capital is conditionally increased by up to €152,000,000 by issuing up to 76,000,000 new no par value registered shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2002, registered in the Commercial Register as "Conditional Capital 2007/II"). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in June

2003 by Infineon Technologies Holding B.V., Rotterdam, the Netherlands, which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled. The Management Board is authorized to determine the further details of implementation of the conditional capital increase. Conditional Capital 2008 – Section 4(8) of the Articles of Association provides that the share capital is conditionally increased by up to €149,900,000 by issuing up to 74,950,000 new no par value registered shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2008, registered in the Commercial Register as "Conditional Capital 2008/I"). The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by Infineon Technologies AG or a subordinated group company against payment in cash on the basis of the authorization of the Annual General Meeting of February 14, 2008. The conditional capital increase is to be effected only insofar as option and/or conversion rights relating to the bonds are exercised or any conversion obligations under these bonds are fulfilled and insofar as no cash settlement is granted and no own shares are used for servicing. The Management Board is authorized to determine the further details of implementation of the conditional capital increase. Conditional Capital 2009/I – Section 4(9) of the Articles of Association provides that the share capital is conditionally increased by up to €149,900,000 by issuing up to 74,950,000 new no par value registered shares and carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2009/I). The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by Infineon Technologies AG or a subordinated group company against payment in cash on the basis of the authorization of the Annual General Meeting of February 12, 2009. The conditional capital increase is to be effected only insofar as option and/or conversion rights relating to the bonds are exercised or any conversion obligations under these bonds are fulfilled and insofar as no cash settlement is granted and no own shares are used for servicing.

On May 26, 2009, Infineon Technologies Holding B.V., Rotterdam, the Netherlands, issued guaranteed subordinated convertible notes with a notional amount of €195,600,000 maturing on May 26, 2014 with the right to conversion into shares of Infineon Technologies AG to institutional investors. The new convertible subordinated notes due 2014 are backed by a guarantee from Infineon Technologies AG. From the 90th day after May 26, 2009 until the 10th day prior to May 26, 2014 (both dates inclusive) each bondholder has the right to convert each bond in whole, but not in part, into new shares of Infineon Technologies AG to be issued from this Conditional Capital 2009/I. The New Convertible Notes were issued at an issue price of 92.80 percent of par. Aside from a coupon rate of 7.50 percent, the key terms of the New Convertible Notes include a reference share price of €2.0893, a conversion premium of 25 percent and a conversion price of €2.61 per share. Furthermore the terms of the Notes contain an antidilution provision whereby the conversion price was adjusted to €2.33 per share following the increase of the capital Infineon Technologies AG in August 2009.

The Infineon Technologies AG has made clear its intention that only one of the authorizations to issue bonds approved by the Annual General Meetings in 2007, 2008 and 2009 – and hence the Conditional Share Capitals 2007, 2008 and 2009/I – should be utilized, so the issue of the convertible bond accounting for the entirety of the authorization from 2009 means that the existing authorizations to issue bonds from 2007 and 2008 may no longer be utilized.

Further details of the various stock option plans are described in the Notes to the Consolidated Financial Statements under No. 32 Stock-based Compensation.

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

The subordinated convertible notes issued on June 5, 2003 by Infineon Technologies AG as guarantor through its subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, with a nominal value of €700,000,000 due in 2010, as well as the subordinated convertible notes issued by Infineon Technologies AG on May 26, 2009, through its subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, with a notional amount of €195,600,000 due in 2014 (for further information please refer to the Notes to the Consolidated Financial Statements under No. 27 Debt), each contain a so-called change of control clause, which grants the note holders an early redemption option in the event of a change of control as defined.

Furthermore, certain cross-license agreements, development agreements and license agreements contain change of control clauses according to which in the event of a change of control of Infineon 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 resigns or is terminated in the 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 Infineon Technologies AG. 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 by the applicable Management Board member. 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 to purchase and use shares of Infineon Technologies AG and issue bonds with warrants and/or convertible bonds are intended to enable the Management Board to raise capital swiftly, flexibly and on economically advantageous terms, taking advantage of attractive financing opportunities whenever they may arise in the market. However the issue of a further bond using the existing authorizations to issue bonds with warrants and/or convertible bonds that were approved by the Annual General Meetings in 2007, 2008 and 2009 is no longer a possibility following the issue of the convertible bond accounting for the entirety of the authorization from 2009, as Infineon Technologies AG has stated that it does not wish to use more than one of these authorizations. The issue of new shares from conditional capital is a practical option common in German companies in the compensation of employees and board members.

The change of control clauses provided for in the subordinated convertible bonds reflect 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 maintain their independence in the event of a change of control. These change of control clauses provide that members of the Management Board, if they resign in the event of a change of control, shall be entitled to a continuation of their annual target income for the full remaining duration of their service contract. In particular cases, this may exceed the limit of three years as stipulated in the German Corporate Governance Code. We consider this provision appropriate because it is intended to ensure that Management Board members act solely in the interests of Infineon Technologies AG in the event of a takeover situation. The associated rights in the event of a change of control, moreover, exist only if there is no serious breach of duty by such Management Board member.

Infineon Technologies AG
Neubiberg, November 2009

Management Board
**Peter Bauer**
**Prof. Dr. Hermann Eul**
**Dr. Reinhard Ploss**
**Dr. Marco Schröter**

# CONSOLIDATED FINANCIAL STATEMENTS

## 46 CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2007, 2008 AND 2009

€ IN MILLIONS, EXCEPT FOR SHARE DATA

| | Notes | 2007 | 2008 | 2009 | 2009 ($ millions) (unaudited) |
|---|---|---|---|---|---|
| Revenue | | 3,660 | 3,903 | 3,027 | 4.428 |
| Cost of goods sold | | (2,469) | (2,581) | (2,368) | (3.464) |
| **Gross profit** | | 1,191 | 1,322 | 659 | 964 |
| Research and development expenses | | (621) | (606) | (468) | (685) |
| Selling, general and administrative expenses | | (449) | (517) | (392) | (573) |
| Other operating income | 8 | 37 | 120 | 29 | 42 |
| Other operating expense | 8 | (57) | (365) | (48) | (70) |
| **Operating income (loss)** | | 101 | (46) | (220) | (322) |
| Financial income | 9 | 107 | 58 | 101 | 148 |
| Financial expense | 10 | (242) | (181) | (156) | (228) |
| Income from investments accounted for using the equity method | 19 | 1 | 4 | 7 | 10 |
| **Loss from continuing operations before income taxes** | | (33) | (165) | (268) | (392) |
| Income tax benefit (expense) | 11 | 2 | (39) | (5) | (7) |
| **Loss from continuing operations** | | (31) | (204) | (273) | (399) |
| Loss from discontinued operations, net of income taxes | 5 | (339) | (3,543) | (398) | (583) |
| **Net loss** | | (370) | (3,747) | (671) | (982) |
| Attributable to: | | | | | |
| Minority interests | | (23) | (812) | (48) | (70) |
| Shareholders of Infineon Technologies AG | | (347) | (2,935) | (623) | (912) |
| Basic and diluted loss per share attributable to shareholders of Infineon Technologies AG in €: | | | | | |
| Basic and diluted loss per share from continuing operations in € | 12 | (0.06) | (0.23) | (0.32) | (0.47) |
| Basic and diluted loss per share from discontinued operations in € | 12 | (0.37) | (3.38) | (0.41) | (0.60) |
| **Basic and diluted loss per share in €** | 12 | (0.43) | (3.61) | (0.73) | (1.07) |

See accompanying notes to the consolidated financial statements.

## 47 CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2008 AND 2009
€ IN MILLIONS

| | Notes | 2008 | 2009 | 2009 ($ millions) (unaudited) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | 749 | 1,414 | 2,069 |
| Available-for-sale financial assets | 13 | 134 | 93 | 136 |
| Trade and other receivables | 14 | 799 | 514 | 752 |
| Inventories | 15 | 665 | 460 | 673 |
| Income tax receivable | | 29 | 11 | 16 |
| Other current financial assets | 16 | 19 | 26 | 38 |
| Other current assets | 17 | 124 | 114 | 167 |
| Assets classified as held for disposal | 5 | 2,129 | 112 | 163 |
| **Total current assets** | | 4,648 | 2,744 | 4,014 |
| Property, plant and equipment | 18 | 1,310 | 928 | 1,358 |
| Goodwill and other intangible assets | 22 | 443 | 369 | 540 |
| Investments accounted for using the equity method | 19 | 20 | 27 | 40 |
| Deferred tax assets | 11 | 400 | 396 | 579 |
| Other financial assets | 20 | 144 | 124 | 181 |
| Other assets | 21 | 17 | 18 | 27 |
| **Total assets** | | 6,982 | 4,606 | 6,739 |
| | | | | |
| **Liabilities and equity:** | | | | |
| Current liabilities: | | | | |
| Short-term debt and current maturities of long-term debt | 27 | 207 | 521 | 762 |
| Trade and other payables | 23 | 506 | 393 | 575 |
| Current provisions | 24 | 424 | 436 | 638 |
| Income tax payable | | 87 | 102 | 149 |
| Other current financial liabilities | 25 | 63 | 50 | 73 |
| Other current liabilities | 26 | 263 | 147 | 215 |
| Liabilities associated with assets classified as held for diposal | 5 | 2,123 | 9 | 14 |
| **Total current liabilities** | | 3,673 | 1,658 | 2,426 |
| Long-term debt | 27 | 963 | 329 | 481 |
| Pension plans and similar commitments | 35 | 43 | 94 | 139 |
| Deferred tax liabilities | 11 | 19 | 13 | 19 |
| Long-term provisions | 24 | 27 | 89 | 130 |
| Other financial liabilities | 28 | 20 | 5 | 6 |
| Other liabilities | 29 | 76 | 85 | 125 |
| **Total liabilities** | | 4,821 | 2,273 | 3,326 |
| Shareholders' equity: | 30 | | | |
| Ordinary share capital | | 1,499 | 2,173 | 3,179 |
| Additional paid-in capital | | 6,008 | 6,048 | 8,848 |
| Accumulated deficit | | (5,252) | (5,940) | (8,690) |
| Other components of equity | | (164) | (8) | (12) |
| **Total equity attributable to shareholders of Infineon Technologies AG** | | 2,091 | 2,273 | 3,325 |
| Minority interests | | 70 | 60 | 88 |
| **Total equity** | | 2,161 | 2,333 | 3,413 |
| **Total liabilities and equity** | | 6,982 | 4,606 | 6,739 |

See accompanying notes to the consolidated financial statements.

## 48 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2007, 2008 AND 2009
€ IN MILLIONS

| | 2007 | 2008 | 2009 | 2009 ($ millions) (unaudited) |
|---|---|---|---|---|
| **Net loss** | (370) | (3,747) | (671) | (982) |
| Less: net loss from discontinued operations | 339 | 3,543 | 398 | 583 |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 616 | 552 | 513 | 751 |
| Provision for (recovery of) doubtful accounts | (13) | 3 | (2) | (3) |
| Losses (gains) on sales of available-for-sale financial assets | (7) | 1 | 3 | 4 |
| Losses (gains) on sales of businesses and interests in subsidiaries | (19) | (80) | 16 | 23 |
| Losses (gains) on disposals of property, plant, and equipment | (8) | 10 | 1 | 1 |
| Income from investments accounted for using the equity method | — | (4) | (7) | (10) |
| Impairment charges | 42 | 137 | 3 | 4 |
| Stock-based compensation | 12 | 5 | 2 | 3 |
| Deferred income taxes | (30) | 19 | (6) | (9) |
| Changes in operating assets and liabilities: | | | | |
| Trade and other receivables | (42) | 31 | 137 | 201 |
| Inventories | (69) | (48) | 152 | 222 |
| Other current assets | (64) | (12) | (23) | (34) |
| Trade and other payables | (99) | (71) | (104) | (152) |
| Provisions | 23 | 53 | (111) | (162) |
| Other current liabilities | 57 | 99 | (44) | (64) |
| Other assets and liabilities | 7 | 88 | 23 | 34 |
| Interest received | 39 | 39 | 21 | 31 |
| Interest paid | (93) | (62) | (49) | (72) |
| Income tax received (paid) | (80) | (16) | 16 | 23 |
| **Net cash provided by operating activities from continuing operations** | 241 | 540 | 268 | 392 |
| **Net cash provided by (used in) operating activities from discontinued operations** | 1,010 | (624) | (380) | (556) |
| **Net cash provided by (used in) operating activities** | 1,251 | (84) | (112) | (164) |

See accompanying notes to the consolidated financial statements.

## 49 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2007, 2008 AND 2009

€ IN MILLIONS

| | 2007 | 2008 | 2009 | 2009 ($ millions) (unaudited) |
|---|---|---|---|---|
| Cash flows from investing activities: | | | | |
| Purchases of available-for-sale financial assets | (75) | (574) | (31) | (45) |
| Proceeds from sales of available-for-sale financial assets | 341 | 601 | 64 | 94 |
| Proceeds from sales of businesses and interests in subsidiaries | 243 | 121 | 4 | 6 |
| Business acquisitions, net of cash acquired | — | (353) | — | — |
| Purchases of intangible assets, and other assets | (34) | (149) | (51) | (75) |
| Purchases of property, plant and equipment | (492) | (308) | (103) | (151) |
| Proceeds from sales of property, plant and equipment, and other assets | 25 | 10 | 103 | 151 |
| **Net cash provided by (used in) investing activities from continuing operations** | 8 | (652) | (14) | (20) |
| **Net cash provided by (used in) investing activities from discontinued operations** | (925) | (10) | 27 | 39 |
| **Net cash provided by (used in) investing activities** | (917) | (662) | 13 | 19 |
| | | | | |
| Cash flows from financing activities: | | | | |
| Net change in short-term debt | — | (68) | — | — |
| Net change in related party financial receivables and payables | 347 | (5) | (1) | (2) |
| Proceeds from issuance of long-term debt | 245 | 149 | 182 | 266 |
| Principal repayments of long-term debt | (744) | (226) | (455) | (666) |
| Change in restricted cash | 1 | — | (7) | (10) |
| Proceeds from issuance of ordinary shares | 23 | — | 680 | 995 |
| Dividend payments to minority interests | (71) | (80) | (3) | (4) |
| Capital contribution | (15) | — | (5) | (7) |
| **Net cash provided by (used in) financing activities from continuing operations** | (214) | (230) | 391 | 572 |
| **Net cash provided by (used in) financing activities from discontinued operations** | (311) | 343 | (40) | (58) |
| **Net cash provided by (used in) financing activities** | (525) | 113 | 351 | 514 |
| Net increase (decrease) in cash and cash equivalents | (191) | (633) | 252 | 369 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (40) | (6) | (8) | (12) |
| Cash and cash equivalents at beginning of period | 2,040 | 1,809 | 1,170 | 1,712 |
| Cash and cash equivalents at end of period | 1,809 | 1,170 | 1,414 | 2,069 |
| Less: Cash and cash equivalents at end of period classified as held for disposal | 736 | 421 | — | — |
| **Cash and cash equivalents at end of period** | 1,073 | 749 | 1,414 | 2,069 |

See accompanying notes to the consolidated financial statements.

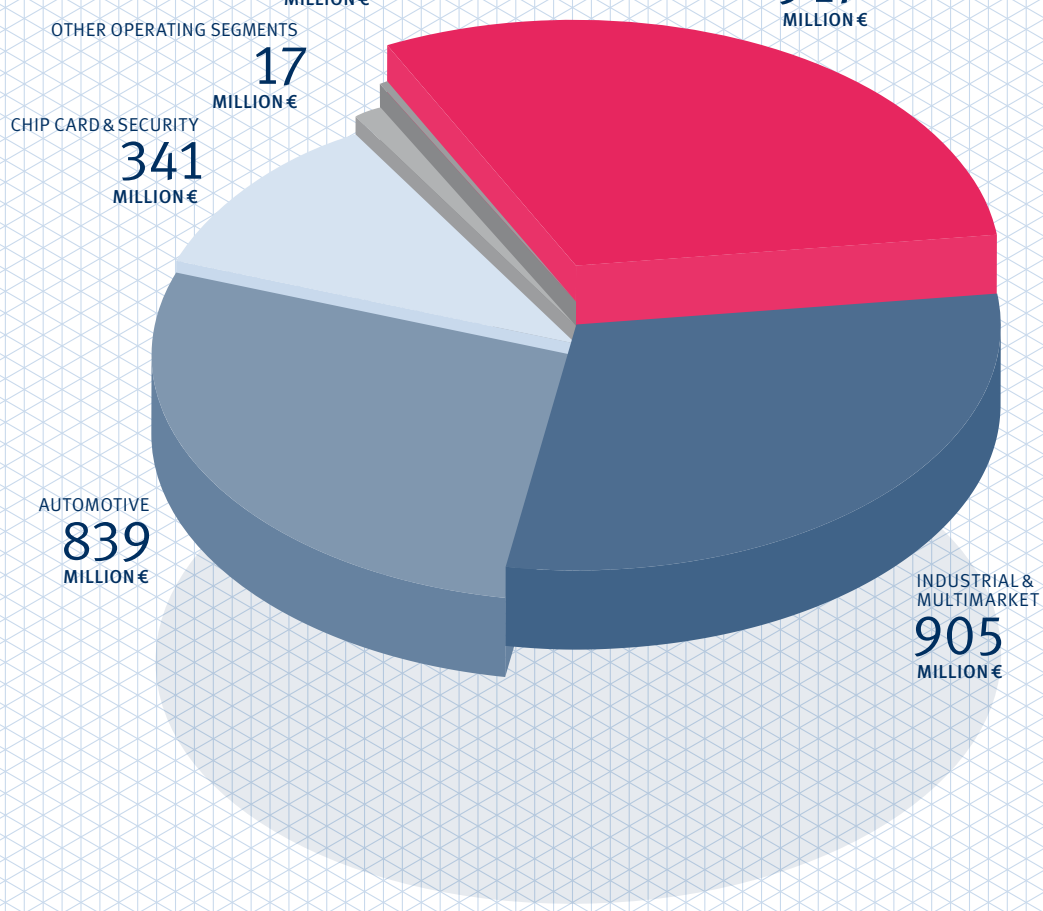
## 50 CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED IN EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2007, 2008 AND 2009 € IN MILLIONS

| | 2007 | 2008 | 2009 | 2009 ($ millions) (unaudited) |
|---|---|---|---|---|
| **Net loss** | (370) | (3,747) | (671) | (982) |
| Currency translation effects | (124) | (47) | 185 | 271 |
| Actuarial gains (losses) on pension plans and similar commitments | 116 | 12 | (66) | (97) |
| Net change in fair value of available-for-sale financial assets | (11) | 5 | 4 | 6 |
| Net change in fair value of cash flow hedges | 2 | (2) | 8 | 12 |
| **Net income (loss) recognized directly in equity, net of tax** | (17) | (32) | 131 | 192 |
| **Total income and expense recognized in equity** | (387) | (3,779) | (540) | (790) |
| Attributable to: | | | | |
| Minority interests | (40) | (820) | (8) | (12) |
| Shareholders of Infineon Technologies AG | (347) | (2,959) | (532) | (778) |

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# REVENUE BY SEGMENT IN THE 2009 FISCAL YEAR



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONSOLIDATED CHANGES IN EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2007, 2008 AND 2009**
€ IN MILLIONS, EXCEPT FOR SHARE DATA

| | Issued Ordinary shares | | Additional paid-in capital |
|---|---|---|---|
| | Shares | Amount | |
| **Balance as of October 1, 2006** | 747,609,294 | 1,495 | 5,947 |
| Total income and expense recognized in equity | — | — | — |
| Issuance of ordinary shares: | | | |
| Exercise of stock options | 2,119,341 | 4 | 15 |
| Share-based compensation | — | — | 17 |
| Deferred compensation, net | — | — | 4 |
| Other changes in equity | — | — | 19 |
| **Balance as of September 30, 2007** | 749,728,635 | 1,499 | 6,002 |
| Total income and expense recognized in equity | — | — | — |
| Issuance of ordinary shares: | | | |
| Exercise of stock options | 13,450 | — | — |
| Share-based compensation | — | — | 8 |
| Other changes in equity | — | — | (2) |
| **Balance as of September 30, 2008** | 749,742,085 | 1,499 | 6,008 |
| Total income and expense recognized in equity | — | — | — |
| Issuance of ordinary shares: | | | |
| Proceeds from public offering | 337,000,000 | 674 | 6 |
| Share-based compensation | — | — | 3 |
| Other changes in equity | — | — | 31 |
| **Balance as of September 30, 2009** | 1,086,742,085 | 2,173 | 6,048 |

| Accumulated deficit | Foreign currency translation adjustment | Unrealized gain (loss) on securities | Unrealized gain (loss) on cash flow hedge | Total equity attributable to shareholders of Infineon AG | Minority interests | **Total equity** |
|---|---|---|---|---|---|---|
| (2,095) | — | 5 | (20) | 5,332 | 764 | 6,096 |
| (233) | (106) | (11) | 3 | (347) | (40) | (387) |
| | | | | | | |
| — | — | — | — | 19 | — | 19 |
| — | — | — | — | 17 | — | 17 |
| — | — | — | — | 4 | — | 4 |
| — | — | — | — | 19 | 236 | 255 |
| (2,328) | (106) | (6) | (17) | 5,044 | 960 | 6,004 |
| (2,924) | (36) | 3 | (2) | (2,959) | (820) | (3,779) |
| | | | | | | |
| — | — | — | — | — | — | — |
| — | — | — | — | 8 | — | 8 |
| — | — | — | — | (2) | (70) | (72) |
| (5,252) | (142) | (3) | (19) | 2,091 | 70 | 2,161 |
| (688) | 145 | 4 | 7 | (532) | (8) | (540) |
| | | | | | | |
| — | — | — | — | 680 | — | 680 |
| — | — | — | — | 3 | — | 3 |
| — | — | — | — | 31 | (2) | 29 |
| (5,940) | 3 | 1 | (12) | 2,273 | 60 | 2,333 |

## 1 / DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

### DESCRIPTION OF BUSINESS

Infineon Technologies AG and its subsidiaries (collectively, "Infineon" or 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.

### BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations effective as of September 30, 2009 as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements include all information required by IFRS, as adopted by the European Union ("EU"), as well as the requirements as set forth in section 315a paragraph 1 of the German Commercial Code ("Handelsgesetzbuch" or "HGB"). The fiscal year-end for the Company is September 30.

All standards and interpretations issued by the IASB and applied by the Company in preparing its consolidated financial statements have been adopted for use in the EU as of the date of application. These consolidated financial statements also comply with IFRS as published by the IASB. For preparation of the consolidated financial statements there are no differences between IFRS as adopted by the EU and IFRS as published by the IASB. IFRS as endorsed by the EU and IFRS as published by the IASB are referred to, collectively, as IFRS in these consolidated financial statements.

The Management Board of the Company approved the consolidated financial statements of the Company on November 9, 2009, for submission to the Company's Supervisory Board.

All amounts herein are shown in Euro (or "€") except where otherwise stated. Negative amounts are presented in parentheses. The accompanying consolidated balance sheet as of September 30, 2009, 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 = $1.4630, the Federal Reserve noon buying rate on September 30, 2009. The U.S. dollar convenience translation amounts have not been audited.

## 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 Infineon group, including entities held for disposal, consists of the following numbers of entities:

| | Consolidated entities | Investments accounted for using the equity method | Total |
|---|---|---|---|
| **September 30, 2008** | 73 | 9 | 82 |
| Additions | — | — | — |
| Disposals | (33) | (5) | (38) |
| **September 30, 2009** | 40 | 4 | 44 |

The disposal of 33 consolidated entities during the 2009 fiscal year primarily reflected the deconsolidation of Qimonda (see note 5).

### CONSOLIDATED SUBSIDIARIES

The accompanying consolidated financial statements include the accounts of Infineon Technologies AG and its subsidiaries that are directly or indirectly controlled on a consolidated basis. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and is generally conveyed by ownership of the majority of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Additionally, the Company consolidates special purpose entities ("SPEs") pursuant to the Standing Interpretations Committee ("SIC") Interpretation SIC-12 "Consolidation – Special Purpose Entities" where the substance of the relationship indicates that the Company controls the SPE.

The effects of all significant intercompany transactions are eliminated.

The Company deconsolidates a subsidiary when it loses the right to control the financial and operating policies of such entity and no longer benefits from such entity's activities, e.g., through a sale of all or a portion of the shares of a subsidiary. Furthermore, the Company could lose control of an entity that is subject to insolvency proceedings.

## EQUITY METHOD INVESTMENTS

The Company uses the equity method to account for its investment in Associated Companies and Joint Ventures (as defined below) (collectively, "Equity Method Investments"; see note 19):

### (A) ASSOCIATED COMPANIES

An "Associated Company" is an entity in which the Company has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Associated Companies are accounted for using the equity method. Significant influence is generally presumed when the Company holds between 20 percent and 50 percent of the voting rights.

### (B) JOINT VENTURES

A "Joint Venture" is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are accounted for using the equity method.

Under the equity method of accounting, the Company's investments in Associated Companies and Joint Ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Company's pro-rata share of the post-acquisition net income (loss) of the Equity Method Investment and other movements included directly in the Equity Method Investment's equity. Goodwill arising from the acquisition of an Equity Method Investment is included in its carrying value (net of any accumulated impairment loss). Equity method losses in excess of the Company's carrying value of the investment in the entity are charged against other assets held by the Company related to the investee. If those assets are written down to zero, a determination is made whether to report additional losses based on the Company's obligation to fund such losses.

The effects of all significant transactions between the Company and its Equity Method Investments are eliminated to the extent of the Company's interest in the Equity Method Investments.

When Equity Method Investments' fiscal year-ends differ by not more than three months from the Company's fiscal year-end, the Company's share of the profit or loss of the Equity Method Investment is recorded on a lag.

Gains or losses arising from the issuances of shares by Equity Method Investments, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in profit and loss.

Other equity investments, in which the Company has an ownership interest of less than 20 percent, are recorded at cost if a fair value cannot be reliably measured.

## REPORTING AND FOREIGN CURRENCY

The currency of the primary economic environment in which the Company operates, that is its functional currency, is the Euro. The accompanying consolidated financial statements are presented in Euro, which is the Company's reporting currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations.

The assets and liabilities of foreign subsidiaries with functional currencies other than the Euro are translated using period-end exchange rates. The revenues and expenses of such subsidiaries are translated using average exchange rates during the period in cases where exchange rates do not fluctuate significantly. Exchange differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are included in income and expense recognized in equity and reported as a separate component of equity.

The exchange rates of the primary currencies (€1.00 quoted into currencies specified below) used in the preparation of the accompanying consolidated financial statements are as follows:

| | Exchange rate | | Annual average exchange rate | |
|---|---|---|---|---|
| | September 29, 2008 | **September 30, 2009** | 2008 | **2009** |
| U.S. dollar | 1.4349 | 1.4549 | 1.5052 | 1.3593 |
| Japanese yen | 152.3000 | 130.9100 | 161.6773 | 128.8580 |

## SEGMENT REPORTING

IFRS 8, "Operating Segments" requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity for which separate financial information is available that is evaluated regularly by the entity's Chief Operating Decision Maker ("CODM") in making decisions about how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Each of the segments has a segment manager reporting directly to the Company's Management Board, who has been identified as the relevant CODM.

## REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

### REVENUE

The Company generates revenues from the sale of its semiconductor products and systems solutions. The Company's semiconductor products include a wide array of chips and components used in electronic applications ranging from wireless communication systems, to chip cards, automotive electronics, and industrial applications. In addition, the Company generates a small portion of its revenues from granting licenses for its intellectual property to third parties. Infineon generates an insignificant amount of its revenue from development or product enhancement arrangements and services.

Revenues from products sold are recognized in accordance with IAS 18, "Revenue", when the conditions for revenue recognition are met, which in particular require that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

The Company recognizes revenue on sales to distributors using the "sell in" method (i.e. when product is sold to the distributor) rather than the "sell through" method (i.e. when the product is sold by the distributor to the end user). In accordance with established business practice in the semiconductor industry, distributors can apply for price protection. Under price protection, a credit may be provided to the distributor if the Company lowers its price on products held in the distributor's inventory. In addition, a distributor can apply for a ship & debit credit when the distributor wishes to reduce the sales price to an end customer on a specific sales transaction. The authorization of the distributor's refund remains fully within the control of the Company. The Company calculates the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend is determined based on the difference between the invoiced price and the standard list price to the distributor. The outstanding inventory period, the visibility into the standard inventory pricing for standard products, and the long distributor pricing history enables the Company to reliably estimate price protection provisions. The Company monitors potential price adjustments on an ongoing basis.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. 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. Historically, actual returns under such return provisions have been insignificant. The Company monitors such product returns on an ongoing basis.

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.

Other returns are permitted only for quality-related reasons in the normal course of business within the applicable warranty period. These warranties represent guarantees made by Infineon that the products sold will perform as specified. The Company records a provision for warranty costs as a charge to cost of sales, based on historical experience and any other warranty costs that are known.

### LICENSE INCOME

License income is recognized when earned and realizable (see note 6). Lump sum payments received are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional service.

In accordance with IAS 18, 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. Arrangements with multiple elements are infrequent and related revenues are insignificant.

Royalties are recognized as earned.

## RESEARCH AND DEVELOPMENT COSTS

Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, the results of which are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within goodwill and other intangible assets (see note 22). Development costs which do not fulfill the criteria for capitalization are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and, if applicable, impairment charges. Internally generated intangible assets are amortized as part of cost of sales over a period of three to five years.

## GRANTS

Grants for capital expenditures include both tax-free government grants and taxable grants for investments in property, plant and equipment. The recognition of the grant starts when it is reasonably assured that the Company will comply with the conditions attached to the grant and when it is reasonably assured that the grant will be received. 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. Grants that are related to expenditures included in profit or loss are presented as a reduction of the related expense in the consolidated statements of operations (see note 7).

## SHARE-BASED COMPENSATION

The Company has equity-settled share-based compensation plans.

The fair value of the employee services received in exchange for share option awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share option awards granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share option awards that are expected to vest. At each balance sheet date, the Company revises its estimate of the number of share option awards that are expected to vest. The Company recognizes the impact of the revision to original estimates in the consolidated statement of operations, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to ordinary share capital and additional paid-in capital when the share options are exercised.

## FINANCIAL INSTRUMENTS

According to IAS 32, “Financial Instruments: Presentation”, a financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are initially recognized at fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only recognized in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the respective contract is discharged, cancelled, or expires.

### FINANCIAL ASSETS

The Company classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading or designated upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents and trade and other receivables in the consolidated balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less.

Trade and other receivables are measured at fair value at initial recognition. Trade and other receivables are subject to impairment testing. They are considered impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Available-for-sale financial assets are non-derivative financial instruments that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Company's available-for-sale financial assets comprise mainly marketable securities.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity with the exception of impairment losses, which are recognized in profit or loss. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in profit or loss.

The Company assesses declines in fair value at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognized directly in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Regular purchases and sales of financial assets are recognized on the settlement date. The settlement date is the date that an asset is delivered to or by the Company.

### FINANCIAL LIABILITIES

Generally, the Company classifies its financial liabilities into two categories: at fair value through profit and loss and other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or designated upon initial recognition. The Company's only financial liabilities that are measured at fair value through profit or loss are derivative financial instruments with a negative fair value as of the balance sheet date.

All other financial liabilities, including trade and other payables and debt instruments, are measured at amortized cost using the effective interest method.

### DERIVATIVE 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 risk based on the net exposure to the respective currency.

Derivative financial instruments are categorized as held for trading and measured at fair value unless they are designated as hedges. The Company designates certain derivative financial instruments as hedges of a foreign currency risk associated with highly probable forecast transactions (cash flow hedges).

Derivative financial instruments are recorded at their fair value and included in other current financial assets or other current financial liabilities. Changes in fair value of undesignated derivative financial instruments that relate to operations are recorded as part of cost of sales, while undesignated derivative financial instruments relating to financing activities are recorded in financial income or financial expense.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (that is when the forecasted transaction that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity and is recognized when the forecasted transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

## INVENTORIES

Inventories are valued at the lower of acquisition or production cost or net realizable value. Cost being determined on the basis of an average cost method. Production cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor and applicable manufacturing overheads, including depreciation charges. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

## CURRENT AND DEFERRED INCOME TAXES

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries in which the Company operates and generates taxable income.

Deferred taxes are determined in accordance with IAS 12, “Income Taxes”, according to which future tax benefits and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities in the consolidated financial statements and their tax base. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Anticipated tax savings from the use of tax loss carry-forwards expected to be recoverable in future periods are capitalized. Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities in respect of taxable temporary differences are recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are netted if these income tax assets and liabilities concern the same tax authority and refer to the same tax subject or a group of different tax subjects that are jointly assessed for income tax purposes.

## DISCONTINUED OPERATIONS

Discontinued operations are reported when a component of an entity either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale. Discontinued operations are presented in separate lines in the accompanying consolidated statements of operations and consolidated statements of cash flows. These statements have been recast for prior periods so that the disclosures relate to all operations that have been classified as discontinued operations as of September 30, 2009.

## ASSETS CLASSIFIED AS HELD FOR DISPOSAL AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR DISPOSAL

Assets classified as held for sale comprise noncurrent assets and disposal groups (net of any related liabilities), the carrying amounts of which will be realized primarily by way of a highly probable divestment transaction within the next twelve months or an already executed divestment transaction, and not through continued use. Such assets are recognized at the balance sheet date at the lower of the carrying amount and the fair value less costs to sell.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at cost less accumulated depreciation and impairment. Spare parts, maintenance and repairs are expensed as incurred. 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. No interest was capitalized in the fiscal years ended September 30, 2007, 2008 and 2009. 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 finance leases pursuant to IAS 17, "Leases". All other leases are accounted for as operating leases.

## RECOVERABILITY OF NON-FINANCIAL ASSETS

### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is the excess of the cost of a business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill arising from acquisitions of subsidiaries is included in goodwill and other intangible assets in the accompanying consolidated balance sheets. Goodwill arising from acquisitions of Associated Companies is included in investments accounted for using the equity method and is tested for impairment as part of the overall balance. Intangible assets acquired in a business combination are recognized and reported apart from goodwill.

Goodwill is not amortized, but instead tested for impairment annually in the fourth quarter of the fiscal year as well as whenever there are events or changes in circumstances ("triggering events") which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less any accumulated impairment losses. Goodwill acquired in a business combination is allocated to the cash-generating units ("CGU") that are expected to benefit from the synergies of the combination. Infineon's CGUs represent the lowest level at which the goodwill is monitored for internal management purposes. This level is beneath the segment level and represents the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. If the carrying amount of the CGU including allocated goodwill exceeds its recoverable amount, the allocated goodwill must be reduced accordingly. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. An impairment loss recognized for goodwill is not reversed in a subsequent period. The determination of fair value of the CGUs requires considerable judgment by management.

The Company determines the recoverable amount of a CGU based on discounted cash flow calculations. The Company believes that this is the most meaningful method, in order to reflect the cyclicality of the industry and to determine the recoverable amount of the CGUs. The material assumptions underlying the Company's discounted cash flow model for all of Infineon's CGUs include the weighted average cost of capital ("WACC") as well as the terminal growth rate of the CGUs. The calculation of the discount rate is based on a market participant's view of the asset or CGU. In accordance with IAS 36, the Company determines the appropriate WACC for the CGUs based on market information, including Infineon's peer group's beta factors and leverage, and other market borrowing rates. The terminal value growth rate is based on available market studies from market research institutes.

The assumptions used in fiscal years 2008 and 2009 reflected market-driven changes but did not differ significantly.

Cash flows for the determination of the recoverable amount of the CGUs were projected based on past experience, actual operating results, and the 3 to 5-year business plan in both 2008 and 2009. The business plan is calculated bottom up by using certain central assumptions.

Certain cash flow parameters (depreciation/amortization, tax, capital expenditures, change in working capital) are calculated based on defined parameters. Cash flows for periods beyond the planning periods are calculated using a terminal value. The terminal growth rate does not exceed the long-term average growth rate for the industry.

The Company used different discount rates for different CGUs due to different risk profiles of its CGUs. In the 2009 fiscal year, discount rates of 8.6 percent and 9.6 percent were applied in determining the recoverable amount of the cash generating units. The discount rate was calculated based on the Company's weighted average cost of capital.

In addition, the individual impairment tests include sensitivity analyses taking into account the WACC, the terminal value growth rate as well as changes in the expected cash flows. As part of the sensitivity analysis for each impairment test for a CGU, these parameters were also subsequently reviewed until the approval of the consolidated financial statements by the Management Board.

Other intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology, which are recorded initially at acquisition cost, as well as capitalized development costs. These intangible assets have finite useful lives ranging from 3 to 10 years and are carried at cost less accumulated amortization using the straight-line method.

### OTHER LONG-LIVED ASSETS

The Company reviews all other 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 the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value less costs to sell. Estimated value in use is generally based on discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds their recoverable amount.

## PENSION PLANS AND SIMILAR COMMITMENTS

The Company operates various pension plans. The plans are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity (a fund). The Company therefore has no legal or constructive obligations to pay further contributions if one of its defined contribution plans does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company pays contributions to publicly and privately administered pension insurance plans. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. The Company records a liability for amounts payable under the provisions of its various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized outside profit or loss in the Consolidated Statement of Income and Expense Recognized in Equity ("SoRIE) in the period in which they occur.

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

## PROVISIONS

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are recognized at present value by discounting the expected future cash outflows at a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract. Additions to provisions are generally recognized in profit or loss.

## STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

In June 2007, the IASB issued IFRIC 13,"Customer Loyalty Programmes". The interpretation discusses the accounting of loyalty programmes, whereby the entity provides customers with incentives to buy their goods or services. The interpretation is to be applied for fiscal years on or after July 1, 2008. Earlier application is permitted. The EU endorsed the interpretation for fiscal years beginning on or after January 1, 2009. Although the Company uses volume or settlement discounting for its customers, it has no programs within the scope of IFRIC 13.

In September 2007, the IASB issued an amendment to IAS 1,"Presentation of Financial Statements". The revision is aimed at improving users' ability to analyze and compare the information given in financial statements. IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The revised IAS 1 resulted in consequential amendments to other statements and interpretations. The EU has endorsed the amendment to IAS 1. The revision of IAS 1 will be effective for fiscal years beginning on or after January 1, 2009. Therefore, for the Company, the amendment will be effective for the fiscal year beginning on October 1, 2009. The Company is evaluating the impact of the amended IAS 1 on its financial statements.

In January 2008, the IASB published the amended standards IFRS 3,"Business Combinations", ("IFRS 3 (2008)"), and IAS 27,"Consolidated and Separate Financial Statements" ("IAS 27 (2008)"). The standards have been endorsed by the EU.

IFRS 3 (2008) reconsiders the application of acquisition accounting for business combinations. Major changes relate to the measurement of non-controlling interests, the accounting for business combinations achieved in stages as well as the treatment of contingent consideration and acquisition-related costs. Based on the new standard, non-controlling interests may be measured at their fair value (full-goodwill methodology) or at the proportional fair value of assets acquired and liabilities assumed. In business combinations achieved in stages, any previously held equity interest in the acquiree is remeasured to its acquisition date fair value. Any changes to contingent consideration classified as a liability at the acquisition date are recognized in profit and loss. Acquisition-related costs are expensed in the period incurred.

Major changes in relation to IAS 27 (2008) relate to the accounting for transactions which do not result in a change of control as well as for those leading to a loss of control. If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions not affecting profit and loss. At the date control is lost, any retained equity interests are remeasured to fair value. Based on the amended standard, non-controlling interests may show a deficit balance since both profits and losses are allocated to the shareholders based on their equity interests.

Both amended standards are effective for fiscal years beginning on or after July 1, 2009. Therefore, for the Company the amended standards are effective beginning October 1, 2009.

In January 2008, the IASB amended IFRS 2,"Share-based Payment", which deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest. All cancellations by the entity or by other parties should receive the same accounting treatment. The amended standard is effective for fiscal years beginning on or after January 1, 2009. Therefore, for the Company, the amendment will be effective in its fiscal year beginning on October 1, 2009. The Company is evaluating the impact of the amended IFRS 2 on it financial statements.

In March 2009, the IASB issued Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures) which enhances disclosures about fair value measurements of financial instruments and liquidity

risk. The amendments will be effective for fiscal years beginning on or after January 1, 2009. Therefore, for the Company, the amendment will be effective for the fiscal year beginning on October 1, 2009. The Company is evaluating the impact of the amended IFRS 7 on its financial statements. The EU has not yet endorsed the amendment to IFRS 7.

In June 2009, the IASB amended IFRS 2, "Share-based Payment", to clarify its scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendment will be effective for fiscal years on or after January 2010. Therefore, for the Company, the amendment will be effective for its fiscal year beginning on October 1, 2010. The EU has not yet endorsed the amendment. The new guidance is not expected to have a material impact on the Company's financial statements.

## 3 / MANAGEMENT ESTIMATES AND JUDGMENTS

Certain accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on financial condition or results of operations. Critical accounting estimates could also involve estimates where management reasonably could have used a different estimate in the current accounting period. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment.

### REVENUE RECOGNITION

Infineon generally markets its products to a wide variety of customers and distributors. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. Reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection are recorded, based on historical experience, at the time the related revenue is recognized. This process requires the exercise of substantial judgment in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions.

In future periods, the Company may be required to accrue additional provisions due to (1) deterioration in the semiconductor pricing environment, (2) reductions in anticipated demand for semiconductor products or (3) lack of market acceptance for new products. If these or other factors result in a significant adjustment to sales discount and price protection allowances, they could significantly impact the Company's future operating results.

The Company has entered into licensing agreements for its technology in the past, and anticipates that it will increase its efforts to monetize the value of its technology in the future. As with certain of the Company's existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. Such transactions could represent multiple element arrangements. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of the Company's continuing involvement.

### RECOVERABILITY OF NON-FINANCIAL ASSETS

The Company reviews long-lived assets, including intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value less costs to sell. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds their recoverable amount.

Goodwill is tested for impairment at least once a year. For the purpose of impairment testing, goodwill is allocated to the respective CGU that is expected to benefit from the goodwill. The recoverable amounts of CGUs are determined based on value in use calculations. Considerable management judgment is necessary to estimate value in use and discounted future cash flows.

## VALUATION OF INVENTORY

Inventories are valued at the lower of cost or net realizable value. The Company reviews the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both forecasted product demand and pricing environment, both of which may be susceptible to significant change.

Adjustments to the valuation and write-downs of inventory could be necessary in future periods due to reduced semiconductor demand in the industries that the Company serves, technological obsolescence due to rapid developments of new products and technological improvements, or changes in economic or other events and conditions that impact the market price for the Company's products which may have a significant impact on the results of operations.

## REALIZATION OF DEFERRED TAX ASSETS

The Company evaluates the deferred tax asset position and the need for a valuation allowance on a regular basis. The assessment requires the exercise of judgment on the part of the Company's management with respect to 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 ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since Infineon has incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2009, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore based only on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods.

The recorded amount of total deferred tax assets could be reduced if the estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of the ability to utilize tax loss and credit carry-forwards in the future.

## PURCHASE ACCOUNTING

Accounting for business combinations requires the allocation of the purchase price to identifiable tangible and intangible assets and liabilities based upon their fair value. The allocation of purchase price is highly judgmental, and requires the extensive use of estimates and fair value assumptions, which can have a significant impact on operating results.

## PENSION PLAN ACCOUNTING

The Company's pension benefit costs are determined in accordance with actuarial computations using the projected-unit-credit method, which relies on assumptions including discount rates and expected return on plan assets. 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 expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for the pension costs are based on current market conditions. A significant variation in one or more of these underlying assumptions could have a material effect on the measurement of the long-term obligation.

## PROVISIONS

The Company is subject to various legal actions and claims, including intellectual property matters that arise in and outside the normal course of business.

The Company regularly assesses the likelihood of any adverse outcome or judgments related to these matters, as well as estimating the range of possible losses and recoveries. Liabilities, including accruals for significant litigation costs, related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount of the loss can be reasonably estimated. Accordingly, the Company has recorded a provision and charged operating income in the accompanying consolidated financial statements related to certain asserted and unasserted claims existing as of each balance sheet date. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. These provisions would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on Infineon's results of operations, financial position and cash flows.

### TRADE AND OTHER RECEIVABLES

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. Regarding the determination of the valuation allowance derived from a portfolio-based analysis of historical bad debts, a decline of receivables results in a corresponding reduction of such provisions and vice versa.

## 4 / ACQUISITIONS

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 SIC 12, "Consolidation – Special Purpose Entities", the Company determined that Molstanda meets the criteria of a Special Purpose Entity ("SPE") and, as a result of the agreements that the Company controls it. Accordingly, the Company consolidated the assets and liabilities of Molstanda beginning in the 2007 fiscal year. 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 a financial expense during the second quarter of the 2007 fiscal year. Due to the Company's cumulative loss position, 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.

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 was subject to an upward or downward contingent consideration adjustment of up to $16 million, based on negotiated revenue targets of the CPE business. Due to the failure to achieve the negotiated revenue targets of the CPE business during the nine months following the acquisition date, the cash consideration has been adjusted downward by an amount of $16 million, and this amount was reimbursed by TI. Accordingly, the Company allocated an adjustment of €13 million of the purchase price to goodwill. As of September 30, 2009 assets (including goodwill) acquired from TI are classified as "held for disposal" as part of the sale of the Wireline Communications business (see note 5).

On October 24, 2007, the Company completed the acquisition of the mobility products business of LSI Corporation ("LSI") for cash consideration of €316 million ($450 million) plus transaction costs. As part of the acquisition, an amount of €14 million was allocated to purchased in-process research and development based on discounted estimated future cash flows over the estimated useful life. During the three months ended December 31, 2007, this amount was expensed as other operating expense because there was no future economic benefit from its use or disposal. The purchase price was subject to an additional contingent performance-based payment of up to $50 million based on the relevant revenues in the measurement period following the completion of the transaction and ending December 31, 2008. Due to the lower revenues during the measurement period, no performance-based payment was paid.

On April 28, 2008, the Company acquired Primarion Inc., Torrance, California ("Primarion") for cash consideration of €32 million ($50 million) plus a contingent performance-based payment of up to $30 million. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. In the 2009 fiscal year, as a result of a lawsuit filed against Primarion subsequent to the acquisition, the net assets acquired decreased by €4 million with a corresponding increase in goodwill. Due to a reduction of the deferred tax asset at Primarion, goodwill increased by another €3 million. Due to the lower revenues during the measurement period, no performance-based payment has been paid. In the acquisition of Primarion, the Company did not obtain control over cash and cash equivalents.

The Company did not acquire any businesses in the fiscal year ended September 30, 2009. The following table summarizes the Company's business acquisitions during the fiscal year ended September 30, 2008, including subsequent adjustments:

| € in millions | 2008 | 2008 |
|---|---|---|
| | LSI | Primarion |
| **Acquisition Date** | October 2007 | April 2008 |
| **Segment** | Wireless Solutions | Industrial & Multimarket |
| Other current assets | 19 | 1 |
| Property, plant and equipment | 8 | 1 |
| Intangible assets: | | |
| Technology | 42 | 13 |
| Customer relationships | 73 | — |
| Other | 6 | — |
| Goodwill | 160 | 18 |
| Other non-current assets | — | 3 |
| **Total assets acquired** | 308 | 36 |
| Current liabilities | (1) | (4) |
| **Total liabilities assumed** | (1) | (4) |
| **Net assets acquired** | 307 | 32 |
| In-process research & development | 14 | — |
| Cash paid (purchase consideration) | 321 | 32 |

The consolidated statements of operations include the results of the acquired businesses from the acquisition date. The Company engaged an independent third party to assist in the valuation of net assets acquired. Based on discounted estimated future cash flows over the respective estimated useful life, an amount of €14 million was allocated to purchased in-process research and development as part of the purchase of the mobility products business from LSI and expensed as other operating expense during the 2008 fiscal year because no future economic benefit from its use or disposal was expected. The acquired intangible assets consist of technology assets of €55 million and customer relationship assets of €73 million, each with a weighted average estimated useful life of six years, and other intangible assets of €6 million with a weighted average estimated useful life of less than one year. The goodwill amounts are expected to be deductible for tax purposes.

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 / DISPOSALS AND DISCONTINUED OPERATIONS

### POLYMER OPTICAL FIBER

On June 29, 2007, the Company sold its Polymer Optical Fiber ("POF") business, based in Regensburg, Germany, to Avago Technologies Ltd. ("Avago"). 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 income during the 2007 fiscal year.

### HIGH POWER BIPOLAR BUSINESS

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG ("Siemens"). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens subsequently acquired a 40 percent interest in Bipolar for €37 million. The transaction received regulatory approval and subsequently closed on November 30, 2007. As a result of the sale, the Company realized a gain before tax of €32 million

which was recorded in other operating income during the fiscal year ended September 30, 2008. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounts for the retained interest in Bipolar under the equity method of accounting.

## HARD DISK DRIVE BUSINESS

On April 25, 2008, the Company sold its hard disk drive ("HDD") business to LSI for cash consideration of €60 million ($95 million). The HDD business designs, manufactures and markets semiconductors for HDD devices. The Company transferred its entire HDD activities, including customer relationships, as well as know-how to LSI, and granted LSI a license for intellectual property. The transaction did not encompass the sale of significant assets or transfer of employees. As a result of this transaction, the Company realized a gain before tax of €39 million which was recorded in other operating income during the 2008 fiscal year.

## BAW BUSINESS

On August 11, 2008, the Company sold its bulk acoustic wave filter business ("BAW") to Avago for cash consideration of €21 million and entered into a supply agreement through December 2009. The BAW business designs, manufactures and markets cellular duplexers for N-CDMA and W-CDMA applications and filters for GPS. The total consideration received was allocated to the elements of the transaction on a relative fair value basis. As a result, the Company realized a gain before tax of €9 million which was recorded in other operating income, and deferred €6 million which will be realized over the term of the supply agreement.

## SENSONOR BUSINESS

During the 2003 fiscal year the Company acquired SensoNor AS ("SensoNor") for total cash consideration of €34 million. SensoNor develops, produces and markets tire pressure and acceleration sensors. On March 4, 2009, the Company sold parts of the business, including property, plant and equipment, inventories, and pension liabilities, and transferred employees to a newly formed company called SensoNor Technologies AS for cash consideration of €4 million and one share in the capital of the new company. In addition, the Company granted a license for intellectual property and entered into a supply agreement through December 2011. The total consideration received was allocated to the elements of the transaction on a relative fair value basis. As a result, the Company realized losses before tax of €17 million, which were recorded in other operating expense, including a provision of €8 million which will be recognized over the term of the supply agreement. The Company has business agreements with the new company to ensure a continued supply of the components to the Company's tire pressure monitoring systems until the Company ramps up production at its Villach site.

## SALE OF MOLDED MODULE ASSETS

During the quarter ending June 30, 2009, the Company entered into a joint venture agreement with LS Industrial Systems to establish LS Power Semitech Co., Ltd. ("LSIS"). The joint venture is expected to operate in Korea and elsewhere in Asia, and will focus on the development, production and marketing of molded power modules for white good applications. LSIS will hold 54 percent and the Company 46 percent of the joint venture. The agreement is subject to regulatory approvals and the transaction is expected to close in the 2009 calendar year. Concurrent with the announcement of the joint venture agreement, the Company reclassified the molded module assets as assets held for sale and ceased the recognition of depreciation and amortization expense pursuant to IFRS 5.

## ALTIS

ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") is a joint venture between the Company and International Business Machines Corporation, New York, USA ("IBM"), with each having equal voting representation. The Company fully consolidates ALTIS in accordance with IAS 27, "Consolidated and Separate Financial Statements". In August 2007, the Company and IBM signed an agreement in principle to divest their respective shares in ALTIS. Pursuant to IFRS 5, the assets and liabilities of ALTIS were classified as held for disposal in the consolidated balance sheet as of September 30, 2007, and the recognition of depreciation expense ceased as of August 1, 2007. As of September 30, 2008, negotiations with the prospective purchaser had terminated. Although negotiations are ongoing with additional parties, the outcome of these negotiations is uncertain. As a result, the Company reclassified the disposal group's assets and liabilities previously classified as held for sale into held and used in the consolidated balance sheet as of September 30, 2008. Upon reclassification, an adjustment of €104 million was recorded in income from continuing operations, resulting from the measurement of the disposal group at the lower of its carrying amount before being classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the disposal group been continuously classified as held and used, and its recoverable amount at the date of the reclassification.

## QIMONDA – DISCONTINUED OPERATIONS

During the 2008 fiscal year, the Company committed to a plan to dispose of Qimonda AG, a majority owned company engaged in the manufacturing and sale of semiconductor memory products ("Qimonda"). Consequently, the results of Qimonda are reported as discontinued operations in the Company's consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the consolidated balance sheets.

Market prices for Qimonda's principal memory products, DRAM chips and modules, experienced extremely significant declines from the beginning of the 2007 calendar year. As a result of this intense pricing pressure, Qimonda continued to incur significant losses during the 2008 fiscal year, which are reflected in "loss from discontinued operations, net of income tax" in the Company's consolidated statements of operations. In addition, the Company recorded after-tax write-downs totaling €1,475 million in the 2008 fiscal year, in order to remeasure Qimonda to its estimated current fair value less costs to sell. These write-downs were also reflected in "loss from discontinued operations, net of income tax" in the Company's consolidated statements of operations. Pursuant to IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", the recognition of depreciation and amortization expense ceased as of March 31, 2008.

On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG ("Qimonda Dresden") filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, the Company deconsolidated Qimonda in accordance with IAS 27, "Consolidated and Separate Financial Statements", during the second quarter of the 2009 fiscal year. On April 1, 2009, the insolvency proceedings formally opened. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The final resolution of the insolvency proceedings, including the final disposition of the remaining assets and liabilities of Qimonda, cannot be predicted at this time.

The results presented for Qimonda from October 1, 2008, through January 23, 2009 (the date of deconsolidation), are based on preliminary results provided by Qimonda prior to its insolvency filing, and were prepared on a going concern basis. Financial statements on a liquidation basis, which would be required when the going concern assumption is not assured, are not available from Qimonda. There can be no assurance that recorded book values of individual assets and liabilities held for disposal by Infineon would not be materially different if presented on a liquidation basis; however, as the net assets of Qimonda held for disposal by Infineon through deconsolidation are already valued at the fair value less costs to sell of zero as of September 30, 2008, the net value presented in the consolidated financial statements would not be impacted.

As a result of the deconsolidation of Qimonda, Qimonda's cash and cash equivalents of €286 million as of the date of deconsolidation are presented as cash outflow within net cash provided by investing activities from discontinuing operations.

The operating losses of Qimonda from October 1, 2008, through the date of deconsolidation, exclusive of depreciation, amortization and impairment of long-lived assets, were offset by a partial reversal of €460 million of the write-downs recorded in the 2008 fiscal year to reduce the net assets of Qimonda to fair value less costs to sell of zero.

During the 2009 fiscal year, Qimonda-related amounts included in loss from discontinued operations, net of income taxes consisted principally of:

- the realization of accumulated foreign currency translation losses of €88 million which were directly recorded in equity, and not included in assets and liabilities held for disposal as of September 30, 2008, primarily from Qimonda's sale of its interest in Inotera Memories Inc. ("Inotera") to Micron Technology, Inc. ("Micron"),
- the realization of accumulated foreign currency translation losses which were directly recorded in equity related to the deconsolidation of Qimonda totaling €100 million, and
- charges for valuation allowances of €227 in connection with Qimonda's insolvency (see below).

As a result of the commencement of insolvency proceedings by Qimonda, Infineon is exposed to potential liabilities arising in connection with the Qimonda business, which include, among others, the following:

- The Company is a named defendant in certain pending antitrust and securities law claims. Qimonda is required to indemnify Infineon, in whole or in part, for such claims, including any related expenses. As a result of Qimonda's insolvency, however, the Company expects that Qimonda will not be able to indemnify it for these claims. For more information on these pending antitrust and securities law claims and their potential impact on the Company, see note 38 ("Commitments and Contingencies – Litigation and Government Inquiries – Antitrust Litigation", „– Other Government Litigation" and, "– Securities Litigation").

- The Company is the named defendant in a lawsuit in Delaware in which the plaintiffs are seeking to hold the Company liable for the payment of severance and other benefits allegedly due by Qimonda's North American subsidiaries in connection with the termination of employment related to Qimonda's insolvency. For more information on this suit, see note 38 ("Commitments and Contingencies – Litigation and Government Inquiries – Qimonda Employment Litigation").
- The Company faces potential liabilities arising from its former participation in Qimonda Dresden. Before the carve-out of the Qimonda business, the Company was a general partner of Qimonda Dresden, and as such may in certain circumstances, as a matter of law, be held liable for certain liabilities of Qimonda Dresden that originated prior to the carve-out. These include, among others, the potential repayment of governmental subsidies as well as employee-related claims, including salaries and social security contributions. The Company is in negotiations with the Free State of Saxony and the Qimonda insolvency administrator regarding these matters. The Company has recorded a provision in connection with these matters, but disclosure of the amount of the provision could seriously prejudice the Company's negotiations regarding these matters.
- The Company and its subsidiary Infineon Technologies Dresden GmbH ("Infineon Dresden") are subject to lawsuits by approximately 70 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and who seek to be re-employed by the Company. No reasonable estimated amount can be attributed at this time to the potential outcome of any such claims.

In addition to the matters described above, the Company may be subject to claims by the insolvency administrator under German insolvency laws for repayment of certain amounts received by the Company from Qimonda, such as payments for intra-group services and supplies, during defined periods prior to the commencement of insolvency proceedings. Depending on future developments in Qimonda's operations in Portugal, there is a risk that claims could be made against the Company in connection with governmental subsidies received by Qimonda Portugal S.A. prior to the carve-out. No such claims have been made to date, and no reasonable estimated amount can be attributed at this time to the potential outcome of any such claims. The insolvency of Qimonda may also subject the Company to other claims arising in connection with the contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as the Company expects that Qimonda will not be able to fulfill its obligation to indemnify Infineon against any such liabilities.

Moreover, the Company may lose rights and licenses to Qimonda's intellectual property to which it is entitled to under the contribution agreement in connection with the carve-out of the Qimonda business due to the fact that the administrator has declared non-performance of this agreement. The Company is evaluating the scope of any potentially affected intellectual property, and is unable to provide any reasonable estimate at this time of any potential costs in this regard.

As of September 30, 2009, the Company recorded aggregate liabilities of €21 million and provisions of €163 million in connection with these matters. The recorded provisions are primarily reflected within "Current provisions", and the remainder are recorded within "Long-term provisions". The recorded provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters. Disclosure of individual amounts with respect to these matters could seriously prejudice the Company's legal or negotiating position, and therefore have been omitted. No reasonable estimate can be made at this time related to those potential liabilities that may be incurred, but that are currently not viewed to be probable.

Concurrently with the issuance of $248 million in convertible notes due 2013 by Qimonda (as guarantor) through its subsidiary Qimonda Finance LLC (as issuer) on February 12, 2008, Infineon had loaned Credit Suisse International 20.7 million Qimonda ADSs ancillary to the placement of the convertible notes. As of September 30, 2009, 17.1 million of the ADSs lent had been returned to Infineon. In October 2009 Credit Suisse International returned the remaining 3.6 million Qimonda ADSs.

## SALE OF WIRELINE COMMUNICATIONS BUSINESS – DISCONTINUED OPERATIONS

On July 7, 2009, the Company entered into a purchase agreement with Lantiq, affiliates of Golden Gate Private Equity Inc. ("Lantiq"), pursuant to which it agreed to sell the Wireline Communications business, one of the Company's segments. The majority of the purchase price was paid at closing on November 6, 2009, in the amount of €223 million, with up to an additional €20 million of the purchase price being payable nine months after the closing date. See note 40 for further information regarding the sale.

As a result of the decision to dispose of the Wireline Communications business, the Company reclassified those assets and liabilities of its Wireline Communications business to be transferred to Lantiq as assets held for disposal in the consolidated balance sheet as of September 30, 2009, pursuant to IFRS 5, and the recognition of depreciation and amortization expense ceased from July 2009. The results of the Wireline Communications business are reported as discontinued operations, net of income taxes in the Company's consolidated statements of operations for all periods presented.

Certain expenses in respect of overhead functions that were allocated to the Wireline Communications business in the past, but will not be transferred as part of the sale of the Wireline Communications business to Lantiq, were allocated to continuing operations, as required by IFRS 5. The Company intends to eliminate those costs during the 2010 fiscal year.

## ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR DISPOSAL

Assets and liabilities held for disposal as of September 30, 2008 are primarily composed of the book values of Qimonda's assets and liabilities.

At September 30, 2008, the carrying amounts of the major classes of assets and liabilities classified as held for disposal were as follows:

| € in millions | September 30, 2008 |
|---|---|
| Cash and cash equivalents | 421 |
| Trade and other receivables | 255 |
| Inventories | 289 |
| Other current assets | 376 |
| Property, plant and equipment | 2,059 |
| Goodwill and other intangible assets | 76 |
| Investments accounted for using the equity method | 14 |
| Deferred tax asset | 59 |
| Other assets | 55 |
| **Subtotal** | 3,604 |
| Write-down | (1,475) |
| **Total assets classified as held for disposal** | 2,129 |
| Short-term debt and current maturities of long-term debt | 346 |
| Trade and other payables | 592 |
| Current provisions | 220 |
| Other current liabilities | 300 |
| Long-term debt | 427 |
| Pension plans and similar commitments | 22 |
| Deferred tax liabilities | 16 |
| Long-term provisions | 25 |
| Other liabilities | 175 |
| **Total liabilities associated with assets held for disposal** | 2,123 |
| **Amounts recognized directly in equity relating to assets and liabilities classified as held for disposal** | (158) |

Assets and liabilities held for disposal as of September 30, 2009 are primarily composed of the book values of assets and liabilities to be disposed of in connection with the sale of the

Wireline Communications business. At September 30, 2009, the carrying amounts of the major classes of assets and liabilities classified as held for disposal were as follows:

| € in millions | September 30, 2009 |
|---|---|
| Inventories | 43 |
| Other current assets | 2 |
| Property, plant and equipment | 9 |
| Goodwill and other intangible assets | 58 |
| **Total assets classified as held for disposal** | 112 |
| Current provisions | 6 |
| Other current liabilities | 2 |
| Pension plans and similar commitments | 1 |
| **Total liabilities associated with assets held for disposal** | 9 |

## LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda and of the Wireline Communication business presented in the consolidated statements of operations as discontinued operations for the years ended September 30, 2007, 2008 and 2009, consist of the following components:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Qimonda**[1] | | | |
| Revenue | 3,608 | 1,785 | 314 |
| Costs and expenses | (3,956) | (3,773) | (779) |
| Reversal (write-down) of measurement to fair value less costs to sell | — | (1,475) | 460 |
| Expenses resulting from Qimonda's application to open insolvency proceedings | — | — | (227) |
| Losses resulting from the realization from accumulated losses related to unrecognized currency translation effects primarily upon deconsolidation and Qimonda's sale of Inotera | — | — | (188) |
| **Loss before tax** | (348) | (3,463) | (420) |
| Income tax benefits (expense) | 21 | (96) | — |
| **Qimonda's share of discontinued operations, net of income taxes** | (327) | (3,559) | (420) |
| | | | |
| **Wireline Communications Business** | | | |
| Revenue | 414 | 418 | 333 |
| Costs and expenses | (424) | (400) | (309) |
| **Profit (loss) before tax** | (10) | 18 | 24 |
| Income tax expense | (2) | (2) | (2) |
| **Wireline Communication's share of discontinued operations, net of income taxes** | (12) | 16 | 22 |
| **Loss from discontinued operations, net of income taxes** | (339) | (3,543) | (398) |

1 No further information concerning Qimonda's condensed consolidated statements of operations is available for the period from January 1, 2009 to January 23, 2009, the date of the application by Qimonda to commence insolvency proceedings. As disclosed above, due to the write down of Qimonda's net assets to zero as of September 30, 2008, the operating losses of Qimonda for the period from October 1, 2008 to January 23, 2009 did not affect the consolidated net income of the Company, but instead were eliminated via an offsetting partial reversal of previously recorded impairments. Therefore, while the amount of revenue and costs and expenses in the table above exclude amounts for the period from January 1, 2009 to January 23, 2009, Qimonda's share of the loss from discontinued operations, net of income taxes of €420 million is unaffected.

## 6 / LICENSES

During the years ended September 30, 2007, 2008 and 2009, the Company recognized revenues related to license and technology transfer fees of €19 million, €53 million and €18 million, respectively, which are included in revenues in the accompanying consolidated statements of operations.

Included in these amounts are previously deferred license fees of €1 million, €1 million and €0 million, which were recognized as revenue pursuant to IAS 18 in the years ended September 30, 2007, 2008 and 2009, respectively, since the Company had fulfilled all of its obligations and the amounts were realized.

## 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, 2007, 2008 and 2009 are as follows:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Included in the consolidated statements of operations: | | | |
| Research and development | 87 | 59 | 50 |
| Cost of sales | 19 | 19 | 15 |
| Selling, general and administrative | — | — | 1 |
| **Total** | 106 | 78 | 66 |

Deferred government grants amounted to €22 million and €21 million as of September 30, 2008 and 2009, respectively. The amounts of grants receivable as of September 30, 2008 and 2009 were €28 million and €30 million, respectively.

## 8 / SUPPLEMENTAL OPERATING COST INFORMATION

The costs of services and materials are as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Raw materials, supplies and purchased goods | 753 | 792 | 731 |
| Purchased services | 751 | 787 | 710 |
| **Total** | 1,504 | 1,579 | 1,441 |

Personnel expenses are as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Wages and salaries | 1,287 | 1,451 | 974 |
| Social levies | 233 | 240 | 200 |
| Pension expense | 12 | — | (13) |
| **Total** | 1,532 | 1,691 | 1,161 |

The average number of employees by geographic region was as follows for the years ended September 30[1]:

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Germany | 10,553 | 10,085 | 9,379 |
| Other Europe | 5,604 | 5,280 | 4,726 |
| North America | 540 | 845 | 729 |
| Asia/Pacific | 12,905 | 13,094 | 11,763 |
| Japan | 151 | 161 | 143 |
| Other | 21 | — | — |
| Infineon | 29,774 | 29,465 | 26,740 |
| Qimonda[2] | 12,775 | 12,990 | 2,770 |
| **Total** | 42,549 | 42,455 | 29,510 |

1 Approximately 860 employees are to be transferred to Lantiq upon closing of the sale of the Wireline Communications business.
2 The average number of employees in the 2009 fiscal year is derived from the number of employees in the first quarter of 11,079, and zero in the second, third and fourth quarter as a result of the deconsolidation of Qimonda in the second quarter when Qimonda filed for insolvency.

Other operating income was as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Gains from sales of businesses and interests in subsidiaries | 19 | 80 | 1 |
| Reversal of impairments and long lived assets | — | — | 2 |
| Other | 18 | 40 | 26 |
| **Total** | 37 | 120 | 29 |

Other operating expense was as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Losses from sales of businesses and interests in subsidiaries | — | — | 17 |
| Goodwill and intangible assets impairment charges | 5 | 8 | 3 |
| Long-lived asset impairment charges | 4 | 122 | — |
| Restructuring | 45 | 188 | (20) |
| Other | 3 | 47 | 48 |
| **Total** | 57 | 365 | 48 |

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 were affected worldwide, of which approximately 120 were in the German locations of Munich, Salzgitter and Nuremberg.

To address rising risks in the market environment, adverse currency trends and below benchmark margins, the Company implemented the IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. The IFX10+ program targeted certain areas to reduce costs, including product portfolio management, manufacturing costs reduction, value chain optimization, process efficiency, reorganization of the Company's structure along its target markets, and reductions in workforce. Approximately 10 percent of Infineon's worldwide workforce was terminated during the 2009 fiscal year as a result of IFX10+. The IFX10+ program resulted in restructuring charges of €172 million in the 2008 fiscal year, primarily for employee related termination costs incurred or expected as of September 30, 2008. In the 2009 fiscal year, the Company recorded a partial reversal of provisions in the amount of €25 million recorded as of September 30, 2008 in connection with the IFX10+ cost-reduction program. The reversal was partially offset by €5 million of restructuring expenses in the 2009 fiscal year.

Total rental expenses under operating leases amounted to €114 million, €97 million and €95 million for the years ended September 30, 2007, 2008 and 2009, respectively.

## 9 / FINANCIAL INCOME

The amount of financial income is as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Interest income | 47 | 56 | 84 |
| Valuation changes and gains on sales | 60 | 2 | — |
| Other financial income | — | — | 17 |
| **Total** | 107 | 58 | 101 |

Interest income for the year ended September 30, 2009 includes a gain before tax of €61 million as a result of the repurchase of subordinated exchangeable notes due 2010 and convertible subordinated notes due 2010 (see note 27). No gain before tax was recorded for repurchases in the 2008 fiscal year. During the 2007 fiscal year, no repurchases took place.

## 10 / FINANCIAL EXPENSE

The amount of financial expense is as follows for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Interest expense | 147 | 150 | 126 |
| Losses on sales of available-for-sale financial assets | 54 | 23 | 28 |
| Other financial expense | 41 | 8 | 2 |
| **Total** | 242 | 181 | 156 |

Interest expense for the years ended September 30, 2008 and 2009 includes a loss before tax of €8 million and €6 million, respectively, as a result of repurchases and redemptions of convertible subordinated notes due 2010 and exchangeable subordinated notes due 2010 (see note 27). During the 2007 fiscal year no repurchases took place.

## 11 / INCOME TAX (BENEFIT) EXPENSE

Income (loss) from continuing operations before income taxes is attributable to the following geographic locations for the years ended September 30, 2007, 2008 and 2009 as follows:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Germany | (215) | (266) | (315) |
| Foreign | 182 | 101 | 47 |
| **Loss from continuing operations before income taxes** | (33) | (165) | (268) |

Income tax (benefit) expense from continuing operations for the years ended September 30, 2007, 2008 and 2009, are as follows:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Current taxes: | | | |
| Germany | 24 | 3 | 1 |
| Foreign | 5 | 18 | 11 |
| | 29 | 21 | 12 |
| Deferred taxes: | | | |
| Germany | (39) | 54 | (8) |
| Foreign | 8 | (36) | 1 |
| | (31) | 18 | (7) |
| **Income tax (benefit) expense** | (2) | 39 | 5 |

Current income tax expense attributable to prior years is €12 million, €10 million and €0 million for the years ended September 30, 2007, 2008 and 2009, respectively.

In 2007, the Company's corporate statutory tax rate in Germany is 25 percent plus a solidarity surcharge of 5.5 percent. Additionally, a trade tax of 11 percent is levied, which results in a combined statutory tax rate of 37 percent in 2007.

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 corporate and trade tax rate in Germany from 37 to 28 percent, which comprises corporate tax of 15 percent plus a solidarity surcharge of 5.5 percent and trade tax of 12 percent. Most of the changes came into effect for the Company in its 2008 fiscal year. Pursuant to IAS 12, the Company recorded a deferred tax charge of €25 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 from continuing operations for the fiscal years ended September 30, 2007, 2008 and 2009, determined using the German combined statutory tax rate of 37 percent for 2007 and 28 percent for 2008 and 2009 is as follows:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Expected expense (benefit) for income taxes | (12) | (46) | (75) |
| Increase in available tax credits | (5) | (103) | (13) |
| Tax rate differential | (55) | (7) | (4) |
| Permanent differences, net | 11 | 8 | 9 |
| Change in German tax rate | 25 | — | — |
| Increase in valuation allowance | 25 | 183 | 88 |
| Other | 9 | 4 | — |
| **Actual income tax (benefit) expense** | (2) | 39 | 5 |

Net deferred tax assets and liabilities presented in the accompanying consolidated balance sheets as of September 30, 2008 and 2009, are as follows:

| € in millions | 2008 | 2009 |
|---|---|---|
| Deferred tax assets | 400 | 396 |
| Deferred tax liabilities | (19) | (13) |
| **Deferred tax assets, net** | 381 | 383 |

The movement in deferred tax assets, net is as follows:

| € in millions | 2009 |
|---|---|
| Deferred tax assets, net as of September 30, 2008 | 381 |
| Reclassifiction to discontinued operations | (1) |
| Purchase accounting adjustments | (4) |
| Deferred tax expense | 7 |
| **Deferred tax assets, net as of September 30, 2009** | 383 |

Deferred tax assets and liabilities as of September 30, 2008 and 2009 relate to the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Deferred tax assets: | | |
| Intangible assets | 38 | 58 |
| Property, plant and equipment | 152 | 123 |
| Deferred income | 4 | 8 |
| Net operating loss and tax credit carry-forwards | 1,199 | 1,298 |
| Other items | 224 | 213 |
| **Gross deferred tax assets** | 1,617 | 1,700 |
| Valuation allowance | (1,027) | (1,170) |
| **Deferred tax assets** | 590 | 530 |
| Deferred tax liabilities: | | |
| Intangible assets | (23) | (22) |
| Property, plant and equipment | (24) | (6) |
| Accounts receivable | (23) | — |
| Accrued liabilities and pensions | (126) | (112) |
| Other items | (13) | (7) |
| **Deferred tax liabilities** | (209) | (147) |
| **Deferred tax assets, net** | 381 | 383 |

In Germany, at September 30, 2009, the Company had corporate tax loss carry-forwards of €3.4 billion and trade tax loss carry-forwards of €4.6 billion. In other jurisdictions, the Company had tax loss carry-forwards of €79 million and tax credit carry-forwards of €168 million. Such tax loss carry-forwards and tax 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.

The Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is probable or 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, 2009, which is significant evidence that the probability criterion is not met, 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, 2008 and 2009 by €183 million and €88 million, respectively, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2008 and 2009, 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.

## 12 / 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 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, 2007, 2008 and 2009, is as follows:

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Numerator (€ in millions): | | | |
| Loss from continuing operations | (31) | (204) | (273) |
| Less: Portion attributable to minority interests | (14) | 15 | — |
| **Loss from continuing operations attributable to shareholders of Infineon Technologies AG** | (45) | (189) | (273) |
| Loss from discontinued operations, net of income taxes | (339) | (3,543) | (398) |
| Less: Portion attributable to minority interests | 37 | 797 | 48 |
| Loss from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG | (302) | (2,746) | (350) |
| **Net loss attributable to shareholders of Infineon Technologies AG** | (347) | (2,935) | (623) |
| Denominator (shares in millions): | | | |
| Weighted-average shares outstanding – basic and diluted[1] | 812.2 | 813.3 | 854.5 |
| Basic and diluted loss per share (in €): | | | |
| Loss from continuing operations attributable to shareholders of Infineon Technologies AG | (0.06) | (0.23) | (0.32) |
| Loss from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG | (0.37) | (3.38) | (0.41) |
| **Net loss attributable to shareholders of Infineon Technologies AG** | (0.43) | (3.61) | (0.73) |

**1** Weighted-average shares outstanding – basic and diluted – for all periods have been adjusted in accordance with IAS 33.27 as a result of the capital increase in August 2009.

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 41.2 million, 34.3 million and 25.2 million shares underlying employee stock options for the years ended September 30, 2007, 2008 and 2009, respectively. Additionally, 74.7 million, 65.0 million and 82.5 million ordinary shares issuable upon the conversion of the convertible subordinated notes for the years ended September 30, 2007, 2008 and 2009, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

## 13 / AVAILABLE-FOR-SALE FINANCIAL ASSETS

Marketable securities are classified as available-for-sale financial instruments and therefore recorded at fair value at each balance sheet date with unrealized gains and losses that are not considered other-than-temporary impairments recognized in equity until realized. The non-current position of marketable securities is reflected in other financial assets (see note 20).

Marketable securities at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Fair value | Unrealized gains | Unrealized losses | Cost | Fair value | Unrealized gains | Unrealized losses |
| Foreign government securities | 5 | 7 | 2 | — | — | — | — | — |
| Fixed term securities | 144 | 140 | 1 | (5) | 103 | 105 | 2 | — |
| Other debt securities | — | — | — | — | 1 | 1 | — | — |
| **Total debt securities** | 149 | 147 | 3 | (5) | 104 | 106 | 2 | — |
| Equity securities | 2 | 2 | — | — | 1 | 1 | — | — |
| **Total** | 151 | 149 | 3 | (5) | 105 | 107 | 2 | — |
| Reflected as follows: | | | | | | | | |
| Available-for-sale financial assets | 139 | 134 | — | (5) | 93 | 93 | — | — |
| Other financial assets (note 20) | 12 | 15 | 3 | — | 12 | 14 | 2 | — |
| **Total** | 151 | 149 | 3 | (5) | 105 | 107 | 2 | — |

Unrealized losses relating to securities held for more than 12 months as of September 30, 2008 and 2009 were €5 million and €0 million, respectively.

Realized gains and losses are reflected as financial income (expense) and were as follows for the fiscal years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Realized gains | 7 | — | — |
| Realized losses | — | (1) | (3) |
| **Realized gains (losses), net** | 7 | (1) | (3) |

As of September 30, 2009, fixed term deposits of €25 million had contractual maturities between three and 12 months.

Debt securities as of September 30, 2009 had the following remaining contractual maturities:

| € in millions | Cost | Fair value |
|---|---|---|
| Less than 1 year | 45 | 47 |
| Between 1 and 5 years | — | — |
| More than 5 years | 59 | 59 |
| **Total debt securities** | 104 | 106 |

Actual maturities may differ due to call or prepayment rights.

## 14 / TRADE AND OTHER RECEIVABLES

Trade accounts and other receivables at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Third party – trade | 590 | 508 |
| Related parties – trade | 28 | 3 |
| **Trade accounts receivable, gross** | 618 | 511 |
| Allowance for doubtful accounts | (29) | (62) |
| **Trade accounts receivable, net** | 589 | 449 |
| Grants receivable (note 7) | 28 | 30 |
| License fees receivable | 10 | 7 |
| Third party – financial and other receivables | 17 | 18 |
| Receivables from German banks' deposit protection fund | 121 | 1 |
| Related parties – financial and other receivables | 22 | — |
| Employee receivables | 8 | 6 |
| Other receivables | 4 | 3 |
| **Total** | 799 | 514 |

Cash and cash equivalents and available-for-sale financial assets in the amount of €121 million were reclassified to amounts receivable from the German banks' deposit protection fund as of September 30, 2008. As of September 30, 2009, the Company received €120 million from the German banks' deposit protection fund. €1 million outstanding as of September 30, 2009 was received on October 30, 2009.

Activity in the allowance for doubtful accounts for the years ended September 30, 2008 and 2009 was as follows:

| € in millions | 2008 | 2009 |
|---|---|---|
| Allowance for doubtful accounts at beginning of year | 38 | 29 |
| Usage of allowance, net | (2) | (13) |
| Current years allowance | — | 46 |
| Reclassification in held for disposal | (7) | — |
| **Allowance for doubtful accounts at end of year** | 29 | 62 |

The following table provides separate disclosure on the age of trade accounts receivables that are past due at the reporting date.

| € in millions | | | Of which not impaired but past due as of reporting date | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Thereof neither impaired nor past due | Past due 0 – 30 days | Past due 31 – 60 days | Past due 61 – 180 days | Past due 181 – 360 days | Past due › 360 days |
| Third party – trade, net of allowances as of September 30, 2008 | 561 | 537 | 22 | 2 | — | — | — |
| Third party – trade, net of allowances as of September 30, 2009 | 446 | 429 | 12 | — | 1 | 4 | — |

Based on historic default rates, the Company believes that no allowance is necessary in respect of trade receivables that are not past due or past due by up to 60 days.

## 15 / INVENTORIES

Inventories at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Raw materials and supplies | 59 | 47 |
| Work-in-process | 372 | 259 |
| Finished goods | 234 | 154 |
| **Total Inventories** | 665 | 460 |

## 16 / OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at September 30, 2008 and 2009 consisted of financial instruments in an amount of €19 million and €26 million, respectively.

## 17 / OTHER CURRENT ASSETS

Other current assets at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| VAT and other tax receivables | 67 | 49 |
| Prepaid expenses | 43 | 49 |
| Other | 14 | 16 |
| **Total other current assets** | 124 | 114 |

## 18 / PROPERTY, PLANT AND EQUIPMENT

A summary of activity for property, plant and equipment for the years ended September 30, 2008 and 2009 is as follows:

| € in millions | Land and buildings | Technical equipment and machinery | Other plant and office equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| **September 30, 2007** | 1,426 | 8,854 | 2,209 | 382 | 12,871 |
| Additions | 19 | 188 | 55 | 50 | 312 |
| Acquisitions through business combinations | — | 1 | 8 | — | 9 |
| Disposals | (19) | (136) | (107) | (1) | (263) |
| Reclassifications | 7 | 115 | 13 | (135) | — |
| Transfers[1] | (673) | (4,202) | (792) | (232) | (5,899) |
| Foreign currency effects | 1 | 6 | (2) | — | 5 |
| **September 30, 2008** | 761 | 4,826 | 1,384 | 64 | 7,035 |
| Additions | 9 | 54 | 23 | 18 | 104 |
| Disposals | (12) | (167) | (74) | — | (253) |
| Reclassifications | 5 | 58 | (4) | (59) | — |
| Transfers[1] | 1 | (2) | (28) | — | (29) |
| Foreign currency effects | (1) | (3) | (1) | (1) | (6) |
| **September 30, 2009** | 763 | 4,766 | 1,300 | 22 | 6,851 |
| Accumulated depreciation and impairment: | | | | | |
| **September 30, 2007** | (767) | (6,478) | (1,981) | — | (9,226) |
| Depreciation | (28) | (365) | (103) | — | (496) |
| Disposals | 19 | 126 | 104 | — | 249 |
| Reclassifications | — | (2) | 2 | — | — |
| Transfers[1] | 276 | 2,786 | 716 | — | 3,778 |
| Impairments | — | (23) | — | — | (23) |
| Foreign currency effects | — | (7) | — | — | (7) |
| **September 30, 2008** | (500) | (3,963) | (1,262) | — | (5,725) |
| Depreciation | (30) | (356) | (81) | — | (467) |
| Disposals | 6 | 160 | 73 | — | 239 |
| Reclassifications | 1 | (12) | 11 | — | — |
| Transfers[1] | (1) | — | 25 | — | 24 |
| Reversal of impairments | — | 2 | — | — | 2 |
| Foreign currency effects | 1 | 2 | 1 | — | 4 |
| **September 30, 2009** | (523) | (4,167) | (1,233) | — | (5,923) |
| **Book value at September 30, 2008** | 261 | 863 | 122 | 64 | 1,310 |
| **Book value at September 30, 2009** | 240 | 599 | 67 | 22 | 928 |

**1** In the year ended September 30, 2008, transfers relate primarily to assets of the Qimonda disposal group that were classified as held for disposal, and assets of the ALTIS disposal group that were reclassified into held and used. In the year ended September 30, 2009, transfers relate primarily to assets of the Wireline Communications business that were classified as held for disposal.

## 19 / INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

A summary of activity for investments accounted for using the equity method for the years ended September 30, 2008 and 2009 is as follows:

| € in millions | 2008 | 2009 |
|---|---|---|
| **Balance at beginning of year** | 627 | 20 |
| Additions | 23 | — |
| Disposals | (7) | — |
| Dividends received | — | — |
| Equity in earnings | 4 | 7 |
| Reclassifications | — | — |
| Reclassification to held for disposal[1] | (627) | — |
| Foreign currency effects | — | — |
| **Balance at end of year** | 20 | 27 |

1 Reclassification relates to the investment in Inotera Memories Inc., which was reclassified in held for disposal

The aggregate summarized financial information for the Company's most significant investments accounted for using the equity method (which consists primarily of Bipolar) for the years ended September 30 is as follows:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Revenue | 6 | 95 | 118 |
| Gross profit | 3 | 20 | 25 |
| Net income | 1 | 6 | 11 |

| € in millions | 2008 | 2009 |
|---|---|---|
| Current assets | 58 | 67 |
| Non-current assets | 11 | 16 |
| Current liabilities | (28) | (24) |
| Non-current liabilities | (6) | (13) |
| **Total equity** | 35 | 46 |

## 20 / OTHER FINANCIAL ASSETS

Other non-current financial assets at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Available-for-sale financial assets (note 13) | 15 | 14 |
| Long-term receivables | 6 | 5 |
| Investments in other equity investments | 15 | 12 |
| Related parties – financial and other receivables | 20 | — |
| Financial assets designated at fair value | 11 | 9 |
| Restricted cash | 77 | 84 |
| **Total** | 144 | 124 |

## 21 / OTHER ASSETS

Other non-current assets at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Prepaid expenses | 14 | 17 |
| Other | 3 | 1 |
| **Total** | 17 | 18 |

## 22 / GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of activity for intangible assets for the years ended September 30, 2008 and 2009 is as follows:

| € in millions | Goodwill | Internally developed intangible assets | Other Intangible assets | Total |
|---|---|---|---|---|
| Cost: | | | | |
| **September 30, 2007** | 117 | 212 | 439 | 768 |
| Additions – internally developed | — | 44 | — | 44 |
| Additions – from business combinations | 171 | — | 148 | 319 |
| Additions – other | — | — | 14 | 14 |
| In-process R&D | — | — | (14) | (14) |
| Disposals | — | (11) | — | (11) |
| Transfers[1] | (64) | (76) | (114) | (254) |
| Foreign currency effects | 1 | — | 1 | 2 |
| **September 30, 2008** | 225 | 169 | 474 | 868 |
| Additions – internally developed | — | 47 | — | 47 |
| Additions – from business combinations | (6) | — | — | (6) |
| Additions – other | — | — | 8 | 8 |
| Disposals | — | — | (33) | (33) |
| Transfers[1] | (38) | (52) | (49) | (139) |
| **September 30, 2009** | 181 | 164 | 400 | 745 |
| Accumulated amortization: | | | | |
| **September 30, 2007** | — | (110) | (324) | (434) |
| Amortization | — | (29) | (46) | (75) |
| Disposals | — | 8 | 2 | 10 |
| Transfers[1] | — | 45 | 34 | 79 |
| Impairment charges | — | — | (5) | (5) |
| Foreign currency effects | — | — | — | — |
| **September 30, 2008** | — | (86) | (339) | (425) |
| Amortization | — | (32) | (32) | (64) |
| Disposals | — | — | 33 | 33 |
| Transfers[1] | — | 41 | 41 | 82 |
| Impairment charges | — | (2) | (1) | (3) |
| Foreign currency effects | — | — | 1 | 1 |
| **September 30, 2009** | — | (79) | (297) | (376) |
| **Carrying value as of September 30, 2008** | 225 | 83 | 135 | 443 |
| **Carrying value as of September 30, 2009** | 181 | 85 | 103 | 369 |

**1** In the year ended September 30, 2008, transfers relate primarily to assets of the Qimonda disposal group that were classified as held for disposal, and assets of the ALTIS disposal group that were reclassified into held and used. In the year ended September 30, 2009, transfers relate primarily to assets of the Wireline Communications business that were classified as held for disposal.

The estimated aggregate amortization expense relating to internally developed and other intangible assets for each of the five succeeding fiscal years is as follows: 2010: €60 million; 2011: €56 million; 2012: €43 million; 2013: €26 million and 2014: €3 million.

## 23 / TRADE AND OTHER PAYABLES

Trade and other payables at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Third party – trade | 473 | 371 |
| Related parties – trade | 15 | 13 |
| Trade payables | 488 | 384 |
| Related parties – financial and other payables | 6 | 5 |
| Other | 12 | 4 |
| **Total** | 506 | 393 |

## 24 / PROVISIONS

Provisions at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Personnel costs | 347 | 187 |
| Warranties and licenses | 32 | 72 |
| Asset retirement obligations | 13 | 10 |
| Post-retirement benefits | 3 | 3 |
| Other | 56 | 253 |
| **Total** | 451 | 525 |

Provisions for personnel costs relate to employee-related obligations and include, among others, costs of incentive and bonus payments, holiday and vacation payments, termination benefits, early retirement, service anniversary awards, other personnel costs and related social security payments.

Provisions for warranties and licenses mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Provisions for asset retirement obligations relate to certain items of property, plant and equipment. Such asset retirement obligations may arise due to attributable environmental clean-up costs and to costs primarily associated with the removal of leasehold improvements at the end of the lease term.

Other provisions comprise provisions for outstanding expenses, penalties for default or delay on contracts, conservation, and waste management, and for miscellaneous other liabilities. The increase in other provisions for the year ended September 30, 2009 is primarily the result of the insolvency of Qimonda (see note 5). As of September 30, 2009, €163 million of €253 million relates to the insolvency of Qimonda.

Of the total amounts of €451 million and €525 million of provisions as of September 30, 2008 and 2009, respectively, the outflow of economic benefit is expected to occur within one year in respect of €424 million and €436 million, respectively.

A summary of activity for provisions for the fiscal year ended September 30, 2009 is as follows:

| € in millions | Personnel costs | Warranties and licenses | Antitrust settlement | Asset retirement obligations | Post-retirement benefits | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of September 30, 2008** | 347 | 32 | — | 13 | 3 | 56 | 451 |
| Additions | 120 | 50 | — | — | — | 233 | 403 |
| Reclassification to held for disposal | (5) | | — | — | — | (1) | (6) |
| Usage | (211) | (4) | — | (3) | — | (32) | (250) |
| Reversals | (64) | (6) | — | — | — | (3) | (73) |
| **Balance as of September 30, 2009** | 187 | 72 | — | 10 | 3 | 253 | 525 |

The total amounts of provisions are reflected in the consolidated balance sheets as of September 30, 2008 and 2009, respectively, as follows:

| € in millions | 2008 | 2009 |
|---|---|---|
| Current | 424 | 436 |
| Non-current | 27 | 89 |
| **Total** | 451 | 525 |

## 25 / OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Financial instruments (note 36) | 25 | 15 |
| Interest | 16 | 18 |
| Settlement for anti-trust related matters (note 38) | 20 | 17 |
| Other | 2 | — |
| **Total** | 63 | 50 |

## 26 / OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Deferred income | 26 | 24 |
| VAT and other taxes payable | 13 | 19 |
| Payroll obligations to employees | 198 | 79 |
| Deferred government grants (note 7) | 13 | 15 |
| Current portion of pension obligations (note 35) | 1 | — |
| Other | 12 | 10 |
| **Total** | 263 | 147 |

Other deferred income includes amounts relating primarily to deferred license income (see note 6). The non-current portion is included in other liabilities (see note 29).

## 27 / DEBT

Debt at September 30, 2008 and 2009 consists of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Short-term debt and current maturities of long-term debt: | | |
| Loans payable to banks, weighted average rate 1.85% | 139 | 51 |
| Convertible subordinated notes, 5.0%, due 2010 | — | 425 |
| Current portion of long-term debt | 68 | 45 |
| **Total short-term debt and current maturities** | 207 | 521 |
| Long-term debt: | | |
| Convertible subordinated notes, 7.5%, due 2014 | — | 145 |
| Exchangeable subordinated notes, 1,375%, due 2010 | 193 | — |
| Convertible subordinated notes, 5.0%, due 2010 | 531 | — |
| Loans payable to banks: | | |
| Unsecured term loans, weighted average rate 2.59%, due 2009 – 2013 | 217 | 164 |
| Secured term loans, weighted average rate 2.45%, due 2013 | 2 | — |
| Notes payable to governmental entity, due 2010 | 20 | 20 |
| **Total long-term debt** | 963 | 329 |

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

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 were originally 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. As a result of the Company's share capital increase in August 2009 (see note 30), the conversion price has been adjusted to €9.14 in accordance with an antidilution provision contained in the notes. 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 noteholders 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. During the 2008 fiscal year, the Company repurchased a notional amount of €100 million of its convertible subordinated notes due 2010 and the repurchased notes were subsequently cancelled. The transaction resulted in a loss of €8 million before tax, which was recognized in interest expense. The repurchase was made out of available cash. At September 30, 2008, the outstanding notional amount was €600 million. Throughout the 2009 fiscal year, the Company repurchased additional notional amounts of €152 million of its convertible subordinated notes due 2010. This includes repurchases effected through a public tender offer in May 2009. Repurchases of a notional amount of €74 million resulted in a loss of €4 million before tax, which was recognized in interest expense. Repurchases of a notional amount of €78 million resulted in a gain of €15 million before tax, which was recognized in interest income. The repurchases were made out of available cash amounting to €131 million, and the repurchased notes were subsequently cancelled. At September 30, 2009, the outstanding notional amount was €448 million.

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. The notes accrued interest at 1.375 percent per year. The notes were exchangeable into a maximum of 20.5 million Qimonda ADSs. Throughout the 2009 fiscal year, the Company repurchased and redeemed notional amounts of €215 million of its exchangeable subordinated notes due 2010. This includes repurchases effected through a tender offer in May 2009. Repurchases and redemptions of a notional amount of €48 million resulted in a loss of €2 million before tax, which was recognized in interest expense. Repurchases of a notional amount of €167 million resulted in a gain of €46 million before tax, which was recognized in interest income. The repurchases and redemptions were made out of available cash amounting to €154 million, and repurchased notes were subsequently cancelled. After determining that the outstanding amount of the notes had fallen below 20 percent of the original issue size, the Company exercised its right to terminate the notes and fully redeemed the remaining €19 million at par on September 29, 2009. Consequently, there is no outstanding amount at September 30, 2009.

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V., issued €196 million in new subordinated convertible notes at a discount of 7.2 percent in an offering to institutional investors. The notes were initially convertible, at the option of the holders of the notes, into a maximum of 74.9 million ordinary shares of the Company, at a conversion price of €2.61 per share through maturity. As a result of the Company's share capital increase in August 2009 (see note 30), the conversion price has been adjusted to €2.33 in accordance with an antidilution provision contained in the notes. The notes accrue interest at 7.5 percent per year. The principal of the notes is unsecured and ranks pari passu with all present and future unsecured subordinated obligations of the issuer. The coupons of the notes are secured and unsubordinated. The noteholders have a negative pledge relating to future capital market indebtedness and an early redemption option in the event of a change of control. The Company may redeem the convertible notes due 2014 after two and a half years at their nominal amount plus interest accrued thereon plus the present value of all remaining coupon payments through the maturity date, if the Company's closing share price exceeds 150 percent of the conversion price on 15 out of the previous 30 consecutive trading days. The notes are listed on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange. €31 million attributable to the conversion right of the noteholders were recognized in additional paid in capital at the date of issuance for the subordinated convertible notes due 2014.

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 consisted of two tranches. Tranche A was a term loan originally intended to finance the expansion of the Richmond, Virginia manufacturing facility. The facility had customary financial covenants, and drawings bore interest at market-related rates that were linked to financial performance. The lenders of this credit facility had been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances. In January 2006, the Company drew $345 million under Tranche A, on the basis of a repayment schedule that consisted of equal installments falling due in March and September each year. On September 23, 2009, Tranche A was fully repaid at its

final maturity. Tranche B, which was a multicurrency revolving facility to be used for general corporate purposes, expired undrawn at its final maturity on September 23, 2009.

In June 2009, local financial institutions granted working capital and project loan facilities to Infineon Technologies (Wuxi) Co. Ltd. amounting to a total of $141 million (€97 million). These multi-year facilities are available for general corporate purposes and the expansion of manufacturing facilities in Wuxi, China, including intragroup asset transfers. As of September 30, 2009, these facilities remained unused and are partially secured by an asset pledge and a corporate guarantee.

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 various funding purposes.

| € in millions | | | As of September 30, 2009 | | |
|---|---|---|---|---|---|
| Term | Nature of financial institution commitment | Purpose/intended use | Aggregate facility | Drawn | Available |
| Short-term | firm commitment | general corporate purposes, working capital, guarantees | 108 | 51 | 57 |
| Short-term | no firm commitment | working capital, cash management | 114 | — | 114 |
| Long-term[1] | firm commitment | project finance | 269 | 229 | 40 |
| **Total** | | | 491 | 280 | 211 |

**1** Including current maturities.

Interest expense incurred in connection with financial debt for the years ended September 30, 2007, 2008 and 2009, was €129 million, €138 million and €123 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2009 are as follows:

| Fiscal year ending September 30, (€ in millions) | Amount |
|---|---|
| 2010 | 521 |
| 2011 | 78 |
| 2012 | 66 |
| 2013 | 40 |
| 2014 | 145 |
| **Total** | 850 |

## 28 / OTHER FINANCIAL LIABILITIES

Other non-current financial liabilities at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Settlement for antitrust related matters (note 38) | 17 | — |
| Other | 3 | 5 |
| **Total** | 20 | 5 |

## 29 / OTHER LIABILITIES

Other non-current liabilities at September 30, 2008 and 2009 consist of the following:

| € in millions | 2008 | 2009 |
|---|---|---|
| Deferred income (note 26) | 43 | 53 |
| Deferred government grants (note 7) | 9 | 6 |
| Deferred compensation | 11 | 10 |
| Other | 13 | 16 |
| **Total** | 76 | 85 |

## 30 / EQUITY

### ORDINARY SHARE CAPITAL

As of September 30, 2009 the Company had 1,086,742,085 registered ordinary shares, notional value €2.00 per share, outstanding. During the year ended September 30, 2008, the Company increased its share capital by €26,900 by issuing 13,450 ordinary shares in connection with the Company's Long-Term Incentive Plans. During the year ended September 30, 2009, no ordinary shares have been issued in connection with the Company's Long Term Incentive Plans. On August 5, 2009, the Company increased its share capital in a first step

by €645,653,928 by issuing 322,826,964 shares from the Authorized Capital 2007 (registered in the Commercial Register as "Authorized Capital 2007/I") resolved on February 15, 2007 and part of the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were offered to Infineon's shareholders for subscription at a ratio of four new shares for every nine existing shares held. After the execution of the first step of the capital increase, the share capital consisted of €2,145,138,098. In a second step, on August 11, 2009, the Company further increased its share capital by €28,346,072 by issuing 14,173,036 shares resulting from the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were issued to Admiral Participations (Luxembourg) S.a.r.l. After these capital increases, the share capital consisted of €2,173,484,170. As a result of the capital increase, the Company's share capital increased by €674 million.

## ADDITIONAL-PAID-IN-CAPITAL

The Additional-paid-in-Capital increased by €6 million, net of costs incurred of €45 million, in connection with the capital increase.

## AUTHORIZED AND CONDITIONAL SHARE CAPITAL

The Authorized Capital II/2004 expired on January 19, 2009. Furthermore, the capital increases in August 2009 were implemented by utilizing all of the Company's Authorized Capitals 2007 and 2009/I. Therefore, the Company's articles of association currently do not provide for an authorized capital.

## CONDITIONAL CAPITAL

The Company's conditional capital recorded in the Commercial Register amounts to €665,335,548. It has been created through six conditional capital increases:

- Conditional Capital I (registered in the Commercial Register as "Conditional Capital 1999/I") pursuant to Section 4(4) of the Articles of Association in an aggregate nominal amount of up to €34.6 million that may be used to issue up to 17.3 million new registered shares in connection with the Company's 2001 Long-Term Incentive Plan;
- Conditional Capital III (registered in the Commercial Register as "Conditional Capital 2001/I") pursuant to Section 4(6) of the Articles of Association in an aggregate nominal amount of up to €29 million that may be used to issue up to 14.5 million new registered shares in connection with the Company's 2001 and 2006 Long-Term Incentive Plans;
- Conditional Capital 2002 (registered in the Commercial Register as "Conditional Capital 2007/II") pursuant to Section 4(7) of the Articles of Association in an aggregate nominal amount of up to €152 million that may be used to issue up to 76 million new registered shares upon conversion of debt securities issued in June 2003;
- Conditional Capital 2007 (registered in the Commercial Register as "Conditional Capital 2007/I") pursuant to Section 4(5) of the Articles of Association in an aggregate nominal amount of €149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of debt securities, which the Company may issue at any time prior to February 14, 2012;[1]
- Conditional Capital 2008 (registered in the Commercial Register as "Conditional Capital 2008/I") pursuant to Section 4(8) of the Articles of Association in an aggregate nominal amount of €149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of debt securities, which the Company may issue at any time prior to February 13, 2013;[1]
- Conditional Capital 2009/I pursuant to Section 4(9) of the Articles of Association in an aggregate nominal amount of €149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of convertible bonds issued in May 2009.

1 Due to the issuance of the convertible bonds in May 2009 which are covered by the Conditional Capital 2009/I, additional debt securities convertible into shares of the Company may not be issued under authorizations existing as of September 30, 2009. Accordingly, shares may not be issued from Conditional Capitals 2007 and 2008.

## OTHER COMPONENTS OF EQUITY

The changes in other components of equity for the fiscal years ended September 30, 2007, 2008 and 2009 are as follows:

| € in millions | 2007 | | | 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pretax | Tax effect | Net | Pretax | Tax effect | Net | Pretax | Tax effect | Net |
| Unrealized (losses) gains on securities: | | | | | | | | | |
| Unrealized holding (losses) gains | (4) | — | (4) | 2 | — | 2 | (15) | — | (15) |
| Reclassification adjustment for losses (gains) included in net income or loss | (7) | — | (7) | 1 | — | 1 | 19 | — | 19 |
| **Net unrealized (losses) gains** | (11) | — | (11) | 3 | — | 3 | 4 | — | 4 |
| Unrealized gains (losses) on cash flow hedges | 3 | — | 3 | (2) | — | (2) | 7 | — | 7 |
| Foreign currency translation adjustment | (106) | — | (106) | (36) | — | (36) | 145 | — | 145 |
| **Other components of equity** | (114) | — | (114) | (35) | — | (35) | 156 | — | 156 |

## 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.

No dividends were paid in the 2007 or 2008 fiscal years. No earnings are available for distribution as a dividend for the 2009 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2009.

Subject to market conditions, Infineon intends to retain future earnings for investment in the development and expansion of its business.

## MINORITY INTERESTS

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).

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 at an offering price of $13 per ADS. The ADSs traded under the symbol "QI" on the New York Stock Exchange until March 2009. 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, further reducing its ownership interest in Qimonda to 77.5 percent. The minority investors' ownership interest in Qimonda of 22.5 percent as of September 30, 2008 is reflected as minority interest. During the second quarter of the 2009 fiscal year the Company deconsolidated Qimonda as a result of Qimonda's application to commence insolvency proceedings (see note 5). Thus no minority ownership interest relating to Qimonda is included in the Company's consolidated balance sheet as of September 30, 2009.

## 31 / CAPITAL MANAGEMENT

The key objective of the Company's capital management is to ensure financial flexibility on the basis of a sound capital structure. In line with peer companies in the industry, there is a strong emphasis on liquidity in order to finance operations and make planned capital expenditures throughout the business cycle. The sources of liquidity are cash flows generated from operations, cash on hand, and available credit facilities as well as the occasional issuance and sale of securities on the capital markets.

The Company is not subject to any statutory capital requirements. Its capital management during the year ended September 30, 2008 was based on financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), since these were the primary accounting standards used by the Company during that period. Starting October 1, 2008, with the implementation of IFRS as primary accounting standards, the Company's capital management is based solely on IFRS. The Company's capital management, its objectives and definitions of ratios, remained unchanged when switching from U.S. GAAP to IFRS at the beginning of the fiscal year ended September 30, 2009.

Infineon considers net cash position or net debt position, as the case may be, defined as gross cash position less the sum of short-term and long-term debt, as the principal indication of its liquidity position. Gross cash position is defined as the sum of cash, cash equivalents and available-for-sale financial assets. Infineon's key goal in terms of capital management is maintaining a net cash position in combination with a ratio of gross cash position to sales of approximately 20 percent to 25 percent. Furthermore, Infineon manages its capital structure primarily by the ratio of short-term and long-term debt-to-EBITDA which should normally not exceed 2. Infineon defines EBIT as earnings (loss) before income (loss) from discontinued operations, interest, and taxes. EBITDA is defined as EBIT plus depreciation and amortization.

The Company recalculated these key ratios of capital management using IFRS financial data for the fiscal year ended September 30, 2008, which had been previously computed using U.S. GAAP financial data, only for the purpose of presenting a comparison based on IFRS of the fiscal year ended September 30, 2009.

The various refinancing measures undertaken in the 2009 fiscal year, most notably the capital increase executed in August 2009 (see note 30), have contributed to a significant improvement of Infineon's liquidity position and capital structure. This is evidenced by the fact that for the year ended September 30, 2008, Infineon had a net debt position of €287 million (€366 million on a U.S. GAAP basis, the difference primarily owing to the bifurcation of outstanding convertible and exchangeable subordinated notes into their debt and equity components under IFRS), whereas for the year ended September 30, 2009, Infineon had a net cash position of €657 million. This development was mainly due to net proceeds of €680 million from the capital increase, positive cash-flow from operations in excess of expenditures for investing purposes and, to a lesser extent, repurchases of outstanding convertible and exchangeable subordinated notes below their carrying amount. The ratio of gross cash position to sales amounted to 23 percent (identical to U.S. GAAP) for the year ended September 30, 2008 and amounted to 50 percent for the year ended September 30, 2009. Included in gross cash position are funds that will be needed to redeem the remaining outstanding convertible subordinated notes issued in 2003 at maturity in June 2010. For the year ended September 30, 2008, the short-term and long-term debt-to-EBITDA ratio of Infineon (excluding Qimonda) was 2.3 (on a U.S. GAAP basis, 2.6). For the year ended September 30, 2009, the short-term and long-term debt-to-EBITDA ratio of Infineon (excluding Qimonda) deteriorated to 2.9 based on significantly negative EBIT of €226 million, the impact of which was only partially offset by the reduction of debt through scheduled amortizations of credit facilities and the repurchases and redemptions of outstanding convertible subordinated and exchangeable subordinated notes, in excess of the proceeds of new convertible subordinated notes due 2014 that were issued in May 2009.

## 32 / SHARE-BASED COMPENSATION

In 1999, the Company's shareholders approved a long-term incentive 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 date on which the Company's stock reaches the exercise price for at least one trading day but not before the end of a two-year restriction period. Options expire seven years from the grant date. The outstanding options under this plan expired during the 2008 fiscal year.

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 no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to other eligible employees.

At the discretion of the Company, exercised options of the LTI 2001 Plan and SOP 2006 can be satisfied with shares either by issuing shares from the "Conditional Share Capital I" and "Conditional Share Capital III" for the LTI 2001 Plan or from the "Conditional Share Capital III" and "Conditional Share Capital IV/2006" for the SOP 2006 or by transferring own shares held by the Company.

A summary of the status of the LTI 1999 Plan, the LTI 2001 Plan, and the SOP 2006 as of September 30, 2008 and 2009, respectively, and changes during the fiscal years then ended are 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, 2007 | 39.4 | 16.17 | 2.99 | 66 |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited and expired | (6.2) | 37.44 | | |
| **Outstanding at September 30, 2008** | 33.2 | 12.30 | 2.28 | — |
| Vested and expected to vest, net of estimated forfeitures at September 30, 2008 | 30.6 | 12.32 | 2.28 | — |
| Exercisable at September 30, 2008 | 26.5 | 12.89 | 1.83 | — |
| | | | | |
| Outstanding at September 30, 2008 | 33.2 | 12.30 | 2.28 | — |
| Granted | 2.6 | | | |
| Exercised | — | — | | |
| Forfeited and expired | (12.1) | 16.28 | | |
| **Outstanding at September 30, 2009** | 23.7 | 9.18 | 2.23 | 3.0 |
| Vested and expected to vest, net of estimated forfeitures at September 30, 2009 | 23.1 | 9.22 | 2.18 | 2.7 |
| Exercisable at September 30, 2009 | 17.6 | 9.74 | 1.51 | — |

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2009 (options in millions, exercise prices in Euro):

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number of options | Weighted-average remaining life ( in years) | Weighted-average exercise price | Number of options | Weighted-average exercise price |
| Under €5 | 2.7 | 5.68 | 2.72 | — | — |
| €5 – €10 | 14.3 | 1.79 | 8.72 | 12.9 | 8.78 |
| €10 – €15 | 6.7 | 1.83 | 12.67 | 4.7 | 12.40 |
| **Total** | 23.7 | 2.24 | 9.18 | 17.6 | 9.74 |

Options with an aggregate fair value of €32 million, €26 million and €10 million vested during the fiscal years ended September 30, 2007, 2008 and 2009, respectively. Options with a total intrinsic value of €6 million, €0 million and €0 were exercised during the fiscal years ended September 30, 2007, 2008 and 2009, respectively.

Changes in the Company's unvested options for the fiscal years ended September 30, 2008 and 2009 are summarized as follows (options in millions, 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, 2007 | 13.6 | 3.50 | 4.77 | 35 |
| Granted | — | — | | |
| Vested | (6.5) | 4.04 | | |
| Forfeited | (0.4) | 3.23 | | |
| **Unvested at September 30, 2008** | 6.7 | 2.96 | 4.05 | — |
| Unvested options expected to vest | 4.1 | 3.30 | 4.03 | — |
| Unvested at September 30, 2008 | 6.7 | 2.96 | 4.05 | — |
| Granted | 2.6 | 0.71 | | |
| Vested | (2.9) | 3.54 | | |
| Forfeited | (0.4) | 2.99 | | |
| **Unvested at September 30, 2009** | 6.0 | 1.70 | 4.33 | 3.0 |
| Unvested options expected to vest | 5.5 | 1.69 | 4.34 | 2.7 |

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. For options granted prior to October 1, 2005, Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. For options granted after October 1, 2005, 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.

For options granted after October 1, 2005, forfeitures are estimated based on historical experience; prior to that date, 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, 2009.

The following weighted-average assumptions were used in the fair value calculation during the fiscal years ended September 30, 2007 and 2009 as there was no issuance during the 2008 fiscal year:

| | 2007 | 2009 |
|---|---|---|
| Weighted-average assumptions: | | |
| Risk-free interest rate | 3.91% | 1.88% |
| Expected volatility, underlying shares | 40% | 67% |
| Expected volatility, SOX index | 36% | 36% |
| Forfeiture rate, per year | 3.40% | 3.40% |
| Dividend yield | 0% | 0% |
| Expected life in years | 3.09 | 3.20 |
| **Weighted-average fair value per option at grant date** in € | 2.03 | 0.71 |

As of September 30, 2009, there was a total of €2 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of 1.22 years.

## SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense was allocated as follows for the fiscal years ended September 30, 2007, 2008 and 2009:

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Compensation expense recognized: | | | |
| Cost of goods sold | 2 | 1 | — |
| Selling, general and administrative expenses | 6 | 3 | 2 |
| Research and development expenses | 4 | 1 | — |
| **Total share-based compensation expense** | 12 | 5 | 2 |
| Share-based compensation effect on basic and diluted loss per shares in € | (0.02) | (0.01) | — |

No cash was received from stock option exercises during the fiscal years ended September 30, 2008 and 2009. The amount of share-based compensation expense which was capitalized and remained in inventories for the fiscal years ended September 30, 2007, 2008 and 2009 was immaterial. Share-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.

## 33 / SUPPLEMENTAL CASH FLOW INFORMATION

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Non-cash investing activities: | | | |
| Molstanda (note 4) | (41) | — | — |
| Non-cash financing activities: | | | |
| Molstanda (note 4) | 76 | — | — |

## 34 / RELATED PARTIES

The Company has transactions in the normal course of business with Equity Method Investments and related persons such as members of the Management and Supervisory Boards (collectively, "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.

Related Party receivables consist primarily of trade, financial, and other receivables from Equity Method Investments and Related Companies, and totaled €78 million and €9 million as of September 30, 2008 and 2009, respectively.

Related Party payables consist primarily of trade, financial, and other payables from Equity Method Investments, and totaled €21 million and €15 million as of September 30, 2008 and 2009, respectively.

Related Party receivables and payables as of September 30, 2008 and 2009 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.

Sales to Related Parties totaled €57 million, €1 million and €2 million in the 2007, 2008 and 2009 fiscal years, respectively, whereas purchases from Related Parties totaled €47 million, €148 million and €138 million in the 2007, 2008 and 2009 fiscal years, respectively.

## REMUNERATION OF MANAGEMENT

In the 2009 fiscal year, the currently active members of the Management Board of Infineon Technologies AG received total compensation of €3.6 million (previous year: €3.3 million, pro rata for the duration of membership on the Management Board during the fiscal year). The total annual compensation for all active members of the Management Board in the previous fiscal year amounted to €4.9 million and included the compensation for Mr. Fischl and Dr. Ziebart who retired during the 2008 fiscal year. In the 2008 and 2009 fiscal years, no stock options were granted to members of the Management Board. No performance-related bonuses were paid for the 2008 and 2009 fiscal years. The total cash compensation in the 2009 fiscal year paid to the current members of the Management Board amounts to €3.6 million (previous year: €3.3 million).

The total aggregate cash compensation of the members of the Supervisory Board of the Infineon Technologies AG in the 2009 fiscal year amounted to €0.5 million (previous year: €0.5 million). In the 2009 fiscal year, the members of the Supervisory Board waived their share appreciations rights for the 2009 fiscal year.

Former members of the Management Board received total payments of €1.8 million (severance and pension payments) in the 2009 fiscal year (previous year: €0.9 million).

As of September 30, 2009, pension liabilities for former members of the Management Board amount to €27 million (previous year: €27 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

Regarding the required information on the individual remuneration of the members of the Supervisory or Management Board 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.

## 35 / EMPLOYEE BENEFITS

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 September 30.

Information with respect to the Company's pension plans for the years ended September 30, 2008 and 2009 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

| € in millions | 2008 | | 2009 | |
|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Change in defined benefit obligation: | | | | |
| Present value of defined benefit obligation at beginning of year | (398) | (77) | (297) | (79) |
| Current service cost | (16) | (3) | (10) | (2) |
| Interest cost | (18) | (4) | (19) | (4) |
| Actuarial gains (losses) | 69 | (1) | (46) | 2 |
| Divestitures | — | — | — | 10 |
| New plan created and plan amendments | 1 | (1) | — | — |
| Curtailments | — | — | 4 | 3 |
| Benefits paid | 5 | 2 | 8 | 3 |
| Plan transfers to Qimonda | 7 | — | — | — |
| Present value of defined benefit obligation reclassified as held for disposal | 53 | 2 | 11 | 1 |
| Foreign currency effects | — | 3 | — | 2 |
| **Present value of defined benefit obligation at end of year** | (297) | (79) | (349) | (64) |
| Change in fair value of plan assets: | | | | |
| Fair value at beginning of year | 368 | 41 | 298 | 35 |
| Expected return on plan assets | 22 | 3 | 21 | 2 |
| Actuarial losses | (63) | (5) | (14) | (4) |
| Divestitures | — | — | — | (6) |
| Contributions | 10 | 3 | 8 | 3 |
| Benefits paid | (5) | (2) | (8) | (3) |
| Plan transfers to Qimonda | (7) | — | — | — |
| Fair value plan assets reclassified as held for disposal | (27) | (1) | (11) | — |
| Foreign currency effects | — | (4) | — | (2) |
| **Fair value of plan assets at end of year** | 298 | 35 | 294 | 25 |

A reconciliation of the funded status of the Company's pension plans to the amounts recognized in the consolidated balance sheets is as follows:

| € in millions | 2008 | | 2009 | |
|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Present value of funded obligations | (297) | (79) | (349) | (64) |
| Fair value of plan assets | 298 | 35 | 294 | 25 |
| **Funded status** | 1 | (44) | (55) | (39) |
| Asset ceiling | — | — | — | — |
| **Asset (liability) recognized** | 1 | (44) | (55) | (39) |

Amounts recognized in the consolidated balance sheets consist of:

| € in millions | 2008 | | 2009 | |
|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Pension assets | 1 | — | — | — |
| Current portion pension liabilities | — | (1) | — | — |
| Pension liabilities | — | (43) | (55) | (39) |
| **Asset (liability) recognized** | 1 | (44) | (55) | (39) |

The experience adjustments, meaning differences between changes in assets and obligations expected on the basis of actuarial assumptions and actual changes in those assets and obligations, are as follows:

| € in millions | 2008 | | 2009 | |
|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Differences between expected and actual developments: | | | | |
| of fair value of the obligation | 4 | (1) | (1) | 3 |
| of fair value of plan assets | (63) | (5) | (14) | (4) |

The actual return on plan assets was €(43) million and €5 million in the years ended September 30, 2008 and 2009, respectively.

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

| in % | 2008 | | 2009 | |
|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Discount rate | 6.8 | 6.1 | 5.8 | 5.3 |
| Rate of salary increase | 2.5 | 2.8 | 2.0 | 1.9 |
| Projected future pension increases | 2.0 | 2.9 | 2.0 | 1.4 |
| Expected return on plan assets | 6.5 | 7.0 | 7.1 | 7.2 |

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 ongoing 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, 2008 and 2009 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

| in % | 2008 | | 2009 | | Targeted allocation | |
|---|---|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Equity securities | 30 | 47 | 31 | 37 | 36 | 47 |
| Debt securities | 36 | 16 | 28 | 17 | 31 | 16 |
| Other | 34 | 37 | 41 | 46 | 33 | 37 |
| **Total** | 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.

The components of net periodic pension cost for the years ended September 30, 2007, 2008 and 2009 are as follows:

| € in millions | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|
| | Domestic plans | Foreign plans | Domestic plans | Foreign plans | Domestic plans | Foreign plans |
| Service cost | (22) | (4) | (16) | (3) | (10) | (2) |
| Interest cost | (19) | (4) | (18) | (4) | (19) | (4) |
| Expected return on plan assets | 17 | 3 | 22 | 3 | 21 | 2 |
| Amortization of unrecognized prior service (cost) benefit | (1) | — | 1 | — | — | — |
| Curtailment gain recognized | — | 1 | — | — | 4 | 3 |
| **Net periodic pension cost** | (25) | (4) | (11) | (4) | (4) | (1) |

The past service costs relating to the pension plans are amortized in equal amounts over the average period until the benefits become vested.

Actuarial gains of €124 million, €0 million and a loss of €62 million have been recognized in the statement of recognized income and expense for the years ended September 30, 2007, 2008 and 2009 respectively.

It is not planned nor anticipated that any plan assets will be returned to any business entity during the next fiscal year.

The effect of employee terminations in connection with the Company's restructuring plans on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2007, 2008 and 2009 pursuant to the provisions of IAS 19.

The interest cost due to the increase in the present value of the defined benefit obligation during a period and the interest income from the plan assets are shown as interest expense or interest income.

The remaining net periodic pension cost is mainly attributed to cost of sales, research and development costs and selling, general and administrative expenses.

The Company recognized €108 million, €105 million and €101 million as an expense for defined contribution plans in the financial years ended September 30, 2007, 2008 and 2009.

## 36 / ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and the fair values by class of financial instruments and reconciliation from the classes of financial instruments to the IAS 39 categories of financial instruments.

| € in millions | Categories of financial assets | | | | | |
|---|---|---|---|---|---|---|
| Financial assets: | Carrying amount | At fair value through profit or loss | Designated cash flow hedges | Available for sale | Loans and receivables | Fair value |
| Balance September 30, 2008 | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | 749 | — | — | — | 749 | 749 |
| Available-for-sale financial assets | 134 | — | — | 134 | — | 134 |
| Trade and other receivables | 799 | — | — | — | 799 | 799 |
| Other current financial assets | 19 | 19 | — | — | — | 19 |
| Non-current assets: | | | | | | |
| Other financial assets | 144 | — | — | 29 | 115 | 144 |
| **Total** | 1,845 | 19 | — | 163 | 1,663 | 1,845 |
| Balance September 30, 2009 | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | 1,414 | — | — | — | 1,414 | 1,414 |
| Available-for-sale financial assets | 93 | — | — | 93 | — | 93 |
| Trade and other receivables | 514 | — | — | — | 514 | 514 |
| Other current financial assets | 26 | 25 | 1 | — | — | 26 |
| Non-current assets: | | | | | | |
| Other financial assets | 124 | — | — | 26 | 98 | 124 |
| **Total** | 2,171 | 25 | 1 | 119 | 2,026 | 2,171 |

| € in millions | | Categories of financial liabilities | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial liabilities: | Carrying amount | At fair value through profit or loss | Designated cash flow hedges at fair value | Other financial liabilities (amortized cost | Lease liabilities | Fair value |
| 01 | Balance September 30, 2008 | | | | | | |
| | Current liabilities: | | | | | | |
| 02 | Short-term debt and current maturities of long-term debt | 207 | — | — | 207 | — | 207 |
| 03 | Trade and other payables | 507 | — | — | 507 | — | 507 |
| 04 | Other current financial liabilities | 63 | 20 | 5 | 38 | — | 63 |
| | Non-current liabilities: | | | | | | |
| 05 | Long-term debt | 963 | — | — | 963 | — | 967 |
| 06 | Other financial liabilities | 20 | — | — | 20 | — | 20 |
| 07 | **Total** | 1,760 | 20 | 5 | 1,735 | — | 1,764 |
| | Balance September 30, 2009 | | | | | | |
| 08 | Current liabilities: | | | | | | |
| 09 | Short-term debt and current maturities of long-term debt | 521 | — | — | 521 | — | 506 |
| 10 | Trade and other payables | 393 | — | — | 393 | — | 393 |
| 11 | Other current financial liabilities | 50 | 15 | — | 35 | — | 50 |
| | Non-current liabilities: | | | | | | |
| | Long-term debt | 329 | — | — | 329 | — | 317 |
| | Other financial liabilities | 5 | — | — | 5 | — | 5 |
| | **Total** | 1,298 | 15 | — | 1,283 | — | 1,271 |

12 13 14 15 16 17 18 19 20 21 22 23

The following table contains information about net gains (losses) from continuing operations by category of financial instruments for the years ended September 30, 2008 and 2009:

| € in millions | | | Financial assets and financial receivables at fair value through profit or loss | | | | |
|---|---|---|---|---|---|---|---|
| Net gains (losses) on financial instruments | Available-for-sale financial assets | Loans and receivables | Designated as at fair value through profit or loss | Held for trading | Other liabilities | Cash flow hedges | Total |
| Fiscal year 2008: | | | | | | | |
| Total removed from equity and recognized in profit or loss | (2) | — | — | — | — | (2) | (4) |
| Fair value gain (loss) recognized directly in equity | 1 | — | — | — | — | — | 1 |
| Net gains (losses) recognized in equity | (1) | — | — | — | — | (2) | (3) |
| Interest revenue | 9 | 46 | 2 | — | (147) | (2) | (92) |
| Net foreign exchange gain (loss) | — | (10) | — | 15 | 10 | — | 15 |
| Fair value gain (loss) | (3) | — | (10) | (12) | — | — | (25) |
| Impairment loss (reversal) | (6) | (3) | — | — | — | — | (9) |
| Total recognized in profit or loss | — | 33 | (8) | 3 | (137) | (2) | (111) |
| **Total net gain (loss)** | (1) | 33 | (8) | 3 | (137) | (4) | (114) |
| Fiscal year 2009: | | | | | | | |
| Total removed from equity and recognized in profit or loss | 4 | — | — | — | — | 7 | 11 |
| Fair value gain (loss) recognized directly in equity | — | — | — | — | — | — | — |
| Net gains (losses) recognized in equity | 4 | — | — | — | — | 7 | 11 |
| Interest revenue | 61 | 22 | — | — | (124) | (2) | (43) |
| Net foreign exchange gain (loss) | — | 3 | — | (16) | 2 | — | (11) |
| Fair value gain (loss) | (23) | — | (4) | 17 | — | — | (10) |
| Impairment loss (reversal) | — | (18) | — | — | — | — | (18) |
| Total recognized in profit or loss | 38 | 7 | (4) | 1 | (122) | (2) | (82) |
| **Total net gain (loss)** | 42 | 7 | (4) | 1 | (122) | 5 | (71) |

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company periodically enters into derivative financial instruments, 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.

The Euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2008 and 2009 are as follows:

| € in millions | 2008 | | 2009 | |
|---|---|---|---|---|
| | Notional amount | Fair value | Notional amount | Fair value |
| **Forward contracts sold:** | | | | |
| U.S. dollar | 213 | (5) | 390 | 8 |
| Japanese yen | 5 | — | 4 | — |
| Singapore dollar | 10 | — | 2 | — |
| Malaysian ringgit | 3 | — | — | — |
| **Forward contracts purchased:** | | | | |
| U.S. dollar | 157 | (4) | 78 | (5) |
| Japanese yen | 1 | — | 5 | — |
| Singapore dollar | 29 | — | 16 | — |
| Great Britain pound | 9 | — | 4 | — |
| Malaysian ringgit | 52 | — | 41 | (2) |
| Norwegian krone | 2 | — | — | — |
| **Currency Options sold:** | | | | |
| U.S. dollar | 177 | (5) | — | — |
| **Currency Options purchased:** | | | | |
| U.S. dollar | 163 | 1 | — | — |
| Interest rate swaps | 500 | (1) | 500 | 16 |
| Other | 77 | (1) | 13 | (6) |
| **Fair value, net** | | (15) | | 11 |

The Company enters into derivative instruments, primarily foreign exchange forward contracts, to hedge significant anticipated U.S. dollar cash flows from operations. During the fiscal year ended September 30, 2009, the Company designated as cash flow hedges certain foreign exchange forward contracts and foreign exchange options related to highly probable forecasted sales denominated in U.S. dollars. The Company did not record any ineffectiveness for these hedges for the fiscal year ended September 30, 2009. However, it excluded differences between spot and forward rates and the time value from the assessment of hedge effectiveness and included this component of financial instruments' gain or loss as part of cost of goods sold. It is estimated that €0 million of the net result recognized directly in other components of equity as of September 30, 2009 will be reclassified into earnings during the 2010 fiscal year. All foreign exchange derivatives designated as cash flow hedges held as of September 30, 2009 have maturities of five months or less. Foreign exchange derivatives entered into by the Company to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period with unrealized gains and losses recognized in earnings. For the fiscal years ended September 30, 2008 and 2009, no gains or losses were reclassified from other components of equity as a result of the discontinuance of foreign currency cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

## FAIR VALUE

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, 2009, the subordinated convertible notes, due 2010 and 2014, were trading at a 0.45 percent and a 93.14 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. Available for sale financial assets are recorded at fair value (see note 13).

## 37 / FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge

certain risk exposures. Risk management is carried out by a central Finance and Treasury ("FT") department under policies approved by the Management Board. The FT department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The FT department's policy contains written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

## MARKET RISK

Market risk is defined as the risk of loss related to adverse changes in market prices of financial instruments, including those related to foreign exchange rates and interest rates.

The Company is exposed to various financial market risks in the ordinary course of business transactions, primarily resulting from changes in foreign exchange rates and interest rates. The Company enters into diverse derivative financial transactions with several counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

### FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Although the Company prepares the consolidated financial statements in Euro, major portions of its sales volumes as well as costs relating to the design, development, manufacturing and marketing of products are denominated in currencies other than the Euro, primarily the U.S. dollar. Fluctuations in the exchange rates of these currencies to the Euro had an effect on results in the 2008 and 2009 fiscal years.

Management has established a policy to require the Company's individual legal entities to manage their foreign exchange risk against their functional currency. The legal entities are required to internally hedge their entire foreign exchange risk exposure with the Company's FT department. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the individual entities use forward contracts, transacted with the Company's FT department.

The Company's policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of its estimated net exposure for the initial two-month period, at least 50 percent of its estimated net exposure for the third month and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Part of the foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. The Company calculates this net exposure on a cash-flow basis considering balance sheet items, actual orders received or made and all other planned revenues and expenses.

For the fiscal years ended September 30, 2008 and 2009, net gains (losses) related to foreign currency derivatives and foreign currency transactions included in determining net income (loss) amounted to €15 million and €(11) million, respectively.

The following table shows the net exposure for continuing operations by major foreign currencies and the potential effects on a 10 percent shift of the currency exchange rates to be applied as of September 30, 2008 and 2009.

| € in millions | Profit or Loss | | Equity | |
|---|---|---|---|---|
| | +10% | –10% | +10% | –10% |
| **September 30, 2008** | | | | |
| EUR/USD | 2 | (3) | 11 | (15) |
| EUR/MYR | (5) | 6 | — | — |
| EUR/YEN | (1) | 1 | — | — |
| EUR/SGD | (1) | 1 | — | — |
| **September 30, 2009** | | | | |
| EUR/USD | 4 | (5) | 11 | (13) |
| EUR/MYR | (2) | 3 | — | — |
| EUR/YEN | — | — | — | — |
| EUR/SGD | — | — | — | — |

### INTEREST RATE RISK

In accordance with IFRS 7 interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk through its financial assets and debt instruments resulting from issuance of bonds and credit facilities. Due to the high volatility of its core business and the need to maintain high operational flexibility, its liquid financial assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the risk caused by changes in market interest rates, the Company attempts to align the duration of the interest rates of its debts and current assets by the use of interest rate derivatives.

The Company entered into interest rate swap agreements that primarily convert the fixed interest rate on its 2003 convertible bond to a floating interest rate based on the relevant European Interbank Offering Rate ("EURIBOR").

IFRS 7 requires a sensitivity analysis showing the effect of possible changes in market interest on profit or loss and equity. The Company does not hold any fixed-rate financial assets or liabilities categorized as at fair value through profit or loss and does not apply hedge accounting for interest rate risk. In respect of fixed-rate available-for-sale financial assets, a change of 100 basis points in interest rates at the reporting date would have increased or decreased equity by €1 million and by €1 million as of September 30, 2008 and 2009, respectively.

Changes in market interest rates affect interest income and interest expense on floating interest financial instruments. A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit or loss by €4 million and by €2 million in the 2008 and 2009 fiscal year, respectively.

Changes in interest rates affect the fair value and cash flows of interest rate derivatives. A change of 100 basis points in interest rates at the reporting date would have decreased or increased profit or loss by €12 million and by €3 million in the 2008 and 2009 fiscal year.

### OTHER PRICE RISK

According to IFRS 7 other price risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Infineon holds financial instruments which are exposed to market price risks. A potential change of in the relevant market prices of 5 percent would increase or decrease profit or loss by €4 million and €1 million for the fiscal years ended September 30, 2008 and 2009, respectively.

Additionally, the Company is exposed to price risks with respect to raw materials used in the manufacture of its products. The Company seeks to minimize these risks through its sourcing policies (including the use of multiple sources, where possible) and its operating procedures. The Company does not use derivative financial instruments to manage any exposure to fluctuations in commodity prices remaining after the operating measures described above.

### CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, available-for-sale financial assets 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. The credit risk with respect to cash equivalents, available-for-sale financial assets and financial derivatives is limited by transactions with a number of large international financial institutions, with preestablished 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. The credit worthiness of the counterparties is checked regularly in order to keep the risk of default as low as possible. However, the Company cannot fully exclude the possibility of any loss arising from the default of one of the counterparties.

### LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk could arise from the Company's potential inability to meet matured financial obligations. The Company's liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's FT department maintains flexibility in funding by maintaining availability under committed credit lines.

The following table discloses a maturity analysis for non-derivative financial liabilities and a cash flow analysis for derivative financial instruments with negative fair values. The table shows the undiscounted contractually agreed cash flows which result from the respective financial liability. Cash flows are recognized at trade date when the Company becomes a party to the contractual provision of the financial instrument. Amounts in foreign currencies are translated using the closing rate at the reporting date. Financial instruments with variable interest payments are determined using the interest rate from the last interest fixing date before September 30, 2009. The cash outflows of financial liabilities that can be paid off at any time are assigned to the time band where the earliest redemption is possible.

| € in millions | Contractual cash flows | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|---|---|
| Non derivative financial liabilities | 6 | — | 3 | 1 | 1 | 1 | — |
| Derivative financial liabilities: | | | | | | | |
| Cash outflow | 301 | 280 | 21 | — | — | — | — |
| Cash inflow[1] | (294) | (274) | (20) | — | — | — | — |
| **Total** | 13 | 6 | 4 | 1 | 1 | 1 | — |

1 Cash inflows of derivates financial liabilities are also included when the instruments is gross settled in order to show all contractual cash flows.

## 38 / COMMITMENTS AND CONTINGENCIES

### LITIGATION AND GOVERNMENT INQUIRIES

#### U.S. DEPARTMENT OF JUSTICE MATTER

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 during certain periods of time between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million (plus interest) in annual installments through 2009. The final installment of $25 million plus interest (approximately €17 million) was paid in October 2009. The Company has agreed to continue cooperating 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 settled with the OEM customers. In addition to those OEM customers, the Company has settled with eight direct customers.

#### ANTITRUST LITIGATION

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed in U.S. federal courts against the Company, its U.S. subsidiary Infineon Technologies North America Corp. ("IF North America") and other DRAM suppliers by direct purchasers, indirect purchasers and various U.S. state attorneys general. The lawsuits allege price-fixing in violation of the Sherman Act and seek treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, these federal cases were 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 for the class of direct U.S. purchasers of DRAM (granting an opportunity for individual class members to opt out of the settlement). In November 2006, the court approved the settlement agreement, entered final judgment and dismissed the claims with prejudice. Six entities chose to opt out of the class action settlement of the direct customers and pursue individual lawsuits against the Company and IF North America. The Company and IF North America have settled with all six plaintiffs.

Sixty-four additional cases were filed through October 2005 in numerous federal and state courts throughout the U.S. Each of these state and federal cases (except for one relating to foreign purchasers described below) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM products in the U.S. during specified time periods commencing in or after 1999. 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.

The foreign purchasers' case was dismissed with prejudice and without leave to amend in March 2006, which was affirmed in August 2008 by the Ninth Circuit Court of Appeals.

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 MDL proceeding 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.

In January 2008, the district court in the MDL indirect purchaser proceedings granted in part and denied in part the defendants' motion for judgment on the pleadings directed at several of the claims. In June 2008, the Ninth Circuit Court of Appeals agreed to hear an appeal by the plaintiffs. Plaintiffs have agreed to a stay of further proceedings in the MDL indirect purchaser cases until the appeal is complete.

Plaintiffs in various state court indirect purchaser actions outside of the MDL have moved to lift the stays that were previously in place. In March 2009, the judge in the Arizona state court action issued an order denying plaintiffs' motion to lift the stay. A hearing on plaintiffs' motion to lift the stay in the Minnesota state court indirect purchaser action was held in May 2009, but no ruling has yet been issued. On September 11, 2009, the court in the Arkansas state action issued an order directing the parties to submit to mediation within ninety days, and granting plaintiffs' motion to lift the stay after the ninety day period. On July 9, 2009, the court in the Wisconsin state court indirect purchaser action issued an order lifting the stay in the Wisconsin state case. On October 20, 2009, the court in the West Virginia state court indirect purchaser action issued an order lifting the stay in the West Virginia state case.

The state attorneys general of forty-one U.S. states and territories have filed various suits against the Company, IF North America and several other DRAM manufacturers on behalf of governmental entities and consumers in each of those states 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. The various suits filed by these attorneys general have been made part of the MDL proceeding described above. Between June 2007 and December 2008, the state attorneys general of eight states filed requests for dismissal of their claims. In September 2008, the court denied a joint motion by California and New Mexico seeking to certify classes of all public entities within both states.

In October 2008, approximately ninety-five California schools, political subdivisions and public agencies that were previously putative class members of the multistate attorneys general complaint described above filed suit in California Superior Court against the Company, IF North America, and several other DRAM manufacturers alleging DRAM price-fixing and artificial price inflation in violation of California state antitrust and consumer protection laws arising out of the alleged practices described above. The plaintiffs seek recovery of actual and treble damages in unspecified amounts, restitution, costs (including attorneys' fees) and injunctive and other equitable relief. This suit is ongoing.

No reasonable estimated amount can be attributed at this time to the potential outcome of the claims described above. In addition, certain of these matters are currently subject to mediation, pursuant to which the parties are prohibited from disclosing potential settlement amounts.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec, 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. No reasonable estimated amount can be attributed at this time to the potential outcome of the putative class proceedings.

### OTHER GOVERNMENT INQUIRIES

In April 2003, the Company received a request for information from the European Commission (the "Commission") regarding certain competitive practices of which the Commission has become aware in the European market for DRAM products. The Commission opened formal proceedings in February 2009. The Company is cooperating with the Commission in its investigation. The exact amount of potential fines cannot be predicted with certainty and, therefore, it is possible that any fine actually imposed on the Company by the Commission may be materially higher than the provision recorded therefor. Any disclosure of the Company's estimate of potential outcome could seriously prejudice the position of the Company in this 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 cooperating with the Competition Bureau in its inquiry. No reasonable estimated amount can be attributed at this time to the potential outcome of these inquiries.

In October 2008, the Company learned that the Commission had commenced an investigation involving the Company's Chip Card & Security business for alleged violations of antitrust laws. In September and October 2009, the Company and its French subsidiary received written requests for information from the Commission. The Company is cooperating with the Commission in answering the requests. No reasonable estimated amount can be attributed at this time to the potential outcome of this investigation.

### SECURITIES LITIGATION

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 investors that purchased the Company's publicly-traded securities from March 2000 to July 2004. 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. The complaint also alleges 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 January 2008, the court denied a motion to dismiss with respect to plaintiffs' claims under sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 and dismissed the claim under section 20A of the act with prejudice. In March 2009, the court granted plaintiffs' motion to certify a class of persons who acquired the Company's securities between March 2000 and July 2004, including foreign purchasers who sold their securities after June 2002. In April 2009, the Ninth Circuit Court of Appeals granted the Company's petition to immediately appeal the court's March 2009 order granting class certification. In May 2009, the court issued an order staying the case pending resolution of the Company's appeal by the Ninth Circuit. No specified amount of damages has been asserted by the plaintiffs. These matters are currently subject to mediation.

The Company's directors' and officers' insurance carriers have denied coverage in the securities class action described above 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.

## PATENT LITIGATION

In October 2007, CIF Licensing LLC ("CIF"), a member of the General Electric Group, filed suit in the Civil Court of Düsseldorf, Germany against Deutsche Telekom AG alleging infringement of four European patents in Germany by certain CPE-modems and ADSL-systems (the "CIF Suit"). Deutsche Telecom has notified its suppliers, which include customers of the Company, that a declaratory judgment of patent infringement would be legally binding on the suppliers. In January 2008, the Company joined the suit on the side of Deutsche Telecom. CIF then filed suit against the Company alleging indirect infringement of one of the four European patents. The Company is part of a joint defense group consisting of Deutsche Telecom, most of its suppliers and most of their respective suppliers. The Company is contractually obligated to indemnify and/or to pay damages to its customers under certain circumstances pursuant to its customer contracts. In July 2008, Deutsche Telecom, the Company and the other defendants filed actions contesting the validity of the four patents before the Federal Patent Court in Munich. In October 2008, CIF also filed suit in the Civil Court of Düsseldorf against Arcor GmbH &Co KG, Hansenet Telekommunikation GmbH, United Internet AG (all three, the "New Defendants") alleging infringement of the same four European patents. The New Defendants have notified their suppliers of the suit. The proceedings at the Civil Court in Düsseldorf have been stayed and the Company expects that they will only continue after resolution of the pending Federal Patent Court actions. No specified amount of damages has been asserted by CIF in these suits. Any disclosure of Company's estimate of potential outcomes, if such amounts could reasonably be estimated at this time, could seriously prejudice the position of the Company in these suits.

In November 2008, Volterra Semiconductor Corporation ("Volterra") filed suit against Primarion, Inc., the Company and IF North America (the "Defendants") in the U.S District Court for the Northern District of California for alleged infringement of five U.S. patents ("Patents") by certain products offered by Primarion. The Defendants denied any infringement and filed a counterclaim against Volterra alleging certain antitrust violations, fraud on the U.S. Patent and Trademark Office ("U.S. PTO") and that the Patents are invalid. The U.S. PTO granted the requested reexamination of all Patents. In June 2009, the court ordered a stay in the case regarding two of the Patents pending the completion of the reexamination proceedings. On July 10, 2009, Volterra filed motions for a preliminary injunction and for partial summary judgment of infringement. On September 30, 2009, the court issued a minute order granting Volterra's motion for a preliminary injunction and denying the motion for partial summary judgment without prejudice. The Defendants intend to appeal the order and apply for a stay of the injunction once it is issued with reasons. A trial date has not been set yet. No specified amount of damages has been asserted by Volterra and no reasonable estimated amount can be attributed at this time to the potential outcome of the Volterra claim.

In November 2008, the Company, Infineon Technologies Austria AG and IF North America filed a complaint in the U.S. District Court for the District of Delaware against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation alleging patent infringement by Fairchild and seeking declaratory judgment of non-infringement and invalidity of certain patents of Fairchild. Fairchild counterclaimed for declaratory judgment. Fairchild Semiconductor Corporation has further filed another patent infringement suit against the Company and IF North America in the U.S. District Court for the District of Maine alleging that certain products of the Company infringe two more patents of Fairchild Semiconductor Corporation which are not part of the Delaware lawsuit. On September 30, 2009, the District Court for the District of Delaware granted the Company's motion for leave to amend its complaint to add the patents asserted by Fairchild in the District of Maine to the Delaware action. Subsequently, the District of Maine transferred the Maine action to the District of Delaware and closed the Maine action. No specified amount of damages has been asserted by Fairchild and no reasonable estimated amount can be attributed at this time to the potential outcome of its counterclaim.

In April 2009, Optimum Processing Solutions LLC ("OPS"), a Georgia limited liability company, filed a claim in the U.S. Federal District Court for the Northern District of Georgia against IF North America, Advanced Micro Devices, Inc., Freescale Semiconductor, Inc., Intel Corporation, International Business Machines Corporation, STMicroelectronics, Inc., Sun Microsystems, Inc. and Texas Instruments, Inc. The complaint alleges that certain microchips manufactured, used or offered for sale by IF North America and the other defendants infringe U.S. patent no. 5,117,497, allegedly held by the plaintiff. On July 10, 2009, IF North America and OPS settled the patent litigation claim.

In May 2009, Gregory Bender filed suit in the U.S. District Court for the Northern District of California, against four companies, including IF North America, alleging infringement of one U.S. patent by certain electronic products having a buffered amplifier. No specified amount of damages has been asserted by the plaintiff and no reasonable estimated amount can be attributed at this time to the potential outcome of this claim.

### QIMONDA EMPLOYMENT LITIGATION

In April 2009, former employees of Qimonda's subsidiaries in the U.S. filed a complaint in the U.S. Federal District Court in Delaware against the Company, IF North America and Qimonda AG, individually and on behalf of several putative classes of plaintiffs. The suit relates to the termination of the plaintiffs' employment in connection with Qimonda's insolvency and the payment of severance and other benefits allegedly due by Qimonda. The complaint seeks to "pierce the corporate veil" and to impose liability on the Company and IF North America under several theories. No specified amount of damages has been asserted by the plaintiffs and no reasonable estimated amount can be attributed at this time to the potential outcome of the claim.

The Company and its subsidiary Infineon Dresden are subject to lawsuits by approximately 70 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and who seek to be re-employed by the Company. No reasonable estimated amount can be attributed at this time to the potential outcome of any such claims.

## PROVISIONS AND THE POTENTIAL EFFECT OF THESE MATTERS

Provisions 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 mid-point of the range is accrued. As of September 30, 2009, provisions were recorded by the Company in connection with the European antitrust investigation, the securities class action complaints, and the direct and indirect purchaser litigation described above.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. Provisions with respect to these matters 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, results of operations and cash flows.

An adverse final resolution of any 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 continuously evaluating the merits of the 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.

## QIMONDA MATTERS

The Company faces certain contingent liabilities, and has made certain related provisions, in connection with the commencement of insolvency proceedings by Qimonda. For information on these matters see note 5.

## CONTRACTUAL COMMITMENTS

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2009[1]:

| Payments Due by Period (€ in millions) | 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 | 740 | 69 | 65 | 60 | 57 | 56 | 433 |
| Unconditional purchase commitments tangible assets | 35 | 35 | — | — | — | — | — |
| Unconditional purchase commitments intangible assets | 1 | 1 | — | — | — | — | — |
| Unconditional purchase commitments other | 531 | 404 | 85 | 28 | 12 | 2 | — |
| Future interest payments | 110 | 43 | 19 | 17 | 15 | 15 | 1 |
| **Total Commitments** | 1,417 | 552 | 169 | 105 | 84 | 73 | 434 |

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.

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 regular 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, 2009[1]:

| Expirations by Period (€ in millions) | 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] | 81 | 10 | 8 | — | 5 | 2 | 56 |
| Contingent government grants[3] | 37 | 8 | 14 | 4 | 5 | 6 | — |
| **Total contingencies** | 118 | 18 | 22 | 4 | 10 | 8 | 56 |

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.

On a group-wide basis the Company has guarantees outstanding to external parties of €81 million as of September 30, 2009. In addition, the Company, as parent company, has in certain customary circumstances guaranteed the settlement of certain of its consolidated subsidiaries' obligations to third parties. Such third party obligations are or will be reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2009, such guarantees, principally relating to certain consolidated subsidiaries' third-party debt, aggregated €919 million, of which €644 million relates to convertible notes issued.

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, 2009, a maximum of €37 million of these subsidies could be refundable. Such amount does not include any potential liabilities in respect of Qimonda-related subsidies (see note 5).

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease Campeon, an office complex constructed by MoTo south of Munich, Germany. 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 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 part of other financial assets in the balance sheet as of September 30, 2009. 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 IAS 17, 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, 2009 is presented in note 24.

## 39 / OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

The Company has reported its operating segment and geographic information in accordance with IFRS 8.

The Company's core business is organized in four operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions:

### AUTOMOTIVE

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, it offers corresponding system know-how and support to its customers.

### INDUSTRIAL & MULTIMARKET

The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial applications and in applications with customer-specific product requirements.

### CHIP CARD & SECURITY

The Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications.

### WIRELESS SOLUTIONS

The Wireless Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireless communication applications.

The current segment structure reflects a reorganization of the Company's operations effective October 1, 2008. To better align its business with its target markets, the core business was reorganized into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications. In July 2009, the Company entered into an asset purchase agreement to sell its Wireline Communications business, which closed on November 6, 2009 (see note 5). As a result of the planned sale, the Management Board determined that Wireline Communications ceased to be an operating segment in September 2009. Management reporting was adjusted accordingly. Segment results for all periods presented have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information.

Other Operating Segments includes net sales and earnings that the Infineon 200-millimeter production facility in Dresden recorded from the sale of wafers to Qimonda under a foundry agreement which was cancelled during the 2008 fiscal year. The last wafer was delivered to Qimonda in May 2008. The Corporate and Eliminations segment reflects the elimination of these net sales and earnings. Furthermore, raw materials and work-in-process of the common production front-end facilities, and raw materials of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers, but rather of the operations management. The operations management is responsible for the execution of the production schedule, volume and units. Accordingly, this inventory is not attributed to the operating segments, but is included in the Corporate and Eliminations segment. Only work-in-process of back-end facilities and finished goods are attributed to the operating segments. The Company records gains and losses from sales of investments in marketable debt and equity securities in the Corporate and Eliminations segment.

The Company's Management Board has been collectively identified as the CODM. The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and Segment Result. The Company defines Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net, share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. The Company's management uses Segment Result to establish budgets and operational goals, manage the Company's business and evaluate its performance. The Company reports Segment Result because it believes that it provides investors with meaningful information about the operating performance of its segments.

The CODM does not review asset information by segment nor does it evaluate the segments on these criteria on a regular basis, except that the CODM is provided with information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation and amortization expense to the operating segments based on production volume and product mix using standard costs.

The following tables presents selected segment data:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Revenue:** | | | |
| Automotive | 1,267 | 1,257 | 839 |
| Industrial & Multimarket | 1,188 | 1,171 | 905 |
| Chip Card & Security | 438 | 465 | 341 |
| Wireless Solutions[1] | 637 | 941 | 917 |
| Other Operating Segments[2] | 343 | 171 | 17 |
| Corporate and Eliminations[3] | (213) | (102) | 8 |
| **Total** | 3,660 | 3,903 | 3,027 |

1 Includes revenues of €30 million, €10 million and €1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, from sales of wireless communication applications to Qimonda.
2 Includes revenues of €189 million and €79 million for the fiscal years ended September 30, 2007 and 2008, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under a foundry agreement.
3 Includes the elimination of revenues of €219 million, €89 million and €1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, since these sales were not part of the Qimonda disposal plan.

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Segment Result:** | | | |
| Automotive | 122 | 105 | (117) |
| Industrial & Multimarket | 127 | 134 | 35 |
| Chip Card & Security | 20 | 52 | (4) |
| Wireless Solutions | (126) | (18) | (36) |
| Other Operating Segments | (6) | (12) | (13) |
| Corporate and Eliminations | 7 | (24) | (32) |
| **Total** | 144 | 237 | (167) |

The following table provides the reconciliation of Segment Result to the Company's loss from continuing operations before income taxes:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| Total Segment Result | 144 | 237 | (167) |
| Adjusted: | | | |
| Asset impairments, net | (5) | (132) | — |
| Restructuring charges and other related closure cost, net | (45) | (188) | 20 |
| Share-based compensation expense | (12) | (5) | (2) |
| Acquisition-related amortization and losses | (3) | (25) | (23) |
| Gains (losses) on sales of assets, businesses, or interests in subsidiaries | 28 | 70 | (18) |
| Other expense, net | (6) | (3) | (30) |
| **Operating income (loss)** | 101 | (46) | (220) |
| Financial Income | 107 | 58 | 101 |
| Financial Expense | (242) | (181) | (156) |
| Income from investments accounted for using the equity method, net | 1 | 4 | 7 |
| **Loss from continuing operations before income taxes** | (33) | (165) | (268) |

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Depreciation and amortization:** | | | |
| Automotive | 229 | 147 | 126 |
| Industrial & Multimarket | 208 | 174 | 137 |
| Chip Card & Security | 53 | 53 | 53 |
| Wireless Solutions | 67 | 115 | 152 |
| Other Operating Segments | 59 | 63 | 45 |
| Corporate and Eliminations | — | — | — |
| **Total** | 616 | 552 | 513 |

Income from investments accounted for using the equity method in the amount of €1 million, €4 million and €7 million was realized in the Industrial & Multimarket segment during the years ended September 30, 2007, 2008 and 2009, respectively. None of the remaining reportable segments had income from investments accounted for using the equity method during any of the periods presented.

| € in millions | 2008 | 2009 |
|---|---|---|
| **Inventories:** | | |
| Automotive | 147 | 71 |
| Industrial & Multimarket | 140 | 109 |
| Chip Card & Security | 46 | 30 |
| Wireless Solutions | 116 | 95 |
| Other Operating Segments | 2 | — |
| Corporate and Eliminations | 164 | 155 |
| **Subtotal** | 615 | 460 |
| Wireline Communications | 50 | — |
| **Total** | 665 | 460 |

As of September 30, 2008 and 2009, all inventories were attributed to the respective operating segment, to the extent they were under the direct control and responsibility of the respective operating segment managers.

| € in millions | 2008 | 2009 |
|---|---|---|
| **Goodwill:** | | |
| Automotive | — | — |
| Industrial & Multimarket | 12 | 19 |
| Chip Card & Security | — | — |
| Wireless Solutions | 160 | 160 |
| Other Operating Segments | — | — |
| Corporate and Eliminations | 2 | 2 |
| **Subtotal** | 174 | 181 |
| Wireline Communications | 51 | — |
| **Total** | 225 | 181 |

Consistent with the Company's internal management reporting, certain items are included in Corporate and Eliminations and not allocated to the segments. 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 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.

The following is a summary of revenue and of non-current assets by geographic area for the years ended September 30:

| € in millions | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Revenue:** | | | |
| Germany | 794 | 820 | 545 |
| Other Europe | 807 | 754 | 543 |
| North America | 530 | 483 | 409 |
| Asia/Pacific | 1,289 | 1,597 | 1,358 |
| Japan | 203 | 191 | 143 |
| Other | 37 | 58 | 29 |
| **Gesamt** | 3,660 | 3,903 | 3,027 |

| € in millions | 2008 | 2009 |
|---|---|---|
| **Property, plant and equipment; goodwill and other intangible assets:** | | |
| Germany | 831 | 641 |
| Other Europe | 325 | 239 |
| North America | 36 | 6 |
| Asia/Pacific | 559 | 409 |
| Japan | 2 | 2 |
| **Total** | 1,753 | 1,297 |

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 8.

No single customer accounted for more than 10 percent of the Company's sales during the fiscal years ended September 30, 2007, 2008 or 2009.

## 40 / EVENTS AFTER THE BALANCE SHEET DATE

The sale of the Company's Wireline Communications business to Lantiq closed on November 6, 2009 (see note 5). The final purchase price amounts to approximately €243 million, reflecting adjustments under the asset purchase agreement. On the closing date the Company received cash consideration of €223 million. The final portion of the purchase price of up to €20 million will become due in the fourth quarter of the 2010 fiscal year.

## ADDITIONAL INFORMATION TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS

### APPLICATION OF EXCEPTION REGULATIONS

Pursuant to HGB section 264 paragraph 3, the below mentioned companies intend to utilize the exception from certain rules about the preparation, audit and disclosure of their financial statements and their operating and financial review due to profit-or-loss-transfer agreements between these companies and Infineon Technologies AG:

- COMNEON GmbH, Nuremberg,
- Infineon Technologies Dresden GmbH, Dresden,
- Infineon Technologies Finance GmbH, Munich, and
- Infineon Technologies Wireless Solutions GmbH, Neubiberg.

Following the insolvency of Qimonda AG, Munich, and pursuant to HGB section 296 paragraph 1, Qimonda AG and its subsidiaries are not included in the Company´s consolidated financial statements. The Company has no information if Qimonda AG draws up consolidated financial statements or intends to utilize any exceptions from certain rules about the preparation of separate consolidated financial statements.

### INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 2 CORPORATE ACT (AKTG)

The Company did not make use of the authorization to repurchase and use its own shares, as granted by the general shareholders' meeting on February 12, 2009, and the Company did not repurchase any of its own shares in the 2009 fiscal year. As of September 30, 2009, the Company did not hold any of its own shares.

## INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 8 CORPORATE ACT (AKTG)

The German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") requires each shareholder whose voting rights reaches, exceeds or, after exceeding, falls below the 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungaufsicht) immediately, but no later than four trading days after such shareholder has reached, exceeded or fallen below such a threshold. The Company has been notified of the changes in voting rights set forth below. The stated percentages refer to the share capital held at the date of the respective notification; the number of shares stated below is taken from the most recent shareholder notification and may therefore be outdated.

- On June 8, 2006, the Capital Group Companies, Inc., Los Angeles, USA has informed the Company according to WpHG Section 21, paragraph 1 and Section 22 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany have fallen below the threshold of 5 percent on June 7, 2006 and amount on that date to 4.949 percent (corresponding to 36,995,392 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentences 2 and 3.
- On June 14, 2006, Capital Group International, Inc., Los Angeles, USA has informed the Company according to WpHG Section 21, paragraph 1 and Section 22 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany have fallen below the threshold of 5 percent on June 7, 2006 and amount on that date to 4.949 percent (corresponding to 36,995,392 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentences 2 and 3.
- On May 6, 2009, Odey Asset Management LLP, London, England has informed the Company according to WpHG Section 21, paragraph 1 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany, have exceeded the threshold of 3 percent on April 27, 2009 and on that date amounted to 3.16 percent (this corresponds to 23,687,180 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 3.16 percent of the voting rights (this corresponds to 23,687,180 voting rights) is to be attributed to the company.
- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, has informed the Company according to WpHG Section 21, paragraph 1 that, via shares the voting rights of Dodge & Cox International Stock Fund, San Francisco, USA, on Infineon Technologies AG, Neubiberg, Deutschland, have fallen below the threshold of 10 percent on August 5, 2009 and on that date amount to 9.88 percent (this corresponds to 105,919,119 voting rights).
- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, has informed the Company according to WpHG Section 21, paragraph 1 that via shares the voting rights of Dodge&Cox, San Francisco, USA, on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 10 percent on August 5, 2009 and on that date amounted to 9.95 percent (this corresponds to 106,771,627 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 9.88 percent of the voting rights is to be attributed to the company from Dodge & Cox International Stock Fund and 0.08 percent of the Voting Rights is to be attributed to the company from Dodge & Cox Global Stock Fund, which holds directly less than 3 percent.
- On November 2, 2009, the Royal Ministry of Finance, Oslo, Norway, has informed the Company according to WpHG Section 21, paragraph 1 that via shares the Voting Rights of the Kingdom of Norway on Infineon Technologies AG, Neubiberg, Germany have exceeded the 3 percent limit of the voting rights on October 28, 2009, and on that day amounted to 3.15 percent (this corresponds to 34,182,728 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 1, 3.15 percent of the voting rights (this corresponds to 34,182,728 voting rights) is to be attributed to the Kingdom of Norway from Norges Bank.
- On October 30, 2009, Norges Bank, Oslo, Norway, has informed the Company according to WpHG Section 21, paragraph 1 that via shares its Voting Rights on Infineon Technologies AG, Neubiberg, Germany, have exceeded the 3 percent limit of the Voting Rights on October 28, 2009 and on that day amounted to 3.15 percent (this corresponds to 34,182,728 Voting Rights).

## INFORMATION PURSUANT TO SECTION 161 GERMAN CORPORATE ACT (AKTG)

The compliance declaration prescribed by Section 161 AktG was executed by the Management Board and the Supervisory Board and 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 2009 fiscal year, the audit fees charged by KPMG AG Wirtschaftsprüfungsgesellschaft previously ("KPMG"), the Company's independent auditors, amounted to €1.7 million (thereof €1.2 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 2009 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 €1.8 million (thereof €1,8 million charged by the auditor engaged to audit the consolidated financial statements) in the 2009 fiscal year for other audit services. These services consisted primarily for services rendered in connection with the capital increase executed in August 2009 (see note 30) and for the quarterly reviews.

### TAX FEES

In addition to the amounts described above, KPMG charged the Company an aggregate of €0 in the 2009 fiscal year for professional services related primarily to tax compliance.

### OTHER FEES

Fees of €0.2 million (of which €0.2 million charged by the auditor engaged to audit the consolidated financial statements) were charged by KPMG in the 2009 fiscal year for other services. These services consisted of transaction and accounting advisory services, and IT system audits.

The above services fall within the scope of audit and permitted non-audit services within the meaning of section 201 of the Sarbanes-Oxley Act of 2002. The Supervisory Board's Investment, Finance and Audit Committee has pre-approved KPMG's performance of these audits and permitted non-audit services and set limits on the types of services and the maximum cost of these services in any fiscal year. KPMG reports to the Investment, Finance and Audit Committee on a quarterly basis on the type and extent of non-audit services provided during the period and compliance with these criteria.

## MANAGEMENT BOARD AND SUPERVISORY BOARD

### MANAGEMENT COMPENSATION IN FISCAL YEAR 2009

Regarding the required information on the individual remuneration of the members of the Company's Supervisory or Management Boards 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.

## MANAGEMENT BOARD

The current members of the Management Board are as follows:

| 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, 2009 |
|---|---|---|---|---|
| Peter Bauer | 49 | September 30, 2011 | Spokesman of the Management Board, Chief Executive Officer | Member of the Board of Directors of<br>• Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China<br>• Infineon Technologies Asia Pacific Pte., Ltd., Singapore<br>• Infineon Technologies North America Corp., Wilmington, Delaware, USA<br>• Infineon Technologies Japan K.K., Tokyo, Japan |
| Prof. Dr. Hermann Eul | 50 | August 31, 2012 | Member of the Management Board and Executive Vice President | Member of the Supervisory Board of<br>• 7Layers AG, Ratingen<br>• Infineon Technologies Austria AG, Villach, Austria (since July 18, 2008) |
| Dr. Reinhard Ploss | 53 | May 31, 2012 | Member of the Management Board and Executive Vice President | Chairman of the Supervisory Board of<br>• Infineon Technologies Austria AG, Villach, Austria<br>• Infineon Technologies Dresden GmbH, Dresden (since February 13, 2009)<br><br>Chairman of the Board of Directors of<br>• Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia<br><br>Member of the Supervisory Board of<br>• Qimonda AG, München |
| Dr. Marco Schröter | 46 | 31. März 2013 | Member of the Management Board, Executive Vice President, Chief Financial Officer and Labor Director | Member of the Supervisory Board of<br>• Infineon Technologies Austria AG, Villach, Austria<br><br>Member of the Board of Directors of<br>• Infineon Technologies Asia Pacific Pte., Ltd., Singapore<br>• Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China<br>• Infineon Technologies North America Corp., Wilmington, Delaware, USA |

## SUPERVISORY BOARD

The current members of the Supervisory Board, the Supervisory Board position held by them, their occupation, their principal external positions and their ages are as follows:

| 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, 2009 |
|---|---|---|---|---|
| Max Dietrich Kley<br>Chairman | 69 | February 11, 2010 | Lawyer | Chairman of the Supervisory Board of<br>• SGL Carbon AG, Wiesbaden<br><br>Member of the Supervisory Board of<br>• BASF SE, Ludwigshafen<br>• HeidelbergCement AG, Heidelberg<br>• Schott AG, Mainz (until September 30, 2009)<br><br>Member of the Board of Directors of<br>• UniCredit S.p.A., Milan, Italy (until April 29, 2009) |
| Gerd Schmidt[1]<br>Deputy Chairman | 55 | February 11, 2010 | Chairman of the Infineon Central Works Council, Chairman of the Infineon Works Council, Regensburg | |
| Wigand Cramer[1] | 56 | February 11, 2010 | Labor union clerk IG Metall, Berlin | |
| Alfred Eibl[1] | 60 | February 11, 2010 | Chairman of the Infineon Works Council<br>• Infineon Munich-Campeon | |
| Peter Gruber[1]<br>Representative of Senior Management<br>(since February 12, 2009) | 48 | February 11, 2010 | Senior Vice President Operations Finance<br>• Infineon Technologies AG | Member of the Supervisory Board of<br>• Infineon Technologies Dresden GmbH, Dresden (seit 15. Dezember 2008)<br><br>Member of the Partner Delegation of<br>• Comneon GmbH, Nuremberg<br>• COMNEON Electronic Technology GmbH, Linz, Austria<br><br>Member of the Board of Directors of<br>• ALTIS Semiconductor S.N.C., Essonnes, France<br>• Infineon Technologies Savan Ltd., Netanya, Israel (inactive)<br>• Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia |
| Gerhard Hobbach[1] | 47 | February 11, 2010 | Deputy Chairman of the Works Council<br>• Infineon München-Campeon | |
| Prof. Dr. Renate Köcher | 57 | February 11, 2010 | Managing Director<br>• Institut für Demoskopie Allensbach GmbH, Allensbach | Member of the Supervisory Board of<br>• Allianz SE, Munich<br>• MAN AG, Munich<br>• BMW AG, Munich |
| Dr. Siegfried Luther | 65 | February 11, 2010 | Managing Director<br>• Reinhard Mohn Verwaltungs GmbH, Gütersloh | Member of the Supervisory Board of<br>• WestLB AG, Duesseldorf/Münster<br>• Wintershall Holding AG, Kassel<br>• EVONIK Industries AG, Essen<br><br>Chairman of the Board of Administration of<br>• RTL Group S.A., Luxembourg<br><br>Member of the Board of Directors of<br>• Compagnie Nationale à Portefeuille S.A., Loverval, Belgium |
| Dr. Manfred Puffer<br>(since July 30, 2009) | 46 | February 11, 2010 | Management Consultant | |
| Prof. Dr. rer. nat. Doris Schmitt-Landsiedel | 56 | February 11, 2010 | Professor<br>• Munich Technical University, Munich | |

| 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, 2009 |
|---|---|---|---|---|
| Horst Schuler[1] (since February 12, 2009) | 57 | February 11, 2010 | Deputy Chairman of the Infineon Central Works Council | |
| Kerstin Schulzendorf[1] | 47 | February 11, 2010 | Member of the Works Council<br>• Infineon Dresden | |
| Dr. Eckart Sünner | 65 | February 11, 2010 | President and Chief Compliance Officer<br>• BASF SE, Ludwigshafen | Member of the Supervisory Board of<br>• K+S AG, Kassel |
| Alexander Trüby[1] | 39 | February 11, 2010 | Member of the Works Council<br>• Infineon Dresden | Member of the Supervisory Board of<br>• Infineon Technologies Dresden GmbH, Dresden (since March 31, 2009) |
| Arnaud de Weert (since February 1, 2009) | 45 | February 11, 2010 | President<br>• Novelis Europe, Novelis AG, Zurich, Switzerland (until September 30, 2009)<br>Management Consultant (since October 1, 2009) | Chairman of the Supervisory Board of<br>• Aluminium Norf GmbH, Neuss<br>• Novelis Deutschland GmbH, Goettingen (until September 30, 2009) |
| Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer | 65 | February 11, 2010 | Management Consultant | Member of the Supervisory Board of<br>• Deutsche Messe AG, Hanover (until December 31, 2008)<br>• Leoni AG, Nuremberg<br>• SAP AG, Walldorf<br><br>Chairman of the Board of Administration of<br>• Siemens Ltd., Seoul, Korea (until January 31, 2009) |
| **Former members of the Supervisory Board** | | | | |
| Prof. Johannes Feldmayer (until February 18, 2009) | 52 | | Management Consultant | |
| Jakob Hauser[1] | 57 | | Chairman of the Works Council<br>• Qimonda AG, Munich | |
| Michael Ruth[1] Representative of Senior Management | 49 | | Corporate Vice President Reporting, Planning and Controlling<br>• Infineon Technologies AG | |
| Prof. Dr. rer. nat. Martin Winterkorn (until January 31, 2009) | 62 | | Chairman of the Management Board<br>• Volkswagen AG, Wolfsburg | Chairman of the Supervisory Board of<br>• Audi AG, Ingolstadt<br><br>Member of the Supervisory Board of<br>• Salzgitter AG, Salzgitter<br>• FC Bayern München AG, Munich<br>• TÜV Süddeutschland Holding AG, Munich<br><br>Member of the Board of Administration of<br>• SEAT S.A., Barcelona, Spain<br><br>Chairman of Board of Directors of:<br>• Scania AB, Södertälje, Sweden |

**1** Employee representative

## THE SUPERVISORY BOARD MAINTAINS THE FOLLOWING PRINCIPAL COMMITTEES

| | |
|---|---|
| | Executive Committee |
| 01 | Max Dietrich Kley (Chairman) |
| | Gerd Schmidt |
| 02 | Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer |
| 03 | |
| | Investment, Finance and Audit Committee |
| 04 | Dr. Siegfried Luther (Chairman) |
| 05 | Max Dietrich Kley |
| | Gerd Schmidt |
| 06 | |
| | Mediation Committee |
| 07 | Max Dietrich Kley (Chairman) |
| 08 | Alfred Eibl |
| | Gerd Schmidt |
| 09 | Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer |
| 10 | |
| | Nomination Committee |
| 11 | Max Dietrich Kley |
| | Prof. Dr. Renate Köcher |
| | Dr. Siegfried Luther |
| | Dr. Manfred Puffer |
| 12 | Prof. Dr. rer. nat. Doris Schmitt-Landsiedel |
| | Dr. Eckart Sünner |
| 13 | Arnaud de Weert |
| 14 | Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer |
| 15 | |
| | Strategy and Technology Committee |
| 16 | Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (Chairman) |
| | Wigand Cramer |
| 17 | Alfred Eibl |
| 18 | Gerhard Hobbach |
| | Prof. Dr. rer. nat. Doris Schmitt-Landsiedel |
| 19 | Arnaud de Weert |
| 20 | |

21

The members of the Company's Supervisory Board, individu-
22 ally or in the aggregate, do not own, directly or indirectly, more than 1 percent of the Company's outstanding share capital.

23 The business address of each of the members of the Company's Supervisory Board is Infineon Technologies AG, Am Campeon 1–12, D-85579 Neubiberg, Germany.

## SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES

| Name and location of company | Share in capital |
|---|---|
| Comneon GmbH, Nuremberg, Germany | 100% |
| Infineon Technologies Asia Pacific Pte. Ltd., Singapore | 100% |
| Infineon Technologies Austria AG, Villach, Austria | 100% |
| Infineon Technologies Bipolar GmbH & Co. KG, Warstein, Germany | 60% |
| Infineon Technologies Center of Competence (Shanghai) Co. Ltd., Shanghai, People's Republic of China | 100% |
| Infineon Technologies China Co. Ltd., Shanghai, People's Republic of China | 100% |
| Infineon Technologies Dresden GmbH, 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 (Advanced Logic) Sdn. Bhd., Malacca, Malaysia | 100% |
| Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia | 100% |
| Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia | 100% |
| Infineon Technologies Industrial Power, Inc., USA | 100% |
| Infineon Technologies (Wuxi) Co., Ltd., Wuxi, People's Republic of China | 100% |
| Infineon Technologies (Xi'an) Co., Ltd., Xi'an, People's Republic of China | 100% |
| ALTIS Semiconductor S.N.C., Essonnes, France | 50% |

Neubiberg November 9, 2009
Infineon Technologies AG

Management Board
**Peter Bauer**
**Prof. Dr. Hermann Eul**
**Dr. Reinhard Ploss**
**Dr. Marco Schröter**

# RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the operating and financial review includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Neubiberg, November 26, 2009

**Peter Bauer**
**Prof. Dr. Hermann Eul**
**Dr. Reinhard Ploss**
**Dr. Marco Schröter**

# INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Infineon Technologies AG, Neubiberg, comprising the balance sheet, the statements of operations, income and expense recognized in equity and cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2008 to September 30, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report 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 (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 the Managing Board, 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 IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB 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.

Munich, November 11, 2009

**KPMG AG**
Wirtschaftsprüfungsgesellschaft

**Kozikowski**
Wirtschaftsprüfer

**Kempf**
Wirtschaftsprüfer

# CONSOLIDATED FINANCIAL DATA 2007–2009

01 **CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG**[1]
€ IN MILLIONS, EXCEPT OTHERWISE STATED

| 02 As of and for the fiscal years ended September 30, | 2007 | 2008 | 2009 |
|---|---|---|---|
| **CONSOLIDATED STATEMENTS OF OPERATIONS DATA** | | | |
| 03 **Revenues** | 3,660 | 3,903 | 3,027 |
| 04 **By Region:** | | | |
| Germany | 794 | 820 | 545 |
| 05 Other Europe | 807 | 754 | 543 |
| North America | 530 | 483 | 409 |
| 06 Asia/Pacific | 1,289 | 1,597 | 1,358 |
| 07 Japan | 203 | 191 | 143 |
| Other | 37 | 58 | 29 |
| 08 **By Segments:**[2] | | | |
| Automotive | 1,267 | 1,257 | 839 |
| 09 Industrial & Multimarket | 1,188 | 1,171 | 905 |
| 10 Chip Card & Security | 438 | 465 | 341 |
| Wireless Solutions | 637 | 941 | 917 |
| 11 Other Operating Segments | 343 | 171 | 17 |
| Corporate and Eliminations | (213) | (102) | 8 |
| **Total** | 3,660 | 3,903 | 3,027 |
| **Cost of goods sold** | (2,469) | (2,581) | (2,368) |
| **Gross profit** | 1,191 | 1,322 | 659 |
| 12 Research and development expenses | (621) | (606) | (468) |
| 13 Selling, general and administrative expenses | (449) | (517) | (392) |
| Other operating income | 37 | 120 | 29 |
| 14 Other operating expense | (57) | (365) | (48) |
| **Operating income (loss)** | 101 | (46) | (220) |
| 15 Financial income | 107 | 58 | 101 |
| Financial expense | (242) | (181) | (156) |
| 16 Income from investments accounted for using the equity method | 1 | 4 | 7 |
| 17 **Income (loss) before income taxes, discontinued operations, and extraordinary loss** | (33) | (165) | (268) |
| Income tax benefit (expense) | 2 | (39) | (5) |
| 18 **Loss from continuing operations** | (31) | (204) | (273) |
| 19 Loss from discontinued operations, net of income taxes | (339) | (3,543) | (398) |
| **Net loss** | (370) | (3,747) | (671) |
| 20 Attributable to: | | | |
| Minority interests | (23) | (812) | (48) |
| 21 Shareholders of Infineon Technologies AG | (347) | (2,935) | (623) |
| 22 **Basic and diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG in €:** | | | |
| Basic and diluted loss per share from continuing operations in € | (0.06) | (0.23) | (0.32) |
| 23 Basic and diluted loss per share from discontinued operations in € | (0.37) | (3.38) | (0.41) |
| **Basic and diluted loss per share in €** | (0.43) | (3.61) | (0.73) |
| **Segment Results:**[2] | | | |
| Automotive | 122 | 105 | (117) |
| Industrial & Multimarket | 127 | 134 | 35 |
| Chip Card & Security | 20 | 52 | (4) |
| Wireless Solutions | (126) | (18) | (36) |
| Other Operating Segments | (6) | (12) | (13) |
| Corporate and Eliminations | 7 | (24) | (32) |
| **Total** | 144 | 237 | (167) |

**1** Colums may not add due to rounding.
**2** Effective October 1, 2008, we reorganized our segments and Management uses Segment Result to assess the operating performance of our operative segments. All periods presented have been recast.

| SUMMARY CONSOLIDATED BALANCE SHEET DATA | 2007 | 2008 | 2009 | |
|---|---|---|---|---|
| Cash and cash equivalents | 1,809 | 749 | 1,414 | |
| Available-for-sale financial assets | 417 | 134 | 93 | |
| Trade and other receivables | 1,138 | 799 | 514 | |
| Inventories | 1,206 | 665 | 460 | |
| Income tax receivable | 56 | 29 | 11 | 01 |
| Other current financial assets | 78 | 19 | 26 | |
| Other current assets | 203 | 124 | 114 | 02 |
| Assets classified as held for disposal | 303 | 2,129 | 112 | |
| **Total current assets** | 5,210 | 4,648 | 2,744 | 03 |
| Property, plant and equipment | 3,645 | 1,310 | 928 | 04 |
| Goodwill and other intangible assets | 334 | 443 | 369 | |
| Investments accounted for using the equity method | 627 | 20 | 27 | 05 |
| Deferred tax assets | 588 | 400 | 396 | |
| Other financial assets | 175 | 144 | 124 | 06 |
| Other assets | 20 | 17 | 18 | 07 |
| **Total assets** | 10,599 | 6,982 | 4,606 | |
| Short-term debt and current maturities of long-term debt | 336 | 207 | 521 | 08 |
| Long-term debt | 1,227 | 963 | 329 | 09 |
| **Total debt** | 1,563 | 1,170 | 850 | |
| Equity attributable to shareholders of Infineon Technologies AG | 5,044 | 2,091 | 2,273 | 10 |
| Minority interests | 960 | 70 | 60 | |
| **Total equity** | 6,004 | 2,161 | 2,333 | 11 |
| | | | | |
| **SUMMARY CONSOLIDATED STATEMENTS OF CAHS FLOWS DATA** | | | | |
| Net cash provided by operating activities from continuing operations | 241 | 540 | 268 | |
| Net cash provided by (used in) investing activities from continuing operations | 8 | (652) | (14) | |
| Net cash provided by (used in) financing activities from continuing operations | (214) | (230) | 391 | 12 |
| Depreciation and amortization | 616 | 552 | 513 | |
| Purchases of property, plant and equipment | (492) | (308) | (103) | 13 |
| **The IFX Share** (as of September 30) | | | | 14 |
| Dividend per share | 0 | 0 | 0 | |
| Closing price Xetra Trading System in € [3] | 10.82 | 3.50 | 3.86 | 15 |
| Closing price NYSE (2007,2008), OTCQX (2009) in U.S. Dollar [3] | 15.89 | 5.17 | 5.60 | 16 |
| Shares outstanding in million | 749.7 | 749.7 | 1,086.7 | |
| Market capitalization in € million | 8,112 | 2,624 | 4,189 | 17 |
| Market capitalization in U.S. Dollar million | 11,534 | 3,790 | 6,129 | |
| **Key Figures** | | | | 18 |
| Equity ratio | 57% | 31% | 51% | 19 |
| Debt-to-equity ratio | 26% | 54% | 36% | |
| Return on Capital Employed (RoCE) [4] | 2% | (3%) | (12%) | 20 |
| Net cash/(Debt) position as of September 30 [5] | 663 | (287) | 657 | |
| **Infineon-Employees** (period end in total figures) | | | | 21 |
| **Total:** | 29,598 | 29,119 | 26,464 | 22 |
| **By Region:** | | | | |
| Germany | 10,151 | 10,053 | 9,160 | 23 |
| Other Europe | 5,564 | 5,192 | 4,676 | |
| North America | 581 | 821 | 687 | |
| Asia/Pacific | 13,145 | 12,897 | 11,803 | |
| Japan | 157 | 156 | 138 | |
| Other | | | | |
| **By Function:** | | | | |
| Production | 20,376 | 19,358 | 17,338 | |
| Research & Development | 5,833 | 6,273 | 5,971 | |
| Sales & Marketing | 1,832 | 1,905 | 1,681 | |
| Administrative | 1,557 | 1,583 | 1,474 | |

**3** The Infineon share price trades ex subscription rights after the capital increase. Historical prices have been adapted.
**4** Return on Capital Employed, RoCE = NOPAT (Net Operating Profit After Tax) divided by capital employed.
**5** Cash and cash equivalents plus available-for-sale financial assets less short and long-term debt.

# FINANCIAL AND TECHNOLOGY GLOSSARY

## FINANCIAL GLOSSARY

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 fiscal 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.

DEFINED BENEFIT OBLIGATION (DBO) • 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.

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).

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 available-for-sale financial assets.

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 available-for-sale financial assets.

GROSS PROFIT OR MARGIN • Revenues less cost of goods sold.

IFRS • International Financial Reporting Standards; Infineon prepares its consolidated financial statements according to IFRS, as adopted by the European Union.

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.

DEFINED BENEFIT OBLIGATION (DBO) • 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.

SEGMENT RESULT • We define Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net,share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments.

SEGMENT RESULT MARGIN • An indicator of operating performance, calculated as the percentage of Segment Result in relation to revenues.

TECDAX • A German stock index tracking the 30 major German technology companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

U.S. GAAP • Accounting principles generally accepted in the United States of America.

WORKING CAPITAL • Working capital consists of current assets less cash and cash equivalents, available-for-sale financial assets and assets held for disposal less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities associated with assets classified as held for disposal.

## TECHNOLOGY GLOSSARY

2G • Second generation, 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. At Infineon, the term is used as a synonym for the manufacture of memory chips on a 300-millimeter wafer.

65-NANOMETER TECHNOLOGY • Production technology that enables structures measuring 65 nanometers in width to be represented on the chip. The smaller the structures, e.g. conductors and pitches, the smaller the chip and the cheaper its production. The previous technology permitted features of 90 nanometers and the next generation has attained features of 45 nanometers.

ABS • The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

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 MANUFACTURING • 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.

CAT-iq • Cordless Advanced Technology – internet and quality. A standard for cordless telephones. CAT-iq enables conventional telephone applications to be combined with broadband Internet.

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.

CONVERTER • Control unit that can convert AC voltages of various rates and frequencies. This is achieved by means of power electronics. Converters are used in wind turbines, for example, in order to feed fluctuating wind energy into the power network with a voltage of constant frequency. In electric drive technology, for example in engine controllers and trains, a converter is used to generate an output voltage of variable, load-dependent frequency from a mains supply of constant frequency.

CooLMOS • High-voltage power transistor for voltages from 300 to 1,200 V.

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.

DECT • Digital Enhanced Cordless Telecommunications. Uniform European standard for digital wireless communications systems.

DigRF-v3.09 STANDARD • A standardized interface between the baseband processor and the radio-frequency transceiver. The user data and control information are transferred purely digitally and no longer using analog technology. The current standard is version 3.09.

DSL • Digital Subscriber Line. A broadband digital connection over telephone networks.

EDGE • Enhanced Data Rates for GSM Evolution. Describes a technology for an increased data rate in GSM mobile communications networks which, to date, is only very rarely applied. 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.

FAB • See back-end (manufacturing) or front-end (manufacturing)

FRONT-END MANUFACTURING • Front-end process is the designation for all process steps that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the front-end process, the wafer may have been through as many as 500 individual process steps.

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 kilobits 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.

GSM • Global System for Mobile Communications. Currently the most widely used digital mobile communications standard in the world (see 2G, 2.5G and GPRS).

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 (1857-1894). The Hertz determines 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).

HSPDA, HSUPA, HSPA, HSPA+ • High-Speed Downlink Packet Access, High Speed Uplink 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 megabits 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. HSPDA is not only used in mobile phones, laptop users also work via data cards with the fast mobile data link. Like HSDPA, HSUPA is a third generation mobile telephony transmission process. HSUPA enables a fast data connection from the mobile phone to the base station with a current rate of up to 5.8 megabits per second. HSPA is the collective term for HSDPA and HSUPA. HSPA+ is the next generation and permits data transmission of 28 to 84 megabits per second from the base station to the mobile phone.

HYBRID CAR • A hybrid car is usually understood to be a motor vehicle that is driven by at least one electric motor, as well as a combustion engine. The hybrid drive is used in standard car construction to enhance efficiency, reduce consumption of fossil fuels or increase performance at lower engine speeds. In full hybrid cars the vehicle can be driven solely by the electric motor. In mild hybrid cars, the electric motor is simply used to support the combustion engine, for example when accelerating.

IAD • Integrated Access Device. Customer premise equipments 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 can be integrated into ICs and interconnected.

IGBT MODULE • Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high blocking 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 and rapid electrical drive control.

IHM • IGBT High-Power Module. Semiconductor power module featuring multiple internal IGBTs (see IGBT module) that is designed for switching loads in the megawatt range (see power semiconductor).

INVERTER • An inverter is an electrical device that converts DC voltage into AC voltage or direct current into alternating current.

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, cable modem or VDSL) and introduction of new compression methods.

ISDN • Integrated Services Digital Network. Type of on-line connection, 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).

LTE • Long-Term Evolution. LTE is regarded as currently the most promising alternative to succeed the UMTS standard. First lab tests promise a data transfer rate of 100 megabits per second. This is intended to enable mobile telecommunications providers to offer interactive services, including high-speed data transfer and television (IPTV), as well as voice.

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 the highest complexity can be designed in a microcontroller and controlled by software.

MICRON (MICROMETER) • Metric linear measure, corresponding to the millionth part of a meter ($10^{-6}$). -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.

NANOMETER • Metric unit of length. Corresponds to the billionth part of a meter ($10^{-9}$); the symbol is nm. The diameter of deoxyribonucleic acid (DNA) is roughly 2 nanometers. Fabrication features in the semiconductor industry are now measured in nanometers. See 65-nanometer technology.

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, e.g. a sinus wave.

POWER TRANSISTOR • Power transistor is a term used in electronics to refer to a transistor for switching or controlling large voltages, currents and outputs. There is no standard method of differentiating between transistors for signal processing and power transistors. Power transistors are mainly produced in packages that enable installation on heat sinks, as it is otherwise impossible to handle the dissipation loss of several kilowatts that occurs with some types and applications. See power semiconductor.

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. Radio-frequency transceivers are used in wireless communications, for example in mobile phones and cordless telephones.

SCHOTTKY DIODE • A special diode that has a metal-semiconductor junction rather than a semiconductor-semiconductor junction. The most frequently used semiconductor material up to 250 Volts is silicon. Silicon carbide (SIC) is used for voltages in excess of 300 Volts. SiC Schottky diodes offer a number of advantages over conventional diodes in power electronics. When used together with IGBT transistors, it is possible to dramatically reduce switching losses in the diode itself, as well as in the transistor. The name derives from German physicist Walter Schottky (1886-1976). (See silicon carbide)

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.

SHDSL • Single-Pair High-speed Digital Subscriber Line. A symmetrical DSL transmission technology used in digital wide area networks and supporting data transfer rates of up to 4 megabits per second.

SILICON • A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

SILICON CARBIDE • Compound semiconductor made from silicon (chemical symbol Si) and carbon (chemical symbol C). The abbreviation is SiC. Because of its special material properties (e.g. good thermal conductivity), SiC is used for Schottky diodes, as well as elsewhere. (See Schottky diode)

SINGLE-CHIP SOLUTION • This type of chip, used in mobile phones, combines the functions of several other chips. Single-chip solutions combine the three most important mobile-phone chips into one: baseband chips, radio-frequency transceiver chips, and power-supply chips. Memory is also included into more recent single-chip generations. Single-chip solutions reduce the number of required components, thereby lowering costs for telephone 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 GRID • The term Smart Grid is understood to mean the upgrading of the existing power supply networks to include communication and measurement functions, so as to make the flow of energy between increasingly decentralized power generation - for example by means of wind farms or block-type thermal power stations – and consumers more efficient.

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.

STREET CABINET • A distribution rack at the curb from which the last mile is deployed to the end user's home. The street cabinet is also connected to the central office via copper or fiber lines.

SWITCHING POWER SUPPLY • A switching power supply is an electronic module that transforms an AC voltage into a DC voltage. Switching power supplies are more efficient than mains transformers and can be more compact and lighter than conventional power supplies containing a heavy transformer with a ferrous core. Switching power supplies are mainly used in PCs, notebooks and servers. However, they also achieve a very high level of efficiency even at low power, so they are increasingly found in plug-in power supply units, for example as chargers for mobile phones.

TRANSCEIVER • See radio-frequency (RF) transceiver.

TRUSTED COMPUTING • Trusted Computing means that the hardware and software used in PCs, as well as other computer-controlled systems, such as mobile phones, can be controlled. This is achieved by means of an additional chip, the Trusted Platform Module (TPM), which can use cryptography to measure the integrity of the hardware and of the software data structures, while also saving these values in a verifiable way.

ULC • Ultra Low Cost. Mostly used in the context of mobile telephones. The most important element in a ULC telephone is a single-chip solution that integrates the elementary mobile phone components, such as baseband processor, transmission and reception unit, power supply and memory on a single chip. See single-chip solution.

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.

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 range of the bridgeable copper wire 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 • Thin slice of semiconductor material (mostly silicon, but germanium or gallium arsenide also common) from which the actual chip is produced. Typical diameters for wafers currently are 200 millimeters and 300 millimeters.

WCDMA • Wideband CDMA. A data transmission process used in UMTS networks.

WLAN • Wireless Local Area Network. A local computer network which connects computers with each other or the Internet via a radio connection.

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).

# IMPORTANT FINANCIAL REPORTING DATES FOR THE 2010 FISCAL YEAR[1]

## 2010-01-29

FRIDAY, JANUARY 29, 2010
**Publication of first quarter 2010 results**

## 2010-02-11

THURSDAY, FEBRUARY 11, 2010
**Annual General Meeting 2010 (Start 10.00 a.m. CET)**
ICM - Internationales Congress Center München, Germany

## 2010-04-29

THURSDAY, APRIL 29, 2010
**Publication of second quarter 2010 results**

## 2010-07-28

WEDNESDAY, JULY 28, 2010
**Publication of third quarter 2010 results**

## 2010-11-16

THUESDAY, NOVEMBER 16, 2010
**Publication of fourth quarter and fiscal year 2010 results**

1 Preliminary

## ANNUAL REPORT 2009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