QUARTERLY REPORT OF INFINEON TECHNOLOGIES AG DECEMBER 31, 2010

Infineon Technologies AG

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CONTENT

SELECTED CONSOLIDATED FINANCIAL DATA

	Three months ended, December 31,	
€ in millions; except earnings per share	**2010**	2009
Selected Consolidated Statement of Operations Data		
Revenue	922	687
Income (loss) from continuing operations before income taxes	157	(52)
Income (loss) from continuing operations	149	(59)
Income (loss) from discontinued operations, net of income taxes	83	124
Net income	232	65
Net income attributable to:		
Non-controlling interests	-	1
Shareholders of Infineon Technologies AG	232	64
Basic earnings per share attributable to shareholders of Infineon Technologies AG (in Euro):	0.21	0.06
Diluted earnings per share attributable to shareholders of Infineon Technologies AG (in Euro):	0.20	0.06
Selected Consolidated Statements of Cash Flow Data		
Net cash provided by operating activities from continuing operations	134	101
Net cash provided by operating activities	210	147
Net cash used in investing activities from continuing operations	(130)	(120)
Net cash provided by (used in) investing activities	(185)	87
Net cash used in financing activities from continuing operations	(80)	(60)
Net cash used in financing activities	(84)	(60)
Net increase in cash and cash equivalents from discontinued operations	17	253
Net increase (decrease) in cash and cash equivalents	(59)	174

	As of	
€ in millions; except numbers of employees	**December 31, 2010**	September 30, 2010
Selected Consolidated Balance Sheet Data		
Cash and cash equivalents	1,610	1,667
Available-for-sale financial assets	59	60
Working capital (deficit)[1]	(71)	(130)
Assets classified as held for sale	567	495
Total assets	5,104	4,993
Short-term debt and current maturities of long-term debt	129	133
Liabilities associated with assets held for sale	152	177
Long-term debt	247	263
Total equity	2,808	2,625
Employees[2]	27,315	26,654

[1] Working capital consists of current assets less cash and cash equivalents, less available-for-sale financial assets and assets held for sale less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities held for sale.
[2] When we use the masculine singular pronoun in this Quarterly Report to refer to employees, we of course are referring to all employees, both male and female. Including those employees to be transferred to Intel as part of the sale of the Wireless mobile phone business.

INTERIM GROUP MANAGEMENT REPORT (UNAUDITED)

BASIS FOR THE PRESENTATION OF THIS INTERIM GROUP MANAGEMENT REPORT

This unaudited interim group management report should be read in conjunction with our unaudited consolidated financial statements including the notes to the consolidated financial statements ("notes") included elsewhere in this report. The unaudited consolidated financial statements have been prepared on the basis of a number of accounting policies and assumptions more fully explained in note 1 (Description of business and basis of presentation) and note 2 (Summary of significant accounting policies) of our audited consolidated financial statements for the 2010 fiscal year.

This unaudited interim group management report contains forward-looking statements, which are not based on historical facts, but on current plans, estimates, and projections. Forward-looking statements speak only of the date they are made, and Infineon undertakes no obligation to update them in light of new information. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of 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 "Risks and Opportunities" in this interim group management report and under the heading "Report of expected developments, together with associated material opportunities and risks" in the operating and financial review for the 2010 fiscal year.

In August 2010, we entered into an agreement with Intel Corporation ("Intel") for the sale of the mobile phone business of our Wireless Solutions segment ("Wireless mobile phone business"). Only the business with analog and digital TV tuners and receiver components for satellite radio as well as radio frequency power transistors for amplifiers in cellular basestations, which had formerly been part of the Wireless Solutions segment, will remain with us. The sale closed on January 31, 2011. As a result of the sale, all assets and liabilities to be transferred were reported as "assets classified as held for sale" and "liabilities classified as held for sale" in our consolidated statement of financial position as of September 30, 2010 and December 31, 2010. In the consolidated statement of operations, the results of the Wireless mobile phone business are no longer reported in the individual line items, but under "income (loss) from discontinued operations, net of income taxes". The other individual line items of the consolidated statement of operations therefore report the results of Infineon's continuing operations. Likewise, the consolidated statement of cash flows shows the cash inflows and outflows of the Wireless mobile phone business as "discontinued operations". The prior-period amounts of the consolidated statement of operations and the consolidated statement of cash flows have been adjusted accordingly. In accordance with the internal reporting in the first quarter of the 2011 fiscal year, the Wireless Solutions segment is no longer reported as a segment. The business with radio frequency power transistors for cellular basestations is now part of the Industrial & Multimarket segment, while the business with analog and digital TV tuners and receiver components for satellite radio is now part of Other Operating Segments. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the sale, are allocated to Corporate & Eliminations. Prior period amounts have been adjusted accordingly. For further information relating to this sale see note 3.

FINANCIAL RESULTS

The main financial indicators for the first quarter of the 2011 fiscal year (October 1, 2010 to December 31, 2010) were as follows:

- Revenue amounted to €922 million, representing an increase of 34 percent or €235 million compared with the first quarter of the 2010 fiscal year and a slight decrease of 2 percent compared with the previous quarter.
- Total segment result was €177 million, an increase of €107 million compared with €70 million in the first quarter of the 2010 fiscal year. Total segment result margin was up to 19.2 percent from 10.2 percent in the same quarter last year and 18.2 percent in the previous quarter.
- The segment result margin of all segments was significantly better than in the same quarter last year. Compared to the previous quarter, the Industrial & Multimarket segment increased its segment result margin again and reached 25 percent. The segment result margin of the Automotive segment and the Chip Card & Security segment remained almost unchanged compared to the previous quarter.

- Net income improved from €65 million in the first quarter of the 2010 fiscal year to €232 million in the first quarter of the 2011 fiscal year.
- Basic earnings per share improved from €0.06 in the first quarter of the 2010 fiscal year to €0.21 in the first quarter of the 2011 fiscal year.
- Free cash flow from continuing operations amounted to €4 million in the first quarter of the 2011 fiscal year, compared with negative €21 million in the first quarter of the 2010 fiscal year.
- Our gross cash position decreased by €58 million in the first quarter of the 2011 fiscal year to €1,669 million as of December 31, 2010 (September 30, 2010: €1,727 million), primarily due to increased capital expenditures, the payment of the variable remuneration component for the 2010 fiscal year and payments for the repurchase of subordinated convertible notes due 2014. Our net cash position amounted to €1,293 million.

IMPORTANT EVENTS IN THE FIRST QUARTER OF THE 2011 FISCAL YEAR

In November 2010, the deregistration of our ordinary shares under the U.S. Securities Exchange Act became effective. We delisted our American Depositary Shares (“ADSs”) from the New York Stock Exchange (“NYSE”) in April 2009. Since then, the ADSs have been traded over the counter on the OTCQX International Premier market. Our ordinary shares continue to be traded on the Frankfurt Stock Exchange and on various regional exchanges in Germany. We will maintain our presence on the U.S. securities market through a Level 1 ADR program. The ADSs are traded on the OTCQX market with the ticker symbol IFNNY.

We proposed to the upcoming General Shareholders' Meeting which will take place on February 17, 2011 the payment of a cash dividend of €0.10 per share for the 2010 fiscal year. This represents an aggregate distribution of €109 million.

We repurchased nominal amounts of €28 million of our subordinated convertible notes due 2014 for approximately €80 million during the first quarter of the 2011 fiscal year. The Infineon share price is currently well above the conversion price of €2.33, meaning that the conversion right is likely to be exercised. Buying back convertible notes therefore reduces future dilution for Infineon shareholders. The repurchase also enables the Company to avoid the interest payments of 7.5 percent per year that would otherwise be due on the repurchased notes. The buy-backs resulted in a pre-tax loss of €9 million, which was recognized as interest expense within financial expense. Additional paid-in capital was reduced by €44 million net of tax to reflect the reacquisition of the conversion rights associated with the repurchased notes.

On December 1, 2010 the insolvency administrator dealing with the bankruptcy estate of Qimonda AG, filed an action in the Regional Court Munich I seeking a declaratory judgment against Infineon in an unspecified amount. The action asserts that, in connection with the carve-out of the memory business to Qimonda AG, Infineon utilized a previously formed shell company and “economically re-established” this company (what is known in German as a “wirtschaftliche Neugründung“) through the transfer of the memory business. The action further asserts that Infineon neglected to provide the registry courts with the declaration required by German company law in these circumstances. The action seeks to establish a basic obligation to pay on the part of Infineon. For further details regarding this action see note 15 (“Commitments and Contingencies - Litigation and Government Inquiries - Qimonda Litigation”).

During the first quarter of the 2011 fiscal year, we dedicated significant efforts to the sale of the Wireless mobile phone business. The sale was finally completed at the end of January 2011. Intel will operate the Wireless mobile phone business under the name Intel Mobile Communications (IMC). Approximately 3,500 employees have moved to IMC. To secure the LTE (long term evolution) roadmap of the Wireless mobile phone business, we acquired all shares of Blue Wonder Communications GmbH, Dresden, Germany, (“Blue Wonder”) for €20 million in October 2010. The Blue Wonder shares were transferred to Intel as part of the sale of the Wireless mobile phone business. The price paid to acquire this company was included in the U.S. $1,400 million purchase price for the Wireless mobile phone business. The sale of the Wireless mobile phone business allows us to focus our activities exclusively on the challenges to modern society of energy efficiency, mobility and security and, following the carve-outs of the memory business and Wireline Communications, concludes our strategic plan to focus on profitable, high-growth, and less volatile semiconductor businesses.

Our front-end and back-end production facilities continued to work almost at full capacity in the first quarter of the 2011 fiscal year. We invested €122 million in property, plant and equipment in the first quarter of the 2011 fiscal year, most of it for increases in capacity at our power production facilities (both front-end and back-end) in

Malaysia and on innovative investments at the Villach site. As a response to the persistently high level of new orders and the sustained allocation across all product lines we increased our planned investment budget for the 2011 fiscal year to €700 million from the previously planned amount of €550 million. In the 2010 fiscal year we invested €325 million.

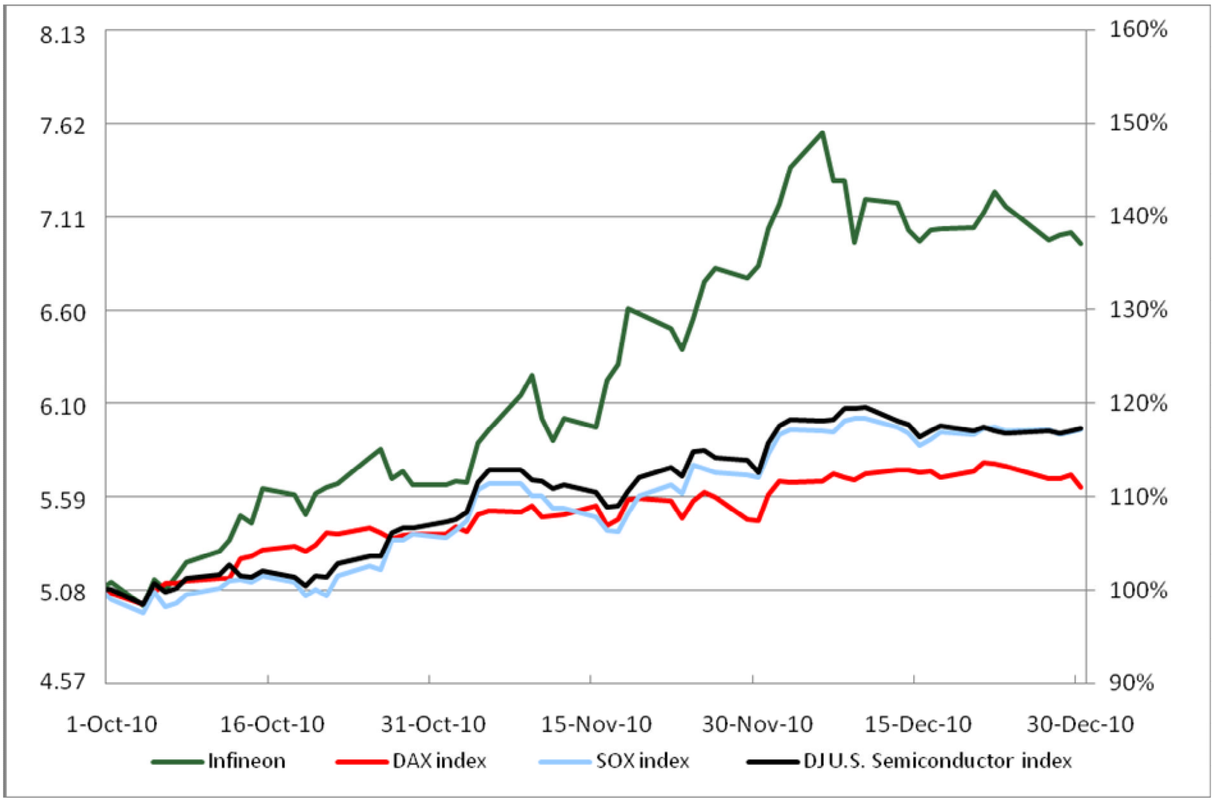
PERFORMANCE OF THE INFINEON SHARE IN THE FIRST QUARTER OF THE 2011 FISCAL YEAR

During the first quarter of the 2011 fiscal year, the trading price of our ordinary shares rose by 36 percent to €6.96 (Xetra closing price) as of December 30, 2010 (October 1, 2010: €5.13).

It hit its low of €5.00 for the quarter right at the beginning of the period on October 4, 2010 and then performed consistently well throughout October and November. The trading price rose by 4.24 percent when Infineon announced its fourth quarter results on November 16 and peaked for the quarter at €7.57 on December 6. It then fell by around 8 percent over the subsequent three days to €6.97 before stabilizing at a price of around €7.

The main international stock indexes also rose in the first quarter of the 2011 fiscal year, the German DAX Stock Index by 11 percent and the Philadelphia Stock Exchange Semiconductor Index (SOX) and Dow Jones US Semiconductor Index both by 17 percent.

Relative development of the Infineon share, German DAX Stock Index, SOX and DJ U.S. Semiconductor Index in the first Quarter of the 2011 fiscal year



	Three months ended December 31,		
	2010	2009	+/- in %
IFX closing prices in Euro (Xetra)			
Beginning of the period	5.13	3.76	36%
High	7.57	4.02	88%
Low	5.00	3.05	64%
End of the period	6.96	3.88	79%
Weighted-average number of shares traded per day	15,466,418	20,852,114	(26%)
Shares outstanding	1,086,742,085	1,086,742,085	
IFX closing prices in U.S. dollars (OTCQX)			
Beginning of the period	7.05	5.22	35%
High	10.03	5.95	69%
Low	6.81	4.38	55%
End of the period	9.16	5.49	67%
Weighted-average number of ADSs traded per day	72,043	374,961	(81%)

INDUSTRY ENVIRONMENT

In the fourth quarter of calendar year 2010, economic recovery continued albeit at a lower pace. The world economy has thereby entered a phase of decelerating growth. IHS Global Insight anticipates that growth will regain some momentum in the second half of calendar year 2011. IHS Global Insight expects that the world economy will grow by 3.7 percent in calendar year 2011, down from 4.1 percent in calendar year 2010 (IHS Global Insight, January 2011).

The global semiconductor market was strong in the fourth quarter of calendar year 2010 although market volume declined compared to the third quarter of the 2010 calendar year. Overall, the global semiconductor market growth is expected to be between 5 percent (iSuppli, December 2010) and 10 percent (IC Insights, January 2011) in the 2011 calendar year, following 32 percent in calendar year 2010.

RESULTS OF OPERATIONS

REVENUE BY SEGMENT

	Three months ended December 31,			
€ in millions, except percentages	**2010**		2009	
Automotive	354	38%	279	41%
Industrial & Multimarket	423	46%	280	41%
Chip Card & Security	98	11%	83	12%
Other Operating Segments	41	4%	42	6%
Corporate & Eliminations	6	1%	3	0%
Total Segment revenue	**922**	**100%**	**687**	**100%**

The persistently high level of general demand for semiconductor products still positively impacted sales across all operating segments and ensured that all segments were able to post considerably higher revenues in the first quarter of the 2011 fiscal year compared to the first quarter of the 2010 fiscal year. Due to the usual seasonal patterns together with exchange rate effects, however, the Industrial & Multimarket segment and the Chip Card & Security segment saw lower revenues compared to the fourth quarter of the 2010 fiscal year.

- Automotive — Revenues in the first quarter of the 2011 fiscal year amounted to €354 million, which represents an increase of €75 million, or 27 percent, compared to €279 million for the first quarter of the 2010 fiscal year. The increase in revenues in the first quarter of the 2011 fiscal year reflects increased auto production in Asia as well as a further firming of demand in Europe and North America for high-end vehicles with a higher semiconductor content.
- Industrial & Multimarket — Although revenues in the first quarter of the 2010 fiscal year were comparatively low at €280 million and still negatively impacted by the financial crisis, revenues in the first quarter of the 2011 fiscal year increased by €143 million or 51 percent to €423 million. Business progress was particularly pleasing in the fields of industrial drives, components for the consumer goods industry and components for renewable energy applications. Business with mobile communication infrastructure solutions, which is reported under the Industrial & Multimarket segment for the first time in the first quarter of the 2011 fiscal year, also strengthened substantially compared to the same quarter last year. Higher sales volumes in these and also almost all other application areas contributed to the increase in revenues. In addition, a significantly stronger U.S. dollar contributed to the increase in revenues.
- Chip Card & Security — In the first quarter of the 2011 fiscal year, revenues were €98 million, an increase of 18 percent or €15 million compared to €83 million in the first quarter of the 2010 fiscal year. This growth was mainly generated by the PayTV, government identification and SIM-card businesses. New customer projects in the PayTV business paired with high levels of quality and system expertise in our government identification business led to additional revenue. Growth in the SIM-card business was mainly driven by the successful ramp up of 90-nanometer technology. An increasing share of revenue in foreign currencies together with a stronger U.S. dollar also contributed to the revenue increase.
- Other operating segments — Revenues in the first quarter of the 2011 fiscal year remained almost flat at €41 million compared to €42 million in the first quarter of the 2010 fiscal year, and includes in both quarters primarily revenues with Lantiq, the purchaser of our Wireline Communications business after the closing of the sale in November 2009. Revenues generated by the business with analog and digital TV tuners receiver and with components for satellite radio, which were previously reported under the Wireless Solutions segment, make up a smaller proportion of the revenues figure.

SEGMENT RESULT

	Three months ended December 31,	
€ in millions	**2010**	2009
Automotive	59	37
Industrial & Multimarket	107	44
Chip Card & Security	10	1
Other Operating Segments	2	(1)
Corporate and Eliminations	(1)	(11)
Total Segment Result	**177**	**70**

Segment result of all operating segments in the first quarter of the 2011 fiscal year benefitted significantly from the stable growth in revenues which resulted in a higher gross margin compared to the first quarter of the 2010 fiscal year. Increased research and development costs and higher selling, general and administrative expenses had a negative impact on segment results. However, research and development costs as well as selling, general and administrative expenses increased at a slower rate than revenues and, therefore, overall profitability increased. Total segment result margin improved from 10 percent in the first quarter of the 2010 fiscal year to 19 percent in the first quarter of the 2011 fiscal year.

- Automotive — Segment result in the first quarter of the 2011 fiscal year was €59 million, an increase of €22 million compared to €37 million for the first quarter of the 2010 fiscal year. Thus, the segment result margin for this segment was 17 percent in the first quarter of the 2011 fiscal year, up from 13 percent in the same quarter last year. The main reason for the significant improvement in results was a €75 million increase in revenues. Research and development expenses increased again, primarily in the fields of microcontrollers using our advanced 65-nanomenter multicore architecture and highly integrated power and control circuits on a single silicon chip, helping to secure our leading market position in the automotive sector. In particular in the Asian markets with above-average growth rates (China, Korea, and India), our local presence was strengthened further by adding resources for application and customer support.

- Industrial & Multimarket — Segment result in the first quarter of the 2011 fiscal year amounted to €107 million, an increase of €63 million compared to €44 million in the first quarter of the 2010 fiscal year. This represents a segment result margin of 25 percent. In addition to ongoing optimization of our product portfolio and continuous improvements in our manufacturing costs, economies of scale arising from the marked increase in the volume of business particularly contributed to this development. Higher expenses for research and development as compared with the same period last year relate to investment in innovative products and pioneering technologies such as silicon carbide and gallium nitride. Higher selling and marketing costs resulted from the expansion of our presence in all important sales regions, especially in Asia. However, research and development expanses and selling, general and administrative expenses increased at a slower rate than revenues.
- Chip Card & Security — The segment result in the first quarter of the 2011 fiscal year amounted to €10 million, an increase of €9 million compared to €1 million in first quarter of the 2010 fiscal year. Segment result margin in the first quarter of the 2011 fiscal year was 10 percent. The segment has been able to improve its product structure – and with it its gross margin – primarily through the particularly strong growth achieved in attractive areas like government identification and PayTV. The introduction of 90-nanometer technology, moreover, has led to an improved cost position for SIM-cards. At the same time, research and development expenses especially for new projects to further strengthen our competitive position, e.g. for additional 90-nanometer projects and the next technology node, 65-nanometer, increased only slightly compared to the same quarter of the last fiscal year. Despite the growth in revenue, selling, general and administrative expenses remained stable.
- Other operating segments — The segment result improved from negative €1 million in the first quarter of the 2010 fiscal year to €2 million in the first quarter of the 2011 fiscal year due to cost savings and efficiency gains.
- Corporate and Eliminations segment — The segment result improved from negative €11 million in the first quarter of the 2010 fiscal year to negative €1 million in the first quarter of the 2011 fiscal year. While idle costs were still a factor in this segment in the first quarter of the 2010 fiscal year, the segment result for the Corporate and Eliminations segment contains no idle costs in the first quarter of the 2011 fiscal year.

MATERIAL ITEMS OF THE CONSOLIDATED STATEMENT OF OPERATIONS

€ in millions; except for the per share data	Three months ended December 31, 2010	2009
Revenue	922	687
Gross profit	**384**	241
Research and development expenses	(108)	(89)
Selling, general and administrative expenses	(103)	(88)
Other operating income and expense, net	(4)	(90)
Operating income (loss)	**169**	(26)
Financial income and expense	(12)	(27)
Income (loss) from continuing operations	**149**	(59)
Income from discontinued operations, net of income taxes	83	124
Net income	**232**	65
Basic earnings per share (in Euro)	0.21	0.06
Diluted earnings per share (in Euro)	0.20	0.06

The development of the result in the first quarter of the 2011 fiscal year reflects the high level of demand for semiconductor products. Net income in the quarter was €232 million, more than three times greater than the €65 million in the same quarter last year. Earnings per share accordingly also improved significantly. Basic and diluted earnings per share were both €0.06 in the first quarter of the 2010 fiscal year, but for the first quarter of the 2011 fiscal year basic earnings per share had increased to €0.21 and diluted earnings per share to €0.20.

There are a number of reasons behind the improvement.

The worldwide high level of demand for semiconductor products noted in previous quarters persisted and revenues increased in all regions. Europe remains the largest market for Infineon by value. The proportion of total sales accounted for by the Asia-Pacific region (excluding Japan) continued to grow gradually at the expense of the Americas. This trend, which became apparent in the 2010 fiscal year, is explained principally by the strong growth seen in demand for industrial applications in the Asia-Pacific region. The Americas region is experiencing slow growth compared to the other regions, so its contribution as a proportion of total sales is decreasing.

	Three months ended December 31,			
€ in millions, except percentages	**2010**		2009	
Europe, Middle East, Africa	423	46%	314	46%
therein: Germany	239	26%	177	26%
Asia-Pacific (w/o Japan)	347	38%	239	35%
therein: China	173	19%	111	16%
Japan	50	5%	39	5%
Americas	102	11%	95	14%
Total	**922**	**100%**	**687**	**100%**

Gross profit in the first quarter of the 2011 fiscal year amounted to €384 million, an improvement of 59 percent compared to €241 million in the first quarter of the 2010 fiscal year. Our production facilities, including new capacities, continued to be almost fully loaded and fixed costs were consequently better absorbed in the first quarter of the 2011 fiscal year than in the same period last year. Together with efficiency gains and improvements in product mix, this led to a significant improvement of our gross margin from 35 percent in the first quarter of the 2010 fiscal year to 42 percent in the first quarter of the 2011 fiscal year. This means that in the first quarter of the 2011 fiscal year we achieved a gross margin in the low forties in line with our target business model.

	Three months ended December 31,	
€ in millions, except percentages	**2010**	2009
Cost of goods sold	538	446
Changes year-on-year	21%	
Percentage of revenue	58%	65%
Gross profit	384	241
Percentage of revenue (gross margin)	42%	35%

Research and development expenses increased by 21 percent, from €89 million in the first quarter of the 2010 fiscal year to €108 million in the first quarter of the 2011 fiscal year, reflecting increases in research and development activities and the number of research and development projects as well as higher personnel costs. However, at 12 percent of revenue, they remain within the boundaries of our low teens percentage target business model.

	Three months ended December 31,	
€ in millions, except percentages	**2010**	2009
Research and development expenses	108	89
Changes year-on-year	21%	
Percentage of revenue	12%	13%

Also selling, general and administrative expenses were 11 percent of revenue, in line with our target business model, which stipulates a percentage target in the ten to low teens range. Selling, general and administrative expenses rose to €103 million from €88 million in the first quarter of the 2010 fiscal year. This was largely due to an increase in selling expenses associated with the increased sales volumes coupled with higher personnel costs.

€ in millions, except percentages	Three months ended December 31, 2010	2009
Selling, general and administrative expenses	103	88
Changes year-on-year	17%	
Percentage of revenue	11%	13%

Net other operating income and expense was negative €4 million in the first quarter of the 2011 fiscal year. In the first quarter of the 2010 fiscal year net other operating income and expense was negative €90 million, largely as a result of the loss of €81 million incurred in that quarter in connection with the deconsolidation of ALTIS Semiconductor S.N.C. of Essonnes, France ("ALTIS").

Net financial income and expense amounted to negative €12 million in the first quarter of the 2011 fiscal year, which represents an improvement of €15 million compared to negative €27 million in the same quarter last year. This reflects the decrease in interest expense in line with the decline in financial liabilities and was achieved despite a loss of €9 million in connection with the repurchase of notional amounts of our subordinated convertible notes due 2014 in the first quarter of the 2011 fiscal year.

Income from discontinued operations net of income taxes decreased to €83 million in the first quarter of the 2011 fiscal year from €124 million in the same quarter last year, which included a gain after tax of €106 million from the sale of the Wireline Communications business to Lantiq. Revenues of the Wireless mobile phone business increased to €457 million in the first quarter of the 2011 fiscal year (first quarter of the 2010 fiscal year: €254 million). This was mainly the result of sustained high demand for platform solutions for smartphones and entry-level models. The increase in revenues resulted in a significant improvement in net profit before taxes for the Wireless mobile phone business, from €13 million in the first quarter of the 2010 fiscal year to €96 million in the first quarter of the 2011 fiscal year. We purchased U.S. dollar/Euro put options at the end of August 2010 with an exercise price of U.S.$1.32 per euro to hedge the proceeds of U.S.$1,400 million from the sale of the Wireless mobile phone business. These options appreciated in the period to September 30, 2010 due to the weakening of the U.S. dollar against the euro, which led to the recognition of a gain of €28 million in the 2010 fiscal year. The recovery of the U.S. dollar in the reporting quarter caused a decrease of the fair value of the options, which resulted in a corresponding expense recognized in the first quarter of the 2011 fiscal year. In addition, transaction costs specifically attributable to the sale resulted in a combined negative impact on income from discontinued operations of €34 million.

FINANCIAL CONDITION

€ in millions, except percentages	As of December 31, 2010	As of September 30, 2010	Change year-on-year
Current assets	3,637	3,590	1%
thereof: assets held for sale	567	495	15%
Non-current assets	1,467	1,403	5%
Total assets	**5,104**	**4,993**	**2%**
Current liabilities	1,753	1,808	(3%)
thereof: liabilities held for sale	152	177	(14%)
Non-current liabilities	543	560	(3%)
Total liabilities	**2,296**	**2,368**	**(3%)**
Total equity	**2,808**	**2,625**	**7%**

Total assets increased by €111 million or 2 percent quarter on quarter to €5,104 million (September 30, 2010: €4,993 million). Both current and non-current assets increased between September 30, 2010 and December 31, 2010, the former mainly as a result of increasing inventories and an increase in assets held for sale and the latter predominantly as a result of the increase in the value of property, plant and equipment caused by investments made in the first quarter of the 2011 fiscal year.

Current assets rose by €47 million or 1 percent to €3,637 million in the three months to December 31, 2010 (September 30, 2010: €3,590 million). This was largely due to increases of €72 million in assets held for sale, €59 million in inventories and €21 million in other current assets. These increases were partially offset by decreases of €57 million in cash and cash equivalents and of €50 million in other current financial assets. Inventories rose as a result of further increases in production volume associated with the expansion of our capacity. Assets to be transferred to Intel in connection with the sale of our Wireless mobile phone business, which are reported in the consolidated statement of financial position as “held for sale”, also rose, most notably inventories which were up €29 million due to expanded business activity. The assets held for sale at December 31, 2010 additionally included the €20 million investment in Blue Wonder. Other current assets were higher at December 31, 2010 primarily because of higher value added tax receivables and higher advance payments to suppliers. Cash and cash equivalents declined principally as a result of the €122 million invested in the first quarter of the 2011 fiscal year in property, plant and equipment for our continuing activities and the €80 million expenditure to repurchase subordinated convertible notes due 2014. Net cash provided by operating activities from continuing operations and net cash from discontinued operations did not fully offset these outflows of funds. The €50 million decline in other current financial assets between September 30, 2010 and December 31, 2010 is due to the reduction in the fair value of the derivative financial instruments obtained to hedge our foreign currency risk associated with the fall in the euro/U.S. dollar exchange rate. Most of the reduction relates to the options purchased to hedge the sale proceeds of U.S.$1,400 million from the sale of the Wireless mobile phone business to Intel.

Non-current assets increased by €64 million or 5 percent from September 30, 2010 to December 31, 2010. The largest contributing factor was the value of property, plant and equipment, which rose by €52 million due to investment exceeding depreciation.

In equity and liabilities, liabilities fell by €72 million to €2,296 million in the three months ended December 31, 2010 (September 30, 2010: €2,368 million). This was largely due to the reduction in provisions following the payment of variable compensation to employees related to the 2010 fiscal year. Equity increased by €183 million or 7 percent to €2,808 million in the three months ended December 31, 2010 (September 30, 2010: €2,625 million).

Current liabilities fell by €55 million or 3 percent to €1,753 million in the three months ended December 31, 2010 (September 30, 2010: €1,808 million) primarily due to a €64 million reduction in current provisions together with a €25 million reduction in liabilities held for sale, only partially offset by an increase of €49 million in third party trade accounts. Current provisions declined mainly as a result of the payment in the first quarter of the 2011 fiscal year of variable compensation to employees related to the 2010 fiscal year. The liabilities to be transferred to Intel in connection with the sale of our Wireless mobile phone business that are reported in the consolidated financial statement of position as “held for sale” also fell in the first quarter again as a result of the variable compensation paid to employees related to the 2010 fiscal year. The increase in inventories in the first quarter of the 2011 fiscal year caused a corresponding increase in trade accounts payable.

Non-current liabilities dropped by €17 million or 3 percent to €543 million in the three months ended December 31, 2010 (September 30, 2010: €560 million). This movement resulted from the reduction in long-term debt, which declined from €263 million to €247 million mainly as a consequence of the repurchase in the first quarter of the 2011 fiscal year of a portion of our subordinated convertible notes due 2014 which resulted in a reduction of the book value of long-term debt by €22 million.

Equity increased by €183 million or 7 percent to €2,808 million in the three months ended December 31, 2010 (September 30, 2010: €2,625 million). This rise reflects the consolidated net profit of €232 million for the first quarter of the 2011 fiscal year, net of €5 million of expenses recognized directly in equity and a €44 million reduction in the capital reserves for the repurchase of subordinated convertible notes due 2014.

LIQUIDITY

CASH FLOW

Our cash flow shows the sources and uses of cash and cash equivalents during the reported periods. The cash flow is of key importance for the evaluation of our financial situation.

CASH FLOW

	Three months ended December 31,	
€ in millions	**2010**	2009
Net cash provided by operating activities from continuing operations	134	101
Net cash used in investing activities from continuing operations	(130)	(120)
Net cash used in financing activities from continuing operations	(80)	(60)
Net increase in cash and cash equivalents from discontinued operations	17	253
Net decrease (increase) in cash and cash equivalents	**(59)**	**174**

Net cash provided by operating activities from continuing operations

Net cash provided by operating activities from continuing operations amounted to €134 million in the first quarter of the 2011 fiscal year, an improvement of €33 million over the same quarter last year (first quarter of the 2010 fiscal year: €101 million).

This resulted primarily from an increased income from continuing operations of €149 million (first quarter of the 2010 fiscal year: negative €59 million) which includes non-cash depreciation and amortization of €83 million. Income from continuing operations in same quarter last year included non-cash operating losses of €81 million from the deconsolidation of ALTIS as well as €90 million of depreciation and amortization.

The increase in working capital resulting from the higher business volume reduced net cash provided by operating activities from continuing operations by €63 million in the first quarter of the 2011 fiscal year. This was due to increases in inventories coupled with reduction in provisions, primarily as a result of the payment of variable compensation to employees for the 2010 fiscal year. The first quarter of the 2010 fiscal year, in contrast, saw working capital decrease by €6 million, as both inventory increases and expenditures related to provisions were significantly lower. In addition the payment of income taxes and interest reduced net cash provided by operating activities by a total of €38 million in the first quarter of the 2011 fiscal year compared with €18 million in the same quarter last year.

Net cash used in investing activities from continuing operations

Cash flow from investing activities reflects the Group's continuing strong efforts to expand its production capacity. Net cash used in investing activities from continuing operations in the first quarter of the 2011 fiscal year amounted to €130 million, €122 million of which was accounted for by capital expenditures on property, plant and equipment. These investing activities were concentrated on the expansion of our front-end power capacities at Kulim in Malaysia and Villach in Austria and the expansion of our back-end power capacities at Malacca in Malaysia. We also started work to establish a 300-millimeter pilot plant at Villach, which we will use to prepare for the mass-production of discrete power semiconductors on 300-millimeter wafers.

Cash used in investing activities from continuing operations in the first quarter of the 2010 fiscal year amounted to €120 million, the main factor being the €88 million reduction in cash in connection with the deconsolidation of ALTIS. Capital expenditures on property, plant and equipment amounted to €29 million.

Net cash used in financing activities from continuing operations

Net cash used in financing activities from continuing operations in the first quarter of 2011 totaled €80 million, reflecting the repurchase of a nominal amount of €28 million of our subordinated convertible notes due 2014.

Net cash used in financing activities from continuing operations in the first quarter of the 2010 fiscal year amounted to €60 million, which included €48 million for the repurchase subordinated convertible notes which were fully redeemed in June 2010, as well as the repayment of financial liabilities of €10 million.

Change in cash and cash equivalents from discontinued operations

Net cash provided by discontinued operations in the first quarter of the 2011 fiscal year amounted to €17 million. The main contributing factors were the €55 million of cash provided by the operating activities of the Wireless mobile phone business, net of the capital expenditures made during the first quarter of the 2011 fiscal year (principally for development activities undertaken that are capitalized), and payments of €22 million in connection with liabilities from the insolvency of Qimonda, principally the settlement agreed with the indirect customers group and the chief public prosecutor (see note 15 (Commitments and Contingencies)).

Net cash provided by discontinued operations in the first quarter of the 2010 fiscal year totaled €253 million, €223 million of which reflected the purchase price received for our Wireline Communications Business when it was sold in November 2009. Net cash provided by the operating activities of the Wireline Communications Business, which was reported under discontinued operations, amounted to €39 million in the first quarter of the 2010 fiscal year and relates to the period up to the closing of the sale in November 2009 plus subsequent outpayments for remaining current liabilities net of subsequent payments received for remaining trade accounts receivable. This was offset by payments of €41 million in connection with the insolvency of Qimonda, including the payment in the first quarter of the 2010 fiscal year of the last installment of the settlement agreed with the U.S. Department of Justice. The remaining €32 million stems from the cash provided by the operating activities of the Wireless mobile phone business in the first quarter of the 2010 fiscal year, net of payments for capital expenditures.

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 liquid 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 statement of cash flows:

FREE CASH FLOW

	Three months ended December 31,	
€ in millions	**2010**	2009
Net cash provided by operating activities from continuing operations	134	101
Net cash used in investing activities from continuing operations	(130)	(120)
Sales of available-for-sale financial assets, net	-	(2)
Free cash flow	**4**	**(21)**

Free cash flow amounts to €4 million in the first quarter of the 2011 fiscal year, up from negative €21 million in the first quarter of the 2010 fiscal year. This €25 million improvement reflects the better results recorded and was achieved despite the increased amount of capital tied up in inventories and higher payout for provisions and capital expenditures. Free cash flow in the first quarter of the 2010 fiscal year was adversely affected by the €88 million reduction in cash and cash equivalents in connection with the deconsolidation of ALTIS.

GROSS CASH POSITION AND NET CASH POSITION

The following table presents our gross and net cash positions, as well as our long-term and short-term debt. Since we hold a portion of our liquid resources in the form of readily available-for-sale financial assets, which for IFRS purposes are not considered to be “cash and cash equivalents”, we report our gross and net cash positions to provide investors with an understanding of our overall liquidity position.

The gross and net cash position is derived as follows from the corresponding amounts in our consolidated statement of financial position:

NET CASH POSITION

€ in millions	December 31, 2010	September 30, 2010
Cash and cash equivalents	1,610	1,667
Available-for-sale financial assets	59	60
Gross cash position	**1,669**	**1,727**
Less:		
Long-term debt	247	263
Short-term debt and current maturities of long-term debt	129	133
Total financial debt	**376**	**396**
Net cash position	**1,293**	**1,331**

Our gross cash position, which comprises cash and cash equivalents plus available-for-sale financial assets, declined by €58 million to €1,669 million as of December 31, 2010 (September 30, 2010: €1,727 million). Our gross cash position was mainly impacted by the €210 million of net cash provided by operating activities and the aggregate of €185 million of capital expenditures in continuing and discontinued operations and the payments for the repurchases of subordinated convertible notes due 2014 in the first quarter of the 2011 fiscal year.

Our net cash position, which is defined as gross cash position less current and non current financial liabilities, accordingly declined by €38 million to €1,293 million as of December 31, 2010 (September 30, 2010: €1,331 million).

EMPLOYEES

The following table indicates the composition of our workforce by function and region at the dates shown:

EMPLOYEES[1]

	As of		
	December 31, 2010	September 30, 2010	Change
Function:			
Production	18,301	17,924	2%
Research & Development	6,015	5,771	4%
Sales & Marketing	1,551	1,520	2%
Administrative	1,448	1,439	1%
Total	**27,315**	**26,654**	**2%**
Region:			
Germany	8,936	8,826	1%
Europe	3,518	3,449	2%
North America	655	640	2%
Asia/Pacific	14,088	13,619	3%
Japan	118	120	(2%)
Total	**27,315**	**26,654**	**2%**

[1] Including those employees from our former Wireless Solutions segment and from central functions to be transferred to Intel upon closing of the sale of the Wireless mobile phone business.

The number of Infineon employees increased by 2 percent in the first quarter of the 2011 fiscal year. This growth was driven by the need for additional staff in order to cope with the rapid increase in business, but also by further hiring in the research and development function at sites in Germany and the Asia-Pacific region. New employees were also hired in production (principally at back-end sites in the Asia-Pacific region) in connection with the expansion of our production capacities.

The Infineon sites in Germany accounted for 33 percent of Infineon employees on December 31, 2010 unchanged from December 31, 2009.

SUBSEQUENT EVENTS

We completed the sale of the Wireless mobile phone business to Intel on January 31, 2011. The cash purchase price was U.S.$1,400 million. For more information on this sale, see note 3 ("Sales of shares and discontinued operations – Sale of the Wireless mobile phone business – Discontinued operations).

Prof. Dr. Hermann Eul tendered his resignation from the Management Board upon completion of the sale of the Wireless mobile phone business. He has left the Management Board of Infineon and transferred to Intel.

On January 31, 2011, we brought a declaratory action before the Regional Court Munich I against the administrator of the assets of Qimonda AG (see note 15 ("Commitments and contingencies –Qimonda matters")).

OUTLOOK

OUTLOOK FOR THE SECOND QUARTER OF THE 2011 FISCAL YEAR: A QUARTER OF REVENUE GROWTH WITH CONSISTENTLY HIGH MARGINS

Infineon expects revenues for the second quarter of the 2011 fiscal year to be up slightly compared to the first quarter, with Total Segment Result margin of 18 to 20 percent.

Within the expected sequential revenue increase, Automotive revenues are expected to grow markedly, Chip Card & Security turnover should show some growth, and Industrial & Multimarket sales are expected to increase only slightly.

OUTLOOK FOR THE FISCAL YEAR 2011: RAISING ANTICIPATED GROWTH AND MARGIN

Even at an assumed Euro/U.S. dollar exchange rate of 1.40, Infineon now expects full-year revenue growth to be a mid-teens percentage, compared to a rate of close to 10 percent guided for so far. The Company anticipates greater than group average growth for both Automotive and Industrial & Multimarket and below group average growth for Chip Card & Security revenues.

Total Segment Result margin for the 2011 fiscal year is expected to be a high teens percentage of sales, compared to a mid to high teens percentage guided for thus far.

In response to continued high levels of order intake and sustained allocation across multiple product lines, Infineon now anticipates that investments will total around €700 million in the 2011 fiscal year, compared to the previous guidance of €550 million and compared to €325 million in the 2010 fiscal year.

Depreciation and Amortization is now expected to slightly exceed €400 million for the 2011 fiscal year, compared to €336 million in the 2010 fiscal year and compared to the previous guidance of about €400 million.

RISKS AND OPPORTUNITIES

We are exposed to a number of risks as a result of the high volatility of the semiconductor business, our international orientation and our wide product range. Such risks include, but are not limited to, broader economic developments, including the sustainability of recent improvements in the market environment; fluctuations in demand and prices for semiconductors generally and for our products in particular, as well as for the end-products, such as for instance automobiles and consumer electronics, that incorporate our products; the failure to comply with our delivery commitments to customers resulting from capacity limitations and allocations; the success of our development efforts, both on our own and with partners; the success of our efforts to introduce new production processes at our facilities; the actions of competitors; the continued availability of adequate funds; the outcome of antitrust investigations and litigation matters; the effects of currency fluctuations, primarily between the U.S. dollar and the Euro; the outcome of Qimonda's insolvency proceedings, including potential liabilities related to the Qimonda insolvency, including pending antitrust and related securities law claims, claims by the insolvency administrator brought in December 2010 by way of a declaratory action which alleges that Infineon "economically re-established" Qimonda (what is known in German as "wirtschaftliche Neugründung") through the transfer of the memory business, risks arising from the insolvency administrator's declaration to elect non-performance of the contribution agreement between Infineon and Qimonda and the resulting declaratory action brought by the Company against the insolvency administrator in January 2011, claims in connection with Qimonda's sale of its stake in Inotera to Micron, the potential repayment of governmental subsidies received, employee- related contingencies and contingent liabilities; as well as the other factors mentioned in this quarterly report and those described in our Annual Report for the fiscal year ended September 30, 2010, a copy of which is available at our webside, www.infineon.com.

A variety of – in particular financial – risks, also present opportunities when developing positively.

For more detailed information on risks and opportunities and their potential effect on operating results, financial position and cash flows, please refer to our Annual Report.

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CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED) FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

€ in millions; except for the per share data	**December 31, 2010**	December 31, 2009
Revenue	922	687
Cost of goods sold	(538)	(446)
Gross profit	**384**	**241**
Research and development expenses	(108)	(89)
Selling, general and administrative expenses	(103)	(88)
Other operating income	2	6
Other operating expense	(6)	(96)
Operating income (loss)	**169**	**(26)**
Financial income	6	11
Financial expense	(18)	(38)
Income from investments accounted for using the equity method	-	1
Income (loss) from continuing operations before income taxes	**157**	**(52)**
Income tax expense	(8)	(7)
Income (loss) from continuing operations	**149**	**(59)**
Income from discontinued operations, net of income taxes	83	124
Net income	**232**	**65**
Attributable to:		
Non-controlling interests	-	1
Shareholders of Infineon Technologies AG	232	64
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):		
Basic earnings (loss) per share from continuing operations	0.14	(0.06)
Basic earnings per share from discontinued operations	0.07	0.12
Basic earnings per share	**0.21**	**0.06**
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):		
Diluted earnings (loss) per share from continuing operations	0.13	(0.06)
Diluted earnings per share from discontinued operations	0.07	0.12
Diluted earnings per share	**0.20**	**0.06**

See accompanying condensed notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

€ in millions	**December 31, 2010**	December 31, 2009
Net income	**232**	**65**
Currency translation effects	3	2
Net change in fair value of available-for-sale financial assets	-	1
Net change in fair value of cash flow hedges	(8)	(1)
Other comprehensive income (loss) for the year, net of tax	**(5)**	**2**
Total comprehensive income (loss) for the year, net of tax	**227**	**67**
Attributable to:		
Non-controlling interests	-	1
Shareholders of Infineon Technologies AG	227	66

See accompanying condensed notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS OF DECEMBER 31, 2010 AND SEPTEMBER 30, 2010

€ in millions	December 31, 2010	September 30, 2010
Assets:		
Current assets:		
Cash and cash equivalents	1,610	1,667
Available-for-sale financial assets	59	60
Trade and other receivables	685	687
Inventories	573	514
Income tax receivable	12	7
Other current financial assets	22	72
Other current assets	109	88
Assets classified as held for sale	567	495
Total current assets	**3,637**	**3,590**
Property, plant and equipment	890	838
Goodwill and other intangible assets	91	87
Investments accounted for using the equity method	35	35
Deferred tax assets	308	308
Other financial assets	120	119
Other assets	23	16
Total assets	**5,104**	**4,993**
Liabilities and equity:		
Current liabilities:		
Short-term debt and current maturities of long-term debt	129	133
Trade and other payables	716	665
Current provisions	489	553
Income tax payable	101	111
Other current financial liabilities	12	16
Other current liabilities	154	153
Liabilities classified as held for sale	152	177
Total current liabilities	**1,753**	**1,808**
Long-term debt	247	263
Pension plans and similar commitments	154	146
Deferred tax liabilities	10	11
Long-term provisions	54	55
Other financial liabilities	5	6
Other liabilities	73	79
Total liabilities	**2,296**	**2,368**
Shareholders' equity:		
Ordinary share capital	2,173	2,173
Additional paid-in capital	6,004	6,048
Accumulated deficit	(5,381)	(5,613)
Other reserves	12	17
Total equity	**2,808**	**2,625**
Total liabilities and equity	**5,104**	**4,993**

See accompanying condensed notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

€ in millions	December 31, 2010	December 31, 2009
Net income	**232**	**65**
Less: net income from discontinued operations, net of income taxes	(83)	(124)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83	90
Provision for (recovery of) doubtful accounts	-	1
Losses (gains) on sales of available-for-sale financial assets	-	(2)
Losses (gains) on sales of businesses and interests in subsidiaries	-	(3)
Losses in connection with the deconsolidation of ALTIS	-	81
Income from investments accounted for using the equity method	-	(1)
Impairment charges	(2)	6
Deferred income taxes	1	(1)
Changes in operating assets and liabilities:		
Trade and other receivables	(9)	(15)
Inventories	(50)	(2)
Other current assets	(20)	4
Trade and other payables	44	17
Provisions	(52)	(4)
Other current liabilities	33	(19)
Other assets and liabilities	(9)	25
Interest received	4	1
Interest paid	(10)	(10)
Income tax paid	(28)	(8)
Net cash provided by operating activities from continuing operations	**134**	**101**
Net cash provided by operating activities from discontinued operations	**76**	**46**
Net cash provided by operating activities	**210**	**147**
Cash flows from investing activities:		
Proceeds from sales of available-for-sale financial assets	-	2
Proceeds from sales of businesses and interests in subsidiaries	-	1
Cash decrease from the deconsolidation of ALTIS	-	(88)
Purchases of intangible assets and other assets	(9)	(6)
Purchases of property, plant and equipment	(122)	(29)
Proceeds from sales of property, plant and equipment and other assets	1	-
Net cash used in investing activities from continuing operations	**(130)**	**(120)**
Net cash provided by (used in) investing activities from discontinued operations	**(55)**	**207**
Net cash provided by (used in) investing activities	**(185)**	**87**

€ in millions	**December 31, 2010**	December 31, 2009
Cash flows from financing activities:		
Net change in related party financial receivables and payables	-	(2)
Proceeds from issuance of long-term debt	27	-
Repayments of long-term debt	(27)	(10)
Repurchase of convertible subordinated notes	(80)	(48)
Net cash used in financing activities from continuing operations	**(80)**	**(60)**
Net cash used in financing activities from discontinued operations	**(4)**	**-**
Net cash used in financing activities	**(84)**	**(60)**
Net increase (decrease) in cash and cash equivalents	(59)	174
Effect of foreign exchange rate changes on cash and cash equivalents	2	1
Cash and cash equivalents at beginning of period	1,667	1,414
Cash and cash equivalents at end of period	**1,610**	**1,589**

See accompanying condensed notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

€ in millions; except for share data	Ordinary shares issued			
	Shares	Amount	Additional paid-in capital	Accumulated deficit
Balance as of October 1, 2009	**1,086,742,085**	**2,173**	**6,048**	**(6,180)**
Net income	-	-	-	64
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period, net of tax	-	-	-	64
Deconsolidation of ALTIS	-	-	-	-
Balance as of December 31, 2009	**1,086,742,085**	**2,173**	**6,048**	**(6,116)**
Balance as of October 1, 2010	**1,086,742,085**	**2,173**	**6,048**	**(5,613)**
Net income	-	-	-	232
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period, net of tax	-	-	-	232
Other changes in equity	-	-	(44)	-
Balance as of December 31, 2010	**1,086,742,085**	**2,173**	**6,004**	**(5,381)**

See accompanying condensed notes to the unaudited consolidated financial statements.

Other reserves					
Foreign currency translation adjustment	Unrealized gain (loss) on securities	Unrealized gains (losses) on cash flow hedge	Total equity attributable to shareholders of Infineon Technologies AG	Non-controlling interests	Total equity
3	**1**	**(12)**	**2,033**	**60**	**2,093**
-	-	-	64	1	65
2	1	(1)	2	-	2
2	1	(1)	66	1	67
-	-	-	-	(61)	(61)
5	**2**	**(13)**	**2,099**	**-**	**2,099**
16	**3**	**(2)**	**2,625**	**-**	**2,625**
-	-	-	232	-	232
3	-	(8)	(5)	-	(5)
3	-	(8)	227	-	227
-	-	-	(44)	-	(44)
19	**3**	**(10)**	**2,808**	**-**	**2,808**

CONDENSED NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 / BASIS OF PRESENTATION

The accompanying consolidated financial statements of Infineon Technologies AG and its consolidated subsidiaries ("Infineon" or the "Company") as of and for the three months ended December 31, 2010 and 2009, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB"), and as adopted by the European Union ("EU"). The accompanying consolidated financial statements have been prepared in compliance with IAS 34, "Interim Financial Reporting". Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. In addition, although the consolidated statement of financial position as of September 30, 2010 was derived from audited financial statements, it does not include all disclosures required by IFRS. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements prepared in accordance with IFRS, as adopted by the EU, as of and for the fiscal year ended September 30, 2010. The accounting policies applied in preparing the accompanying consolidated financial statements are consistent with those for the 2010 fiscal year.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full fiscal year.

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

All amounts herein are shown in Euro (or "€") except where otherwise stated. Negative amounts are presented in parentheses.

Certain amounts in the prior period consolidated financial statements and condensed notes have been reclassified to conform to the current period presentation.

Deviations among amounts presented in the consolidated financial statements are possible due to rounding.

2 / ACCOUNTING POLICIES

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which prescribes the classification and measurement of financial assets and completes the first phase of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. In October 2010, the IASB published guidance on the accounting treatment of financial liabilities. The IASB has decided to retain the existing accounting treatment of most financial liabilities at amortized cost. The new guidance deals with the problem of volatility that arises in the statement of operations, if the issuer decides to measure its own liabilities at fair value. IFRS 9 specifies that an entity that has adopted the fair value option for accounting for its financial liabilities has to recognize the portion of the change in fair value resulting from the entity's own credit risk in other comprehensive income (OCI), not through profit or loss. IFRS 9 will be effective for fiscal years beginning on or after January 1, 2013 with earlier application permitted. Therefore, for the Company, the new standard will be effective for its fiscal year beginning on October 1, 2013. The EU has not yet endorsed the new standard. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

In November 2009, the IASB issued the revised standard IAS 24 “Related-Party Disclosures”. The amendments primarily comprise a modified definition of the term “related party” and the introduction of a partial exemption from the disclosure requirements for government-related entities. The revised standard applies to annual periods beginning on or after January 1, 2011. Earlier application is permitted. The Company plans to apply the revised standard for fiscal years beginning October 1, 2011 onwards. The EU endorsed the amendment in July 2010. The Company is currently evaluating the impact of the revised IAS 24 on its financial statements.

In October 2010, the IASB published amendments to IFRS 7, “Financial Instruments: Disclosures.” The amendments to IFRS 7 relate to extended disclosure requirements about transfers of financial assets and are intended to give users of financial statements a better understanding of the impact of the risks that remain in the entity. Entities have to apply the amendments to fiscal years beginning on or after July 1, 2011. The Company plans to apply the amended standard as from the fiscal year starting on October 1, 2011 and is currently analyzing the impact of the amended IFRS 7 on its consolidated financial statements.

FINDING OF THE DEUTSCHE PRÜFSTELLE FÜR RECHNUNSGLEGUNG

As disclosed in the operating and financial review for the 2010 fiscal year and the notes to the consolidated financial statement for the 2010 fiscal year, the Deutsche Prüfstelle für Rechnungswesen DPR e.V. (“DPR”), a German government-appointed private institution, conducted a random sample audit of Infineon’s IFRS financial statements for the year ended September 30, 2008. In the course of this review the DPR raised objections regarding the accounting for deferred tax assets arising from tax loss carry-forwards in the amount of €237 million as of September 30, 2008. On December 22, 2010 and December 24, 2010 the finding was formally released. In its consolidated financial statements for the 2010 fiscal year which were released in November 2010, the Company adjusted the respective opening balances as of October 1, 2008 and the consolidated financial statements for the 2009 fiscal year in accordance with IAS 8. The retrospective adjustments do not affect the existing tax loss carry-forwards, result in immaterial adjustments to the net income of the adjusted periods and have no impact on the three months ended December 31, 2010. The adjustments did not and will not result in an outflow of cash and cash equivalents.

3 / DIVESTITURES AND DISCONTINUED OPERATIONS

QIMONDA — DISCONTINUED OPERATIONS

On January 23, 2009, Qimonda AG (“Qimonda”) a majority owned company, and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG (“Qimonda Dresden”), filed an application at the Munich Local Court to commence insolvency proceedings. 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 results of Qimonda are reported as discontinued operations in the Company’s consolidated statement of operations for all periods presented.

As a result of the insolvency proceedings by Qimonda, Infineon is exposed to potential liabilities and risks in addition to those identified in note 15 (“*Commitments and Contingencies – Other Qimonda matters*”) including the following, which effects are recognized as discontinued operations:

- 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. Owing to Qimonda’s insolvency, however, the Company expects that Qimonda will not be able to indemnify it for these claims. Further information on these pending antitrust and securities law claims and their potential impact on the Company may be found in note 15 (“*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 from Qimonda North America in connection with the termination of employment related to Qimonda’s insolvency. Further information on this suit may be found in note 15 (“*Commitments and Contingencies – Litigation and Government Inquiries – Qimonda Litigation*”).
- The Company is the named defendant in an unspecified action for a declaratory judgment brought by the Qimonda insolvency administrator on December 1, 2010 in the Regional Court of Munich I. The action asserts that, in connection with the carve-out of the memory business to Qimonda AG, Infineon utilized a previously

formed shell company and “economically re-established” this company (what is known in German as a “wirtschaftliche Neugründung”) through the transfer of the memory business and that Infineon failed to submit the declaration required in this regard to the registry court, thereby making it impossible to carry out the required assessment of Qimonda’s capital structure. The action seeks to establish a basic obligation to pay on the part of the company. See note 15 (“*Commitments and Contingencies – Litigation and Government Inquiries – Qimonda 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 could under 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 public 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 administrator regarding these matters.
- The Company and its subsidiary Infineon Technologies Dresden GmbH (“Infineon Dresden”) are subject to lawsuits by approximately 80 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and are now demanding to be re-employed by the Company. All court decisions to date have been in favor of the Company or Infineon Dresden.
- The Qimonda administrator has claimed damages from the Company under company law in connection with the sale by Qimonda of its interest in Inotera. It is alleged that Infineon, as a shareholder of Qimonda, influenced Qimonda to conclude a patent cross license agreement with the buyer of its stake in Inotera and thus indirectly steered Qimonda into a legal transaction detrimental to Qimonda, namely the sale of its interest in Inotera. The claim has been asserted without any concrete explanation of the details of the matter. The Company has denied the claims.

In addition to the matters described above, the Company could also be subject to claims by the administrator for repayment of certain sums, such as payments for intra-group services and supplies, received from Qimonda within defined periods prior to the commencement of insolvency proceedings. The insolvency of Qimonda could also expose the Company to other claims arising in connection with contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities transferred in connection with the carve-out of the memory business to Qimonda, as the Company expects that Qimonda will not be able to fulfill its obligation to indemnify it against any such liabilities.

Certain adjustments for provisions related to potential liabilities were made in the three months ended December 31, 2010. The net impact before income taxes shown as discontinued operations on the consolidated statement of operations was negative €1 million.

In addition, as a result of the insolvency of Qimonda, Infineon is exposed to risks whose effects are recognized within continuing operations and described in more details in note 15 (“*Commitments and Contingencies – Qimonda matters*”).

SALE OF THE WIRELINE COMMUNICATIONS BUSINESS — DISCONTINUED OPERATIONS

On July 7, 2009, the Company entered into a purchase agreement with several Lantiq companies, affiliates of Golden Gate Private Equity Inc. (“Lantiq”), pursuant to which it agreed to sell one of its segments, the Wireline Communications business. The majority of the purchase price was paid at closing on November 6, 2009, in the amount of €223 million. An additional €20 million of the purchase price was paid, as agreed in the contract, nine months after the closing date in August 2010.

The results of the Wireline Communications business as well as the gain on the sale are reported as “Income from discontinued operations, net of income taxes”, in the Company’s consolidated statement of operations for all periods presented.

SALE OF THE WIRELESS MOBILE PHONE BUSINESS — DISCONTINUED OPERATIONS

On August 30, 2010, the Company entered into a purchase agreement with Intel Corporation (“Intel”), pursuant to which it agreed to sell the mobile phone business of the Wireless Solutions segment (“Wireless mobile phone business”). The sale closed on January 31, 2011. Of the activities of the Wireless Solutions segment, only the business with analog and digital TV tuners and satellite radio receivers, as well as radio frequency power transistors for amplifiers in cellular basestations, remains with the Company. The purchase price of US$1,400 million was due at closing. The sale was primarily effected as an asset deal. All assets, patents, other intellectual property, and selected liabilities allocated to the Wireless mobile phone business were specified and transferred individually. Trade receivables from customers from revenue before closing are not part of the sale. The Company has entered into interim product supply agreements and service level agreements with Intel. Only finished goods were transferred at closing. Infineon will retain work in process, raw materials and supplies, inventories in consignment stock, trade receivables, net advance payments, as well as other working capital. Apart from a few exceptions, the Company's production will remain unaffected by the transaction. Only a few items of dedicated production equipment were transferred for which Intel has paid a cash amount equal to the carrying value of these production assets in addition to the above-mentioned purchase price. For individual defined personnel liabilities at closing – namely pension liabilities and other personnel liabilities – the Company will pay a cash compensation for the transfer of these liabilities to Intel. Trade accounts payable of the Wireless mobile phone business incurred before closing will be paid by the Company. Separation costs incurred in connection with the transaction for the relocation of employees and the adjustment and redesign of existing plant and IT systems will be shared equally by Intel and the Company.

Due to the decision to sell the Wireless mobile phone business, in the consolidated statement of financial position as of September 30, 2010, and December 31, 2010, the Company recognized those assets and liabilities that are part of the sale to Intel as “classified as held for sale” in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”. The net amounts of assets and liabilities classified as “held for sale” at the time of the completion of the transaction differ from those reported in the consolidated statement of financial position as of September 30, 2010, and December 31, 2010, because of changes in the interim period, for example as a result of increases or decreases of finished goods or the payment of personnel liabilities. In accordance with IFRS 5, no depreciation or amortization has been recognized for the assets classified as held for sale since the beginning of August 2010.

As of October 19, 2010, Infineon Technologies AG acquired 100 percent of the shares of Blue Wonder Communications GmbH in Dresden (“Blue Wonder”). Blue Wonder designs, develops and markets products, software, engineering and consulting services in the area of information technology and telecommunications. In particular its technology and system solutions shall support the development of the next generation mobile communication standard LTE (Long Term Evolution). As part of the sale of the Wireless mobile phone business the shares of Blue Wonder were also transferred to Intel. In accordance with IFRS 5 “Non-current Assets held for sale and Discontinued Operations”, the shares are classified as “held for sale” in the consolidated statement of financial position as of December 31, 2010.

The results of the Wireless mobile phone business have been recognized in the consolidated statement of operations for the three months ended December 31, 2010, under “Income from discontinued operations, net of income taxes”. The prior period amounts have been adjusted accordingly. Expenses that had previously been allocated to the Wireless mobile phone business but continue to be incurred after the sale are not affected by this classification and continue to be reported under “Income (loss) from continuing operations”.

To hedge the expected divestiture proceeds of US$1,400 million, the Company had purchased U.S. dollar/euro put options with an exercise price of US$1.32 per euro. Since the U.S. dollar had weakened against the euro, the value of the options had increased to September 30, 2010, resulting in recognition of a gain. This positive effect was partially offset by transaction costs in the fourth quarter of the 2010 fiscal year directly attributable to the sale, resulting in a combined positive effect of €19 million, which was reported under “Income from discontinued operations, net of income taxes”. In the three months ended December 31, 2010, the U.S. dollar recovered against the euro and additional transaction costs were incurred, resulting in a negative income effect totaling €34 million.

In accordance with the internal reporting during the three months ended December 31, 2010, the Wireless Solutions segment is no longer reported in the segment reporting (see note 16).

ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets and liabilities classified as held for sale as of September 30, 2010, and December 31, 2010, primarily consist of the book values of assets and liabilities to be disposed of in connection with the sale of the Wireless mobile phone business. The net amounts of assets and liabilities classified as “held for sale” at the time of the completion of the transaction differ from those reported in the consolidated statement of financial position as of

September 30, 2010, and December 31, 2010, because changes have occurred in these accounts in the interim period, for example as a result of increases or decreases of finished goods or the payment of personnel liabilities.

At December 31, 2010 and September 30, 2010, the carrying amounts of the major classes of assets and liabilities classified as held for sale were as follows:

€ in millions	December 31, 2010	September 30, 2010
Inventories	103	74
Other current assets	31	17
Property, plant and equipment	58	56
Goodwill and other intangible assets	340	312
Other financial assets	21	1
Other assets	14	35
Total assets classified as held for sale	**567**	**495**
Current provisions	53	71
Other current liabilities	38	18
Pension plans and similar commitments	41	46
Other liabilities	20	42
Total liabilities classified as held for sale	**152**	**177**

INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda, the Wireline Communication business, and the Wireless mobile phone business presented in the consolidated statement of operations as discontinued operations in the three months ended December 31, 2010 and 2009, consist of the following components:

	Three months ended December 31,	
€ in millions	**2010**	2009
Qimonda		
Estimated expenses resulting from Qimonda's application to open insolvency proceedings	(1)	-
Loss before tax	**(1)**	**-**
Income tax benefits	-	
Qimonda's share of discontinued operations, net of income taxes	**(1)**	**-**
Wireline Communications Business		
Revenue	-	32
Costs and expenses	(1)	(26)
Profit before tax	**(1)**	**6**
Income tax expense	-	-
Income from operations	**(1)**	**6**
Pre-tax gain recognized on the sale of the Wireline Communications business	-	110
Income tax expense on gain	-	-4
Gain on the sale of the Wireline Communications business, net of income taxes	-	106
Wireline Communication's share of discontinued operations, net of income taxes	**(1)**	**112**
Wireless mobile phone business		
Revenue	457	254
Costs and expenses	-361	-241
Profit before tax	**96**	**13**
Income tax expense	-11	-1
Wireless mobile phone business' share of discontinued operations, net of income taxes	**85**	**12**
Income from discontinued operations, net of income taxes	**83**	**124**

4 / FINANCIAL INCOME

Financial income for the three months ended December 31, 2010 and 2009 respectively is as follows:

	Three months ended December 31,	
€ in millions	**2010**	2009
Interest income	6	4
Valuation changes and gains on sales of available for sale financial assets	-	6
Other financial income	-	1
Total	**6**	**11**

5 / FINANCIAL EXPENSE

Financial expense for the three months ended December 31, 2010 and 2009 respectively is as follows:

	Three months ended December 31,	
€ in millions	**2010**	2009
Interest expense	18	30
Other financial expense	-	8
Total	**18**	**38**

Interest expense for the three months ended December 31, 2010 and December 31, 2009 includes losses before tax of €9 million and €2 million, respectively, as a result of the repurchases of convertible subordinated notes due 2014 and 2010 (see note 12).

6 / INCOME TAX

Income (loss) from continuing operations before income taxes and income tax expense for the three months ended December 31, 2010 and 2009 respectively are as follows:

	Three months ended December 31,	
€ in millions	**2010**	2009
Income (loss) from continuing operations before income taxes	157	(52)
Income tax benefit (expense)	(8)	(7)
Effective tax rate	5%	-14%

In the three months ended December 31, 2010 and 2009, the tax expense of the Company is affected by lower foreign tax rates, tax credits and changes in the valuation allowance on deferred tax assets.

7 / EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share (“EPS”) is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period.

The calculation of diluted EPS is based on the assumption of converting all potential dilutive instruments in ordinary shares resulting in a respective increase in the number of shares on the one hand and a respective decrease on the income impact of these instruments, for example interest expenses, on the other hand.

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 our subordinated convertible notes due 2014 had been converted into ordinary shares. The calculation of diluted earnings per share is based on adjusted earnings from continuing operations attributable to shareholders of Infineon Technologies AG in an amount of €154 million (prior period negative €60 million). This reflects an adjustment to earnings from continuing operations attributable to shareholders of Infineon Technologies AG in an amount of €5 million (prior period €0) of interest expense on the subordinated convertible notes due 2014.

The computation of basic and diluted EPS is as follows:

	Three months ended December 31,	
	2010	2009
Numerator (€ in millions):		
Earnings (loss) from continuing operations	149	(59)
Less: Portion attributable to minority interests	-	(1)
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	**149**	**(60)**
Earnings from discontinued operations, net of income taxes	83	124
Less: Portion attributable to minority interests	-	-
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	**83**	**124**
Net earnings attributable to shareholders of Infineon Technologies AG	**232**	**64**
Denominator (shares in millions):		
Weighted-average shares outstanding - basic	1,086.7	1,086.7
Adjustments for:		
Assumed conversion of convertible debt	78.7	-
Share options	1.2	-
Weighted-average shares outstanding - diluted	1,166.6	1,086.7
Basic earnings (loss) per share (in €):		
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	0.14	(0.06)
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.07	0.12
Net earnings per share attributable to shareholders of Infineon Technologies AG	**0.21**	**0.06**
Diluted earnings (loss) per share (in €):		
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	0.13	(0.06)
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.07	0.12
Net earnings per share attributable to shareholders of Infineon Technologies AG	**0.20**	**0.06**

The weighted average of potentially dilutive instruments that were excluded from the diluted earnings per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise anti-dilutive, includes 14.1 million and 20.4 million shares underlying employee stock options for the three months ended December 31, 2010 and 2009, respectively. Additionally, 0 million and 130.8 million ordinary shares issuable upon the conversion of convertible subordinated notes for the three months ended December 31, 2010 and 2009, respectively, were not included in the computation of diluted earnings per share as their impact would have been anti-dilutive.

8 / TRADE AND OTHER RECEIVABLES

Trade accounts and other receivables consist of the following:

€ in millions	December 31, 2010	September 30, 2010
Third party - trade	657	648
Related parties - trade	4	3
Trade accounts receivable, gross	**661**	**651**
Allowance for doubtful accounts	(31)	(29)
Trade accounts receivable, net	**630**	**622**
Grants receivable	33	39
License fees receivable	2	6
Third party - financial and other receivables	13	12
Related parties - financial and other receivables	4	-
Employee receivables	1	6
Other receivables	2	2
Total	**685**	**687**

9 / INVENTORIES

Inventories consist of the following:

€ in millions	December 31, 2010	September 30, 2010
Raw materials and supplies	74	58
Work-in-process	355	329
Finished goods	144	127
Total Inventories	**573**	**514**

Impairment charges for inventories for the three months ended December 31, 2010 and 2009 amounted to €3 million and €7 million, respectively.

10 / TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

€ in millions	December 31, 2010	September 30, 2010
Third party - trade	694	645
Related parties - trade	12	14
Trade payables	**706**	**659**
Related parties - other payables	3	4
Other	7	2
Total	**716**	**665**

11 / PROVISIONS

Provisions consist of the following:

€ in millions	December 31, 2010	September 30, 2010
Personnel costs	198	268
Warranties and licenses	133	122
Provisions related to Qimonda	104	97
Other	108	121
Total	**543**	**608**

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.

Other provisions comprise provisions for outstanding expenses, penalties for default or delay on contracts, asset retirement obligations and miscellaneous other liabilities.

Provisions related to Qimonda are further described in notes 3 and 15.

The total amounts of provisions are reflected in the consolidated statement of financial position as of December 31, 2010 and September 30, 2010, respectively, as follows:

€ in millions	December 31, 2010	September 30, 2010
Current	489	553
Non-current	54	55
Total	**543**	**608**

12 / DEBT

Debt consists of the following:

€ in millions	December 31, 2010	September 30, 2010
Short-term debt and current maturities:		
Loans payable to banks, weighted average rate 1.55% (prior year 1.45%)	51	51
Notes payable to governmental entity, due 2010	-	24
Current portion of long-term debt	78	58
Total short-term debt and current maturities	**129**	**133**
Long-term debt:		
Convertible subordinated notes, 7.5%, due 2014	133	153
Loans payable to banks:		
Unsecured term loans, weighted average rate 2.17% (prior year 2.16%), due 2013-2015	114	110
Total long-term debt	**247**	**263**

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €196 million in new subordinated convertible notes due 2014 at a discount of 7.2 percent in an offering to institutional investors in Europe. 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 at any time through maturity. As a result of the Company's share capital increase in August 2009, the conversion price was adjusted to €2.33 in accordance with an antidilution provision contained in the notes. The notes were then convertible into a maximum of 84 million ordinary shares. 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 on 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 was recognized in additional paid-in capital at the date of issuance of the subordinated convertible notes due 2014. The debt component of these convertible notes is recorded at amortized cost using the effective interest method. During the three months ended December 31, 2010, the Company made cash repurchases of notional amounts of €28 million of its convertible subordinated notes due 2014 for a cash amount of approximately €80 million, which resulted in a loss of €9 million before tax which was recognized in interest expense. In addition, there was a reduction of €44 million net of tax to additional paid-in capital, reflecting the repurchase of conversion options for 11.8 million shares incorporated within the notes repurchased, measured at the repurchase date.

The Company has established several bilateral short- and long-term credit facilities with a number of financial institutions.

€ in millions			As of December 31, 2010		
Term	Nature of financial institution commitment	Purpose / intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	114	51	63
Short-term	no firm commitment	working capital, cash management	102	-	102
Long-term[1]	firm commitment	project finance	262	192	70
Total			**478**	**243**	**235**

[1] Including current maturities.

13 / SHARE-BASED COMPENSATION

In 2010, the Company's shareholders approved the Stock Option Plan 2010 ("SOP 2010") which replaced the SOP 2006 Plan. Under the terms of the SOP 2010, the Company can grant up to 12 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing share price during the five trading days prior to the grant date.

The exercise of granted options is also conditional on the Infineon share price having outperformed the benchmark of the Philadelphia Semiconductor Index ("SOX"). Initially the respective reference values (100 percent) for this purpose will be determined as the arithmetic means of the Infineon share prices and the end-closing prices of the SOX over the three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (end-closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their term. The aforementioned comparison must be made for each grant of the stock options with the reference values updated accordingly.

Under the SOP 2010, the Supervisory Board decides annually within a period of 45 days after publication of the annual results or the results of the first, second or third 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.

On December 16, 2010, the Company granted 3,024,250 options to eligible employees and 440,000 options to the Management Board under the SOP 2010. The expected vesting period of these options is approximately 5 years and the contractual term of the options is 7 years.

The Supervisory Board has orientated the performance-related compensation of the Management Board granted through the first tranche of the SOP 2010 towards the sustainable development of the Company and installed a cap for extraordinary performance developments in compliance with Section 87 (1) phrase 3 of the German Stock Corporation Act.

The effects of the grants under the SOP 2010 in the three months ended December 31, 2010 were not significant.

Of the 15.7 million options which were outstanding as of September 30, 2010, no options were exercised and 4.2 million options expired in the three months ended December 31, 2010. Otherwise, there have been no significant changes to the disclosure provided in the annual report as of September 30, 2010.

Share-based compensation expense was not significant for the three months ended December 31, 2010. The expenses of the first tranche under the SOP 2010 granted on December 16, 2010, will be deferred and recognized proportionately over the expected vesting period of approximately 5 years.

14 / RELATED PARTIES

The Company also has transactions in the normal course of business with equity method investees and related companies (collectively, “Related Parties”). Related Parties also include members of key management personnel, such as Management and Supervisory Board members.

The Company purchases certain of its raw materials from, and sells certain of its products to, Related Parties. Purchases from and sales to Related Parties are generally based on manufacturing costs plus a mark-up.

Related Party receivables consist primarily of trade, financial, and other receivables from equity method investments and related companies, and totaled €8 million and €3 million as of December 31, 2010 and September 30, 2010.

Related Party payables consist primarily of trade, financial, and other payables from equity method investments and related companies, and totaled €15 million and €18 million as of December 31, 2010 and September 30, 2010, respectively.

Related Party receivables and payables as of December 31, 2010 and September 30, 2010, 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 accrued interest at interbank rates.

In the three months ended December 31, 2010 and 2009, sales to Related Parties totaled €6 million and €6 million, respectively, while purchases from Related Parties totaled €136 million and €39 million, respectively.

15 / 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 (€17 million) was paid in October 2009. 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 and the six “opt out” plaintiffs described below.

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 and pursue individual lawsuits against the Company and IF North America. The Company and IF North America have settled with all six plaintiffs.

Approximately sixty additional cases were filed through October 2005 in numerous federal and state courts throughout the U.S. These state and federal cases purport 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 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 October 2008, approximately ninety-five California school districts, 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.

Infineon and certain other defendants have agreed to settle with the indirect purchaser class plaintiffs and the attorneys general, subject to court approval. As part of the settlement, the Company agreed to pay approximately $29 million which the Company has deposited into an escrow fund. After final court approval, the Company will be released from claims by the state attorneys general and by any class members who do not elect to opt out of the settlement.

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 for DRAM products. The Commission opened formal proceedings in February 2009. In May 2010 the Company entered into a settlement with the EU Commission and has agreed to pay a fine of €57 million which was paid in August 2010.

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.

On June 21, 2010, the Brazil Secretariat of Economic Law of the Ministry of Justice ("SDE") announced that it had initiated an investigation related to alleged anticompetitive activities within the DRAM industry. The SDE's Notice of Investigation names the Company, various DRAM manufacturers and certain executives, and focuses on the period from July 1998 to June 2002. The SDE's Notice of Investigation is based on the investigations carried out in the United States and in Europe.

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 those who purchased on the Frankfurt Stock Exchange 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 Ninth Circuit Appeal. In August 2010 the Ninth Circuit vacated the district court's prior class certification order and remanded for further proceedings in light of the Supreme Court's decision in Morrison v. Nat'l Australia Bank Ltd.

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 Telekom 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 Telekom. 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 Telekom, 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 Telekom, 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 and 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. All 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. The Federal Patent Court invalidated one of the patents on December 15, 2010 and another of the patents on January 26, 2011. Neither court ruling has as yet been published in writing. These rulings may be appealed by CIF. Any disclosure of the 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 (jointly the "Defendants") in the United States District Court for the Northern District of California, alleging infringement of five U.S. patents by certain products offered by Primarion. Volterra later withdrew one patent and litigation was stayed as to two, leaving two patents at issue in the suit. The Defendants deny all claims of infringement, brought counterclaims against Volterra for antitrust violations, fraud on the U.S. Patent and Trademark Office ("U.S. PTO") and invalidity, and initiated reexaminations of the patents. The court denied Volterra's motion for a preliminary injunction in November 2009, reversing its grant six weeks earlier. Reexaminations of the patent-in-suit are formally still pending, but the U.S. PTO has issued notices that reexamination certificates will be issued. Defendants allege that Volterra committed inequitable conduct during the ex parte reexamination proceedings, effecting constructions of the patent claims that are irreconcilable with the court's claim construction order. Trial has been set for May 2011. No reasonable estimated amount can be attributed at this time to the potential outcome of Volterra's claim. In January 2010, the Company further filed suit against Volterra in the United States District Court for the District of Delaware for infringement of four U.S. patents. The case is stayed pending outcome of the California action.

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. The matter has now been settled for a payment by Infineon of US$ 32,500.

QIMONDA 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, although the plaintiffs do not specify a particular amount of damages attributable to the Company, IF North America, or Qimonda AG. In a decision issued June 29, 2010, the District Court denied the Company's motion to dismiss and found that the complaint adequately stated a claim for relief. The Court, however, agreed to stay all proceedings until at least April 2011, pending developments in the Qimonda Subsidiaries' bankruptcy proceedings. The Company and IF North America dispute the substantive allegations asserted in the complaint, and if the case proceeds they expect to defend the claims vigorously. At this time no discovery has been commenced, 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 80 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out of Qimonda 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.

The Company is named defendant in an unspecified action for a declaratory judgment brought by the Qimonda insolvency administrator on December 1, 2010 in the Regional Court Munich I. The action asserts that, in connection with the carve-out of the memory business to Qimonda AG, Infineon utilized a previously formed shell company and "economically re-established" this company (known in German as a "wirtschaftliche Neugründung") through the transfer of the memory business, and that Infineon failed to submit the declaration required in this regard to the registry court, thereby making it impossible to carry out the required assessment of Qimonda's capital structure. The administrator claims that, as a consequence of the alleged breach of this register-related legal formality, Infineon is obliged to refund to Qimonda the amount by which the actual company assets of Qimonda at the time insolvency proceedings were opened were less than Qimonda's equity capital (known as "Unterbilanzhaftung," or liability for impairment of capital). The action seeks to establish a basic obligation to pay on the part of the company as the administrator does not currently consider himself to be in a position to put a concrete figure on the amount of his alleged claim.

Infineon had refuted the circumstances alleged and the legal consequences deriving from these already before the action was brought and intends to defend itself vigorously against this action through all stages of the proceedings.

OTHER QIMONDA MATTERS

The Company holds rights of use in respect of Qimonda's intellectual property under the contribution agreement between the Company and Qimonda in connection with the carve-out of the memory business. The insolvency administrator has declared non-performance of this agreement. If the administrator's decision were to be upheld, the Company and its subsidiaries would no longer be licensed to use patents contributed by it to Qimonda or patents subsequently applied for by Qimonda itself and would potentially be unable to sublicense such patents in full to third parties. This could also affect contract partners of the Company with which the Company has concluded patent cross license agreements, possibly leading to compensation claims against the Company.

On January 31, 2011, the Company brought a declaratory action in this matter against the insolvency administrator before the Regional Court Munich I. The purpose of the legal action is to determine that Infineon's and its licensees' rights to the aforementioned intellectual property rights of the Qimonda Group remain valid. Prior to bringing this action, Infineon negotiated intensively with the insolvency administrator with a view to resolving this matter.

The potential consequences of the non-performance decision differ from the effects reported under "discontinued operations" (see note 3) as it affects the Company's continuing operations, because the Company could otherwise use the patents concerned itself and/or license them under patent cross license agreements with third parties. The outcome of these negotiations would therefore be of relevance not just to the historical period, but also to future periods.

As described in note 3, the Company faces certain contingent liabilities in connection with the insolvency proceedings of Qimonda and recorded provisions and liabilities. As of December 31, 2010 and September 30, 2010, the Company recognized provisions of €104 million and €97 million respectively in connection with some of the matters decribed above and in note 3. In addition, liabilities of €21 million were recognized as of September 30, 2010. Most of these provisions are reported under current provisions. They also include an amount relating to prior periods, which the Company has recognized due to the efforts described above to bring about an out-of-court settlement with the insolvency administrator. The Company expects to increase this amount further over the coming quarters and estimates that this will result in future charges recognized in income totaling €80 million.

The provisions recorded encompass only those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. There can be no certainty that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and, in particular, the matters discussed above. Presenting details of further actual amounts included in provisions for specific liabilities and risks associated with the insolvency of Qimonda could seriously prejudice the Company's legal or negotiating position, so no such disclosures are made. In addition, it is not possible at this time to estimate amounts for or present comments on liabilities and risks that could materialize but are currently considered to be unlikely to do so, and accordingly such matters are not included in provisions.

The Company evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of the Company as it deems appropriate. If the claims made are found to have merit, the Company could face substantial financial liabilities that could negatively affect its business and its operating results, financial position and cash flows.

MISCELLANEOUS

The Company is also involved in various other legal disputes and proceedings in connection with its business activities. These relate to products, services, patents, environmental protection issues and other matters. Based on its current knowledge, the Company does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on its operating results, financial position and cash flows. It remains entirely possible, however, that this assessment may have to be revised in future and that any actual resolutions of the miscellaneous legal disputes and proceedings could have material adverse effect on operating results, financial position and cash flows, particularly in the period of resolution.

PROVISIONS AND THE POTENTIAL EFFECT OF THESE MATTERS

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. If the estimated amount of the liabilities is within a range of amounts and all amounts within the range are essentially equally probable, the provision recorded is equal to the mid-point of the range.

Any potential liability is reviewed again as soon as additional information becomes available and the estimates are revised if necessary. Provisions with respect to these matters are subject to future developments or changes in circumstances in each of the matters, which could have a material adverse effect on the Company’s operating results, financial position and cash flows.

An adverse final resolution of any of the matters described above could result in significant financial liabilities for the Company and other adverse effects and these in turn could have a material adverse effect on its business and its operating results, financial position and cash flows. The Company evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of the Company as it deems appropriate. Irrespective of the validity of the allegations and the success of the aforementioned claims and other matters described above, the Company could incur significant costs in defending against or settling such allegations and this too could have a material adverse effect on its operating results, financial position and cash flows.

OTHER CONTINGENCIES

On a group-wide basis the Company has guarantees outstanding to external parties of €85 million as of December 31, 2010.

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 December 31, 2010, a maximum of €22 million of these subsidies could be refundable. Such amount does not include any potential liabilities for Qimonda related subsidies (see note 3).

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 the 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.

16 / OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT REPORTING

The Company has reported its operating segment and geographic information in accordance with IFRS 8.

In the three months ended December 31, 2010, the Company’s business was organized in three operating segments: Automotive, Industrial & Multimarket and Chip Card & Security. In addition, the Company has two additional segments for reporting purposes: Other Operating Segments and Corporate and Eliminations.

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.

OTHER OPERATING SEGMENTS

Other operating segments includes remaining activities for certain product lines that have been disposed of, and other business activities. Since the closing of the sale of the Wireline Communications business, sales to Lantiq under foundry agreements are included in this segment.

CORPORATE AND ELIMINATIONS

The Corporate and Eliminations segment reflects the elimination of intercompany 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.

IMPACT OF THE SALE OF THE WIRELESS MOBILE PHONE BUSINESS ON SEGMENT REPORTING

On August 30, 2010, the Company entered into an agreement with Intel to sell the mobile phone business, the main part of the Wireless Solutions segment. The sale closed on January, 31, 2011 (see note 3). Of the business of the Wireless Solutions segment, only the business with analog and digital TV tuners and satellite radio receivers, as well as the business with radio frequency power transistors for cellular basestations, remains with the Company. In line with the internal reporting during the three months ended December 31, 2010, the Wireless Solutions segment is no longer reported in the segment reporting. The remaining business with radio frequency power transistors for cellular basestations was allocated to Industrial & Multimarket and the business with analog and digital TV tuners and satellite radio receivers was allocated to Other Operating Segments. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the planned sale, were allocated to the Corporate and Eliminations segment. The prior period amounts have been adjusted accordingly. The segment reporting for the three months ended December 31, 2010, and 2009, has been adjusted to the current structure of reporting to maintain consistency of presentation and ease of analysis.

SEGMENT DATA

The following tables present selected segment data:

	Three months ended December 31,	
€ in millions	**2010**	2009
Revenue:		
Automotive	354	279
Industrial & Multimarket	423	280
Chip Card & Security	98	83
Other Operating Segments	41	42
Corporate and Eliminations	6	3
Total Segment revenue	**922**	**687**

€ in millions	Three months ended December 31, 2010	2009
Segment Result:		
Automotive	59	37
Industrial & Multimarket	107	44
Chip Card & Security	10	1
Other Operating Segments	2	(1)
Corporate and Eliminations	(1)	(11)
Total Segment Result	**177**	**70**

The following table provides the reconciliation of Segment Result to the Company's income (loss) from continuing operations before income taxes:

€ in millions	Three months ended December 31, 2010	2009
Total Segment Result	177	70
Adjusted:		
Asset impairments, net	2	(4)
Acquisition-related amortization and losses	(1)	(1)
Losses in connection with the deconsolidation of ALTIS	-	(81)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries	-	3
Other expense, net	(9)	(13)
Operating income (loss)	**169**	**(26)**
Financial income	6	11
Financial expense	(18)	(38)
Income from investment accounted for using the equity method, net	-	1
Income (loss) from continuing operations before income tax	**157**	**(52)**

REVENUE BY REGION

Effective October 1, 2010, the Company has aligned the presentation of its revenue by geographic area with the Company's regional sales organization structure. The prior period amounts have been adjusted accordingly.

The following is a summary of revenue by geographic area:

€ in millions	Three months ended December 31, 2010	2009
Revenue:		
Europe, Middle East, Africa	423	314
therein: Germany	239	177
Asia-Pacific (w/o Japan)	347	239
therein: China	173	111
Japan	50	39
America	102	95
Total	**922**	**687**

Revenues from external customers are based on the customers' billing location.

17 / SUBSEQUENT EVENTS

The Company completed the sale of the Wireless mobile phone business to Intel on January 31, 2011. The cash purchase price was U.S.$1,400 million. For more information on this sale, see note 3 ("Divestitures and discontinued operations – Sale of the Wireless mobile phone business – Discontinued operations").

Prof. Dr. Hermann Eul tendered his resignation from the Management Board upon completion of the sale of the Wireless mobile phone business. He has now left the Management Board of Infineon and transferred to Intel.

On January 31, 2011, the Company brought a declaratory action before the Regional Court Munich I against the administrator of the assets of Qimonda AG (see note 15 ("Commitments and contingencies –Qimonda matters")).

SUPPLEMENTARY INFORMATION (UNAUDITED)

BACKLOG

Most standard products are not ordered on a long-term, fixed-price contract basis due to changing market conditions. It is common industry practice to permit major customers to change the date on which products are delivered or to cancel existing orders. For these reasons, the Company believes that the backlog at any time of standard products is not a reliable indicator of future sales. Orders for customized products vary depending on customer needs and industry conditions, capacity and demand, while many customers request logistics agreements based on rolling forecasts. As a result, the Company does not place too much reliance on backlog to manage its business and does not use it to evaluate performance. Due to possible changes in customer delivery schedules, cancellation of orders and potential delays in product shipments, the Company's backlog as of any particular date may not be indicative of actual sales for any later period.

DIVIDENDS

The Company has proposed to the General Shareholders' Meeting to take place on February 17, 2011, the payment of a cash dividend of €0.10 per share for the 2010 fiscal year. This represents an aggregate distribution of €109 million.

EMPLOYEES

As of December 31, 2010, the Company had 27,315 employees worldwide, including 6,015 engaged in research and development.

MARKET FOR ORDINARY SHARES

The Company's ordinary shares are listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange (FSE) under the symbol "IFX". Since having delisted from the New York Stock Exchange (NYSE), the Company's American Depositary Shares currently trade over-the-counter on the OTCQX International market under the symbol "IFNNY".

Infineon's share price performance and key data were as follows:

RISK FACTORS

We face numerous risks, including risks that are inherent to companies in the semiconductor industry and risks that are unique to us. Risks relating to the semiconductor industry include the cyclical nature of the market, which suffers from periodic downturns and industry overcapacity. Our production-related risks include the need to match our production capacity with demand, and to avoid interruptions in manufacturing and supplies. We face numerous risks due to the international nature of our business, including volatility in foreign markets and exchange rate fluctuations.

We may be exposed to claims from others that we infringe their intellectual property rights or that we are liable for damages under warranties. We are the subject of governmental antitrust investigations and civil claims related to those antitrust investigations, including civil securities law claims. Financial risks include our need to have access to sufficient capital and governmental subsidies. Our regulatory risks include potential claims for environmental remediation.

Following Qimonda's application to commence insolvency proceedings, the Company may be exposed to a number of significant liabilities relating to the Qimonda business, including pending antitrust and securities law claims, claims by the insolvency administrator brought in December 2010 by way of a declaratory action which allege that Infineon "economically re-established" Qimonda (what is known in German as "wirtschaftliche Neugründung") through the transfer of the memory business, risks arising from the insolvency administrator's declaration to elect non-performance of the contribution agreement between Infineon and Qimonda and the resulting declaratory action brought by the Company against the insolvency administrator in January 2011, claims in connection with Qimonda's sale of its stake in Inotera to Micron, as well as potential claims for repayment of governmental subsidies received, employee-related contingencies and contingent liabilities.

These and other material risks that we face are described under the heading "Risks and Opportunities" in this unaudited Interim Group Management Report and in further detail in the "Report on expected Developments, together with associated Material Opportunities and Risks" section of our Annual Report for the fiscal year ended September 30, 2010. A copy of our annual report is available at the Investor Relations section of our website http://www.infineon.com/investor.

We encourage you to read the detailed description of the risks that we face in this unaudited Interim Group Management Report and our Annual Report for the 2010 fiscal year. The occurrence of one or more of the events described could have a material adverse effect on our Company and our results of operations, which could result in a drop in our share price.

FORWARD-LOOKING STATEMENTS

This quarterly report includes forward-looking statements about the future of Infineon's business and the industry in which we operate. These include statements relating to future developments in the world semiconductor market, our ability to manage our costs and to achieve our cost savings and growth targets, the resolution of Qimonda's insolvency proceedings and the liabilities we may face as a result of Qimonda's insolvency, the benefits of research and development alliances and activities, the introduction of new technology at our facilities, our continuing ability to offer commercially viable products, and our expected or projected future results.

These forward-looking statements are subject to a number of uncertainties, including broader economic developments, including the sustainability of recent improvements in the market environment; fluctuations in demand and prices for semiconductors generally and for our products in particular, as well as for the end-products, such as for instance automobiles and consumer electronics, that incorporate our products; the failure to comply with delivery commitments to customers resulting from capacity limitations and allocation; the success of our development efforts, both alone and with partners; the success of our efforts to introduce new production processes at our facilities; the actions of competitors; the continued availability of adequate funds; the outcome of antitrust investigations and litigation matters; the effects of currency fluctuations, primarily between the U.S. dollar and the euro, and the outcome of Qimonda's insolvency proceedings; as well as the other factors mentioned herein, including under the heading "Risks and Opportunities" in the unaudited Interim Group Management Report, and those described in the "Report on expected developments, together with associated material opportunities and risks" section of the Group Financial Statements and management report, which we published on November 26, 2010.

As a result, Infineon's actual results could differ materially from those contained in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements. Infineon does not undertake any obligation to publicly update or revise any forward-looking statements in light of developments which differ from those anticipated.

FINANCIAL CALENDAR

Fiscal Period	Period end date	Results press release (preliminary)
Second Quarter	March 31, 2011	May 03, 2011
Third Quarter	June 30, 2011	July 28, 2011
Fiscal Year 2011	September 30, 2011	November 16, 2011

Publication date of the first quarterly report for the 2011 fiscal year: February 10, 2011

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