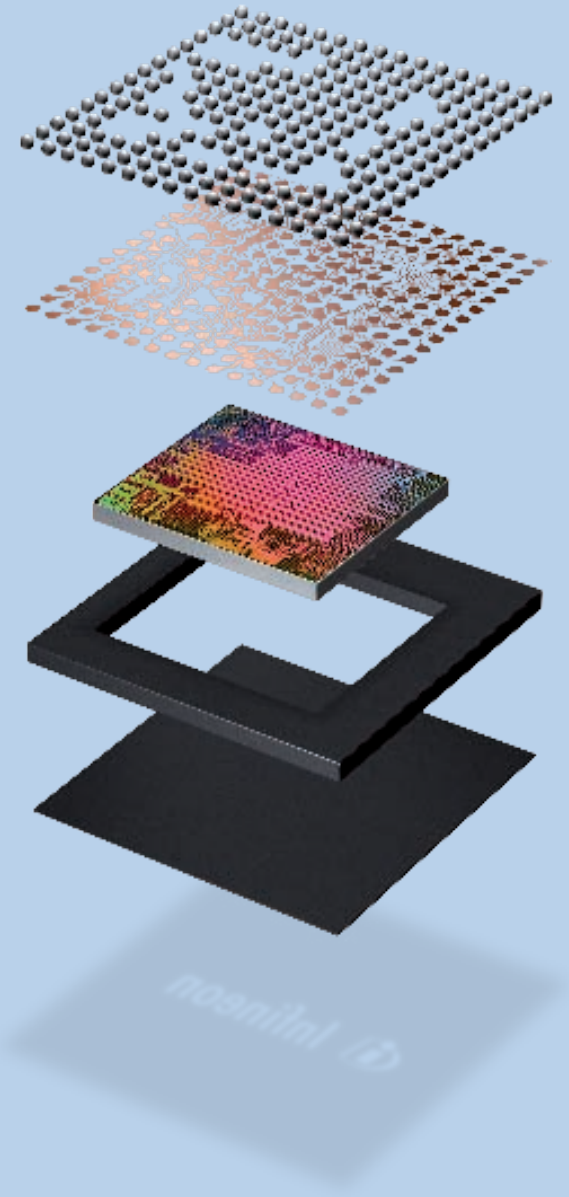
ONE COMPANY
THREE FOCUS AREAS
FIVE TARGET MARKETS

Never stop thinking

Infineon Technologies
Annual Report 2008



Infineon Technologies
Annual Report 2008

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

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

01 INFINEON KEY DATA
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (UNDER U.S. GAAP)[1]

Fiscal year from October 1 to September 30	2007		2008		2008/2007
	€ millions	As % of net sales	€ millions	As % of net sales	Change in %
Net sales by region	4,074		4,321		6
Germany	907	22	924	21	2
Other Europe	888	22	818	19	(8)
North America	564	14	503	12	(11)
Asia-Pacific	1,450	36	1,800	42	24
Japan	213	5	198	4	(7)
Other	52	1	78	2	50
Net sales by segment	4,074		4,321		6
Automotive, Industrial & Multimarket	3,017	74	2,963	69	(2)
Communication Solutions	1,051	26	1,360	31	29
Other Operating Segments	219	5	100	2	(54)
Corporate and Eliminations	(213)	(5)	(102)	(2)	52
Gross profit Gross margin	1,372	34	1,498	35	9
Research and development expenses	768	19	755	17	(2)
Operating income (loss)	79		(50)		–––
Loss from continuing operations	(37)		(135)		–––
Loss from discontinued operations, net of tax	(296)		(2,987)		–––
Extraordinary loss, net of tax	(35)		—		+++
Net loss	(368)		(3,122)		–––
EBIT EBIT margin	37	1	(48)	(1)	–––
Property, plant and equipment, net	1,462		1,311		(10)
Total assets	10,753		7,083		(34)
Total shareholders' equity	4,914		1,764		(64)
Net cash provided by operating activities from continuing operations	227		535		+++
Net cash used in investing activities from continuing operations	(20)		(620)		–––
Net cash used in financing activities from continuing operations	(214)		(230)		(7)
Free cash flow[2]	(59)		(112)		(90)
Depreciation and amortization	609		542		(11)
Impairment charges	40		135		–––
Purchases of property, plant and equipment	498		312		(37)
Gross cash position[3]	1,283		892		(30)
Net cash position[4]	(126)		(366)		–––
Earnings (loss) per share – basic and diluted in €	(0.49)		(4.16)		–––
Dividend per share in €	—		—		
Equity ratio	46%		25%		(46)
Return on equity[5]	(7%)		(94%)		–––
Return on assets[6]	(3%)		(35%)		–––
Equity-to-fixed-assets ratio[7]	336%		135%		(60)
Debt-to-equity ratio[8]	29%		71%		+++
Debt-to-total-capital ratio[9]	13%		18%		38
Return on Capital Employed (RoCE)[10]	1%		(2%)		–––
Employees Infineon Logic as of September 30	29,598		29,119		(2)

1 Columns may not add due to rounding.
2 Free cash flow = Net cash provided by operating activities from continuing operations minus net cash used in investing activities from continuing operations adjusted by purchases (proceeds from sales) of marketable securities available for sale.
3 Gross cash position = Cash and cash equivalents plus marketable securities.
4 Net cash position = Gross cash position minus short and long-term debt.
5 Return on equity = Net income (loss) divided by average shareholders' equity.
6 Return on assets = Net income (loss) divided by average total assets.
7 Equity-to-fixed-assets ratio = Total shareholders' equity divided by property, plant and equipment.
8 Debt-to-equity ratio = Long-term and short-term debt divided by shareholders' equity.
9 Debt-to-total-capital ratio = Long-term and short-term debt divided by total assets.
10 Return on Capital Employed (RoCE) = EBIT divided by capital employed.

INFINEON AT A GLANCE

The Company

Infineon provides semiconductor and system solutions, focusing on three central needs of our modern society: energy efficiency, communications and security. With some 29,000 employees worldwide, Infineon achieved 4.321 billion euros in sale in the 2008 fiscal year. The company's shares are listed in Frankfurt and New York (NYSE) with the ticker symbol IFX.

29,119
EMPLOYEES

58
LOCATIONS

APPROX.
21,600
PATENTS AND PATENT APPLICATIONS

ENERGY EFFICIENCY

Automotive

→ PAGE 13

Powertrain (engine and transmission control) ◦ electric drive train ◦ car body and comfort electronics (steering, shocks, light, air conditioning, sunroof, power windows) ◦ safety (ABS, airbags, ESP) ◦ multi-media, telematics and eCall

Key customers[1]

Autoliv ◦ Bosch ◦ Continental ◦ Delphi ◦ Denso ◦ Hella ◦ Hyundai ◦ Kostal ◦ Lear ◦ Mitsubishi ◦ TRW ◦ Valeo

Main competitors[1]

Bosch ◦ Freescale ◦ Fujitsu ◦ NEC ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba

Market position[2]

for automotive semiconductors

2

Source: Strategy Analytics, May 2008

Industrial Electronics

→ PAGE 19

Electric drive control for industrial applications and home appliances ◦ modules for renewable energy generation, transmission and conversion ◦ semiconductor components for light management systems and low-energy lamps ◦ power supplies for PCs/servers, notebooks, entertainment electronics ◦ customized components for PC peripherals (e.g. mouse), game consoles and medical technology ◦ small-signal semiconductors for communication (e.g. GPS, UMTS, WLAN, digital TV) and tuner systems

Key customers[1]

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

Main competitors[1]

Fairchild ◦ Fuji ◦ International Rectifier ◦ Mitsubishi ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba ◦ Vishay

Market position[2]

for industrial semiconductors

1

Source: Semicast, June 2008

SECURITY

COMMUNICATIONS

Chip Card & Security

→ PAGE 25

Communication ◦ payment systems ◦ electronic passports/ID and healthcare cards ◦ personal identification ◦ object identification ◦ pay TV ◦ platform security for computers and networks

Key customers[1]

Gemalto ◦ Giesecke & Devrient ◦ Oberthur Card Systems ◦ U.S. Government Printing Office

Main competitors[1]

Atmel ◦ NXP ◦ Renesas ◦ Samsung ◦ STMicroelectronics

Market position[2]

in chip card and security ICs

1

Source: Frost & Sullivan, October 2008

Mobile Phone Platforms

→ PAGE 31

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

Key customers[1]

LG Electronics ◦ Motorola ◦ Nokia ◦ Panasonic ◦ RIM ◦ Samsung ◦ Sony Ericsson Mobile Communications ◦ ZTE

Main competitors[1]

Broadcom ◦ Freescale ◦ Mediatek ◦ NXP ◦ Qualcomm ◦ STMicroelectronics/Ericsson Mobile Platforms ◦ Texas Instruments

Selected market position[2]

for wireless ASSP solutions

3

Source: iSuppli, March 2008

Broadband Access

→ PAGE 37

Interface components for voice communications in switching centers and terminal units (e.g. CODECs, SLICs, ISDN, T/E) ◦ solutions for integrated voice and data communications ◦ solutions for VoIP ◦ system solutions for wireline broadband technologies (ADSL2, ADSL2+, VDSL2) ◦ system solutions for DSL modems, routers, home gateways, WLAN access points ◦ solutions for DECT cordless phones

Key customers[1]

Alcatel-Lucent ◦ Arcadyan ◦ AVM ◦ Ericsson ◦ Gigaset ◦ Huawei ◦ Nokia Siemens Networks ◦ Zyxel

Main competitors[1]

Broadcom ◦ Conexant ◦ DSP Group ◦ Ikanos ◦ Zarlink

Selected market position[2]

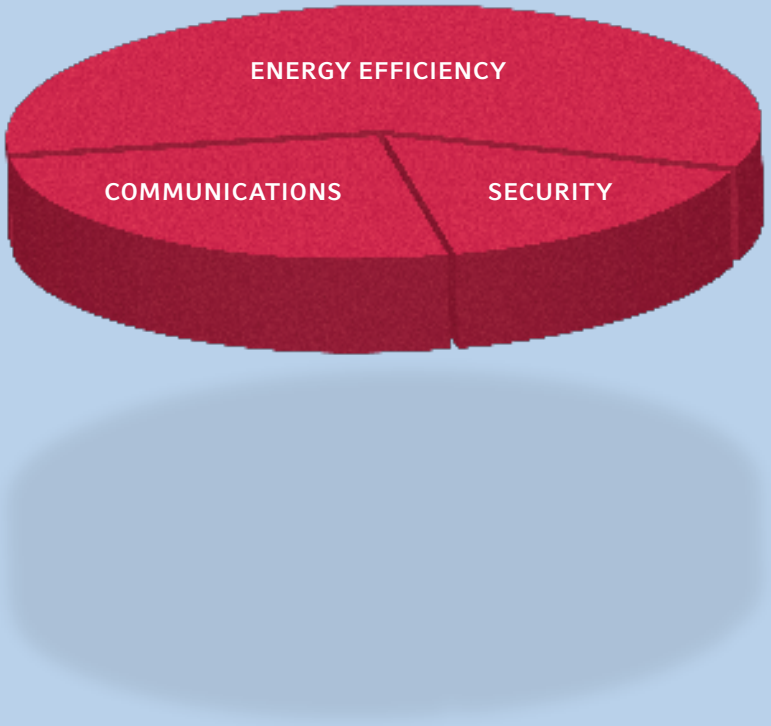
for broadband access market, excluding cable modems

1

Source: Gartner Dataquest, June 2008

1 In alphabetical order
2 All market figures for 2007 calendar year

ONE COMPANY
THREE FOCUS AREAS
FIVE TARGET MARKETS



ONE COMPANY
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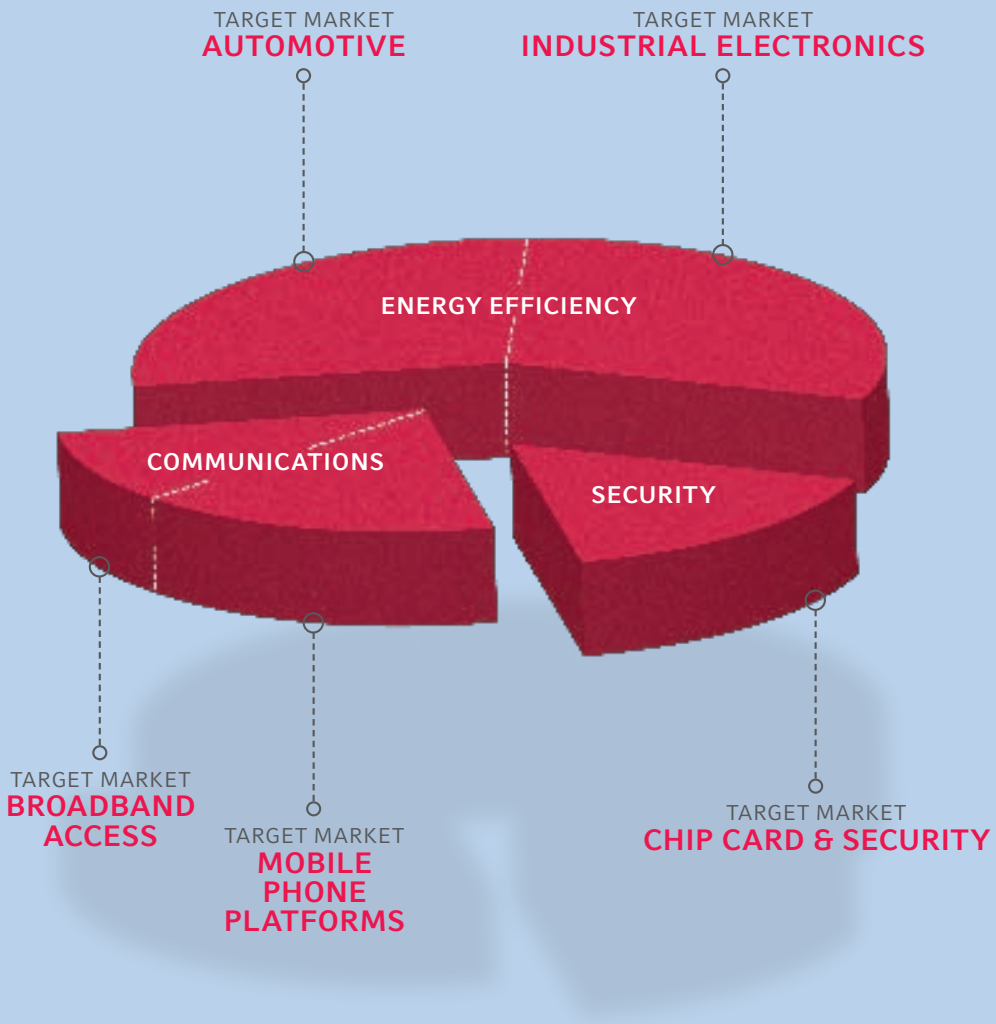
FIVE TARGET MARKETS



Energy efficiency, communications and security are the three central challenges facing society today, and this is unlikely to change in the foreseeable future.

We have focused our attention on five target markets – automotive, industrial electronics, chip card & security, mobile phone platforms and broadband access – in order to capitalize more effectively on the openings and growth opportunities offered by these three overriding concerns, and introduced a new organizational structure at the beginning of the 2009 fiscal year to reflect this realignment.

Infineon strives to create technologies and products to make our lives more sustainable, more independent and more secure in these target markets.

PETER BAUER, CHIEF EXECUTIVE OFFICER

Dear Shareholders,

In the 2008 fiscal year we improved our EBIT excluding net gains or charges significantly compared to the previous year. The serious crisis in the memory chip market and its effect on our stake in Qimonda, however, led to a substantial net loss for the year and a reduction in equity, which naturally placed the Infineon share under pressure. The slowdown in the global economy that became apparent around the end of the fiscal year also had an adverse effect on our share and has triggered a decline, in some cases very marked, in new orders throughout the semiconductor industry. This did not impact our revenues or earnings in the 2008 fiscal year, but its influence will certainly be felt in our results in the 2009 fiscal year. We try as far as possible to work against the foreseeable negative consequences in the 2009 fiscal year with our corporate restructuring and our IFX10+ cost reduction program, which we introduced timely in the summer of 2008 and which we have intensified in the light of the accelerating global economic slow-down. Let me now address the fiscal year ended as well as the outlook in greater detail.

Earnings from core logic operations up in 2008 but Qimonda losses still a burden

Events in the 2008 fiscal year were dominated by two conflicting developments: we made marked operating improvements in our core logic business, but these were outweighed by restructuring costs and, in particular, costs associated with the crisis in the memory market and at Qimonda. Our EBIT from continuing operations excluding net gains or charges rose to 160 million euros in the 2008 fiscal year (2007: 79 million euros). This figure includes a negative effect amounting to more than 100 million euros attributable to the US dollar's weakening against the euro. We nevertheless ended the year with a net loss from continuing operations of 135 million euros, largely as a result of charges of 166 million euros associated with the IFX10+ cost reduction program. There were negative factors outside our core logic business

too, particularly the crisis in the memory market and the write-down of the book value of Qimonda. The consolidated net loss consequently amounted to 3.12 billion euros, which also reduced our equity accordingly.

Market share continues to grow

While the bottom line remains far from satisfactory, the continued growth of our market share in our core logic business areas and the results from continuing operations leave no doubt as to the potential of our company. Semicast reports that in the 2007 calendar year we became market leader for the first time in semiconductors for the Industrial segment with a market share of 7.5 percent. We also reached the number 1 market position in chips for wireline communications last year, not least through the acquisition of Texas Instruments' DSL business (source: Gartner Dataquest). We maintained our leadership in the market for chip card ICs for the eleventh year in a row according to Frost & Sullivan. We were number two once again in the 2007 calendar year in the global semiconductors for automotive applications market, where our market share according to Strategy Analytics amounted to 9.4 percent, and also managed to grow our share of the wireless chip market significantly. A whole series of new products went into full production and four customers successfully put our new HSDPA technology to work. Infineon now counts all five of the major mobile phone manufacturers among its customers. Revenues in our wireless business rose by almost 50 percent year on year and the loss before interest and taxes was reduced significantly.

Share price held back by Qimonda and global economic slow-down

Our progress in terms of results from continuing operations and market share proved insufficient to sustain our share price. The 2008 fiscal year brought widespread price declines across the world's exchanges: Germany's DAX index, for example, fell by 26 percent in the 2008

fiscal year, while the Philadelphia Semiconductor Stock Index lost 39 percent in the same period. Infineon was particularly hard hit on account of the serious crisis in the memory chip market, which wiped 93 percent off the value of our subsidiary Qimonda's share price. These two factors combined precipitated a sharp decline in the value of the Infineon share over the course of the 2008 fiscal year. Ultimately, our share price fell 68 percent to 3.92 euros in the twelve months leading to September 30, 2008. The last fiscal year ended – and the new year began – with a general slow-down in the world economy and a reduction, in some cases very pronounced, in demand for semiconductors. This added burden contributed to a continued decline in the value of our share after the year end which was worth significantly less than one euro at the end of December 2008.

IFX10+ and restructuring to counter effects of economic slow-down

The course of the Infineon share price has been and remains entirely unsatisfactory. Together with my colleagues from the Management Board, I therefore initiated the IFX10+ cost reduction program and a corporate restructuring in the summer of 2008 to address this. Our rapid introduction of both measures was subsequently proven to be entirely appropriate and in fact necessary given the worryingly significant decline in our volume of orders in the fall of 2008. To meet the reduction in demand we have seen since August 2008 due to the weakening of the global economy, we decided in the context of the IFX10+ cost reduction program to identify even more than the originally announced savings of at least 50 million euros per quarter by the fourth quarter of the 2009 fiscal year, as compared with the third quarter of the 2008 fiscal year, equating to an annualized cost reduction in excess of 200 million euros. We have defined these additional savings mainly in the area of overhead costs. Unfortunately, the dramatic decline in revenue along with the cost burden from under-utilized production capacities will more than offset the additional savings. The principal measures to be implemented under IFX10+ and the restructuring are as follows:

FIRST: The process of introducing more intensive portfolio management, which has already begun, will be continued. We have already divested or shut down unprofitable and insufficiently profitable peripheral activities and will continue to do so. Our research and development spending will be able to concentrate more effectively on fewer areas.

SECOND: We aim to cut manufacturing costs by 150 million euros a year. This comes on top of the targeted annual reduction in unit costs. We will do this by, for example, switching product designs to more cost-effective processes, increasing our use of external manufacturing and accelerating the relocation of our production activities to Asia. We are also working to introduce greater flexibility into our manufacturing costs in light of the deteriorating market environment.

THIRD: We are optimizing processes and roles in the overhead costs, that is to say in sales, administration and research and development. This effort ties in very closely with the corporate restructuring.

FOURTH: The three packages of measures outlined above leave us with no choice but to eliminate a large number of jobs.

I would now like to explain our restructuring program in more detail. Energy efficiency, communications and security are the three central challenges facing society today. Our products have served to increase efficiency in energy generation, energy transmission and energy consumption for many years, and have helped to make cars cleaner, safer and more economical. They help an ever increasing number of people stay in touch with each other and access the Internet – over wireline or wireless systems – wherever and whenever they want, and they make data sharing, financial transactions and border controls simpler, safer and more reliable.

Effective October 1, 2008, our existing 14 organizational units were reorganized to form five new Divisions – Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications – to enable us to better capitalize on the resulting

potentials while simultaneously reducing our costs. The make-up of the Divisions reflects their respective target markets perfectly. All operations are coordinated and aligned on the basis of customer requirements in these target markets, system expertise is being further enhanced and business activities are optimized at target market level rather than organizational unit level. The new Divisions are also making the company leaner by allowing us to eliminate duplication with the central functions. This represents a significant step in our efforts to improve efficiency and realize the savings targeted in IFX10+.

Given the state of the global economy and the ensuing weakening of the global semiconductor market, the full extent of which cannot be predicted, we intend for the time being, assisted by IFX10+, to concentrate on optimizing our cash flows while maintaining a strong position in our key markets and with our customers.

Qimonda

In addition to the measures described within our core logic business, management and Qimonda jointly tried very hard to improve Qimonda's situation through the commitment of a strategic or financial investor, and thus also to reduce Infineon's stake in Qimonda. Although discussions around this topic were held during the past fiscal year with a number of interested parties, no successful conclusion could be reached in the wake of the global financial crisis and the unhealthy state of the memory chip market. In face of great difficulties, we were yet able to sign off an agreement in principle at the end of 2008 between the Free State of Saxony, the Republic of Portugal, and Infineon for a financing package worth 325 million euros. The package was to include loans totaling 150 million euros from the State of Saxony, 100 million euros from Portugal, and 75 million euros from us. In addition to the first package, Qimonda was to have access to a 280 million euro state guarantee as well as other sources of finance, all of which were to stabilize the company and clear the way to ramp up its Buried Wordline technology. Given the difficult overall economic situation

and the further deterioration of the DRAM business in the December quarter, the negotiating parties were now unable to agree on how to put together a rescue package that would work for everyone involved. All parties' individual positions are understandable from their respective standpoints, but they have ultimately proven irreconcilable. Even after the efforts made by all parties, and despite Infineon having been pushed to the limits by contributing 75 million euros of its own capital, it was not possible to avert Qimonda's insolvency. We will now put every effort into working with all the affected parties to minimize the impact of this insolvency on the business operations of Infineon.

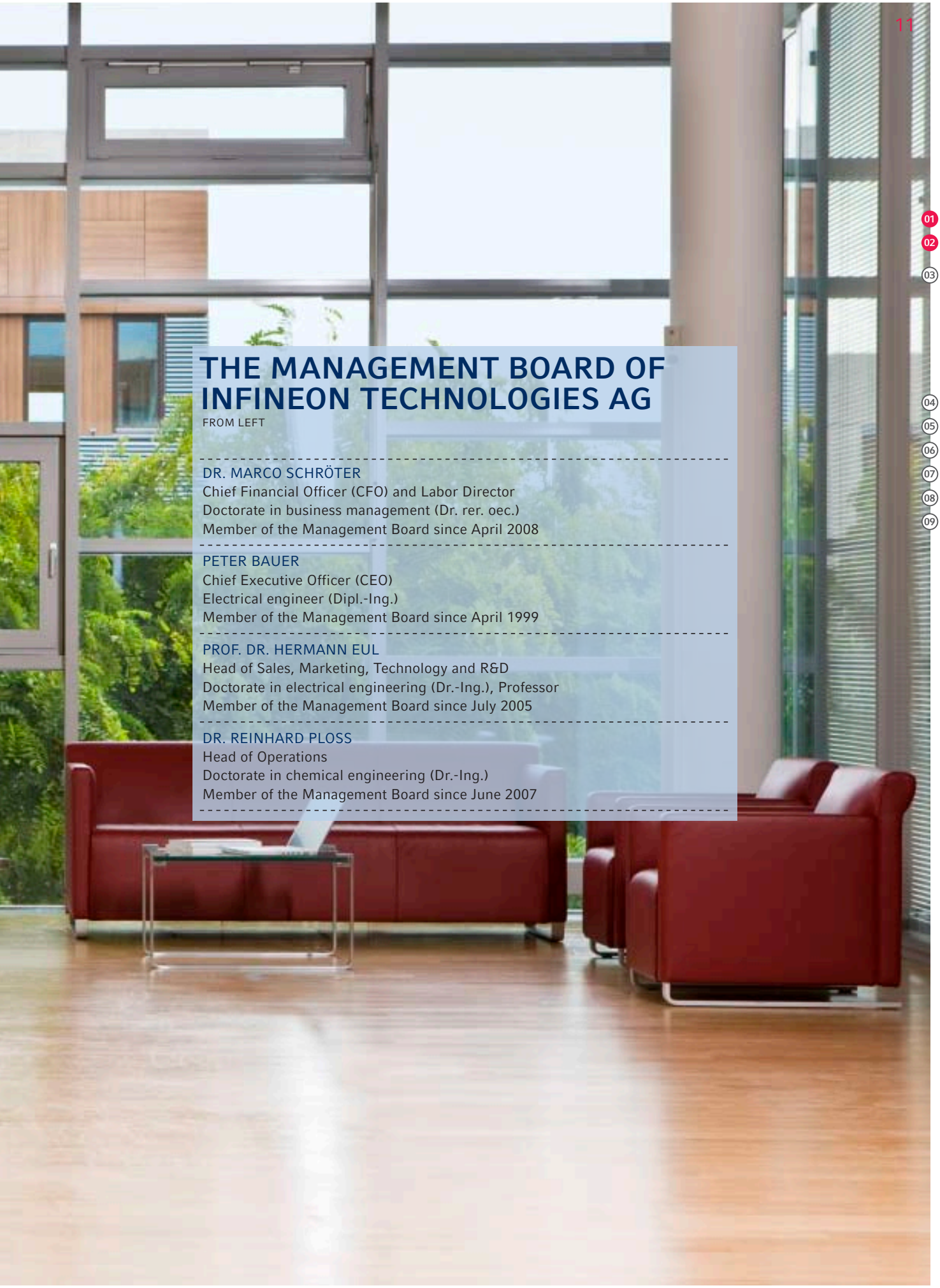
Employees deserve our gratitude

We have our employees to thank for the operating improvements already made in our core logic business and it is on our employees we will be relying for the successful implementation of the measures recently introduced. The whole of the Infineon team continues to demonstrate outstanding flexibility, skill, commitment and dedication. I would like to take this opportunity formally to express my gratitude, and the gratitude of the entire Management Board, to our employees for their sustained efforts, especially in the current difficult circumstances, and for all that they have already achieved for Infineon.

NEUBIBERG, JANUARY 2009

PETER BAUER
Chief Executive Officer

DR. MARCO SCHRÖTER PETER BAUER PROF. DR. HERMANN EUL DR. REINHARD PLOSS



THE MANAGEMENT BOARD OF INFINEON TECHNOLOGIES AG

FROM LEFT

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

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

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

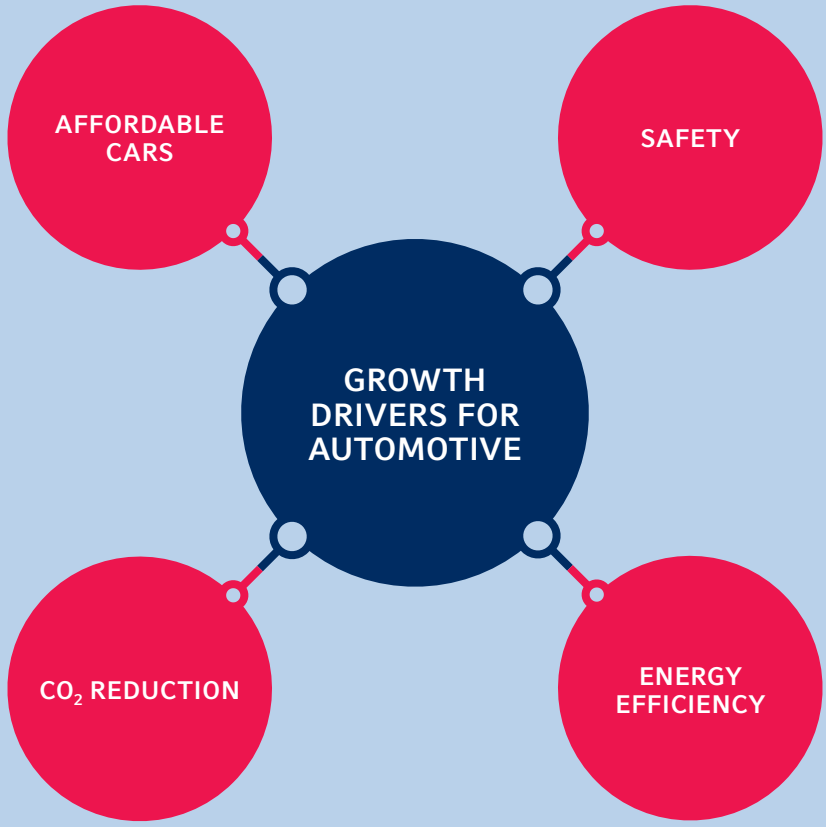
DR. REINHARD PLOSS
Head of Operations
Doctorate in chemical engineering (Dr.-Ing.)
Member of the Management Board since June 2007


AXI

AUTOMOTIVE
INDUSTRIAL ELECTRONICS
CHIP CARD & SECURITY
MOBILE PHONE PLATFORMS
BROADBAND ACCESS

MARK MÜNZER
LEADS THE NEW ELECTRIC DRIVE TRAIN PRODUCT AREA. HIS DEPARTMENT DEVELOPS AND MARKETS POWER MODULES FOR HYBRID AND ELECTRIC VEHICLES.

STRATEGIC GROWTH TARGET MARKET AUTOMOTIVE



Automotive target market

Products for the automotive target market generated around 30 percent of Infineon's sales from continuing operations in the 2008 fiscal year and yielded a mid single-digit margin before interest and taxes.

Infineon supplies microcontrollers, sensors and power semiconductors covering all of the major automotive applications from powertrain and car body electronics to safety and comfort electronics. Infineon is the world number two in the automotive electronics market. Recent years have seen it close in on the number one and extend its advantage over the number three thanks largely to its close working relationship with customers, innovative products and technologies and one of the best quality assurance programs in the industry.

Market researchers predicted at the start of 2008 that the automotive market would grow by an average of six percent a year for the next five years. However in practice concerns about the impact of the financial crisis on the real economy and the increasing oil price have led consumers to purchase fewer vehicles overall and to prefer more energy-efficient models when they do buy. Inexpensive vehicles are also proving especially popular worldwide at the moment. These effects will probably lead to a reduced market growth rate in 2008 and a possibly negative rate in 2009, although electronics will remain the key innovation driver.

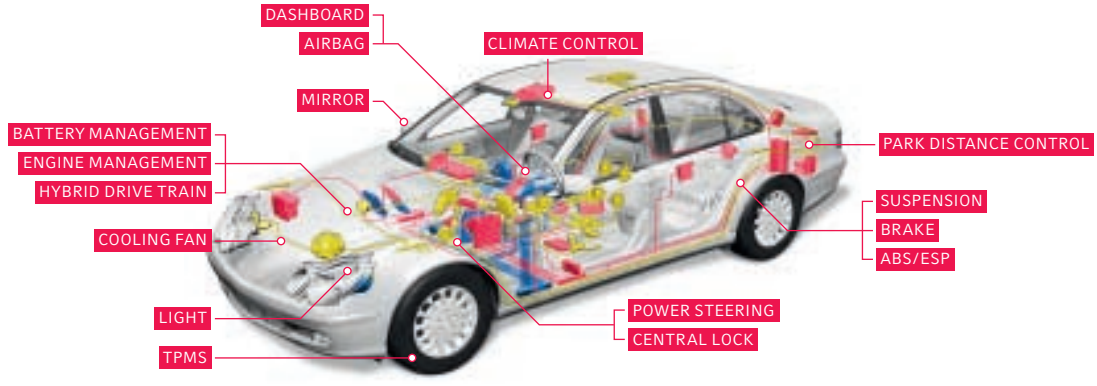
Irrespective of this the most important drivers of growth for the new Automotive Division are:

ENVIRONMENTAL CONCERNS

Cars that burn less fuel emit less of the greenhouse gas CO_2. The automotive industry is accordingly striving to improve conventional drive systems and develop alternatives such as the electric motors used in hybrid and electric vehicles. Infineon has a stake in powertrain electrification in general and the growth in the hybrid market in particular through its power modules. These components have been developed in part on the basis of the company's decades of experience with IGBT modules for industry.

04 MARKET AND COMPANY DATA: AUTOMOTIVE
SOURCE: STRATEGY ANALYTICS, OCTOBER 2008

05 SEMICONDUCTOR APPLICATIONS IN CARS



THE IMPORTANCE OF SAFETY

Vehicle users want better protection. Infineon provides chips for safety systems (such as radar, TPMS, ESP and other driver assistance solutions) and safety equipment (airbags, seat belt tensioners and systems for pre-setting headrest positions) that help to prevent accidents and reduce road traffic accident deaths. Sensors measure physical parameters such as speed of rotation, pressure and position and convert them into electrical parameters that can be processed by a microcontroller.

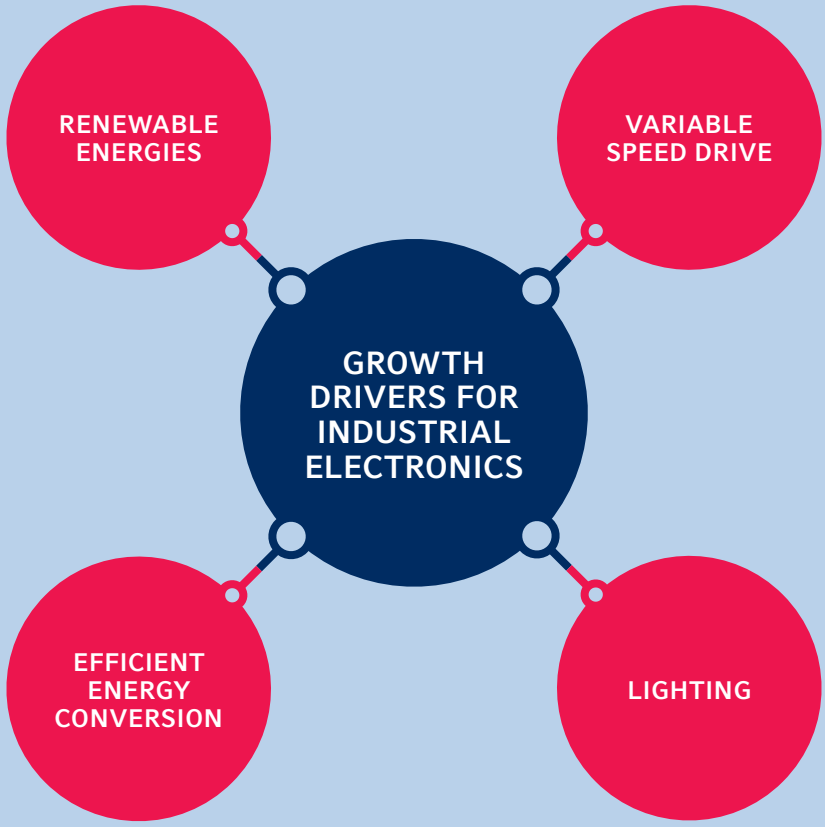
THE GROWTH REGIONS

Vehicles need to be affordable. It is vital in growth regions like India and China in particular to make sure that the vehicles offered reflect the requirements of local people and that the relevant cost targets are met.

AUTOMOTIVE
INDUSTRIAL ELECTRONICS
CHIP CARD & SECURITY
MOBILE PHONE PLATFORMS
BROADBAND ACCESS

DR. ANGELIKA IBERL
WORKS IN STRATEGY AND BUSINESS PLANNING. TO DEVELOP GROWTH STRATEGIES AND BUSINESS OPPORTUNITIES SHE KEEPS AN EYE ON OUR COMPETITORS AND MONITORS THE MARKETS IN WHICH OUR CUSTOMERS SELL.

STRATEGIC GROWTH TARGET MARKET INDUSTRIAL ELECTRONICS



Industrial electronics target market

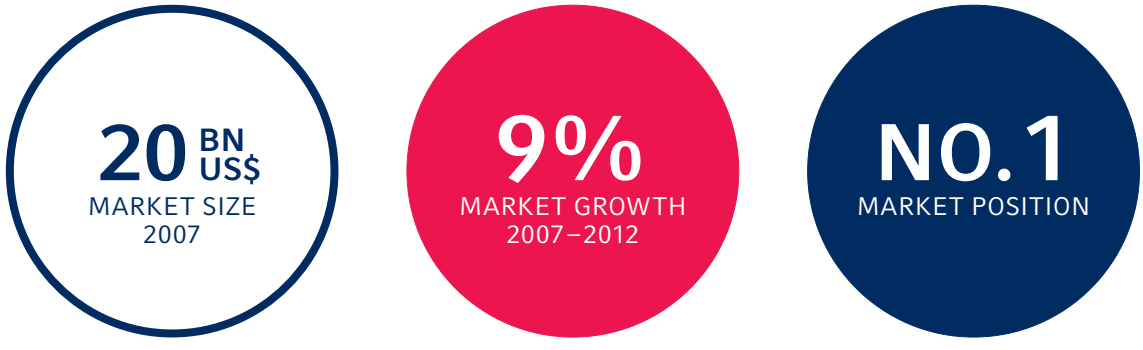
Products for the industrial electronics target market generated around 30 percent of Infineon's sales from continuing operations in the 2008 fiscal year and yielded a mid teens margin before interest and taxes.

Efficient generation and transmission and reliable distribution are vital for an environmentally-friendly electricity supply. Infineon is the only company to offer power semiconductors and power modules for the entire electrical energy generation, transmission and conversion chain. Our products are enormously important for future energy supplies in terms of both exploiting renewables and using energy efficiently. Infineon components manage the power supply for electrical drives, home appliances and lighting, and the company is the world number one in power semiconductors.

The portfolio of products offered by the new Industrial & Multimarket Division is as diverse as the range of market segments in which its components are used: Infineon's power semiconductors and modules, custom ICs and small-signal discrete semiconductors appear in medical and consumer electronics, computing and communication products as well as in the traditional industrial segments mentioned above.

We currently see two general engines of growth in the sector: energy efficiency and system miniaturization. Miniaturization has of course always been a central concern in microelectronics. Our priorities in this respect are to make control electronics for electrical devices even smaller and more energy efficient. We also aim to find ways of continuously reducing package volumes for energy conversion and managing increased power levels in smaller spaces. The benefits of these efforts can be seen in notebook power packs, mobile phone chargers and the like, which are now far smaller than they used to be. Our components are facilitating comparable progress in other applications too, ranging from TV sets, home appliances and air conditioning systems to computers, servers and even trains.

06 MARKET AND COMPANY DATA: INDUSTRIAL ELECTRONICS
SOURCE: SEMICAST, JUNE 2008



INTERNET SERVER POWER CONSUMPTION OFTEN UNDERESTIMATED

Every mouse click consumes energy, as does every e-mail and every video download. Data centers and server farms, which store billions of web pages, have a particularly voracious appetite for electricity. In the meantime every euro invested in a server now entails another euro of spending on electricity and cooling. Power has become the largest direct cost factor in data center operation, so efficiency gains on the scale that can be achieved with our CoolMOS™ high-voltage MOSFETs, for example, can make a very significant difference.

IMPROVED EFFICIENCY FOR SOLAR INVERTERS

Among the fastest-growing of the segments that stand to benefit significantly from the efficiency gains made is the market for inverters for use with photovoltaic arrays of the type installed on roofs and in open spaces. Infineon's IGBT components, MOSFETs, power modules and stacks can together raise the efficiency of these solar inverters to up to 98 percent, so that as much solar energy as possible can be fed into the grid as electricity.

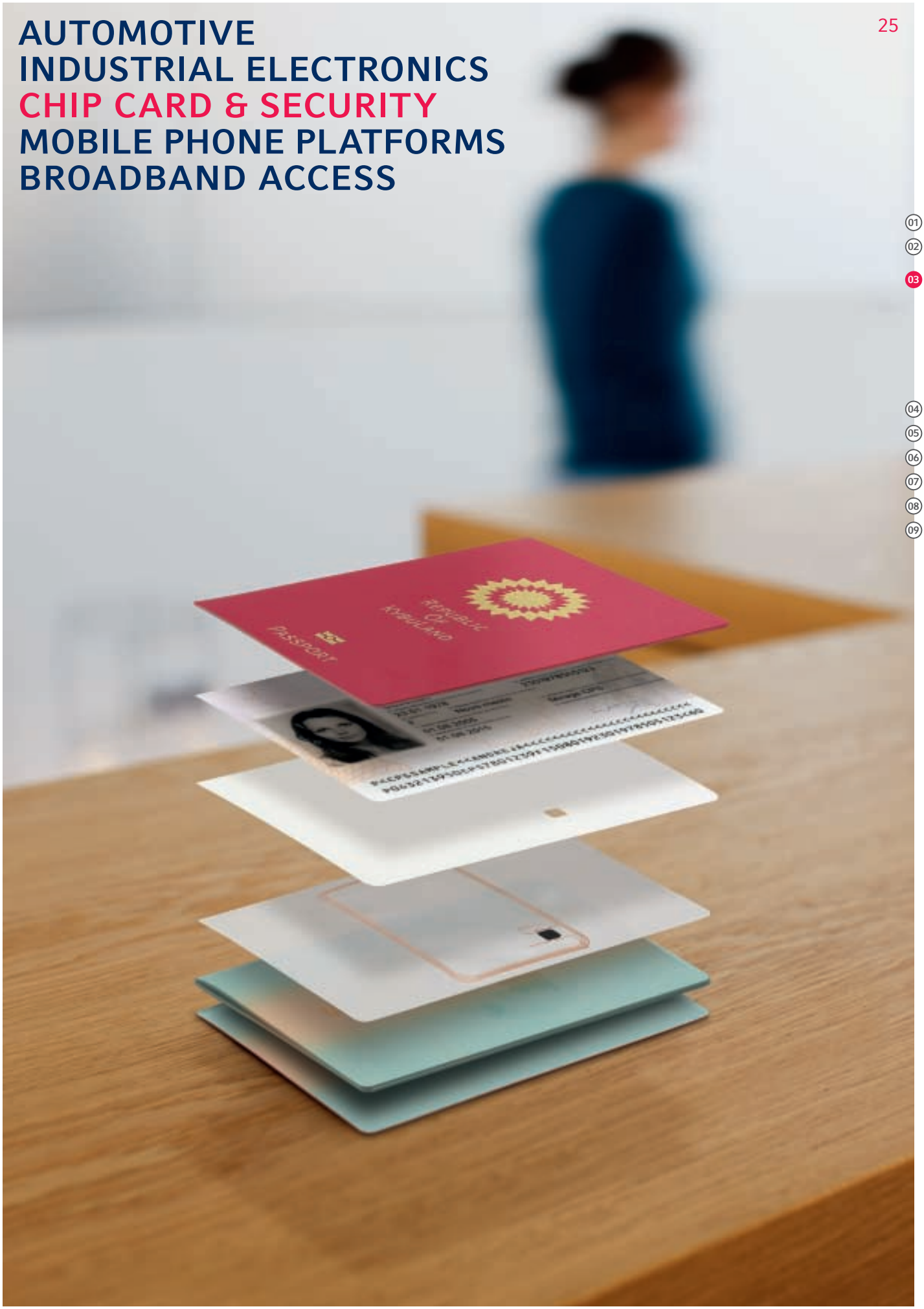
URBAN POPULATIONS CONTINUE TO RISE

A study released by the United Nations reveals that last year, for the first time in history, there were more people living in cities than in rural areas worldwide. This trend, which is likely to continue, will have an impact on where and how electricity is generated, transported and used.

One area that will feel the effects of increased urbanization is public transport. Infineon supplies power components for drive and traction controls for a large number of train systems ranging from the high-speed AGV and TGV in France and Taurus in Austria to trolleybuses in Budapest and subway and suburban railways in Munich and New York. We develop ever more compact solutions for all of these applications so that we can offer our customers greater functionality in smaller and smaller units. The introduction of the MIPAQ™ series of IGBT modules marks the latest step in this consistent product policy. This new generation of modules will offer lower losses and new technology in connection and packages as well as significantly higher power density.

The examples described show how semiconductors can increase efficiency in the generation and conversion of electrical energy. Power semiconductors will consequently come to play an ever more prominent role in all areas of modern life.

AUTOMOTIVE
INDUSTRIAL ELECTRONICS
CHIP CARD & SECURITY
MOBILE PHONE PLATFORMS
BROADBAND ACCESS



MARCUS JANKE
IS RESPONSIBLE FOR PRODUCT RELIABILITY FOR OUR SECURITY CONTROLLERS. HE DEFINES THE VARIOUS SECURITY MEASURES FOR EACH CHIP CARD APPLICATION AND VERIFIES THEIR IMPLEMENTATION TOGETHER WITH HIS TEAM.

STRATEGIC GROWTH TARGET MARKET CHIP CARD & SECURITY

Chip card & security target market

Products for the chip card & security target market generated around 10 percent of Infineon's sales from continuing operations in the 2008 fiscal year and yielded a margin before interest and taxes of around 10 percent.

Infineon provides security components for passports, identity cards and contactless payment cards and is the leading supplier of chips for credit cards, access cards and trusted computing solutions worldwide. Our company has been the world market leader in chips for card applications for eleven years in a row and continues to pioneer new technologies in the field of chip-based security. We have recently restructured the segment to focus more closely on security-critical fields. This allows us to make the most of our expertise in high-security applications as security requirements become more stringent and helps to make us less dependent on SIM card business.

The new Chip Card & Security Division is helping to improve data security in today's information society. As users become ever more mobile, advanced security solutions are very much in demand. Consistent deployment of security products has the potential to act as a pacesetter for cutting-edge applications in communication, transport and IT infrastructure. Infineon has the industry's largest portfolio of chips and interfaces to meet the relevant security requirements in these areas.

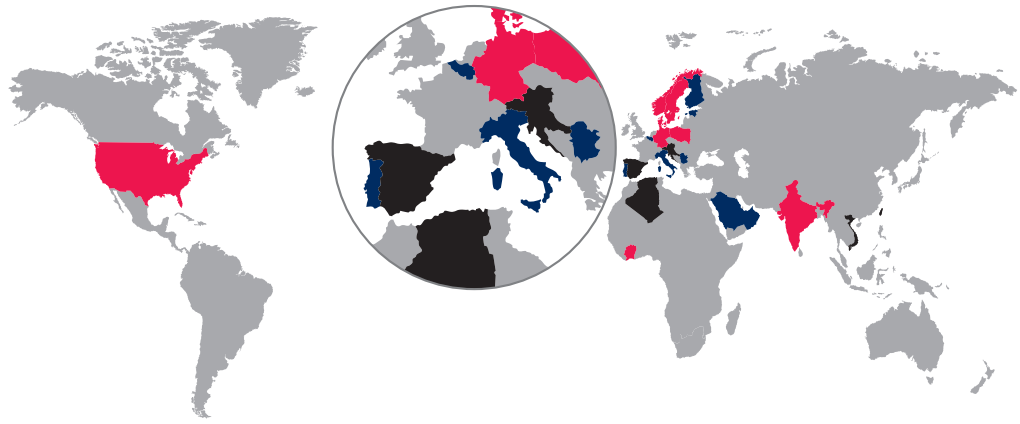
Personal identification is one of the fastest growing application areas for security chips and also involves very high security and quality demands. Infineon is supplying the largest ongoing national projects with security controllers for passports, personal identity cards and healthcare cards → FIGURE 08.

Secure payment using contactless cards is becoming common. The popularity of this fast and convenient means of making small payments is growing quickly in the booming cities of the world's most rapidly expanding economies.

Public transport applications also offer great potential for growth. Shenzhen, a city of around twelve million people, has become one of the first cities in China to install chip card technology

07 MARKET AND COMPANY DATA: CHIP CARD & SECURITY ICs
SOURCE: FROST & SULLIVAN, OCTOBER 2008

08 INFINEON SUPPLIES MAJOR NATIONAL PROJECTS WITH SECURITY CONTROLLERS FOR ELECTRONIC PASSPORTS, ID CARDS AND HEALTHCARE CARDS EXTRACT



ELECTRONIC PASSPORTS: Denmark ◦ Germany ◦ Hong Kong ◦ India ◦ Ivory Coast ◦ Norway ◦ Poland ◦ Sweden ◦ USA

ID CARDS: Belgium ◦ Estonia ◦ Finland ◦ Hong Kong ◦ Italy ◦ Macau ◦ Oman ◦ Portugal ◦ Saudi Arabia ◦ Serbia ◦ Sweden ◦ United Arab Emirates

HEALTHCARE CARDS: Algeria ◦ Austria ◦ Croatia ◦ Germany ◦ India ◦ Italy ◦ Poland ◦ Slovenia ◦ Spain ◦ Taiwan ◦ USA ◦ Vietnam

on its public transport network. The Shenzhen Tong card, which is based on a contactless security controller from Infineon, is one of the largest contactless chip card projects for public transport worldwide. The cards can be used not only as travel tickets, but also to pay for goods and services in shops. There have been more than three million of the cards in circulation by the end of 2008. The local transport company wants to see the cards accepted on all public buses, by private car hire companies and in 3,000 retail stores by 2011.

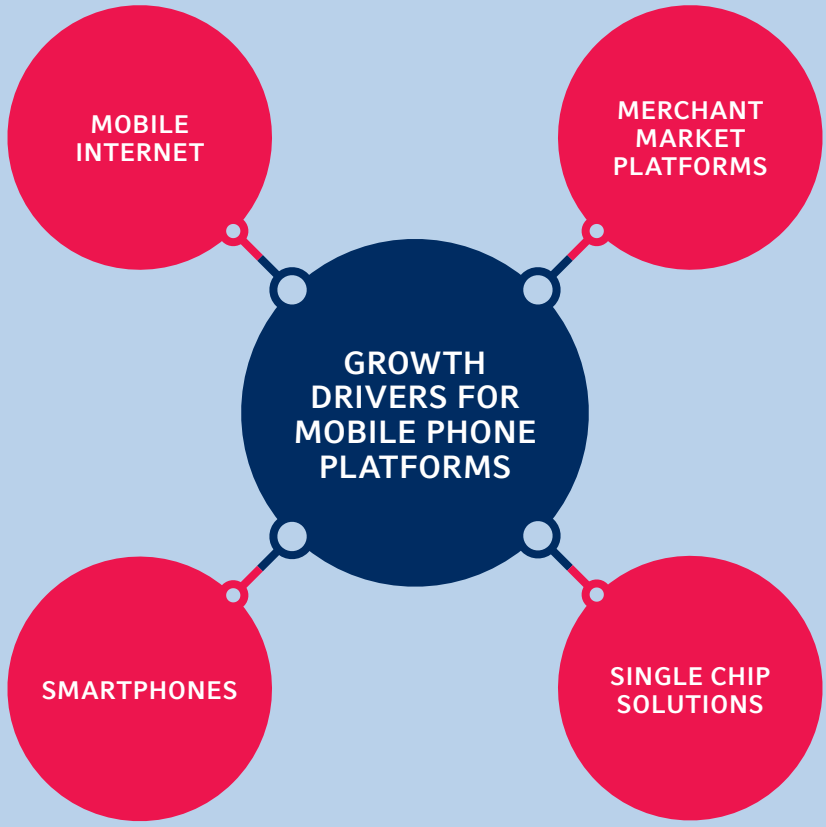
The Shenzhen Tong card is just one of many examples demonstrating the enormous potential of contactless security technology.


Café · Restaurant · Bar

AUTOMOTIVE
INDUSTRIAL ELECTRONICS
CHIP CARD & SECURITY
MOBILE PHONE PLATFORMS
BROADBAND ACCESS

VIJAY ANAND KRISHNA PRASAD ANALYZES AND IMPROVES THE PERFORMANCE AND DATA THROUGHPUT OF UPCOMING MOBILE PHONE PLATFORMS. CURRENTLY HE IS WORKING ON OUR HSPA PLATFORMS.

STRATEGIC GROWTH TARGET MARKET MOBILE PHONE PLATFORMS



Mobile phone platforms target market

Products for the mobile phone platforms target market generated around 20 percent of Infineon's sales from continuing operations in the 2008 fiscal year and yielded a high single-digit negative margin before interest and taxes.

Infineon not only manufactures traditional components such as baseband processors, radio-frequency (RF) transceivers and power management chips, but also offers complete platforms including software solutions, customized modifications and interoperability tests. The major mobile phone manufacturers such as Nokia are relying increasingly on these merchant market platforms and reducing their own production to the same degree. In the meantime Infineon has become the third-largest supplier for these platforms.

The new Wireless Solutions Division is also benefiting from the following two trends:

- Convergence between computers and mobile phones is increasing. Laptops continue to shrink and now include wireless communication capabilities, and mobile phones and PDAs are becoming ever more powerful. A new device class, smartphones, is emerging. Internet use on the move is consequently one of the strongest drivers of growth in the mobile data business.
- The international penetration rate reached the landmark 50 percent threshold toward the end of 2008. This means that one half of humanity already has a mobile phone. The task now for the sector is to conquer the other half.

Having already gained camera and GPS functions, mobile phones are now adding the internet as well. User-friendly devices with high screen resolution and powerful audio/video components are opening up a whole new dimension in mobile entertainment. These devices of course require suitable hardware in the form of powerful transmitter and receiver components, as well as complex software solutions.

HSDPA, the latest transmission technology, is also essential. Two outstanding strengths make Infineon's XMM™60xx platform the obvious choice for smartphones: its data rate of theoretically 7.2 megabits per second allows data to be retrieved at a rate comparable to that

09 MARKET AND COMPANY DATA: MOBILE PHONE PLATFORMS
SOURCE: iSUPPLi, MARCH 2008

of most home DSL lines, and its high level of integration makes it possible to fit the entire modem unit into no more than around 650 square millimeters of board space. Infineon's solution is thus the industry's most compact and battery-friendly HSDPA option. Initial models from our customers in Asia and the USA have already hit the market. As with HSDPA, we will be offering several variants of the even more powerful successor standard HSUPA (all in 65-nanometer technology) in order to meet all customer requirements as effectively as possible in the fast-growing smartphones segment.

WORLD-BEATING RADIO-FREQUENCY TRANSCEIVER AND EDGE PLATFORM

A key component of these platforms is the radio-frequency transceiver. We have built on the success of our CMOS-based RF transceivers here with the SMARTi™ UE. It occupies just six by six square millimeters and is the first product of its kind to support all of the major mobile communication standards (GSM, EDGE, HSDPA and HSUPA). None of our competitors can yet match this. We celebrated the sale of our billionth RF transceiver during the fiscal year just ended.

Infineon has recently presented another world first in the mid-range segment of the mobile phone market: the delivery of the X-GOLD™206 to a customer in Asia in the June quarter marked the market debut of the world's first single-chip solution for the EDGE standard.

UNINTERRUPTED GROWTH IN CHINA AND INDIA

The number of new mobile network subscribers is expected to rise to almost 90 million in India alone in 2008. China, which is already the biggest market in the world with around 500 million mobile phone users, anticipates another 56 million or so new customers.

Infineon intends to serve the attractive emerging markets with its various ultra-low-cost (ULC)/entry-level platforms. Most affordable of all is the world's most highly integrated mobile communication chip, the X-GOLD™101, which enables our customers to produce extremely affordable phones. The fact that we have already sold over 100 million single-chip solutions speaks for itself.

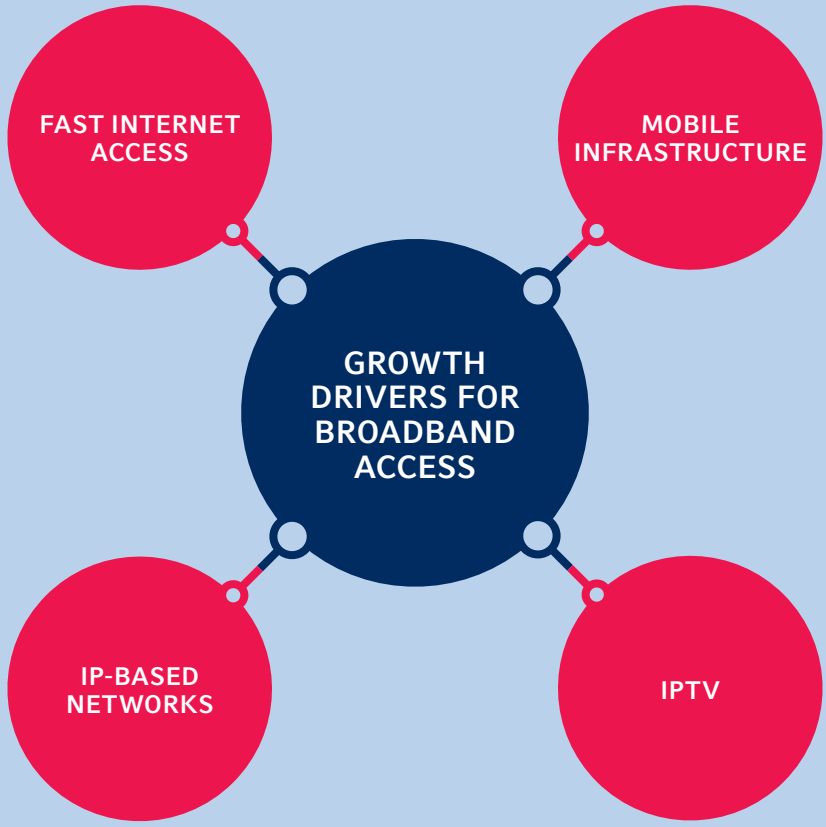
Our technology in this area continues to advance. Our X-GOLD™113 and X-GOLD™213 single-chip solutions provide camera, radio and MP3 functionality and, in the case of the latter, also e-mail and internet functionality in the lower price segment. The phones designed especially for this segment are bringing mobile internet access within reach for the first time for many categories of buyers.


PLASTIK FU

AUTOMOTIVE
INDUSTRIAL ELECTRONICS
CHIP CARD & SECURITY
MOBILE PHONE PLATFORMS
BROADBAND ACCESS

KARL-RUDOLF LEICHTFUSS WORKS IN THE LAST PHASE OF THE MICROCHIP VALUE CHAIN. HE DEVELOPS AND DEFINES TEST AND HANDLING CONCEPTS FOR THE FINAL TESTING OF OUR COMPLEX COMMUNICATION MODULES. PRODUCTS THAT COMPLETE THIS TEST SUCCESSFULLY ARE SHIPPED TO THE CUSTOMER.

STRATEGIC GROWTH TARGET MARKET BROADBAND ACCESS



Broadband access target market

Products for the broadband access target market generated around 10 percent of Infineon's sales from continuing operations in the 2008 fiscal year and yielded a low single-digit margin before interest and taxes.

Infineon provides a fully comprehensive range of products for the broadband access target market covering the entire value chain from central office to street cabinet to terminal. Our solutions are also used to connect mobile network base stations to the fixed telecommunication network.

Infineon achieved a disproportionate increase in its market share last year and expanded its number one position in the access market once again. The consolidation phase in the wireline market is reaching its peak and we expect the outcome to be good news for us.

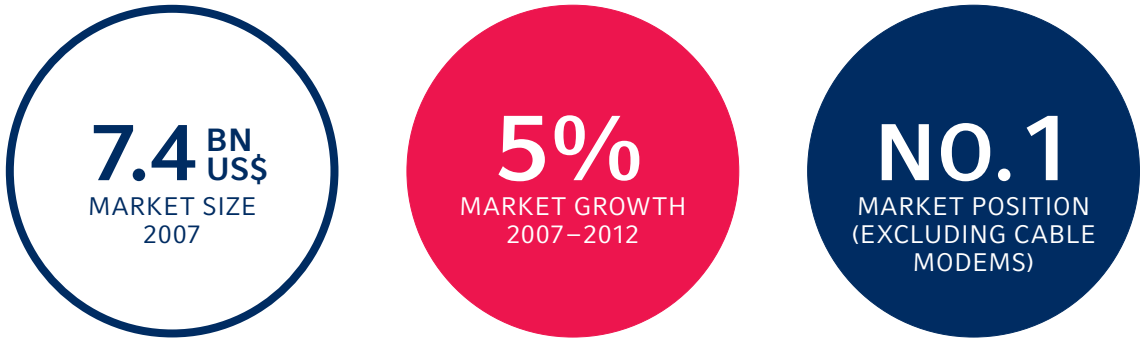
The importance of solutions for broadband terminals (CPE) – gateways, routers and Integrated Access Devices (IAD) – is growing especially quickly. The next generation of these devices will support all communication standards including WLAN, DECT, Ethernet and DSL variants ADSL2/2+, SHDSL and VDSL2 with data rates of up to 100 Megabits per second. The acquisition of Texas Instruments' DSL CPE business has further supported our success in this segment. The integration of the acquired business has been finished successfully.

The new Wireline Communications Division stands to benefit from the following trends according to leading market researchers:

A SHIFT FROM TRADITIONAL VOICE NETWORKS TO DATA NETWORKS BASED ON INTERNET PROTOCOL

The voice networks still in widespread use today were installed in the 1980s and will have to be replaced in due course. The upcoming shift from traditional voice-based telephone networks to unified data- and VoIP-based networks will be one of the greatest challenges for future network architectures. We are benefiting from the advent of the next generation network (NGN), as this future infrastructure is known, through our products and system

10 MARKET AND COMPANY DATA: BROADBAND ACCESS
SOURCE: GARTNER DATAQUEST, JUNE 2008



solutions designed for use in the networks operators' access networks. Our portfolio spans all of the DSL variants – ADSL, SHDSL and VDSL2 – as well as traditional voice products and the new voice-over-IP solutions. The most important requirements in this area are reduced power consumption, high integration density and fast signal processing. Our chips meet them all with ease.

IPTV

Internet protocol television (IPTV) and video-on-demand enable users to experience television in a new look and feel. Network operators are currently investing heavily to be able to offer a wide range of high-quality content. Providing this service will require the capabilities to transmit huge data rates with a very high quality level over hours and the infrastructure will consequently have to be several orders of magnitude better in terms of performance and quality of service. Large-scale adoption of these new services will involve a massive upgrade of communication infrastructures. The broad availability of high definition TV (HDTV) will help to drive up the popularity of IPTV over DSL, as will the possibility of user-specific advertising, which only IPTV can bring within reach.

All of this involves high demand for fast data links, which means migrating to ADSL2+ and even VDSL2. Infineon has been onto this trend since the beginning, and customers including Deutsche Telekom, for example, are already using our DSL solutions in their broadband street cabinets and terminals at home.

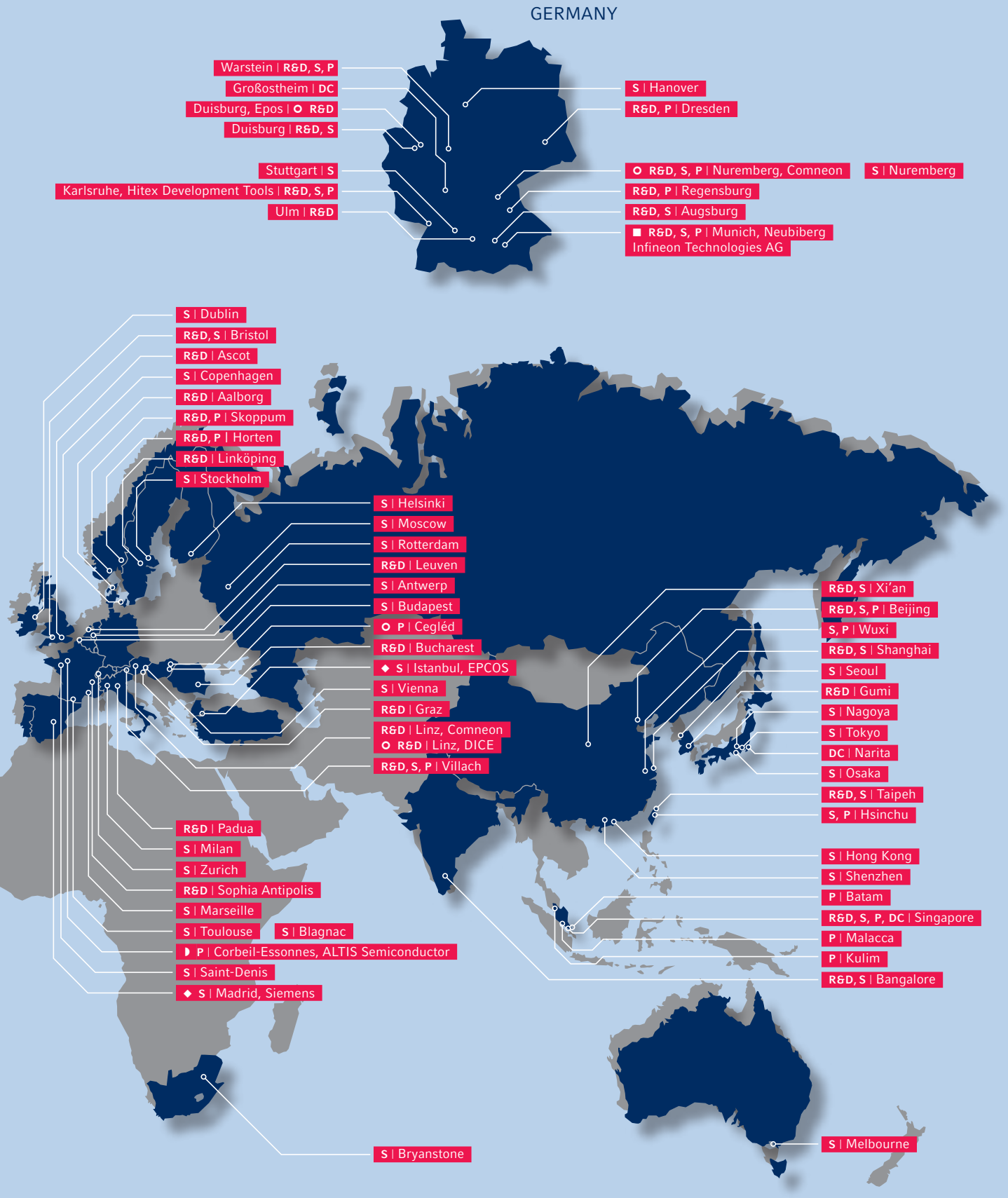
MOBILE COMMUNICATIONS INFRASTRUCTURE

The increase in data volume in the mobile communication networks of the industrialized nations is another factor driving growth in broadband. Mobile network operators saw data traffic exceed voice traffic on their networks for the first time in 2008. This was due mainly to business and private customers, for whom managing data on a smartphone or notebook is an ever more attractive proposition. Products to connect mobile communication base stations to the network already form a significant part of our business and their importance is only going to rise as a result of the move to Long Term Evolution (LTE), the successor to UMTS, which is expected to occur over the next few years.

Infineon sites

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

INFINEON WORLDWIDE



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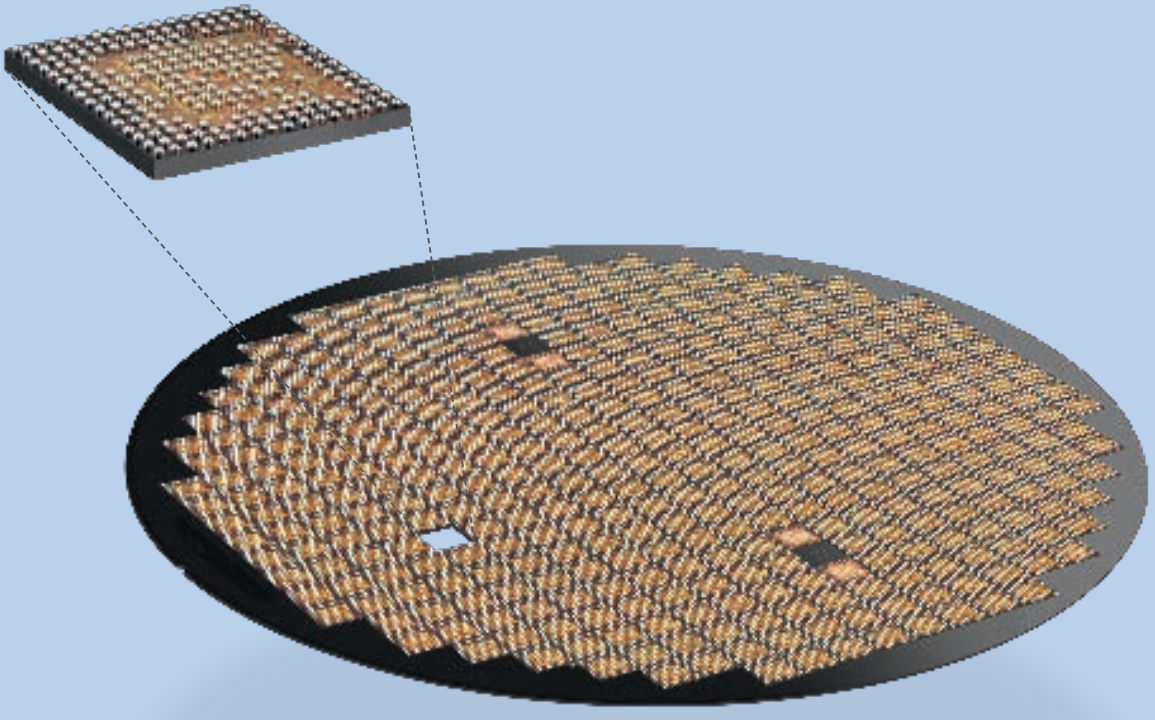
INFINEON
2008
INNOVATIONS



11 eWLB PACKAGE TECHNOLOGY WITH MANUFACTURING TOOLS

Innovations

INFINEON RAISES THE BAR IN PACKAGE DESIGN

Chip packages protect the silicon chip sawn from the wafer and provide the link between the semiconductor material's contacts and the circuit board. As the complexity of circuits increases, so too does the number of contacts, and this means new types of package are required → COVER. The necessary contacts for simple chips can be accommodated just along the edges of the package, but the whole of the base of the package is needed for complex chips. Contacts can take the form of pins or of balls arranged in a matrix pattern.

Sometimes a chip is so complex that the package actually has to be larger than is necessary for the chip alone in order to squeeze in all of the contacts. This is where the benefits of the new eWLB (embedded wafer-level ball grid array) technology come into play. Using eWLB package technology we can match the package to the space required for the balls irrespective of the size of the actual chip, which means packages that are barely any larger than the silicon chip itself are now a possibility. The flexibility gained in terms of package size also enables us to incorporate an almost unlimited number of contact elements.

The short connections between chip and ball contact give the chips excellent electrical and thermal properties. The technology not only permits higher contact densities, but also makes it possible to extend the rapid increase in processing speeds to circuit boards. Older package technologies now amount to a limiting factor, not least because of the way that physical effects (mainly parasitic capacitance and inductance) are limiting data rates. Infineon's eWLB technology, in contrast, can realize complex chips like the baseband and application processors used in mobile devices in the smallest of spaces.

eWLB technology offers a whole range of advantages. All process steps are completed in a highly parallel fashion at wafer level, which means that all of the modules on a wafer can be processed simultaneously in one step → FIGURE 11. This reduces costs per chip significantly.

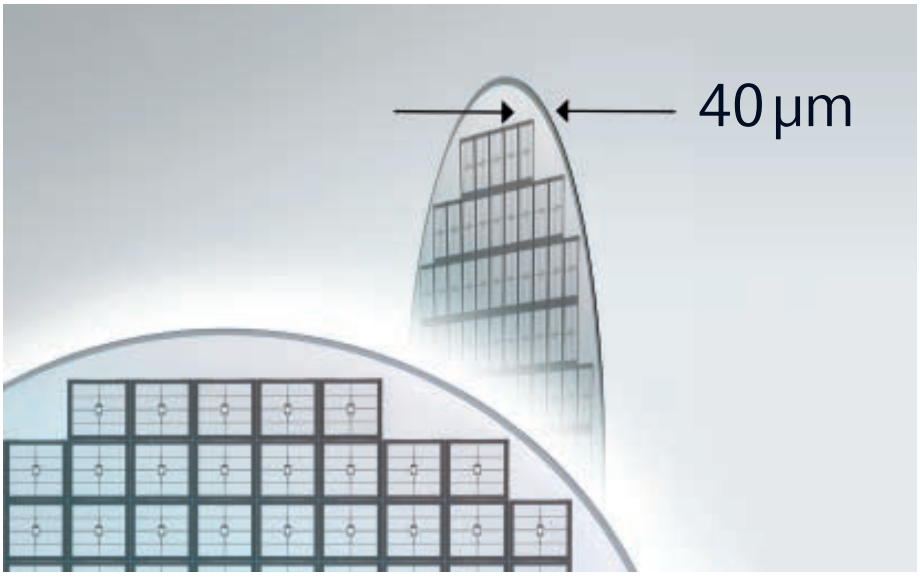
The possibility of providing additional wiring around the module itself also opens up new, space-sensitive applications for wafer-level packaging technology. eWLB also makes it possible to integrate active components (diodes, transistors and chips) and passive components (resistors and capacitors) in one package.

The X-GOLD™213 and X-GOLD™618 chips for mobile communication applications are the first Infineon chips to take advantage of eWLB technology. They are manufactured at Regensburg, Germany, and by our licensed subcontractors.

THIN WAFER TECHNOLOGY FOR ENERGY EFFICIENCY

A wafer is typically around 350 micrometers (µm) thick when it is sawn into the individual chips. A thin wafer is one that has been polished down to a thickness of less than 200 micrometers (a human hair or a sheet of paper, by comparison, has a thickness of about 60 micrometers). Infineon is the only manufacturer in the world to have mastered the technology necessary to produce power semiconductors with a thickness of just 40 micrometers → FIGURE 12. We have found that handling the thin wafers poses the greatest challenge. Wafers thinner than 100 micrometers are very fragile. They break easily and it is difficult to transport them or subject them to any further processing.

12 IGBTs ON 40µm THIN WAFERS FRONT AND SIDE VIEW



Thin wafer technology has several significant advantages, though: unlike normal ICs, most power semiconductors have the current flowing from the front of the chip to the back. Thinner chips make it possible both to reduce losses and to remove the heat generated more effectively. They also allow electrically active structures to be produced on the back that can give chips completely new functions. And of course chips based on thin wafers fit more easily into more compact packages.

Infineon worked closely with the appropriate specialist tools manufacturers on every relevant step to bring the entire process chain to maturity.

Components produced on thin wafers include IGBTs and high- and low-voltage power MOSFETs. These power semiconductors are used in engine control systems, power packs and induction hobs. Our components and the systems built from them help to improve energy efficiency thanks to Infineon's thin wafer technology.

OCT – DEC 2007

1st Quarter

OCT 2007 ◦ Infineon launches a new family of microcontrollers for motorcycle engine control systems. The XC2700 series enables system manufacturers to develop cost-effective electronic engine control systems for motorbikes that will meet the more stringent exhaust emission standards expected worldwide in future.

NOV 2007 ◦ Infineon presents the first RXN7740 radar chip. The chip operates at frequencies of 76 to 77 gigahertz and is used in long- and medium-range radar systems, which detect obstructions and preceding vehicles in an area from 20 to 200 meters in which they are installed irrespective of visibility.

NOV 2007 ◦ Infineon supplies its billionth radio frequency (RF) transceiver. These tiny chips establish the radio connection between mobile phones and base stations. Infineon has been supplying these components to the leading mobile phone manufacturers, among them Nokia, Samsung, Sony Ericsson and LG, for more than 15 years.

DEC 2007 ◦ Infineon presents the smallest transient voltage suppression (TVS) diode in the world. Smaller even than a sugar crystal, it is nevertheless able to dissipate discharges of up to 20,000 volts reliably and thus protects devices like mobile phones, digital photo and video cameras and MP3 players.

JAN – MAR 2008

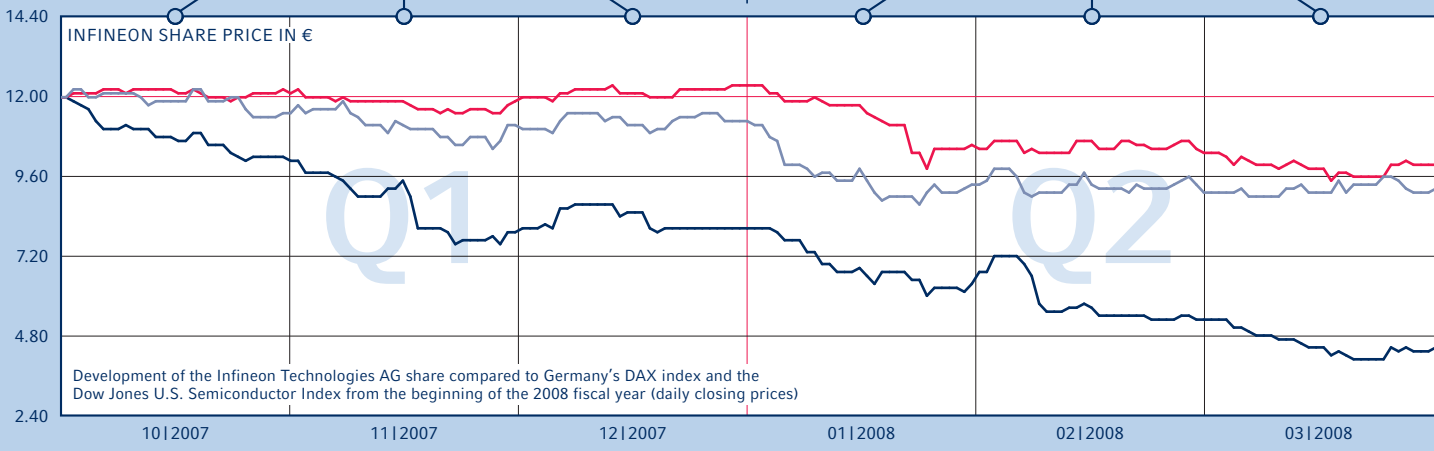
2nd Quarter

JAN 2008 ◦ Volkswagen selects an Infineon microcontroller developed especially for automobile comfort electronics. The chip, which has the performance of a 32-bit microcontroller, is part of Infineon's XC2200 series. Volkswagen will use the microcontroller to improve communication between the various in-vehicle subsystems and connect them more effectively.

JAN 2008 ◦ Infineon develops the world's first CAT-iq- and DECT-compliant single-chip modem for base stations. This component – the COSIC™ modem – integrates baseband processor, transceiver and power amplifier and enables cordless internet telephony with high voice quality. The successor to the DECT standard, CAT-iq is the new, globally standardized technology for wireless home networks with broadband connections.

FEB 2008 ◦ Infineon's third generation of single-chip products brings the latest mobile phone functions, such as camera, mobile internet and audio entertainment, within reach of price-sensitive markets. Baseband, power management unit, RF transceiver and FM radio are now integrated on a single chip. The new chips, X-GOLD™113 and X-GOLD™213, are produced in 65-nanometer technology and will enter volume production in 2009.

MAR 2008 ◦ LSI acquires Infineon's hard disk drive business, which develops, manufactures and markets chips for hard disk drives. Infineon transfers all business operations in this area, including customer relationships and technical expertise, and also licenses intellectual property to LSI.



Development of the Infineon Technologies AG share compared to Germany's DAX index and the Dow Jones U.S. Semiconductor Index from the beginning of the 2008 fiscal year (daily closing prices)

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

As of	Sept. 30, 2007	**Sept. 30, 2008**	Change
Share capital in EUR millions	1,499	1,499	—
Shares outstanding in millions[1]	750	750	—
Yearly average in millions[1]	749	750	—
Market capitalization in EUR millions	9,064	2,939	(68%)
Market capitalization in USD millions	12,853	4,245	(67%)

1 undiluted

APR–JUN 2008

3rd Quarter

APR 2008 ◦ Samsung selects Infineon's XMM™6080 HSDPA platform for its new HEDGE (HSDPA/EDGE) mobile communication devices. The XMM™6080 combines the HSDPA/EDGE baseband processor, the power management unit and a single-chip 3.5G RF transceiver and also features Infineon's protocol stack for HEDGE telephony.

APR 2008 ◦ Infineon acquires Primarion to boost its presence in the new and rapidly expanding digital power management market. Primarion ranks as one of the leading companies in chips for digital power management in computer, graphics and communication applications.

MAY 2008 ◦ Infineon launches the IFX10+ cost reduction program, which is intended to reduce manufacturing costs and make the organization leaner. IFX10+ is expected to yield annual savings of more than of 200 million euros by the end of the 2009 fiscal year.

MAY 2008 ◦ Infineon presents its new generation of MIPAQ (Modules Integrating Power, Application and Quality) power modules, which combine a high level of integration and impressive energy efficiency. The MIPAQ series from Infineon paves the way for efficient converter designs for industrial drives in applications such as compressors, pumps and fans and for solar and air conditioning systems.

JUL–SEP 2008

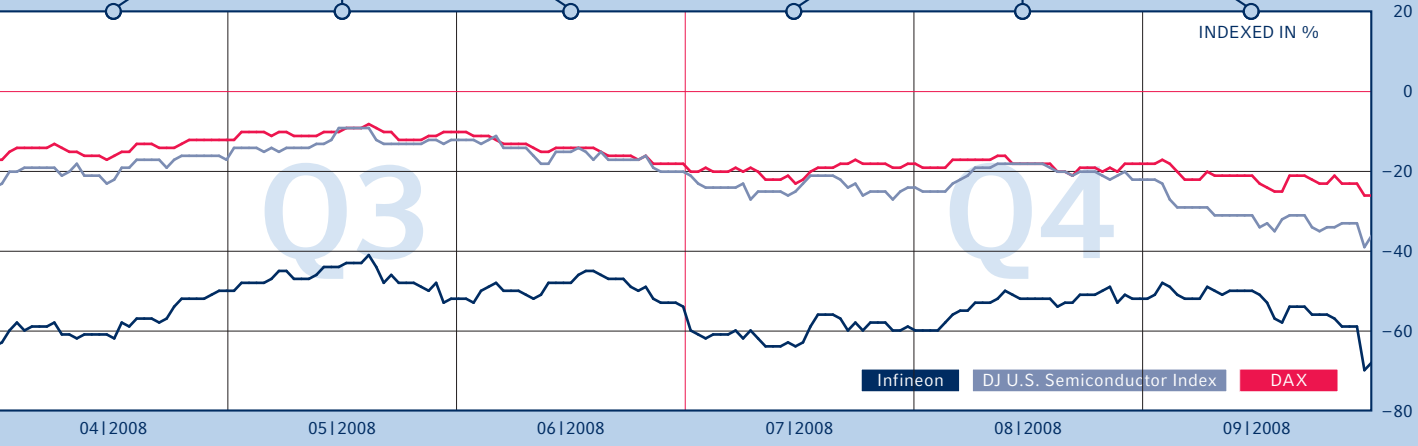
4th Quarter

JUL 2008 ◦ China's fifth largest carmaker, Chang An, provides some 20 hybrid vehicles based on Infineon's HybridPACK™1 power module for use as taxis for athletes and visitors during the Olympic Games. The "Jiexun" hybrid vehicles featuring the HybridPACK™1 achieve speeds of up to 160 km/h, using about 20 percent less fuel than conventional vehicles with an internal combustion engine.

JUL 2008 ◦ Infineon announces a restructuring initiative as part of the IFX10+ cost-cutting program to make the organization lean and efficient. The Automotive, Industrial & Multimarket and Communication Solutions Business Groups are to be turned into five Divisions – Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions and Wireline Communications – at the beginning of the 2009 fiscal year.

AUG 2008 ◦ Infineon is the sole chip manufacturer to supply security controllers for the Shenzhen Tong card, one of the largest contactless chip card projects for local public transport worldwide. The operator intends to issue more than eight million Shenzhen Tong microcontroller cards in total over the next three years.

SEP 2008 ◦ Infineon presents the XWAY™ ARX100 series, the industry's first single-chip solution for ADSL gateways, which supports enhanced features for IPTV (internet television) in addition to broadband and wireless data rates in excess of 150 Mbit/s.



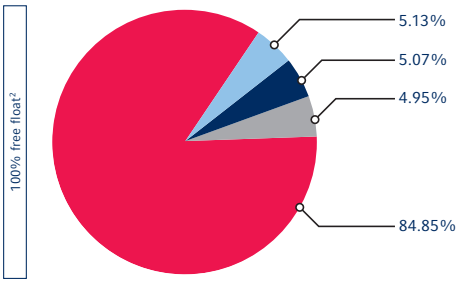
DEVELOPMENT OF THE INFINEON SHARE COMPARED TO WORLDWIDE INDICES

Through end September 2008	Since end September 2006	**Since end September 2007**
Europe		
Infineon (Xetra)	(58.13%)	(67.62%)
DAX	(2.89%)	(25.83%)
DJ-Stoxx-50	(25.79%)	(31.02%)

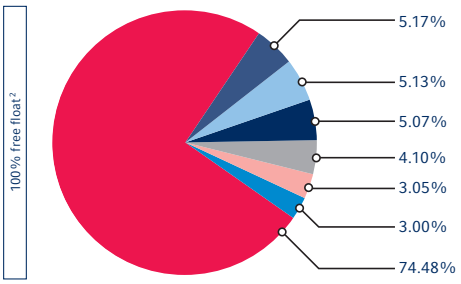
Through end September 2008	Since end September 2006	**Since end September 2007**
USA		
Infineon (NYSE)	(52.75%)	(67.46%)
DJ U.S. Semiconductor Index	(25.74%)	(35.78%)
Philadelphia Semiconductor Index (SOX)	(32.51%)	(38.63%)

SHAREHOLDER STRUCTURE[1]

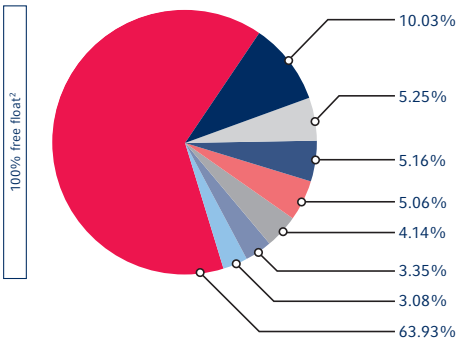
2006



2007



2008



- Other shareholders[3]
- Brandes Investment Partners
- Dodge & Cox Intern. Stock Fund
- Capital Group International
- Templeton Global Advisors Ltd
- FMR Corporation
- Templeton Funds, Inc.
- Merrill Lynch International
- AXA S.A. (incl. AllianceBernstein L.P. with 3.18%)
- Templeton Investment Counsel, LLC

1 In accordance with obligatory reporting known to Infineon.
2 Free float according to the definition used by FTSE.
3 2006: shares <5%; 2007 and 2008: shares <3%.

FOR FURTHER INFORMATION PLEASE CONTACT INFINEON'S INVESTOR RELATIONS TEAM:

PHONE: +49 89 234 26655
FAX: +49 89 234 955 2987
E-MAIL: INVESTOR.RELATIONS@INFINEON.COM

SHARE INFORMATION

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of 2.00 euros each (ADS:shares = 1:1).
Share capital	€1,499 million (as of Sept. 30, 2008)
Shares outstanding	750 million (as of Sept. 30, 2008)
Listings	Shares: Frankfurt Stock Exchange (FSE)
	ADS: New York Stock Exchange (NYSE)
Options on trading	Shares: Eurex
	ADS: CBOE
Initial Public Offering (IPO)	March 13, 2000 on FSE and NYSE
IPO issue price	EUR 35.00 per share
	USD 33.92 per ADS
Ticker symbol	IFX
ISIN Code	DE0006231004
German Security Identification Number (WKN)	623100
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system)
	IFX.US
Reuters	IFXGn.DE
Index membership (selected)	DAX 30 Dow Jones German Titans 30 Dow Jones Euro Stoxx Technology MSCI Germany SOX S&P Europe 350

INFINEON SHARE STATISTICS
FISCAL YEAR ENDING SEPTEMBER 30

	2006	2007	2008
Europe: Xetra close in EUR			
Fiscal year close (end September)	9.35	12.09	3.92
Year high	9.95	13.44	11.95
Year low	7.60	9.25	3.66
Daily average shares traded	10,064,022	10,492,310	15,201,737
Of which Xetra trading in %	98	98	98
USA: NYSE close in USD			
Fiscal year close (end September)	11.83	17.18	5.59
Year high	12.68	18.68	17.13
Year low	8.95	11.77	5.24
Daily average ADS traded	831,883	2,241,362	2,677,648

The Infineon Share

Infineon share falls on global financial crisis and collapse of memory business.

The value of the Infineon share failed to reflect the positive developments seen in the company's core logic business in the 2008 fiscal year and fell by 68 percent in the period under review. The share started the 2008 fiscal year at 11.95 euros (Xetra closing price) and then lost value almost continuously throughout the year. It bottomed out at 3.66 euros on the penultimate day of the fiscal year as a result, in part, of events in the financial markets in the U.S., before eventually finishing the 2008 fiscal year at 3.92 euros.

Among the negative influences on our share were the global turmoil in the financial sector, which grew worse and worse over the course of the year, and fears that the global economy might tip into recession. The serious crisis in the memory chip market hit the Qimonda and Infineon shares very hard. The Infineon share consequently failed to match the performance of comparable indices in the period under review. The Philadelphia Semiconductor Stock Index fell by 39 percent, for example, and the Dow Jones U.S. Semiconductor Index by 36 percent. In Europe, the Dow Jones Stoxx 50 dropped 31 percent, while Germany's DAX lost 26 percent of its value over the same period → FIGURE 13.

Improved results from Infineon's core logic business and the announcement of the IFX10+ cost reduction program, which is intended to realize annual savings of more than 200 million euros, failed to energize the Infineon share to the extent that would otherwise have been expected due to the aforementioned negative factors. Highlights like the capture of multiple orders for the new HSDPA platform, including from Samsung, the start of deliveries of the single-chip EDGE platform to LG and the persistent high demand for the single-chip solution for entry-level phones, for example, all helped to boost operating business and the share, as did a variety of orders in the industry and automotive electronics markets, among them an order from Volkswagen concerning microcontrollers for automotive electronics for body & convenience.

The Infineon share saw trading volumes rise in the 2008 fiscal year as a result of the volatility in the global markets. Trading volume increased by 45 percent on Xetra, the Frankfurt Stock Exchange and German regional stock exchanges, with an average of 15.2 million Infineon shares traded every day (2007: 10.5 million). The Infineon share accounted for around 1.4 percent of total trading turnover on the DAX 30 in the 2008 fiscal year. The company's average daily trading volume in American Depositary Shares (ADS) on the New York Stock Exchange also rose year on year, to 2.7 million (2007: 2.2 million). ADS did, however, shrink as a proportion of the total number of Infineon shares outstanding in the period under review: there were 116.5 million ADS (representing 15.5 percent of Infineon's share capital) in circulation when the fiscal year started, but just 106.6 million by the time it ended (14.2 percent of the share capital).

As in previous years, the Management Board and Supervisory Board will propose at the Annual General Meeting of Shareholders that no dividend be issued, reflecting the fact that the Group's parent company, Infineon Technologies AG, did not achieve an accumulated profit for the year. The accumulated loss at the end of the 2008 fiscal year amounted to 5,348 million euros (2007: 2,608 million euros).

Sustainability at Infineon

An advanced and integrated approach.

- Identify chances.
- Find ways.
- Act responsibly.

Sustainability is a substantial element of our corporate culture at Infineon. For us sustainability means safety at work, protecting the environment and our employees' health, human resources management, corporate citizenship as well as ethical and social behaviour not just within our own organization but throughout our supply chain.

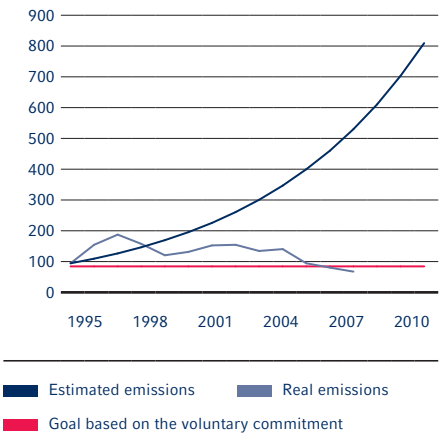
We base our strategy on the principles of the UN Global Compact initiative, to which we signed up in 2004. This strategy is incorporated into our business processes. Through this integration we make sure that we really do put our strategy into practice and act sustainably in our day-to-day operations. The programs and objectives derived from our sustainability strategy reflect both the needs and requirements of our employees and customers and the challenges of the global society.

Climate change and the limited availability of natural resources represent such global challenges. To master these challenges successfully is a precondition for preserving our ecosystems and the basis for an equal distribution of wealth. We actively embraced the responsibilities incumbent upon us as a global company and consequently integrated these issues into our company at an early stage. Our advanced resource management contributes to protecting the environment and climate and to conserving resources.

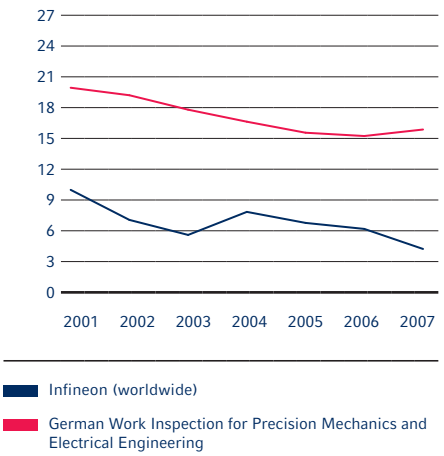
We have managed, by way of example, to cut our own energy consumption significantly by improving efficiency at our production facilities and providing special training for our employees: the amount of energy we did not consume and thus saved in 2007 alone as a result of these measures is equivalent to the energy consumption of more than 104,000 four-person households in Germany, which adds up to an impressive achievement from the economic as well as the ecological perspective. There is another important side to our active effort to combat climate change: our efficiently manufactured products and systems themselves enable a huge range of energy-efficient end products and solutions in manifold applications. Our products, in other words, continue to work for the environment long after they leave our factory.

Moreover, in the field of climate protection we voluntarily committed ourselves to reduce perfluorinated compounds (PFC), which are necessary for the manufacture of semiconductors but are also greenhouse gases. We aimed to cut our absolute emissions calculated in CO_2 equivalents to 10 percent below 1995 levels by 2010. By addressing this target through comprehensive measures we have already achieved this ambitious target → FIGURE 15. Rather than stopping here we intend to continue searching for new ways to contribute to climate protection and sustainability.

15 PFC EMISSIONS 1995 TO 2010 (EU)
CO_2 EQUIVALENTS (%)



16 STATISTICS ON OCCUPATIONAL ACCIDENTS
PER 1,000 EMPLOYEES



The conscientiousness, experience and commitment of our employees play an important role in achieving our goals.

Protecting our employees is a top priority for Infineon, as our global statistics for accidents in the workplace per year and per 1,000 employees illustrate → FIGURE 16. Our accident figures are much better than the average value of the German Work Inspection for Precision Mechanics and Electrical Engineering. Our record is actually even better than it looks by this measure: the work inspection statistics only record accidents resulting in three or more days of absence from work, whereas we record every accident leading to at least one day of absence. We have been able to bring about these pleasingly low accident figures largely by applying the same occupational health and safety requirements worldwide and adopting a standard, harmonized procedure to eliminate potential risks. Our success in this area gives voice to our underlying belief that when it comes to protecting people and the environment, national borders are irrelevant.

This guiding principle is the basis for IMPRES, our integrated management system for environmental protection and occupational safety and health, which is certified worldwide according to ISO 14001 and OHSAS 18001. IMPRES plays an important role in helping us to live up to our high expectations consistently in matters of sustainability. The global nature of our approach, moreover, assures customers that all of our products, wherever in the world they come from, comply with highest environmental standards.

Sustainability at Infineon is all about integrating economic, ecological and social aspects in all of our business processes, in our strategy and in our day-to-day activities. It is firmly established as a guiding principle within our company and we consider its implications in everything we do.

People at Infineon

Human resources management with regard to IFX10+.

- Actively demonstrate the responsibility we feel for our employees.
- Create efficient organizational structures that enhance value by acting together in the interests of our customers.
- Creating motivating working conditions by helping employees to master change processes and fostering a culture of innovation.

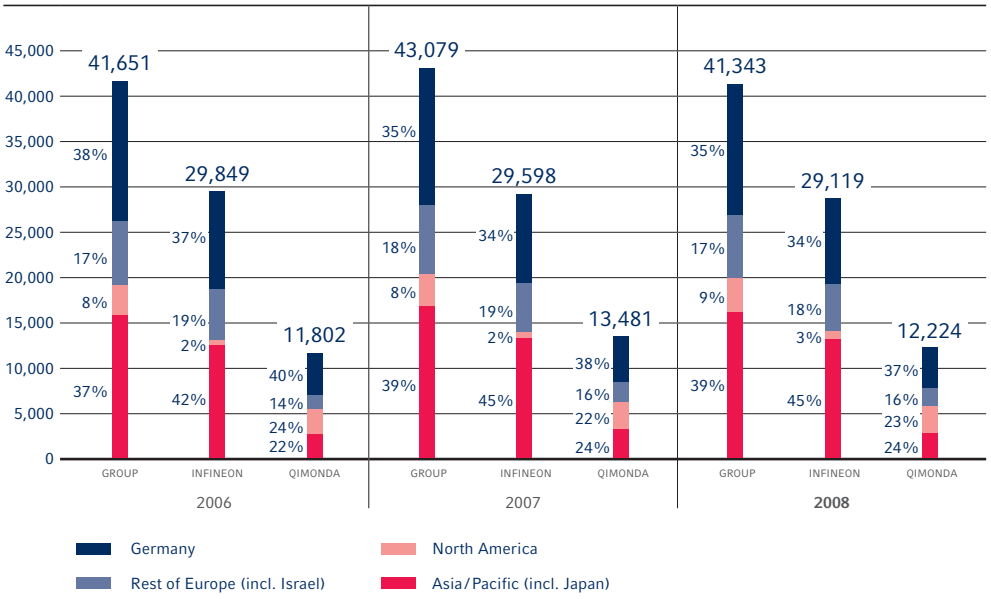
The launch of IFX10+ was also the dominant issue for the Human Resources department in the 2008 fiscal year, and the associated efforts should deliver wide-ranging positive results in the current fiscal year in particular.

The restructuring of our company was the first matter to be tackled. Achieving the objectives of IFX10+ safeguards Infineon's future prospects and protects jobs. Leaner structures should enable us to cut costs and boost EBIT, but we have to implement the necessary measures to reduce headcount in a socially responsible manner. What we aim for are mutually acceptable provisions that create a time window and financial framework within which the staff affected can find alternative employment. We are also working to establish channels of communication with other companies that are looking to recruit, and offering external consulting services. We consider it nothing less than our duty to work openly and constructively with employee representatives in relation to all employee concerns. In the past fiscal year we already attained relevant agreements covering the majority of the targeted jobs to be discontinued worldwide, so it appears likely that we will complete the planned reduction over the next months. (Employees worldwide → FIGURE 17)

The reorganization and realignment of our company were also priority issues under IFX10+. The company moved to a new organizational structure at the beginning of the current fiscal year, comprising five divisions focusing on the existing customer and market segments plus stronger central functions and leaner management structures. The resulting adaptation of the personnel structure formed another of the focal points of human resources work as we sought to continue supporting our employees in a constantly evolving working environment. Our employees have shown themselves most willing to adjust to new and more efficient corporate structures and to help mold the future of Infineon. The YIP (Your Idea Pays) program provides an excellent example of this commitment in practice: at Infineon, suggestions as to how we might be more frugal in our use of resources often originate from our workforce. One team from Dresden, for example, came up with the idea of reprocessing test wafers themselves, saving around 3.7 million euros in total while safeguarding jobs. Savings totaling around 100 million euros have been realized worldwide on the basis of the suggestions received.

Capable and committed employees and managers are essential for the effective implementation of IFX10+, as is improved internal communication of the type required for successful change management. In this regard, we are building on our company-wide values *(we commit, we innovate, we partner, we create value)*, which provide the foundation for a healthy, successful and diverse working environment. This ensures that the company remains an equitable place to work and offers equal opportunities to all.

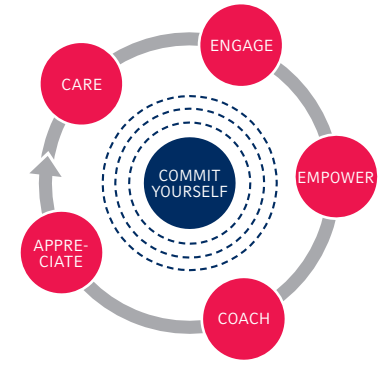
17 EMPLOYEES BY REGION



Infineon's Leadership Practices → FIGURE 18 are intended to create a working environment that respects the individual and to make sure we live up to our social responsibilities. We want our company to be a place where respect and values matter. This builds confidence among employees and customers alike. We also provide jobs that offer the flexibility needed to balance family and career, opportunities for personal and professional development and assistance with building up a pension for retirement, all of which gives our employees good reason to back Infineon through all phases of the economic cycle.

Human resources work also involves managing general labor costs. The objective here is to ensure that remuneration structures are both attractive and commensurate with the value added by the role concerned. Here, too, market conditions have to be taken into account. We see ourselves as a learning community and seek to enhance our employees' skills and capabilities through stimulating and challenging tasks, best practice sharing and targeted opportunities for continuing personal development. We believe that every one of our employees – and not just our engineers and managers – deserves the chance to learn how to do his or her job better and should be developed. Indeed, ultimately such an approach is central to putting the culture of innovation to which Infineon subscribes into practice at every level.

18 LEADERSHIP PRACTICES




FOR THE
CURIOUS
BOOKWORMS
DREAMERS
SINGLES
SMART SHOPPERS
BARGAIN-HUNTERS
THE SALT OF THE EARTH
ATHLETES
ENERGY-SAVERS
LOVERS
GIRLFRIENDS
TOURISTS
ENTHUSIASTS
TRENDSETTERS
HIGH-MILEAGE DRIVERS
AMATEUR CHEFS
EXTENDED FAMILIES
NETWORKERS
TELEPHONE ADDICTS
THE SECURITY-CONSCIOUS
THE LAID-BACK
ENVIRONMENTALISTS
GLOBETROTTERS
FOR
GROWING
MARKETS

INFINEON TECHNOLOGIES
FINANCIAL REVIEW 2008

Contents

Report of the Supervisory Board to the Annual General Meeting

MAX DIETRICH KLEY
Chairman of the Supervisory Board of Infineon Technologies AG

Ladies and Gentlemen,

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

At the ordinary meetings of the Supervisory Board, the Management Board has reported comprehensively on the company's business development, the economic situation of the company and its individual segments, as well as the company's financial and investment planning. In detailed quarterly reports, the Management Board reported to the Supervisory Board on topics such as the economic and financial development of the company over the previous quarter, major business transactions, risk issues, and material lawsuits. The Supervisory Board was also kept fully informed by the Management Board about the business development, financial position and business prospects of Qimonda AG.

In the course of its meetings, the Supervisory Board discussed the information submitted by the Management Board in depth. The Management Board also reported verbally or in writing between meetings on events of particular importance. In individual discussions with the Management Board, the Chairman of the Supervisory Board and the Chairman of the Investment, Finance and Audit Committee were kept continually informed of significant developments and decisions within the company. The Supervisory Board regularly monitored the Management Board's management of the company and supported the Management Board with its advice.

Over the fiscal year, the Supervisory Board convened in four ordinary and three extraordinary meetings. One of the extraordinary meetings took the form of a telephone conference. No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings over the course of the fiscal year ended.

10 11 12 13 14 15 16 17 18 19 20

MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Analysis of the options for reducing the interest in Qimonda and discussion of the business development of Qimonda AG. The Supervisory Board received detailed information from the Management Board about the status of efforts to reduce the interest in Qimonda at all of its ordinary meetings. The Supervisory Board reviewed the options for reducing the interest in Qimonda and discussed them thoroughly with the Management Board. The Chairman of the Supervisory Board also received regular updates from the Chief Executive Officer and Chief Financial Officer between meetings.

The Supervisory Board addressed the business development, financial position and business planning of Qimonda AG in detail in each of its ordinary meetings. To this end, the Supervisory Board agreed explicit requirements with the Management Board in respect of the Management Board's reporting on Qimonda, and also arranged to receive reports from individual members of the Management Board of Qimonda AG.

The Strategy and Technology Committee looked at the issues associated with DRAM technology development and technology conversion at Qimonda AG, and the Investment, Finance and Audit Committee too kept Qimonda under very close observation. The Investment, Finance and Audit Committee also examined and approved the Management Board's proposal to reclassify the interest in Qimonda AG into "Assets held for sale" in the consolidated balance sheet. The committee chairmen reported to the full Supervisory Board on the results of the discussions on these topics in their respective committee. This information was then discussed in detail in the full Supervisory Board.

Reorganization and other measures to improve profitability. The Supervisory Board addressed the actual business position and expected business developments in the Automotive, Industrial & Multimarket (AIM) and Communication Solutions (COM) segments in detail in each of its meetings and received full reports from the relevant members of the Management Board and the Chief Executive Officer.

The Supervisory Board also scrutinized and approved the "IFX 10 Plus" company-wide restructuring program devised by the Management Board. This program is intended to bring about a significant improvement in profitability by reducing manufacturing costs, boosting efficiency throughout the organization and introducing rigorous and consistent portfolio management.

The Supervisory Board supports the reorganization of the old AIM and COM segments and their 14 business areas on October 1, 2008 to create five new Divisions with independent global profit responsibility.

Transactions requiring approval.
The rules of procedure for the Supervisory Board give it responsibility for approving financial and investment plans, including the investment budget, setting limits for financial indebtedness, and approving investments in fixed assets, portfolio investments, financial investments and divestments in cases where a single project exceeds 10% of the applicable total investment budget.

In the context of this approval requirement, the Supervisory Board discussed the financial and investment plans, including the investment budget, for the fiscal year 2008 at its meetings on November 30, 2007 and February 14, 2008 and gave them its approval on February 14, 2008. It also set a borrowing limit as part of this process.

The Management Board reported to the Supervisory Board in detail on the status of efforts to sell Infineon's stake in ALTIS Semiconductor S.N.C. based in Essonnes, France. The Supervisory Board approved this plan in its meeting of November 30, 2007.

In an extraordinary meeting on April 17, 2008, the Supervisory Board received an explanation of the reasons behind the acquisition of Primarion Inc. of Torrance, USA, and gave its approval.

At its meeting on December 11, 2008, the Supervisory Board discussed and approved in principle a loan to Qimonda AG. On December 29, 2008, the Supervisory Board resolved to grant a loan to Qimonda AG in the amount of up to €75 million as part of a financial package for Qimonda AG put together jointly by the Free State of Saxony and Portugal.

CORPORATE GOVERNANCE

As in the previous years, the Supervisory Board regularly reviewed German and international corporate governance rules and their implementation in the company. It discussed the changes to the German Corporate Governance Code agreed by the German government commission in June 2008 at its meeting on December 11, 2008.

At its July 31, 2008 meeting, the Supervisory Board discussed the efficiency of its own work, including its interaction with the Management Board. This discussion was based on the results of a survey of Supervisory Board members conducted using a set of questions designed to address the different elements and factors in the Supervisory Board's tasks. Following on from this analysis, the Management Board and Supervisory Board agreed specifications for the timescales and content of Management Board reports to the Supervisory Board.

The Supervisory Board filed the 2007 Declaration of Compliance, in accordance with Sec. 161 of the German Stock Corporation Act (Aktiengesetz), in November 2007, and the 2008 Declaration of Compliance in December 2008. There was only one discrepancy with respect to the recommendations of the Code to be disclosed in each of the years concerned. This and further details of Infineon's corporate governance are described in detail by the Management Board and Supervisory Board in the Infineon Corporate Governance Report.

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. Material transactions between the company and members of the Management Board or any persons in close association with them require the approval of the Supervisory Board. No conflicts of interest arose among the members of the Management Board and Supervisory Board in the fiscal year 2008. According to the recommendation in Section 4.3.5 of the German Corporate Governance Code, members of the Management Board are not supposed to take up secondary positions, especially supervisory board mandates outside the company, without the approval of the Supervisory Board. In its meeting of December 21, 2007, the Supervisory Board approved the acceptance of an external supervisory board mandate outside the company with the Board of Directors of Autoliv Inc. by Dr. Ziebart.

SUPERVISORY BOARD COMMITTEE REPORT

The Investment, Finance and Audit Committee convened four times over the past fiscal year. The committee's activities focused on the examination of the interim reports, the preliminary auditing of

the financial statements, the discussion of the auditor's report with the auditor, the examination of the finance and investment plans and the discussion of a limit for financial indebtedness. At its meeting of February 6, 2008, the committee approved the Management Board's proposal to change the consolidated financial reporting basis to the International Financial Reporting Standards (IFRS) from October 1, 2008.

The committee's duties also included defining the key areas of auditing in the fiscal year 2008 and monitoring the independence of the auditor. The Chief Financial Officer informed the committee about management's annual assessment of internal controls over financial reporting, as required under Section 404 of the Sarbanes-Oxley Act. This assessment determined that there were no "material weaknesses".

Another important aspect of the committee's work was the discussion of measures concerning the closer monitoring of business development at Qimonda AG. The Management Board gave the committee a full report on Qimonda AG's business development at every meeting, and the committee chairman additionally received regular oral updates from the Chief Executive Officer and Chief Financial Officer between meetings. The committee also intensively discussed the various options for reducing the interest in Qimonda on a number of occasions and made preparations for the discussion of the subject in the full Supervisory Board. Furthermore, at its meeting on December 23, 2008, the committee also addressed the issue of granting a loan to Qimonda AG in connection with the financial package to support Qimonda.

The committee approved the reclassification of the interest in Qimonda AG into "Assets held for sale" in the consolidated balance sheet in its meeting of April 21, 2008. This reclassification was necessary in order to prepare for the disposal and resulting deconsolidation of the interest in Qimonda AG and also focuses the company's reporting on its continuing operations.

The Chairman of the Supervisory Board, Max Dietrich Kley, resigned as chairman of the committee effective November 30, 2007 to comply with the German Corporate Governance Code's suggestion that the Supervisory Board Chairman not simultaneously chair the Audit Committee. Dr. Siegfried Luther was elected as new chairman of the committee.

The **Strategy and Technology Committee** convened four times in the fiscal year ended. This committee concentrated on the following topics:

- the business strategy of the various business areas,
- the company's strategy with respect to the planned commercial introduction of TDSCDMA mobile communication technology in China,
- innovation management along the value chain, and
- DRAM technology development at Qimonda.

The **Executive Committee** did not meet during the last fiscal year. For reasons of expedience, committee members conferred mostly by telephone and passed resolutions subsequently by circulating written proposals. The committee focused on issues such as the granting of stock options to the members of the Management Board. The committee decided that in light of the profitability situation, no stock options should be granted to Management Board members in the fiscal year 2008. The Executive Committee also approved the Management Board contracts of Peter Bauer and Dr. Marco Schröter and an agreement with Dr. Ziebart concerning the resignation of his seat on the Management Board.

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

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

At its meeting of November 30, 2007, the Supervisory Board formed a **Nomination Committee**, following the recommendation of the German Corporate Governance Code. The committee is comprised exclusively of shareholder representatives and will recommend suitable candidates to the Supervisory Board to be recommended by the board at the Annual General Meeting. The Nomination Committee did not meet during the fiscal year ended.

The Supervisory Board decided at its meeting of July 31, 2008 to create a **Special Committee** comprising two shareholder representatives and two employee representatives and to transfer to this committee the authority to approve any sale of Infineon's interest in Qimonda. The sale of the interest in Qimonda is taking longer than originally anticipated by the Supervisory Board for a number of reasons, so the new Special Committee did not meet during the year under review. Committee members did not receive any additional remuneration based on committee membership in the year under review.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Infineon's annual financial statements were again audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, in the year under review. KPMG audited the financial statements of Infineon Technologies AG and the consolidated financial statements of the Infineon Group for the fiscal year ended September 30, 2008, as well as the combined operating and financial reviews (Lagebericht) of Infineon Technologies AG and of the Infineon Group. KPMG has rendered an unqualified auditor's opinion (uneingeschränkter Bestätigungsvermerk) for these documents. The half-yearly financial report and the other quarterly financial reports were also subjected to an auditor's review by KPMG. The consolidated financial statements and operating and financial review were for the first time prepared in accordance with International Financial Reporting Standards (IFRS).

At the end of November 2008, all members of the Supervisory Board received the provisional status of the financial statements, the consolidated financial statements in accordance with IFRS, and the combined operating and financial review (Lagebericht), as well as the consolidated financial statements and combined operating and financial review based on US-GAAP.

At the meeting of the Investment, Finance and Audit Committee on November 27, 2008, as well as at the meeting of the Supervisory Board on December 11, 2008, KPMG reported in detail on the audit of the provisional financial statements. At the meeting of the Supervisory Board on December 11, 2008, the Chairman of the Investment, Finance and Audit Committee outlined the committee's recommendations, and the provisional financial statements were examined thoroughly in the presence of the auditor. In view of the ongoing negotiations with the Free State of Saxony concerning financial support for Qimonda AG, the Supervisory Board approved the Management Board's proposal to postpone the preparation of and the final decision on approval of the financial statements. Moreover, at the meeting on December 11, 2008, the Management Board delivered a detailed report on the scope, key issues and costs of the audit and explained the risk management system.

Following presentation of the final financial statements prepared by the Management Board, the consolidated financial statements in accordance with IFRS, and the combined operating and financial review, as well as of the consolidated financial statements and the combined operating and financial review based on US-GAAP and reports from KPMG on the audit, the Investment, Finance and Audit Committee discussed these documents in detail in the presence of the auditor on December 23, 2008 and a final decision was taken to recommend approval to the Supervisory Board.

The financial statements prepared by the Management Board, the consolidated financial statements in accordance with IFRS, and the combined operating and financial review, as well as the consolidated financial statements based and the combined operating and financial review on US-GAAP were presented to all members of the Supervisory Board, who examined them with a particular emphasis on legal compliance, correctness and fitness for purpose. The KPMG reports on the audit of the financial statements and the consolidated financial statements, as well as on the combined operating and financial review, and the recommendations of the Investment, Finance and Audit Committee were likewise presented to all members of the Supervisory Board. The combined operating and financial review coincided with the Management Board's reports to the Supervisory Board. The Supervisory Board concurs with the statements made concerning the future development of the company. Based on the final result of its examination, the Supervisory Board has no objections to the financial statements or the audit by KPMG. The Supervisory Board confirmed the results of the audit on December 29, 2008 and approved the financial statements and consolidated financial statements of Infineon Technologies AG and of the Infineon Group. The financial statements are thus completed.

MANAGEMENT BOARD CHANGES

At its meeting of December 21, 2007, the Supervisory Board appointed Dr. Marco Schröter to the Management Board and the position of Labor Director for a term of five years. Dr. Schröter succeeded Peter J. Fischl when the latter retired on April 1, 2008. Dr. Wolfgang Ziebart resigned from the Management Board effective June 1, 2008. Peter Bauer's term of office as a member of the Management Board, which was due to end on September 30, 2008, was extended by three years to September 30, 2011. He was also appointed to the position of Chief Executive Officer for the duration of his term of office effective June 1, 2008. We would like to thank Dr. Ziebart and Mr. Fischl for their great commitment to our company.

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

NEUBIBERG, DECEMBER 2008
ON BEHALF OF THE SUPERVISORY BOARD

MAX DIETRICH KLEY
Chairman of the Supervisory Board

FINANCIAL REVIEW 2008
CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE – STANDARDS FOR EFFECTIVE AND RESPONSIBLE CORPORATE MANAGEMENT

Infineon's Management Board and Supervisory Board view Corporate Governance as a comprehensive concept for responsible, value-driven corporate management which includes all values, processes, and goals that are part of our corporate mission. The Management Board, the Supervisory Board and other persons bearing managerial responsibility ensure that the German Corporate Governance Code is actively "lived" in the company. Beyond the German Corporate Governance Code, Corporate Governance at Infineon encompasses internal controlling standards, compliance, in particular the "Business Conduct Guidelines", and regulations on the company's organizational and supervisory tasks. Moreover, Infineon has appointed a Corporate Governance Officer who reports directly to the Management and Supervisory Boards.

GENERAL CONDITIONS IN GERMANY

As a market-listed company headquartered in Germany, Infineon Technologies AG follows, in particular, the requirements of the German Stock Corporation Act (Aktiengesetz) and the German Corporate Governance Code. It is our goal to continue to provide our shareholders and the general public with open and comprehensive information on our company. We intend to support our shareholders as far as possible in the exercise of their rights. Shareholders, for example, can register for our Annual General Meeting electronically, can participate in votes by sending online messages to their voting representatives, and can follow the general debate via the Internet.

CAPITAL MARKET REGULATIONS IN THE UNITED STATES

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

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

MANAGERIAL STRUCTURE AND CORPORATE CONTROL

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

MANAGEMENT BOARD

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

The Management Board is the company's executive body; it is solely bound to serve the company's interests and shall thereby pursue the goal of sustainably increasing the company's value. In compliance with mandatory Ger-

man Stock Corporation Law, it bears the overall responsibility for the management of the company. In accordance with the rules of procedure of the Management Board, all members of the board manage the company jointly.

SUPERVISORY BOARD

The Supervisory Board advises and monitors the Management Board in running the company. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all matters of relevance to business development, planning, and risk management, and agrees with the Supervisory Board on corporate strategy and its implementation. The Supervisory Board discusses the quarterly reports, and reviews and approves both the individual financial statements and the consolidated financial statements of Infineon Technologies AG. Major decisions of the Management Board, such as large acquisitions, divestitures, and financial measures, are subject to the approval of the Supervisory Board. Further details are stipulated in the rules of procedure of the Management Board and the Supervisory Board. The Supervisory Board, moreover, decides about the appointment and dismissal of Management Board members. The Supervisory Board comprises 16 members who, in accordance with the German Co-Determination Act (Mitbestimmungsgesetz), are divided equally among shareholder and employee representatives. Shareholder representatives are elected at the Annual General Meeting; the last election took place in the 2005 fiscal year. The next election will take place in the 2010 fiscal year Employee representatives are elected by employee delegates at Infineon's German facilities in accordance with the regulations of the German Co-Determination Act. The next election already takes place in the 2009 fiscal year. When Supervisory Board votes end in ties, the Chairman of the Supervisory Board has the deciding vote if voting is carried out a second time and again results in a tie.

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

SUPERVISORY BOARD COMMITTEES

The rules of procedure of the Supervisory Board provide for the formation of three committees: The Mediation Committee, the Executive Committee, and the Investment, Finance and Audit Committee. The Supervisory Board has also set up a Strategy and Technology Committee, and, at the beginning of the 2008 fiscal year, a Nomination Committee has been established as recommended by the German Corporate Governance Code. Moreover, at its meeting of July 31, 2008, the Supervisory Board decided to establish a special committee, comprising two shareholder representatives and two employee representatives and to transfer to this committee the authority to approve any sale of Infineon's participation in Qimonda AG.

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

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

The Audit Committee monitors the company's financial reporting, discusses and examines the quarterly and the annual financial statements prepared by the Management Board, and, based on the independent auditor's report, gives recommendations with respect to the approval of the annual financial statements by the Supervisory Board. The committee also oversees the company's system of internal control, and the procedures for risk assessment, risk control, and risk management. For this purpose, it is entitled to refer directly to all company employees and to call in external support. Internal Audit reports regularly to the committee, which can also determine the audit plan and its key areas of auditing. In consideration of the newly introduced stipulations of the German Corporate Governance Code, the responsibility for compliance was also transferred to the Audit Committee; the Corporate Compliance Officer regularly reports to the committee on the compliance system, and, if necessary, on particular compliance issues. The committee, furthermore, commissions the independent auditor selected at the Annual General Meeting to audit the individual financial statements and the consolidated financial statements, determines the audit's areas of focus, and is responsible for determining the independent auditor's compensation. We have also decided that the auditor may be entrusted with consulting work only when so approved by the Audit Committee.

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

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

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

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

FINANCIAL REPORTING AND AUDITING

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

COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Details on the compensation of the Management Board and the Supervisory Board in the 2008 fiscal year are provided in our comprehensive compensation report, which follows on pages 71 through 75 and is to be viewed as a part of the group operating and financial review. The Company entered into a consulting agreement with Prof. Johannes Feldmayer, a member of our Supervisory Board, with a term from March 4 to September 1, 2008. The Supervisory Board approved this agreement. Under the consulting agreement, Prof. Feldmayer provided advice and support to the Management Board with regard to the development of its strategy for reducing its interest in Qimonda under 50 percent as well as its growth strategy for the AIM segment. In addition to the compensation for his membership in the Supervisory Board, Prof. Feldmayer received for his services under the consulting agreement compensation in the total amount of €62,500.00.

THE 2006 INFINEON STOCK OPTION PLAN

The Annual General Meeting adopted the Infineon 2006 Stock Option Plan on February 16, 2006. The absolute performance target was increased to 20 percent from 5 percent in the previous Stock Option Plan. The new relative performance target requires that the Infineon share price exceeds the performance of a benchmark index on at least three consecutive days during the life of the option. The benchmark index used is the PHLX Semiconductor Index (SOX) of the Philadelphia Stock Exchange. The 2006 Infineon Stock Option Plan has a term of three years (in lieu of the former six-year-term). The plan is described in detail in note 27 to the consolidated financial statements and is available in full text on the Internet at → WWW.INFINEON.COM, UNDER "ABOUT INFINEON/INVESTOR/CORPORATE GOVERNANCE".

INTEGRITY

BUSINESS CONDUCT GUIDELINES AND CODE OF ETHICS IN FINANCIAL MATTERS

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

CORPORATE COMPLIANCE OFFICER AND COMPLIANCE PANEL

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

AVOIDANCE OF CONFLICTS OF INTEREST

The members of the Management Board and the Supervisory Board are to disclose any conflicts of interest to the Supervisory Board immediately. Major business transactions between the company and members of the Management Board and any persons in close association with them require the approval of the Supervisory Board. In the 2008 fiscal year, no conflicts of interest concerning the members of the Management Board and the Supervisory Board arose.

SHAREHOLDINGS OF MANAGEMENT AND SUPERVISORY BOARD MEMBERS

As of September 30, 2008, the entire holdings of shares in Infineon Technologies AG of all members of the Management Board and the Supervisory Board did not exceed 1 percent of the shares issued by the company.

DIRECTORS' DEALINGS

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

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

Date of transaction	March 5, 2008
Surname, name	Schmidt, Gerd
Position held	Member of the Supervisory Board
Title	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100
Purchase/Sale	Purchase
Price (per unit)	5.15 euros
Number of units	1,550
Total volume	7,982.50 euros
Transaction location	Frankfurt Stock Exchange (Xetra)

Date of transaction	June 6, 2008
Surname, name	Kley, Monika-Marlene
Position held	Wife of Max Dietrich Kley, Chairman of the Supervisory Board
Title	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100
Purchase/Sale	Purchase
Price (per unit)	5.98 euros
Number of units	8,000
Total volume	47,840 euros
Transaction location	Frankfurt Stock Exchange (Xetra)

DECLARATION OF COMPLIANCE 2008 IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

In the 2008 fiscal year, Infineon Technologies AG complied with all recommendations of the German Corporate Governance Code (in the version of June 14, 2007) in accordance with Section 161 of the Securities Act, with the following exception:

- The structure of the Management Board compensation system was not discussed and reviewed in the Supervisory Board plenum but in the Supervisory Board Executive Committee (divergence from section 4.2.2). For efficiency reasons, the Management Board compensation system was previously discussed in the Supervisory Board Executive Committee. However, we will now comply with the recommendation in section 4.2.2 of the German Corporate Governance Code, i.e. the Supervisory Board plenum will resolve and regularly review the Management Board compensation system.

Infineon Technologies AG will comply with all recommendations of the German Corporate Governance Code (in the version of June 6, 2008) with the following exception:

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

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

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

The declaration of compliance of Qimonda AG, a listed company which is part of the Infineon group, can be accessed via the Internet at → WWW.QIMONDA.COM.

Further information on Infineon's Corporate Governance is available on the Internet at → WWW.INFINEON.COM, UNDER "ABOUT INFINEON/INVESTOR". The current version of the German Corporate Governance Code is published at → WWW.CORPORATE-GOVERNANCE-CODE.DE. The report of the Supervisory Board included in the Infineon annual report gives a detailed overview of the activities of the Supervisory Board and its committees. Information on our risk management is available under "Risk Report". A detailed description of our significant accounting policies is provided in the Notes to the Consolidated Financial Statements.

→ COMPENSATION REPORT, P. 71
→ REPORT OF THE SUPERVISORY BOARD, P. 59
→ RISK REPORT, P. 106
→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, P. 128

Compensation Report

In compliance with legal requirements and the recommendations of the German Corporate Governance Code as amended on June 6, 2008, this report provides information on the principles for determining the compensation of the Management Board and Supervisory Board of Infineon Technologies AG and the amount of compensation paid to the individual members of the Management Board and Supervisory Board.

COMPENSATION OF THE MANAGEMENT BOARD

COMPENSATION STRUCTURE

The Executive Committee of the Supervisory Board, which includes the chairman of the Supervisory Board Max Dietrich Kley, the deputy chairman of the board Gerd Schmidt, and board member Prof. Dr. Martin Winterkorn, is responsible for determining the compensation of the Management Board. The compensation of the members of the Management Board is intended to reflect the Company's size and global presence, its economic condition and performance, and the level and structure of the compensation paid to management boards of comparable companies within Germany and abroad. Additional factors taken into account are the duties, responsibilities and contributions of each member of the Management Board. Their compensation complies with the stipulations of Section 87 of the German Stock Corporation Act and is calculated to be competitive both nationally and internationally and thus to provide an incentive for dedicated and successful work within a dynamic environment. The level of compensation is reevaluated every two years, taking into account an analysis of the income paid to executives of comparable companies.

The compensation of the Management Board comprises the following elements:

- Fixed annual base salary. The non-performance-related annual base salary is contractually fixed. It is partly paid in 12 equal monthly installments, and partly paid as a lump sum at the end of each fiscal year (referred to below as the "Annual Lump Sum").
- Performance-related compensation. The annual bonus is dependent on the return on assets, which we define as earnings before interest and taxes (EBIT) adjusted for exceptional effects, in proportion to capital employed. This ensures that a bonus is earned only if the business develops positively. The annual bonus is determined by the Executive Committee in a two-phase process. In a first step, a target bonus amount is determined from a table agreed in the service agreements on the basis of the return on assets. The Executive Committee subsequently evaluates the personal performance of each individual board member over the past fiscal year, and then determines the actual bonus amount. In addition to the bonus dependent on the return on assets, Management Board contracts provide for a possible special bonus awarded in recognition of special business achievements.
- Infineon Technologies AG stock options. Management Board members are eligible to receive stock options under the 2006 Stock Option Plan approved by the Infineon Technologies AG Shareholders' Annual General Meeting on February 16, 2006, as a variable compensation element with a long-term incentive effect and a risk character. Each stock option guarantees the right to acquire one share at a fixed exercise price. The options are valid for six years and may be exercised only after an initial waiting period of three years and not during specified blackout periods. The exercise price at which a share may be acquired upon exercise of an option is equal to 120 percent of the average Infineon opening prices on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date that the option is granted. The exercise of the options is dependent on the attainment of absolute and relative performance targets. The precondition for the exercise of the option rights is that the Infineon share price on the Frankfurt Stock Exchange in the XETRA trading system equals or exceeds the exercise price on at least one trading day during the option life. Furthermore, the options can only be exercised if the Infineon share price exceeds the performance of the comparative index Philadelphia Semiconductor Index for three consecutive days on at least one occasion during the life of the option. These absolute and relative performance targets serve to ensure that the options are only exercised if the value of the Company significantly increases. The Supervisory Board is responsible for all decisions on granting options to members of the Management Board. In the 2008 fiscal year, no options were granted to members of the Management Board. The main provisions of our 2006 stock option plan are described in note 27 to our consolidated financial statements for the year ended September 30, 2008, and are available in full text on the Internet at → WWW.INFINEON.COM.

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COMPENSATION OF THE MANAGEMENT BOARD IN THE 2008 FISCAL YEAR

In the 2008 fiscal year, the active members of the Management Board received total compensation of €4,920,006. No performance-related bonuses were paid for the 2008 fiscal year.

The individual members of the Management Board who were active in the 2008 fiscal year received the following annual compensation (gross without statutory deductions)[1]:

02 OVERVIEW OF THE TOTAL COMPENSATION
IN €

Management Board member	Fiscal year	Cash compensation	Stock-based compensation[2]	Total compensation
Peter Bauer (CEO)	2008	1,089,614	—	1,089,614
	2007	920,146	203,000	1,123,146
Prof. Dr. Hermann Eul	2008	914,457	—	914,457
	2007	729,815	203,000	932,815
Peter J. Fischl (until March 31, 2008)	2008	515,933	—	515,933
	2007	1,027,130	304,500	1,331,630
Dr. Reinhard Ploss	2008	720,859	—	720,859
	2007	235,659	—	235,659
Dr. Marco Schröter (as of April 1, 2008)	2008	584,757	—	584,757
	2007	—	—	—
Dr. Wolfgang Ziebart (until May 31, 2008)	2008	1,094,386	—	1,094,386
	2007	1,636,828	406,000	2,042,828
Total	2008	4,920,006	—	4,920,006
	2007	4,549,578	1,116,500	5,666,078

1 Each in accordance with the duration of membership on the Management Board during the respective fiscal year.
2 This amount includes the fair value of the stock options granted in the respective fiscal year.

CASH COMPENSATION

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

03 CASH COMPENSATION
IN €

		Non-performance-related compensation Annual Base Salary[1]			
Management Board member	Fiscal year	Amount paid in monthly installments	Annual lump sum	Other[2]	Total cash compensation
Peter Bauer (CEO)	2008	533,333	533,333	22,948	1,089,614
	2007	367,500	532,500	20,146	920,146
Prof. Dr. Hermann Eul	2008	450,000	450,000	14,457	914,457
	2007	358,333	358,333	13,149	729,815
Peter J. Fischl (until March 31, 2008)	2008	200,000	300,000	15,933	515,933
	2007	400,000	600,000	27,130	1,027,130
Dr. Reinhard Ploss	2008	350,000	350,000	20,859	720,859
	2007	116,667	116,667	2,325	235,659
Dr. Marco Schröter (as of April 1, 2008)	2008	250,000	250,000	84,757	584,757
	2007	—	—	—	—
Dr. Wolfgang Ziebart (until May 31, 2008)	2008	533,333	533,333	27,720	1,094,386
	2007	800,000	800,000	36,828	1,636,828
Total	2008	2,316,666	2,416,666	186,674	4,920,006
	2007	2,042,500	2,407,500	99,578	4,549,578

1 Each in accordance with the duration of membership on the Management Board during the respective fiscal year.
2 The compensation included under "Other" comprises primarily the monetary value of the provision of a company car and insurance contributions, and, in the case of Dr. Schröter, the reimbursement of expenses for the maintenance of double residence.

STOCK-BASED COMPENSATION

In the 2008 fiscal year, no stock options were granted to members of the Management Board (in the previous year, 550,000 stock options with a fair value at the grant date totaling €1,116,500 were granted to the members of the Management Board). In the 2008 fiscal year, no member of the Management Board exercised stock options.

COMMITMENTS TO THE MANAGEMENT BOARD UPON TERMINATION OF EMPLOYMENT

ALLOWANCES AND PENSION ENTITLEMENTS IN THE 2008 FISCAL YEAR

The pension agreement with Dr. Wolfgang Ziebart provided for a monthly pension payment equal to 70 percent of his last monthly base salary. The other members of the Management Board are contractually entitled to a fixed pension payment, which increases by €5,000 (and in the case of Mr. Bauer by €10,000) annually until a maximum amount is attained. In accordance with U.S. GAAP, a total of €3,137,082 was added to pension reserves in the 2008 fiscal year (previous year: €3,146,830). Upon termination of membership in the Management Board, pension entitlements normally begin from age 60 at the earliest. Exceptions are provided for in cases such as departures from the board for health reasons and surviving dependents' pensions. Our agreements with Dr. Ziebart and Mr. Bauer deviate from this model, and each is entitled to a pension before age 60 if his contract is not renewed (the monthly pension of Dr. Ziebart will commence as of September 1, 2009), provided that there is no good cause for a revocation of the appointment in accordance with section 84, paragraph 3 of the German Stock Corporation Act. In such a case, however, his income from other employment and self-employed activities would be set off against up to one half of his pension entitlements.

The following overview represents the annual pension entitlements, as of the beginning of retirement, for Management Board members active in the 2008 fiscal year, on the basis of the entitlements vested through September 30, 2008.

04 PENSION ENTITLEMENTS
IN €

Management Board member	Pension entitlements (annual) as of beginning of pension period	Maximum amount	Transfer to pension reserves in fiscal year 2008 (US-GAAP)
Peter Bauer (CEO)	280,000[1]	400,000	226,778
Prof. Dr. Hermann Eul	200,000	270,000	175,369
Peter J. Fischl	350,000	350,000	475,576
Dr. Reinhard Ploss	170,000	210,000	169,488
Dr. Marco Schröter	250,000	350,000	—
Dr. Wolfgang Ziebart	560,000	560,000	2,089,871
Total	1,810,000		3,137,082

1 Mr. Bauer's pension entitlement was increased effective October 1, 2008 to €280,000.

The contracts of Dr. Ziebart and Mr. Bauer, furthermore, allow for a one-time transitional allowance upon termination of employment. This transitional allowance is equivalent to one year's income, composed of the last 12 basic monthly installments, and a sum amounting to the average of the bonus sums received over the last three fiscal years prior to termination. There is no right to the payment of a transitional allowance in the event of termination by a member of the Management Board not prompted by the company, and if the company has good cause for the termination. Accordingly, Dr. Ziebart is entitled to a one-time transitional allowance, which is payable on August 31, 2009.

EARLY TERMINATION OF EMPLOYMENT

The contracts with the members of our Management Board include change-of-control clauses: A change-of-control within the meaning of this clause occurs when a third party, individually or in cooperation with another party, holds 30 percent of voting rights in Infineon Technologies AG as stipulated by section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz). In case of such a change-of-control, the Management Board members have the right to resign and terminate their contracts within a period of 12 months after the announcement of a change of control if the exercise of their office and the fulfillment of their service contract become unacceptable, due, for example, to considerable restrictions in their areas of responsibility.

In such an event, board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of two years. This amount is based on the annual target income for the year of termination and the variable components assuming a return on assets of 6 percent. In the event of a termination of the contract by Infineon Technologies AG within 12 months after the announcement of a change of control, the members of the Management Board are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of three years. The Management Board members' pension entitlements remain unaffected. These rights in the event of a change of control, however, only exist if there is no serious breach of duty.

Management Board contracts do not generally provide for severance payments in the event of an early termination of contract.

FRINGE BENEFITS AND OTHER AWARDS IN THE 2008 FISCAL YEAR

- The members of the Management Board received no fringe benefits besides the elements listed under "Other" in the compensation table.
- We do not provide loans to the members of the Management Board.
- The members of the Management Board received no compensation or promise of compensation with regard to their activities on the Management Board from third parties in the 2008 fiscal year.
- We maintain directors' and officers' group liability insurance (D&O insurance). The insurance policy covers the personal liability risk in the event of claims made against members of the Management Board for indemnification of losses incurred in the exercise of their duties. Each member of the Management Board has agreed to an adequate deductible (which constitutes a deductible as defined by the German Corporate Governance Code, clause 3.8, paragraph 2).

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE 2008 FISCAL YEAR

Former members of the Management Board received total payments of €916,896 (severance and pension payments) in the 2008 fiscal year. This includes the compensation paid to Dr. Ziebart starting June 2008 in the amount of €624,396 as stipulated under his employment contract.

According to U.S. GAAP, a total of €2,194,127 was added to pension reserves during the 2008 fiscal year for current pensions and entitlements to pensions by former Management Board members. Furthermore, pension reserves for active members of the Management Board in the amount of €13,514,299 were reclassified into pension reserves for former members of the Management Board; as of September 30, 2008, these pension reserves amount to €26,190,751.

COMPENSATION OF THE SUPERVISORY BOARD

COMPENSATION STRUCTURE

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

- fixed compensation of €25,000 per year
  and
- a variable element in the form of 1,500 share appreciation rights per annum, which are granted and may be exercised on the same terms as provided for by the Infineon Stock Option Plan 2006 approved by the Shareholders' Annual General Meeting, which is valid in the fiscal year in which these rights are granted. These share appreciation rights, however, do not entitle the holder to purchase shares but only to a settlement in cash. The share appreciation rights expire six years from the date of grant, and can be exercised only following a waiting period of three years. The exercise price per share appreciation right amounts to 120 percent of the average Infineon opening price on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date the respective share appreciation right is granted. The exercise of share appreciation rights is dependent on the attainment of absolute and relative performance targets as stipulated in the 2006 Stock Option Plan. The basic principles of our 2006 Stock Option Plan are described in note 27 to the consolidated financial statements for the year ended September 30, 2008 and are available in full text on the Internet at → WWW.INFINEON.COM.

Additional compensation is paid for certain functions on the Supervisory Board. The Chairman of the Supervisory Board receives an additional 100 percent of the fixed compensation. Furthermore, each Vice-Chairman and each other member of a Supervisory Board committee,

with the exception of the Nomination Committee and the Mediation Committee, receives an additional 50 percent of their fixed compensation.

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

COMPENSATION OF THE SUPERVISORY BOARD IN THE 2008 FISCAL YEAR

In the 2008 fiscal year, the members of the Supervisory Board waived their share appreciation rights. The Supervisory Board compensation otherwise remained unchanged from the previous year. The individual members of the Supervisory Board received the following cash compensation (excluding 19 percent VAT), in the 2008 fiscal year:

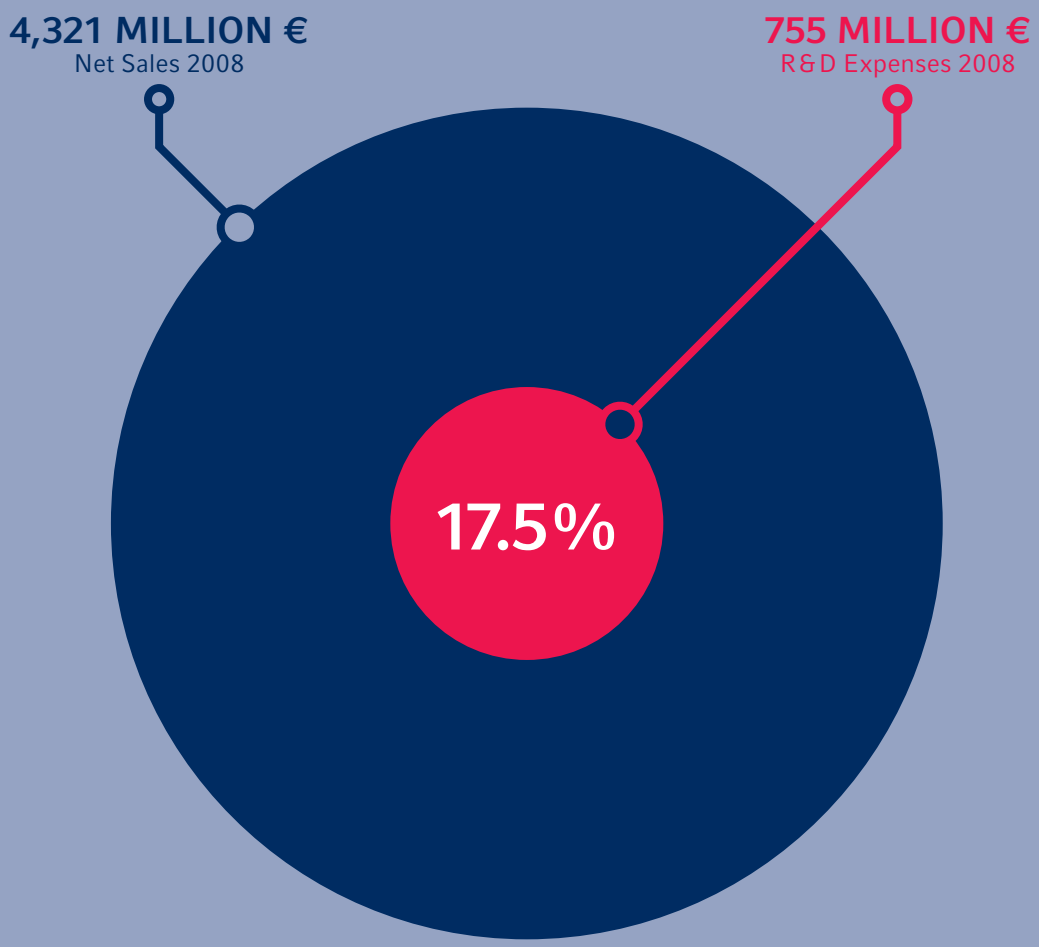
05 COMPENSATION OF THE SUPERVISORY BOARD IN THE 2008 FISCAL YEAR
IN €

Supervisory Board member	Base compensation	Additional compensation for special functions	**Total payment**
Max Dietrich Kley	25,000	25,000	50,000
Wigand Cramer	25,000	—	25,000
Alfred Eibl	25,000	12,500	37,500
Prof. Johannes Feldmayer	25,000	—	25,000
Jakob Hauser	25,000	12,500	37,500
Gerhard Hobbach	25,000	—	25,000
Prof. Dr. Renate Köcher	25,000	—	25,000
Dr. Siegfried Luther	25,000	12,500	37,500
Michael Ruth	25,000	—	25,000
Gerd Schmidt	25,000	12,500	37,500
Prof. Dr. Doris Schmitt-Landsiedel	25,000	12,500	37,500
Kerstin Schulzendorf	25,000	—	25,000
Dr. Eckart Sünner	25,000	—	25,000
Alexander Trüby	25,000	12,500	37,500
Prof. Dr. Martin Winterkorn	25,000	12,500	37,500
Prof. Dr.-Ing. Klaus Wucherer	25,000	12,500	37,500
Total	400,000	125,000	525,000

OTHER

- We do not provide loans to the members of the Supervisory Board.
- We maintain a directors' and officers' group liability insurance (D&O insurance). The insurance covers the personal liability risk in the event of claims made against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties. Each member of the Supervisory Board has agreed to an adequate deductible (which constitutes a deductible as defined by the German Corporate Governance Code, section 3.8, paragraph 2).

FINANCIAL STATEMENTS 2008
OPERATING AND FINANCIAL REVIEW



Operating and Financial Review for the 2008 Fiscal Year

IMPORTANT NOTE

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

This report combines the operating and financial review of Infineon Technologies AG and subsidiaries ("Infineon" or "the Company") with the operation and financial review of the stand-alone entity Infineon Technologies AG. Effective May 1, 2006, substantially all of the memory products-related assets and liabilities, operations and activities of the Company were contributed to Qimonda AG ("Qimonda"), a standalone legal company. References in these financial statements to "Infineon Logic" refer to the Company excluding Qimonda.

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

OVERVIEW OF THE 2008 FISCAL YEAR

In our 2008 fiscal year, which ended September 30, the global economy slowed substantially compared with our prior fiscal year. This slow-down was intensified by the deepening crisis in financial markets, by major corrections in housing markets in a number of major economies, and by surges in commodity prices. Global semiconductor market growth was in the low single-digits compared to market volume in the prior fiscal year.

The following were the key developments in our business during the 2008 fiscal year:

FINANCIAL RESULTS

- Despite unfavorable currency exchange rates and pricing pressure, we were able to increase overall net sales in our logic segments during the 2008 fiscal year. Net sales in our Automotive, Industrial & Multimarket segment declined slightly. This resulted mainly from the deconsolidation of our high power bipolar business in the first quarter of the 2008 fiscal year as a consequence of the formation of a joint venture with Siemens AG ("Siemens") and the sale of our hard disk drive ("HDD") business to LSI Corporation ("LSI"). Excluding these effects, and despite significant pricing pressure, this segment experienced slightly increased net sales in the 2008 fiscal year. Furthermore, during the 2008 fiscal year, net sales of our Communication Solutions segment increased strongly, driven mainly by the wireless business. Overall, net sales of our combined logic segments increased by 6 percent, from €4,074 million in the 2007 fiscal year to €4,321 million in the 2008 fiscal year.
- During the quarter ended March 31, 2008, we committed to a plan to dispose of Qimonda. The results of Qimonda are reported as discontinued operations in our company's consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the consolidated balance sheets for all periods presented. Following this reclassification, Qimonda has been remeasured to its current fair value less costs to sell for each period thereafter, resulting in write-downs of €1,303 million, which have been recorded in "Loss from discontinued operations, net of tax". With this reclassification, the individual line items in Infineon's consolidated statements of operations, including "Net sales", reflect Infineon's continuing operations without

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Qimonda for all periods presented. All results relating to Qimonda are reported in the line item "Loss from discontinued operations, net of tax" for all periods presented. In addition, earnings per share and the statements of cash flows differentiate between "continuing" and "discontinued" operations for all periods presented.

- Earnings before interest and taxes ("EBIT") in our Automotive, Industrial & Multimarket segment improved primarily as a result of the sale of 40 percent of our high power bipolar business to, and the formation of a joint venture with Siemens, as well as the disposal of the HDD business. EBIT of our Automotive, Industrial & Multimarket segment was negatively impacted by production equipment impairment charges. Excluding these effects, EBIT of this segment remained stable in the 2008 fiscal year. In our Communication Solutions segment, EBIT continued to improve mainly driven by the sales increase. EBIT for our combined logic segments in the 2008 fiscal year was negative €48 million compared to positive €37 million in the 2007 fiscal year, and was negatively impacted by restructuring and impairment charges in particular, which were only partly offset by gains from the sale of businesses.
- The extreme pricing pressure experienced in the memory products industry during the last year resulted in Qimonda incurring significant losses, which are reflected in "Loss from discontinued operations, net of tax" in our consolidated statements of operations. These losses and the write-downs recorded during the 2008 fiscal year to re-measure Qimonda to its current fair value less costs to sell had a material negative impact on our results of operations. Our net loss increased from €368 million in the 2007 fiscal year to €3,122 million in the 2008 fiscal year. On December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package includes a €150 million loan from the German Free State of Saxony, a €100 million loan from a state bank in Portugal and a €75 million loan from us. In addition to this financing package, Qimonda has announced that it expects to receive guarantees totaling €280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda has announced that it is already in advanced negotiations regarding the financing of €150 million. The availability of the total financing package is contingent upon successful completion of the relevant state, federal and European Commission approval procedures as well as final agreement on the detailed terms and conditions of the transaction.

→ RECENT DEVELOPMENTS RELATED TO QIMONDA.

- Our cash flow provided by operating activities from continuing operations increased from €227 million in the 2007 fiscal year to €535 million in our 2008 fiscal year. Cash flow used in operating activities from discontinued operations was €659 million in the 2008 fiscal year, compared to an inflow of €980 million in the prior year. This decrease of €1,639 million primarily reflects the loss incurred by Qimonda in the 2008 fiscal year. The sum of our cash flows from operating activities (continuing and discontinued operations combined) decreased from €1,207 million provided in the 2007 fiscal year to €124 million used during the 2008 fiscal year.

CORPORATE ACTIVITIES:

- To address rising risks in the current market environment, adverse currency trends and below benchmark margins, we implemented our cost-reduction program "IFX10+" in the third quarter of the 2008 fiscal year. Subsequent to the end of the 2008 fiscal year, and in light of continuing adverse developments in general economic conditions and in our industry, we identified significant further costs savings in addition to those originally anticipated. We expect that this program will result in significant annualized cost savings in the next fiscal year, primarily through measures in the following areas:
  - Product portfolio management to eliminate unprofitable or insufficiently profitable product families and to increase efficiency in research and development ("R&D");
  - Reduction of manufacturing costs and optimization of the value chain;
  - Improved efficiency of processes and tasks in the fields of general and administrative expenses, R&D and marketing and sales;
  - Re-organization of our structure along our target markets. Starting October 1, 2008, our company is organized in five segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions and Wireline Communications; and
  - Reductions in workforce.

During the 2008 fiscal year, we incurred restructuring charges of €181 million, which are primarily related to the IFX10+ cost-reduction program.

- During the 2008 fiscal year, we completed the following two business acquisitions:
  - In October 2007, we acquired the mobility products business of LSI to further strengthen our activities in the field of communications. The acquired business develops semiconductors and software for mobile phone platform solutions.

- In April 2008, we acquired Primarion, Inc., Torrance, California ("Primarion") in order to further strengthen our activities in the field of power management applications. Primarion is among the leaders in designing, manufacturing and marketing digital power ICs for computing, graphics and communication applications.

- During the 2008 fiscal year we completed the following three business disposals:
  - In November 2007, we entered into a joint venture agreement with Siemens, whereby we contributed all assets and liabilities of our high power bipolar business to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar"). Siemens subsequently acquired a 40 percent interest in Bipolar. We realized a gain before tax of €27 million from this transaction.
  - In April 2008, LSI acquired our HDD business, which designs, manufactures and markets semiconductors for HDD devices. We transferred our entire HDD activities, including customer relationships and know-how, to LSI, and we granted LSI a license for intellectual property ("IP"). We realized a gain before tax of €41 million from this sale.
  - In August 2008, we sold our bulk acoustic wave filter business ("BAW") to Avago Technologies Ltd ("Avago") and entered into a supply agreement through December 2009 with Avago. The BAW business designs, manufactures and markets cellular duplexers for N-CDMA and W-CDMA applications and filters for GPS. We realized a gain before tax of €11 million and recorded a deferred gain of €6 million which will be realized over the term of the supply agreement.
- During the third quarter of the 2008 fiscal year, we repurchased a notional amount of €100 million of our convertible subordinated notes due 2010. The repurchase was made out of available cash. These notes were subsequently cancelled.
- In August 2007, we and International Business Machines Corporation, New York, USA ("IBM") signed an agreement in principle to divest our respective shares in ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") via a sale to Advanced Electronic Systems AG ("AES"). As of September 30, 2008, negotiations with AES have not progressed as previously anticipated and could not be completed. Despite the fact that negotiations are ongoing with additional parties, the outcome of these negotiations is uncertain. As a result, we reclassified related assets and liabilities previously classified as held for sale into held and used in the consolidated balance sheet as of September 30, 2008. The reclassification of the disposal group into held and used required an adjustment of €59 million to the carrying amount of the disposal group, which was recorded in income from continuing operations. The disposal group was measured at the lower of its carrying amount before being classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the disposal group been continuously classified as held and used, or the fair value at the date of the reclassification.
- As part of our ongoing efforts to improve our production processes, expand our production capabilities, and improve our cost position, we:
  - continued to invest in our front-end power fabrication facility located in Kulim Hi-Tech Park, Malaysia. The capacity upon completion will be approximately 100,000 wafer starts per month using 200-millimeter wafers. At the end of the 2008 fiscal year aggregate capital expenditures to date were approximately €450 million and production was running at 40,000 wafer starts per month. The facility produces power and logic chips used in industrial and automotive power applications;
  - are currently qualifying products in 65-nanometer technology at several manufacturing partners and have begun to develop products based on 40-nanometer technology, which we currently plan to have manufactured by one of our manufacturing partners; and
  - are proceeding with our development agreements with IBM and its development and manufacturing partners to develop 32-nanometer technology. This agreement builds on the success of earlier joint development and manufacturing agreements.

PRODUCT AND TECHNOLOGY DEVELOPMENTS

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

  Energy Efficiency
  - the introduction of three new families of OptiMOS™ 3 N-channel MOSFETs with breakdown voltages of 40V, 60V and 80V, offering industry-leading performance in such key power conversion matrices as on-state resistance, which enables reductions of power losses of as much as 30 percent in power conversion and management applications, including switched mode power supplies, DC/DC converters and DC motor drives in computers, home appliances, industrial automation systems, telecommunications equipment and such consumer devices as power tools, electric lawnmowers and fans;
  - the introduction of the world's first 900V high voltage power MOSFETs using a charge compensation principle for switched mode power supplies (for example,

PC silverboxes and server power supplies), industry (for example, building and streetlighting) and renewable energy applications (for example, photovoltaic converters);
- the introduction of our new MIPAQ™ family of IGBT modules that offers a very high level of integration enabling highly efficient power inverter designs to be used in uninterruptible power supplies, industrial drives such as compressors, pumps and fans, solar power plants, and air conditioning systems;

Security
- our company's appointment to provide security microcontrollers for the largest contactless microcontroller transportation card project in China in 2008, known as the "Shenzhen Tong" microcontroller cards, which are multi-application cards that can be used as both a ticket in public transportation and for payment in stores;
- the introduction of a 32-bit high-security flash microcontroller designed to bring a significant layer of security and convenience to mobile applications based on NFC (Near Field Communications), which enables new services on mobile devices, such as ticketing, secure banking and loyalty programs, by holding a NFC-enabled mobile phone in front of a contactless terminal;
- the introduction of the new SLM 76 family of security microcontrollers targeting the growing market of machine-to-machine communication (M2M) for various applications, such as utility monitoring, remote alarm systems, car telematics, fleet management and vending machines (stock level checks);

Communications
- the start of volume production of our HSDPA mobile phone platform XMM™6080 to Samsung Electronics Co. Ltd., Seoul, Korea ("Samsung") and another customer. We also introduced a new generation 3G platform family. The new XMM61xx platform family addresses all major 3G market segments from cost efficient HSDPA to high-end HSUPA phones;
- the sampling of our 65-nanometer GSM/GPRS single-chip solution X-GOLD™113 and EDGE single-chip solution X-GOLD™213. Both chips integrate the baseband, RF transceiver, power management unit, and FM radio in a single die; and
- the introduction of XWAY™ ARX168, a single-chip ADSL2+ device with industry-first integrated Gigabit Ethernet support and advanced features to support Internet Protocol Television (IPTV) and wireless transmission rates of over 150 Mbps.

OUR BUSINESS

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

During the 2008 fiscal year, our continuing core business was organized in two segments, our Automotive, Industrial & Multimarket segment and our Communication Solutions segment.
- Our Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.
- Our Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.

Effective October 1, 2008, to better align our business with our target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions and Wireline Communications:
- The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, Infineon offers corresponding system know-how and support to its customers.
- The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial applications and in applications with customer-specific product requirements.
- The Chip Card & Security segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in chip card and security applications.

- The Wireless Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireless communication applications.
- The Wireline Communications segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions focused on wireline access applications.

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

In addition, we currently hold a 77.5 percent interest in Qimonda. Qimonda designs memory technologies and develops, manufactures, and markets a large variety of memory products on a module, component and chip level. During the second quarter of the 2008 fiscal year, we committed to a plan to dispose of Qimonda and classified the assets and liabilities of Qimonda as "held for disposal" for all periods presented.

On December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package includes a €150 million loan from the German Free State of Saxony, a €100 million loan from a state bank in Portugal and a €75 million loan from us. In addition to this financing package, Qimonda has announced that it expects to receive guarantees totaling €280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda has announced that it is already in advanced negotiations regarding the financing of €150 million. The availability of the total financing package is contingent upon successful completion of the relevant state, federal and European Commission approval procedures as well as final agreement on the detailed terms and conditions of the transaction. → RECENT DEVELOPMENTS RELATED TO QIMONDA.

THE SEMICONDUCTOR INDUSTRY AND FACTORS THAT IMPACT OUR BUSINESS

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

CYCLICALITY

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

We attempt to mitigate the impact of cyclicality by investing in manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle.

SUBSTANTIAL CAPITAL AND R&D EXPENDITURES

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The top 10 capital spenders in the industry, according to IC Insights, account for approximately 60 percent of the industry's projected 2008 capital spending budgets. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

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

To reduce total costs, we and Qimonda each intend to share the costs of our respective research and development and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D, as well as manufacturing and foundry partnerships, provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how, and access to additional production capacities. In our logic business, our principal alliances are with IBM, Chartered Semiconductor Manufacturing Ltd., Singapore ("Chartered Semiconductor") and Samsung for CMOS development and manufacturing at 65-nanometer, 45-nanometer, and 32-nanometer process technologies. Further, we have established foundry relationships with United Microelectronics Corporation, Taipei, Taiwan ("UMC") for 130-nanometer and 90-nanometer manufacturing. In the backend field, in August 2008, we, STMicroelectronics NV and STATS ChipPAC Ltd. announced an agreement to jointly develop the next-generation of embedded Wafer-Level Ball Grid Array ("eWLB") technology, based on our first-generation technology, for use in manufacturing future-generation semiconductor packages. This will build on our existing eWLB packaging technology, which we have licensed to our development partners. The new R&D effort, for which the resulting IP will be jointly owned by the three companies, will focus on using both sides of a reconstituted wafer to provide solutions for semiconductor devices with a higher integration level and a greater number of contact elements. In addition, Qimonda has established foundry relationships with partners in Asia, including Winbond Electronics Corp., Taichung, Taiwan ("Winbond"), to increase its manufacturing capacities, and therefore its potential revenues, without investing in additional manufacturing assets.

We expect to continue to increase unit production output through improvements in manufacturing, which is achieved by producing chips with smaller structure sizes (more bits per chip) and by producing more chips per silicon wafer (by using larger wafers). Currently, a substantial portion of our logic capacity is based on 130-nanometer structure sizes. Our 130-nanometer process technology, with up to eight layers of copper metallization, is in full production at several manufacturing sites, including our Dresden facility. Additional 130-nanometer process options have been developed to fulfill the needs of specialty applications. Our 90-nanometer logic technology is in production. We are currently qualifying 65-nanometer technology at several manufacturing partners and have begun to develop products based on 40-nanometer technology which are currently planned to be manufactured initially at one of our manufacturing partners.

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

TECHNOLOGICAL DEVELOPMENT AND COMPETITION

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. Logic products generally have a certain degree of application specification. Although generally less volatile than those for commodity memory products, unit sales prices for logic products typically decline over time as technological developments occur. By contrast, DRAM products are to a large extent commodities. Since most specifications are standardized, customers can switch between suppliers on short notice. This leads to strong competition within the market, especially for standard DRAM products for PC applications, and causes manufacturers to pass cost savings on to their customers in an effort to gain market share.

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

SEASONALITY

Our sales are affected by seasonal and cyclical influences, with sales historically strongest in our fourth fiscal quarter. These short cycles are influenced by longer cycles that are a response to innovative technical solutions from our customers that incorporate our products. The short-term and mid-term cyclicality of our sales reflects the supply and demand fluctuations for the products that contain our semiconductors. If anticipated sales or shipments do not occur when expected, expenses and inventory levels in a given quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

PRODUCT DEVELOPMENT CYCLES

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

ACQUISITION AND DIVESTITURE STRATEGY

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

INTELLECTUAL PROPERTY

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

CHALLENGES THAT LIE AHEAD

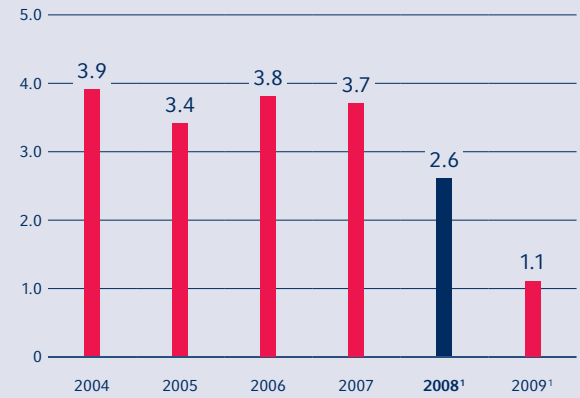
Going forward, our success will remain highly dependent on our ability to stay at the leading edge of technology development, and to continue to optimize our product portfolio. We must achieve both objectives to ensure that we have the flexibility to react to fluctuations in market

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

SEMICONDUCTOR MARKET CONDITIONS IN THE 2008 FISCAL YEAR

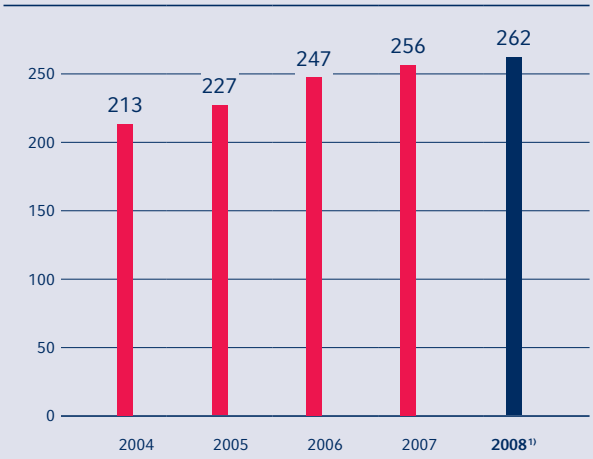
According to WSTS, the global semiconductor market grew by 4 percent through the first nine months of the 2008 calendar year compared to the same period last year, following a growth rate of 3.2 percent in the 2007 calendar year. In November 2008, WSTS predicted a growth rate of 2 percent for the full 2008 calendar year. Sales in North America are expected to decrease by 8 percent and in Europe by 1 percent in the 2008 calendar year, according to WSTS. The semiconductor market in Asia/Pacific (excluding Japan) is expected to increase by 8 percent; the Japanese market is expected to grow by 1 percent. Sales of non-memory products (logic chips, analog, and discretes), which accounted for 81 percent of the entire market in the first nine months of the 2008 calendar year, are predicted to grow by 8 percent compared with the 2007 calendar year. Sales of memory products are predicted to decline by 15 percent compared with the 2007 calendar year.

07 WORLD ECONOMIC GROWTH
IN %



Source: International Monetary Fund; status: November 2008.
1 Estimated.

08 DEVELOPMENT OF SEMICONDUCTOR MARKET
U.S. $ IN BILLIONS



Source: WSTS; status: November 2008.
1 Estimated.

RESULTS OF OPERATIONS

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

09 RESULTS OF OPERATIONS
AS A PERCENTAGE OF NET SALES

For the years ended September 30[1]	2006	2007	2008
Net sales	100.0	100.0	100.0
Cost of goods sold	(68.2)	(66.3)	(65.3)
Gross profit	31.8	33.7	34.7
Research and development expenses	(19.8)	(18.9)	(17.5)
Selling, general and administrative expenses	(12.6)	(12.3)	(13.2)
Restructuring charges	(0.6)	(1.1)	(4.2)
Other operating (expense) income, net	(0.9)	0.5	(1.0)
Operating (loss) income	(2.1)	1.9	(1.2)
Interest expense, net	(1.6)	(1.0)	(0.6)
Equity in (losses) earnings of associated companies, net	(0.1)	—	0.1
Other non-operating (expense) income, net	(1.0)	0.2	(0.3)
Minority interests	(0.2)	(0.3)	0.3
(Loss) income before income taxes, discontinued operations, and extraordinary loss	(5.0)	0.8	(1.7)
Income tax expense	(1.1)	(1.7)	(1.4)
Loss from continuing operations	(6.1)	(0.9)	(3.1)
Loss from discontinued operations, net of tax	(0.4)	(7.3)	(69.1)
Loss before extraordinary loss	(6.5)	(8.2)	(72.2)
Extraordinary loss, net of tax	—	(0.8)	—
Net loss	(6.5)	(9.0)	(72.2)

1 Columns may not add up due to rounding.

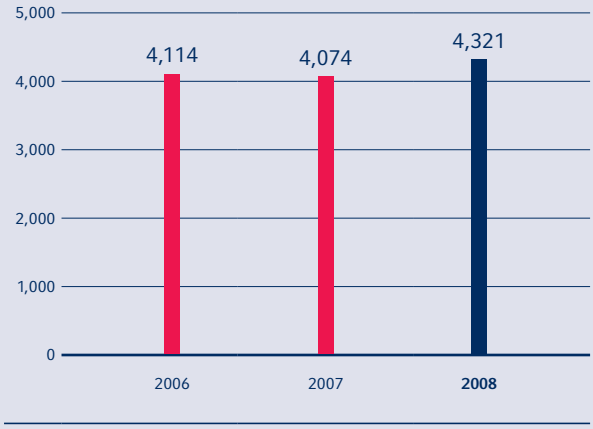
REORGANIZATION

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

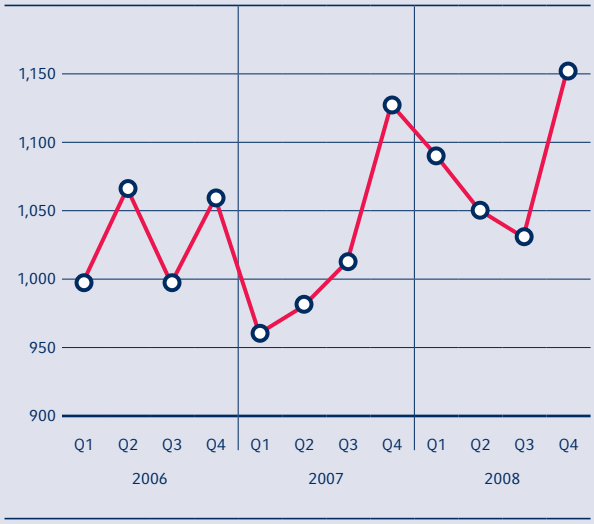
As a result, our company operated primarily in two operating segments during the 2008 fiscal year: Automotive, Industrial & Multimarket, and Communication Solutions. Further, certain of our remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, and new business activities also meet the SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information" definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

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

10 NET SALES
€ IN MILLIONS



11 QUARTERLY NET SALES
€ IN MILLIONS



results of operations for prior periods have been reclassified to be consistent with the revised reporting structure and presentation, as well as to facilitate analysis of current and future operating segment information.

Effective October 1, 2008, to better align our business with our target markets we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions and Wireline Communications. We will report our segment results under this new structure beginning with the first quarter of the 2009 fiscal year.

NET SALES

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

We generated the majority of our product sales in the 2008 fiscal year through our direct sales force, with approximately 22 percent of net sales from our logic segments derived from sales made through distributors.

We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements.

12 NET SALES
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Net sales	4,114	4,074	4,321
Changes year-on-year		(1%)	6%
Of which:			
License income	21	20	54
Percentage of net sales	1%	0%	1%
Effect of foreign exchange over prior year	142	(174)	(271)
Percentage of net sales	3%	(4%)	(6%)
Impact of acquisitions over prior year	40	16	133
Percentage of net sales	1%	0%	3%

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

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

In the 2008 fiscal year, net sales increased primarily as a result of the revenue increase in the wireless business of the Communication Solutions segment, while net sales in our Automotive, Industrial & Multimarket segment slightly decreased. The increase in license income was due to higher license income within our Communication Solutions segment. The strength of the Euro (primarily against the U.S. dollar) during the 2007 and 2008 fiscal years negatively impacted net sales, whereas net sales in the 2006 fiscal year were positively impacted by the effect of foreign exchange rates. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year were applied as a constant rate in the current year. The increase in net sales resulting from business acquisitions since the beginning of the prior year reflects primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition.

Net sales for the 2008 fiscal year include the effect of the mobility products business acquired from LSI starting October 25, 2007, and Primarion starting April 28, 2008. Net sales for the 2007 fiscal year include the effect of the DSL Customer Premises Equipment ("CPE") business acquired from Texas Instruments Inc. ("TI") starting August 1, 2007.

NET SALES BY SEGMENT

Automotive, Industrial & Multimarket

Despite continued segment-wide pricing pressure, we were able to increase net sales in the 2007 fiscal year. The sales growth was mainly driven by continuing strong demand for high power products in industrial applications, an increase of sales for energy efficient devices in industrial and multimarket applications, and increasing demand for government ID applications. In the 2008 fiscal year, net sales of the segment slightly decreased due to the sale of an interest in the bipolar business and formation of a joint venture which is being consolidated under the equity method of accounting effective October 1, 2007, and the sale of the HDD business to LSI in the third quarter of the 2008 fiscal year. Net sales of the remaining businesses increased as higher sales volumes more than offset the continued pricing pressures caused by technological developments and competition. Growth in net sales was driven mainly by continued strong demand for industrial high power applications, an increase in sales of multimarket applications, and a continued growing demand for government ID applications.

13 NET SALES BY SEGMENT
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	%	2007	%	2008	%
Automotive, Industrial & Multimarket	2,839	69	3,017	74	2,963	69
Communication Solutions[1]	1,205	29	1,051	26	1,360	31
Other Operating Segments[2]	310	8	219	5	100	2
Corporate and Eliminations[3]	(240)	(6)	(213)	(5)	(102)	(2)
Total	4,114	100	4,074	100	4,321	100

1 Includes sales of €0, €30 million and €10 million for fiscal years ended September 30, 2006, 2007, and 2008, respectively, from sales of wireless communication applications to Qimonda.
2 Includes sales of €256 million, €189 million and €79 million for fiscal years ended September 30, 2006, 2007 and 2008, respectively, from sales of wafers from Infineon Logic's 200-millimeter facility in Dresden to Qimonda under a foundry agreement.
3 Includes the elimination of sales of €256 million, €219 million and €89 million for fiscal years ended September 30, 2006, 2007 and 2008, respectively, since these sales are not expected to be part of the Qimonda disposal plan.

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Communication Solutions

In the 2007 fiscal year, net sales in the Communication Solutions segment declined primarily due to a continued decrease in net sales in the wireless business mainly driven by the insolvency of BenQ's German subsidiary as well as ongoing pricing pressure that could not be fully offset by increased shipments of complete mobile phone platform solutions to leading customers such as LG, Panasonic, and ZTE. In addition, net sales in the wireline business declined mainly due to lower revenues for digital cordless products and the phase-out of our fiber optics business during the 2006 fiscal year. Net sales in the 2008 fiscal year increased strongly, primarily driven by the wireless business, resulting from a strong increase in mobile phone platform shipments and the consolidation of the mobility products business acquired from LSI. Net sales in the wireline business increased slightly as growth in broadband solutions – mainly driven by the consolidation of the CPE business acquired from TI – was partially offset by declining legacy revenues and negative currency effects.

Other Operating Segments

Net sales in the 2006, 2007 and 2008 fiscal years comprised mainly inter-segment sales of wafers from Infineon Logic's 200-millimeter facility in Dresden to Qimonda under a foundry agreement which are eliminated in the Corporate and Eliminations segment. Effective November 30, 2007, as part of its measure aimed at further focusing its production on 300-millimeter capacities, Qimonda canceled the foundry agreement with Infineon Logic resulting in a significant decline in net sales during the 2008 fiscal year. The last wafers were delivered to Qimonda in May 2008.

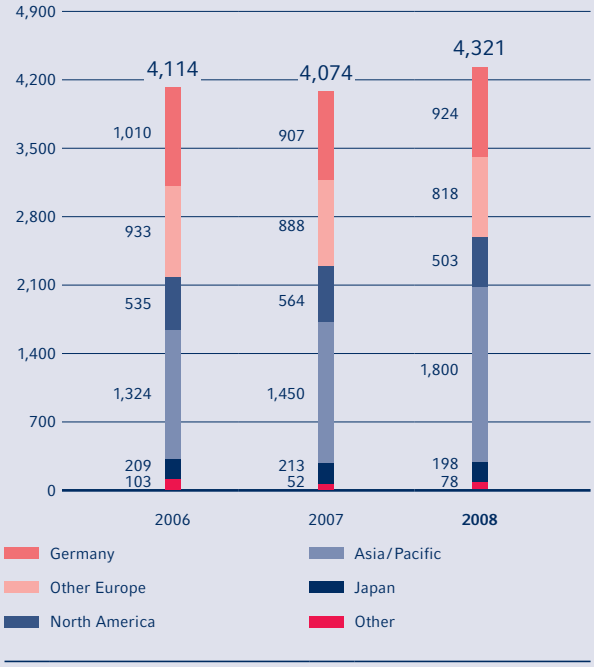
NET SALES BY REGION AND CUSTOMER

Sales decreased in Germany during our 2007 fiscal year primarily due to the insolvency of BenQ's German subsidiary, while sales increased in the Asia/Pacific region driven by higher sales volumes, particularly in the Automotive, Industrial & Multimarket and Communication Solutions segments. The absolute and relative increase in the share of net sales in Asia/Pacific in the 2008 fiscal year was mainly due to the acquisition of the mobility products business from LSI and higher shipments of mobile phone platforms solutions to customers in Asia/Pacific in our Communication Solutions segment.

The net sales in our Automotive, Industrial & Multimarket segment increased in Germany and Asia/Pacific, whereas sales decreased in Other Europe, North America and Japan. The number of customers in this segment grew by more than 10 percent in the 2008 fiscal year. The top 20 customers in this segment accounted for approximately 62 percent of the segment's sales in the 2008 fiscal year.

In the Communication Solutions segment, we have experienced a further shift of net sales from Europe and North America to the Asia/Pacific region in the 2008 fiscal year. Our top 20 customers in this segment accounted for over 70 percent of its net sales in the 2008 fiscal year.

14 NET SALES BY REGION
€ IN MILLIONS



15 NET SALES BY REGION
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	%	2007	%	2008	%
Germany	1,010	25	907	22	924	21
Other Europe	933	23	888	22	818	19
North America	535	13	564	14	503	12
Asia/Pacific	1,324	32	1,450	36	1,800	42
Japan	209	5	213	5	198	4
Other	103	2	52	1	78	2
Total	4,114	100	4,074	100	4,321	100

COST OF GOODS SOLD AND GROSS MARGIN

Our cost of goods sold consists principally of:

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

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

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

We include in cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies. Our purchases from these associated and related companies amounted to €200 million, €47 million, and €148 million in the 2006, 2007 and 2008 fiscal years respectively.

Our gross margin in the 2007 fiscal year increased slightly from the prior year. During the 2008 fiscal year our gross margin further increased primarily as a result of productivity measures.

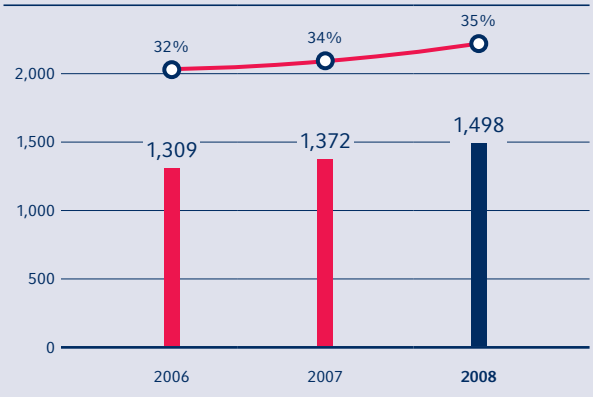
Automotive, Industrial & Multimarket

The gross margin in the 2007 fiscal year remained unchanged from the prior year, as pricing pressure and certain corporate overhead expenses that resulted from the Qimonda carve out were offset by increases in productivity. In the 2008 fiscal year, we were able to slightly increase gross margin by means of measures to increase productivity despite an increase in idle capacity cost.

16 COST OF GOODS SOLD
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Cost of goods sold	2,805	2,702	2,823
Changes year-on-year		(4%)	4%
percentage of net sales	68%	66%	65%
Gross margin	32%	34%	35%

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



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Communication Solutions

In the 2006 fiscal year, gross margin was positively impacted by lower idle capacity costs and the successful implementation of measures to increase productivity, which more than offset the inventory write-downs resulting from the insolvency of BenQ's German subsidiary. In the 2007 and 2008 fiscal years, the gross margin of this segment remained stable.

RESEARCH AND DEVELOPMENT EXPENSES

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

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

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

Automotive, Industrial & Multimarket

In the 2007 fiscal year, R&D expenses remained stable as a percentage of net sales and slightly increased in absolute terms mainly driven by automotive and industrial applications. In the 2008 fiscal year, R&D expenses remained unchanged, both in terms of absolute figures and as a percentage of sales.

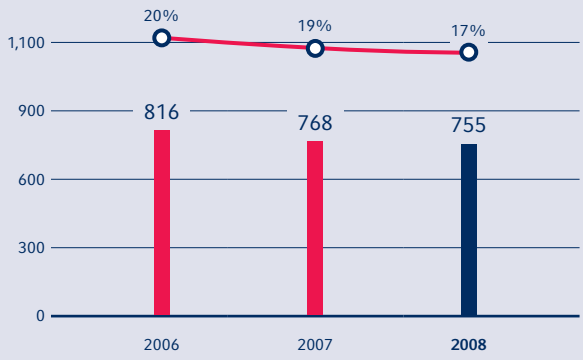
Communication Solutions

In the 2007 fiscal year, R&D expenses continued to decline in absolute terms and remained stable as a percentage of net sales, reflecting the implementation of cost reduction measures in response to the insolvency of BenQ's German subsidiary. In the 2008 fiscal year, R&D expenses remained stable in absolute terms despite the consolidation effect of the acquired activities for DSL customer premises equipment and mobile phone ICs, as efficiency gains and cost reduction measures initiated during the 2007 fiscal year were taking effect for a full fiscal year. As a percentage of sales, R&D expenses in the Communication Solutions segment declined sharply, mainly driven by the revenue increase.

18 RESEARCH AND DEVELOPMENT EXPENSES
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Research and development expenses	816	768	755
Changes year-on-year		(6%)	(2%)
Percentage of net sales	20%	19%	17%
Government subsidies	49	91	62
Percentage of net sales	1%	2%	1%

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



SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

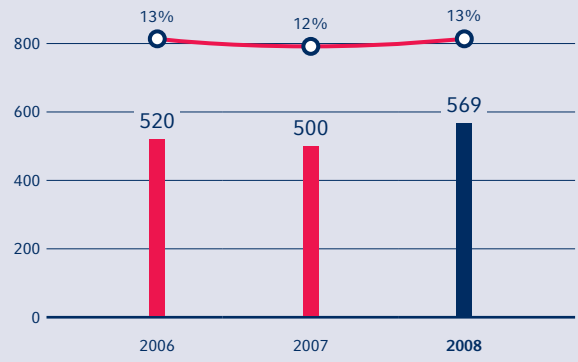
Selling expenses consist primarily of salaries and benefits for personnel engaged in sales and marketing activities, costs of customer samples, other marketing incentives, and related marketing expenses.

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

20 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Selling, general and administrative expenses	520	500	569
Changes year-on-year		(4%)	14%
Percentage of net sales	13%	12%	13%

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



In the 2007 fiscal year, selling, general and administrative expenses decreased in absolute terms as a result of cost saving measures and the non-recurrence of the unusual charges from the 2006 fiscal year. As a percentage of net sales, selling, general and administrative expenses remained broadly unchanged in the 2007 and 2008 fiscal years. The year-on-year increase in absolute terms in the 2008 fiscal year primarily reflects increased selling expenses following the acquisitions of the mobility product business from LSI and the CPE business from TI.

OTHER ITEMS AFFECTING EARNINGS

22 OTHER ITEMS AFFECTING EARNINGS
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Restructuring charges	23	45	181
Percentage of net sales	1%	1%	4%
Other operating expense (income), net	36	(20)	43
Percentage of net sales	(1%)	0%	(1%)
Equity in (losses) earnings of associated companies, net	(2)	—	4
Percentage of net sales	0%	0%	0%
Other non-operating (expense) income, net	(41)	7	(16)
Percentage of net sales	(1%)	0%	0%
Extraordinary loss, net of tax	—	(35)	—
Percentage of net sales	0%	(1%)	0%

Restructuring Charges.

During the 2006 fiscal year, we announced restructuring plans to downsize our workforce at ALTIS and at our chip card back-end activities in order to maintain competitiveness and reduce cost. As part of this and other restructuring measures, we agreed upon plans to lay off approximately 390 employees and recorded restructuring charges in the 2007 fiscal year. During the 2007 fiscal year, we took further restructuring measures, mainly in response to the insolvency of one of our largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. Approximately 280 jobs were affected worldwide, thereof approximately 120 in the German locations Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures were completed during the 2007 fiscal year. The Infineon Complexity Reduction program ("ICoRe") was launched in July 2007, aimed at reducing costs and seeking added efficiencies by optimizing process flows. To address rising risks in the current market environment, adverse currency trends and below benchmark margins, we implemented the IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. The IFX10+ program includes measured target areas including product portfolio management, manufacturing cost reductions, value chain optimization, processes efficiency, reorganization of our structure along our target markets,

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and reductions in workforce. Approximately 10 percent of Infineon Logic's workforce worldwide is expected to be impacted by IFX10+, which resulted in restructuring charges of €166 million in the 2008 fiscal year.

Other Operating (Expense) Income, net.
In the 2006 fiscal year, other operating expense, net consisted mainly of goodwill and intangible assets impairment charges of €32 million which were partly offset by other operating income. In the 2007 fiscal year, other operating income, net consisted primarily of gains of €17 million from the sale of the polymer optical fiber business to Avago, and gains of €3 million from the sale of the Sci-Worx business to Silicon Image Inc. In the 2008 fiscal year, other operating expense, net increased to €43 million and primarily resulted from impairment charges of €130 million. These impairment charges were partly offset by gains from sales of businesses of €79 million, and gains of €4 million resulting from the disposal of long-term assets.

Equity in (Losses) Earnings of Associated Companies, net.
In the 2008 fiscal year, equity in earnings of associated companies, net was €4 million, and primarily reflected our share in the net income of the Bipolar joint venture with Siemens.

Other Non-Operating (Expense) Income, net.
Other non-operating income and expense consists of various items in different periods not directly related to our principal operations, including gains and losses on sales of marketable securities. In the 2006 fiscal year, other non-operating expense, net consisted mainly of €30 million related to net losses from foreign currency derivatives and foreign currency transactions and investment-related impairment charges of €13 million, partly offset by gains from the sale of investments. In the 2007 fiscal year, other non-operating income, net included primarily gains and losses from financial instruments transactions. In the 2008 fiscal year, other non-operating expense, net comprised net losses from financial investments and related impairments charges.

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

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

EBIT of our separate reporting segments were as follows:

23 EBIT
€ IN MILLIONS

For the years ended September 30,	2006	2007	2008
EBIT:			
Automotive, Industrial & Multimarket	240	291	315
Communication Solutions	(234)	(165)	(73)
Other Operating Segments	4	(12)	(3)
Corporate and Eliminations	(146)	(77)	(287)
Total	(136)	37	(48)
Adjust:			
Interest expense, net	(67)	(40)	(26)
Extraordinary loss, net of tax	—	35	—
(Loss) income before income taxes, discontinued operations, and extraordinary loss	(203)	32	(74)

EBIT developments of our reporting segments were as follows:

Automotive, Industrial & Multimarket

In the 2007 fiscal year, EBIT improved due to an increase in net sales despite being negatively impacted by additional corporate expense allocations subsequent to the Qimonda carve out. In addition, a €17 million gain was realized from the sale of our POF business to Avago in June 2007, which also had a positive impact on EBIT in the 2007 fiscal year. In the 2008 fiscal year, EBIT improved mainly due to gains of €68 million realized from the sale of 40 percent of our interest in Bipolar to Siemens and the sale of our HDD business to LSI. These gains were partly offset by impairment charges of €25 million. Furthermore, the negative impact from ongoing pricing pressure could be nearly offset by improvements primarily in the chip card business.

Communication Solutions

In the 2007 fiscal year, EBIT improved despite a decline in net sales, as no significant charges were recognized and further cost reduction measures were successfully implemented. The EBIT improvement in the 2008 fiscal year was mainly driven by the strong increase in revenue and despite the negative impact of currency fluctuations between the U.S. dollar and the Euro. Segment EBIT in the 2008 fiscal year included a write-off of €14 million of acquired in-process R&D in connection with the acquisition of the mobility products business of LSI.

Other Operating Segments

EBIT in the 2008 fiscal year improved as a result of better gross margins.

Corporate and Eliminations

EBIT improved in the 2007 fiscal year mainly due to reduced unabsorbed idle production cost, lower stock option expense, and a revision to accrued personnel costs. EBIT in the 2008 fiscal year decreased significantly primarily as a result of restructuring costs incurred in connection with the IFX10+ program and charges resulting from the reclassification of the ALTIS disposal group into the held and used category.

INTEREST EXPENSE, NET

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

24 INTEREST EXPENSE, NET
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Interest expense, net	(67)	(40)	(26)
Percentage of net sales	(2%)	(1%)	(1%)

Interest expense relates principally to our convertible subordinated notes issued in February 2002 and in June 2003, our exchangeable subordinated notes issued in September 2007 and, to a lesser extent, bank loans and interest on outstanding tax obligations. In February 2007, we redeemed the remaining outstanding principal of the convertible subordinated notes issued in 2002, which resulted in a decrease in interest expense in the 2007 and 2008 fiscal years. The partial repurchase of our convertible subordinated notes due 2010 during the third quarter of the 2008 fiscal year, as well as the amortization of our syndicated credit facility, further contributed to lowering our overall interest expense in the 2008 fiscal year, more than offsetting the impact of coupon payments on our exchangeable subordinated notes issued in September 2007.

INCOME TAXES

25 INCOME TAXES
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2006	2007	2008
Income tax expense	(47)	(69)	(61)
Percentage of net sales	(1%)	(2%)	(1%)
Effective tax rate	(24%)	149%	(68%)

Generally, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2006, 2007 and 2008 fiscal years we continued to have a three-year cumulative loss in certain tax jurisdictions and, accordingly, we recorded increases in the valuation allowance of €161 million, €58 million, and €185 million in those periods, respectively. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX

The results of Qimonda, presented in the consolidated statements of operations as discontinued operations for the 2006, 2007 and 2008 fiscal years, consist of the following components:

26 LOSS FROM DISCONTINUED OPERATIONS
€ IN MILLIONS

For the years ended September 30,	2006	2007	2008
Net sales	3,815	3,608	1,785
Costs and expenses	(3,719)	(3,894)	(3,324)
Loss on measurement to fair value less costs to sell	—	—	(1,303)
Income (loss) from discontinued operations, before tax	96	(286)	(2,842)
Income tax expense	(114)	(10)	(145)
Loss from discontinued operations, net of tax	(18)	(296)	(2,987)

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

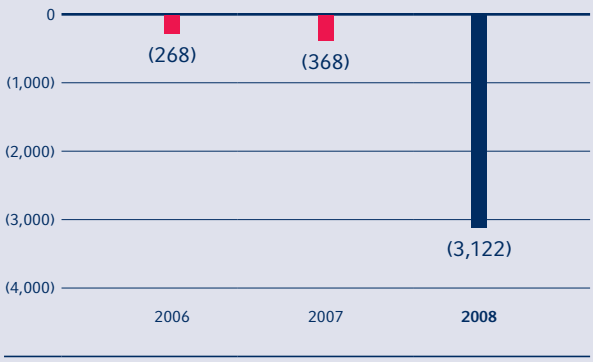
Cost and expenses of Qimonda decreased by €570 million from €3,894 million in the 2007 fiscal year to €3,324 million in the 2008 fiscal year, mainly as a result of a decrease in cost of goods sold. This decrease was partly offset by restructuring charges, impairment charges and higher R&D expenses primarily related to Qimonda's efforts in the new Buried Wordline technology for 65-nanometers and 46-nanometers. Restructuring expenses of Qimonda during the 2008 fiscal year related mainly to the relocation of the back-end production in Malaysia, the combination of the research centers in North America, a comprehensive cost reduction program, the shutdown of our Flash activities in Italy and a global repositioning program. During the 2008 fiscal year, Qimonda recognized

impairment charges for goodwill and for long-lived assets of the Richmond 200-millimeter facility. Additionally, as a result of Qimonda's agreement to sell its 35.6 percent interest in Inotera Memories Inc. ("Inotera") to Micron Technology, Inc. for US$400 million, Qimonda recognized impairment charges to reduce the carrying value of its investment in Inotera to the sales price less costs to sell.

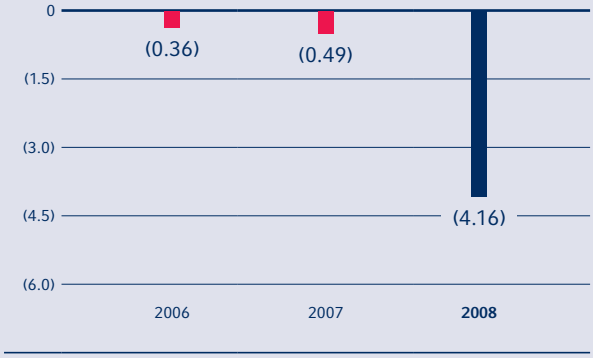
NET LOSS

In the 2006 fiscal year, the net loss incurred primarily reflected charges resulting from allowances recorded in response to the insolvency of BenQ's German subsidiary, losses recognized in connection with the initial public offering of Qimonda, and the settlement of litigation. In addition, in the 2006 fiscal year we began to recognize the fair value of employee stock options in earnings, which further contributed to the net loss. In the 2007 fiscal year, the most significant factor contributing to the increase in net loss was the significant deterioration of results from discontinued operations, net of tax, primarily due to Qimonda's net loss, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and consequently a significant decrease in Qimonda's gross margin. Net loss from discontinued operations in the 2007 fiscal year also included an €84 million loss from the sale of 28.75 million Qimonda ADSs. Restructuring charges of €45 million, and the extraordinary loss of €35 million resulting from the consolidation of Molstanda also contributed to the net loss in the 2007 fiscal year. In the 2008 fiscal year, the increase in net loss was primarily due to the increase in losses from discontinued operations, resulting from our share in Qimonda's net loss, and the write-downs of €1,303 million to reduce Qimonda to its estimated current fair value less costs to sell. Furthermore, restructuring charges of €181 million, primarily related to the IFX10+ program, and impairment charges, contributed to the net loss in the 2008 fiscal year.

27 NET LOSS
€ IN MILLIONS



28 LOSS PER SHARE
IN €



FINANCIAL CONDITION

29 FINANCIAL CONDITION
€ IN MILLIONS, EXCEPT PERCENTAGES

For the years ended September 30,	2007	2008	Change year-on-year
Current assets	8,491	4,773	(44%)
thereof: assets held for disposal	5,653	2,224	(61%)
Non-current assets	2,262	2,310	2%
Total assets	10,753	7,083	(34%)
Current liabilities	3,468	3,643	5%
thereof: liabilities held for disposal	1,897	2,091	10%
Non-current liabilities	1,338	1,219	(9%)
Total liabilities	4,806	4,862	1%
Minority Interests	1,033	457	(56%)
Shareholders' equity	4,914	1,764	(64%)

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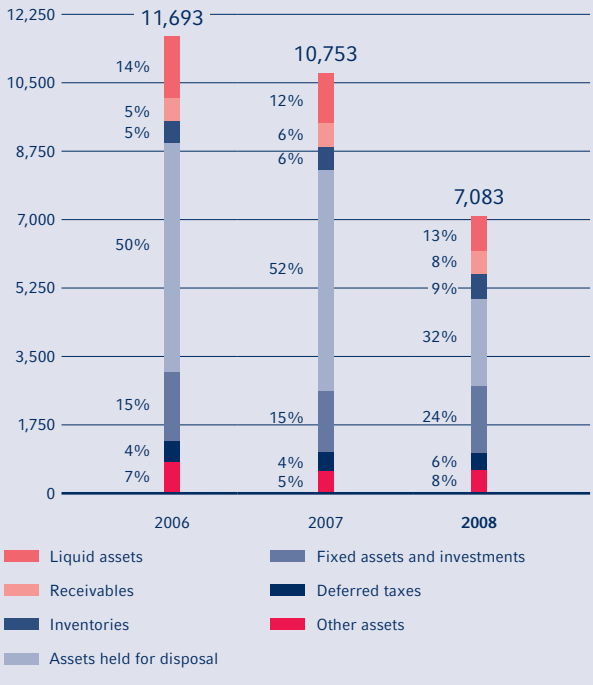
As of September 30, 2008, our total assets and current assets decreased in comparison to the prior year end, primarily due to a decrease in current assets of 44 percent, or €3,718 million. This decrease primarily related to a decrease in assets held for disposal of €3,429 million, primarily due to the write-down to reduce Qimonda to its estimated current fair value less costs to sell. The remaining decrease in assets held for disposal primarily relates to changes at Qimonda. Our gross cash position, representing cash and cash equivalents and marketable securities from continuing operations, decreased from €1,283 million by €391 million as of September 30, 2007, to €892 million as of September 30, 2008. This decrease was incurred as cash used in investing activities from continuing operations and cash used in financing activities from continuing operations were higher than cash provided by operating activities. In addition, cash and cash equivalents and marketable securities in the amount of €121 million were reclassified to other current assets as of September 30, 2008.

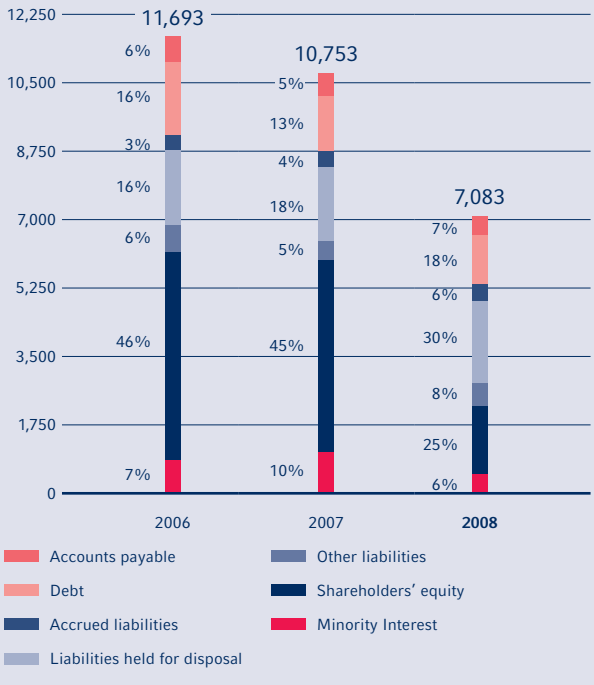
As of September 30, 2008, non-current assets increased slightly compared to prior year end, resulting primarily from an increase in intangible assets, which resulted from the acquisition of the mobility product business from LSI and the purchase of Primarion. This increase was despite the reclassification of ALTIS partly offset by the decrease of property, plant and equipment, net as capital expenditures were more than offset by depreciation, amortization and impairment charges during the 2008 fiscal year.

Total liabilities increased as of September 30, 2008 compared to September 30, 2007 by €56 million. The increase reflects an increase of current liabilities of €175 million, primarily resulting from an increase of liabilities held for disposal and other current liabilities. The increase in other current liabilities mainly relates to liabilities in connection with the IFX10+ program. This increase was partly offset by decreases in short-term debt and current maturities of long-term debt, and trade accounts payable.

30 ASSETS
€ IN MILLIONS



31 LIABILITIES AND EQUITY
€ IN MILLIONS



The increase of current liabilities was partly offset by the decrease of non current liabilities of €119 million, primarily resulting from a decrease of long-term debt of €98 million as we repurchased convertible subordinated notes due 2010 with a notional amount of €100 million during the 2008 fiscal year. Furthermore, deferred income taxes decreased as of September 30, 2008 compared to the prior year end by €20 million.

The decrease in minority interests resulted primarily from the minority's share of Qimonda's net loss.

Total Shareholder's equity decreased by €3,150 million as of September 30, 2008, primarily as a result of the net loss incurred in the 2008 fiscal year.

FINANCIAL RATIOS

In the 2008 fiscal year, the net loss incurred was primarily the result of Qimonda's operating losses and the recorded write-down in order to remeasure Qimonda to its current fair value less cost to sell. Accordingly, our equity and total assets decreased significantly. This resulted in significant decreases in non-current asset intensity, current asset intensity, equity ratio, return on equity, return on assets and equity-to-fixed assets ratio.

In the 2008 fiscal year, lower net capital expenditures in property, plant and equipment resulted in an increase in our degree of wear of fixed assets and a decrease in our depreciation rate of fixed assets.

The debt-to-equity ratio significantly increased in the 2008 fiscal year due to the equity decrease. In the 2007 fiscal year the debt-to-equity ratio had decreased due to the redemption of the remaining outstanding principal amount of €640 million of convertible subordinated notes issued in 2002, partially offset by the issuance of €215 million in exchangeable subordinated notes due in 2010.

32 FINANCIAL RATIOS

For the years ended September 30,	2006	2007	2008
Non-current asset intensity[1]	21%	21%	33%
Current asset intensity[2]	79%	79%	67%
Degree of wear of fixed assets[3]	78%	79%	81%
Depreciation rate of fixed assets[4]	8%	8%	7%
Inventory intensity[5]	5%	6%	9%
Inventory turnover[6]	5.0	4.6	4.5
Inventory turnover in days[7]	49	52	53
Days sales outstanding[8]	49	53	50
Equity ratio[9]	45%	46%	25%
Return on equity[10]	(5%)	(7%)	(94%)
Return on assets[11]	(2%)	(3%)	(35%)
Equity-to-fixed-assets ratio[12]	316%	336%	135%
Debt-to-equity ratio[13]	35%	29%	71%

The aforementioned financial condition ratios are calculated as follows:
1 Non-current asset intensity = non-current assets/total assets
2 Current asset intensity = current assets/total assets
3 Degree of wear of fixed assets = accumulated depreciation on fixed assets/historical costs of fixed assets at the end of the fiscal year
4 Depreciation rate of fixed assets = annual depreciation of fixed assets/historical costs of fixed assets at the end of the fiscal year
5 Inventory intensity = inventory/total assets
6 Inventory turnover = Cost of goods sold/average inventory
7 Inventory turnover in days = average inventory × 360 days/annual net sales
8 Days sales outstanding = average accounts receivable × 360 days/annual net sales
9 Equity ratio = equity/total assets
10 Return on equity = net income (loss) for the year/average equity
11 Return on assets = net income (loss) for the year/average total assets
12 Equity-to-fixed-assets ratio = equity/property, plant and equipment
13 Debt-to-equity ratio = (short-term debt + long-term debt)/equity
The average of a balance sheet position is calculated as the arithmetic average of the amount as of the balance sheet dates of the current and the prior years.

LIQUIDITY

CASH FLOW

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

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

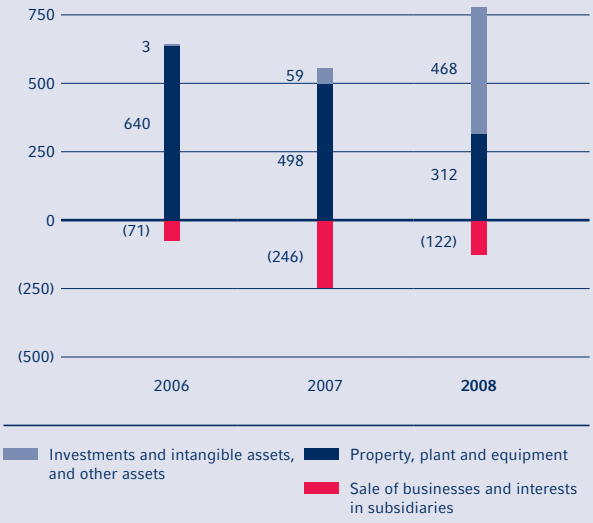
33 CASH FLOW
€ IN MILLIONS

For the years ended September 30,	2006	2007	2008
Net cash provided by operating activities from continuing operations	677	227	535
Net cash used in investing activities from continuing operations[1]	(52)	(20)	(620)
Net cash used in financing activities from continuing operations	(11)	(214)	(230)
Net increase (decrease) in cash and cash equivalents from discontinued operations	298	(174)	(318)
Net increase (decrease) in cash and cash equivalents	912	(181)	(633)

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

Cash provided by operating activities from continuing operations was €535 million in the 2008 fiscal year, and reflected mainly the loss from continuing operations of €135 million, which is net of non-cash charges for depreciation and amortization of €542 million, impairment charges of €135 million and a €14 million charge for in-process R&D acquired from LSI. Also included in loss from continuing operations were gains from sales of businesses of €79 million. Cash provided by operating activities from continuing operations was negatively impacted by the changes in operating assets and liabilities of €44 million, primarily resulting from an increase in other current assets of €77 million.

34 INVESTMENTS/DISPOSITIONS[1]
€ IN MILLIONS



1 Without marketable securities.

Net cash used in investing activities from continuing operations of €620 million in the 2008 fiscal year mainly reflects capital expenditures of €353 million for the acquisition of the mobility products business of LSI and Primarion, and €312 million for the purchase of property, plant and equipment. These cash outflows were partially offset by proceeds from the sale of businesses and interests in subsidiaries of €122 million, and by net proceeds from the sale and purchase of marketable securities of €27 million.

Net cash used in financing activities from continuing operations increased by €16 million to €230 million in the 2008 fiscal year. During the 2008 fiscal year, we made repayments of short-term and long-term debt of €294 million, of which €98 million related to the repurchase of a notional amount of €100 million of convertible subordinated notes due 2010. We also made dividend payments to minority interest holders of €80 million, which were partly offset by proceeds from issuance of long-term debt of €149 million.

Net decrease in cash and cash equivalents from discontinued operations was €318 million in the 2008 fiscal year compared to €174 million in the prior year. The net decrease in cash and cash equivalents from discontinued operations was mainly due to Qimonda's net cash used in operating activities which was partly offset by Qimonda's net cash provided by financing activities. Qimonda's cash flow from operating activities decreased significantly from net cash provided of €980 million in the 2007 fiscal year to net cash used of €659 million in the 2008 fiscal year. This was mainly caused by Qimonda's net loss, which was largely a result of lower revenues due to the strong decline in average selling prices as compared to the prior year. This negative impact on Qimonda's cash flow from operating activities was partly offset by working capital improvements resulting from a decrease in its inventories and trade accounts receivable. Qimonda's cash flow from operating activities was also negatively impacted by a decrease in trade accounts payable in the 2008 fiscal year compared to the 2007 fiscal year. Qimonda's net cash provided by financing activities was €337 million in the 2008 fiscal year and refers mainly to Qimonda's issuance of US$248 million of convertible notes due 2013 from which Qimonda raised €168 million. Furthermore, drawings under several short-term and long-term loan agreements net of repayments and partially offset by redemptions under capital lease agreements contributed to Qimonda's net cash provided by financing activities.

FREE CASH FLOW

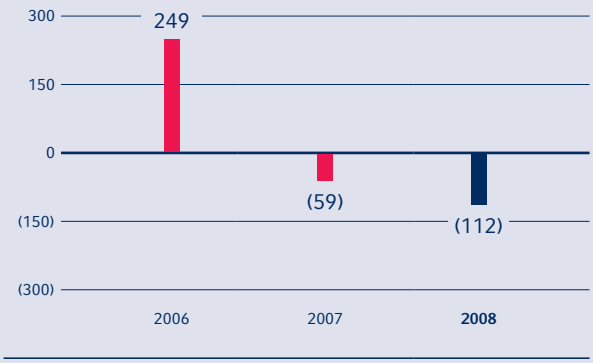
We define free cash flow as cash from operating and investing activities from continuing operations excluding purchases or sales of marketable securities. Since we hold a substantial portion of our available monetary resources in the form of readily available marketable securities, and operate in a capital-intensive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

35 FREE CASH FLOW
€ IN MILLIONS

For the years ended September 30,	2006	2007	2008
Net cash provided by operating activities from continuing operations	677	227	535
Net cash used in investing activities from continuing operations[1]	(52)	(20)	(620)
Sales of marketable securities, net	(376)	(266)	(27)
Free cash flow	249	(59)	(112)

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

36 FREE CASH FLOW
€ IN MILLIONS



Free cash flow was negative €112 million in the 2008 fiscal year, compared to negative €59 million in the 2007 fiscal year. The decrease in free cash flow was primarily due to higher net cash used in investing activities from continuing operations of €620 million, partly offset by increased net cash provided by operating activities from continuing operations of €535 million.

10 11 12 13 14 15 16 17 18 19 20

NET CASH POSITION

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

37 NET CASH POSITION
€ IN MILLIONS

As of September 30, 2008, Payments due by period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Cash and cash equivalents	749	749	—	—	—	—	—
Marketable securities	143	143	—	—	—	—	—
Gross cash position	892	892	—	—	—	—	—
Less:							
Long-term debt	1,051	—	861	82	68	40	—
Short-term debt and current maturities	207	207	—	—	—	—	—
Total financial debt	1,258	207	861	82	68	40	—
Net cash position	(366)	685	(861)	(82)	(68)	(40)	—

Our gross cash position, representing cash and cash equivalents plus marketable securities, decreased to €892 million at September 30, 2008, compared with €1,283 million at the prior year end. The decrease was mainly due to the negative free cash flow of €112 million, the repurchase of convertible subordinated notes due 2010 in the principal outstanding amount of €100 million, and the reclassification of cash and cash equivalents and marketable securities in the amount of €121 million into other current assets as of September 30, 2008.

Long-term debt principally consists of convertible and exchangeable subordinated notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our business operations. The total notional amount of outstanding convertible and exchangeable notes as of September 30, 2008 amounted to €815 million.

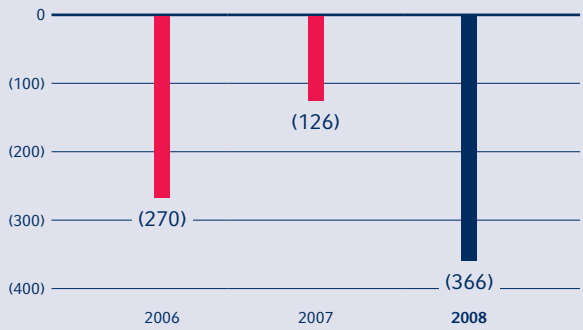
On June 5, 2003, we issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are unsecured and accrue interest at 5 percent per year. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of €10.23 per share through maturity. During the third quarter of the 2008 fiscal year, we repurchased a notional amount of €100 million of convertible subordinated notes due 2010. The repurchase was made out of available cash. These notes were subsequently cancelled.

On September 26, 2007, we issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are unsecured and accrue interest at 1.375 percent per year. The notes are exchangeable for a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS at any time during the exchange period through maturity. Subsequent to September 30, 2008, we repurchased notional amounts of €95 million and €22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. The repurchases were made out of available cash.

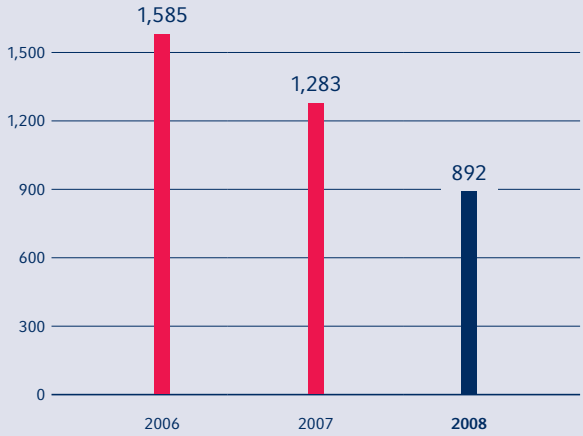
Our net cash position, meaning cash and cash equivalents, plus marketable securities, less total financial debt, decreased by €240 million to negative €366 million at September 30, 2008, compared with negative €126 million at September 30, 2007, principally due to negative free cash flow and dividend payments to minority interest holders.

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

38 NET CASH POSITION
€ IN MILLIONS



39 GROSS CASH POSITION
€ IN MILLIONS



CAPITAL REQUIREMENTS

We require capital in the 2009 fiscal year to:

- Lend funds to Qimonda → **RECENT DEVELOPMENTS RELATED TO QIMONDA**;
- Finance our operations;
- Make scheduled debt payments;
- Settle contingencies if they occur; and
- Make planned capital expenditures.

We expect to meet these requirements through:

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

As of September 30, 2008, we require funds for the 2009 fiscal year aggregating €876 million, consisting of €207 million for short-term debt payments and €669 million for commitments. In addition, we may need up to €31 million for currently known and estimable contingencies. We also plan to invest approximately €200 million in capital expenditures. We have a gross cash position of €892 million as of September 30, 2008, and also the ability to draw funds from available credit facilities of €541 million.

We will need to continue to generate significant cash going forward in order to fund our investments and meet scheduled debt repayments. Given the recent trading price of our ordinary shares and Qimonda ADSs, it is unlikely that a noteholder would convert or exchange its notes for our ordinary shares or Qimonda ADSs, as applicable. Therefore, we may be required to find an alternative source of funds, to repay the outstanding principal and accrued interest on the convertible and exchangeable notes in June and August 2010, respectively.

COMMITMENTS AND CONTINGENCIES

40 COMMITMENTS AND CONTINGENCIES
€ IN MILLIONS

As of September 30, 2008[1], Payments Due/Expirations by Period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	776	75	63	59	58	56	465
Unconditional purchase commitments	634	594	18	11	3	4	4
Total commitments	1,410	669	81	70	61	60	469
Other contingencies:							
Guarantees[2]	97	11	—	5	14	3	64
Contingent government grants[3]	47	20	12	4	5	6	—
Total contingencies	144	31	12	9	19	9	64

1 Certain payments of obligations or expiration of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table, based on our estimate of the reasonably likely timing of payments or expirations in each particular case. Actual outcomes could differ from those estimates.
2 Guarantees are mainly issued for the payment of import duties, rentals of buildings and contingent obligations related to government grants received.
3 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met.

The above table should be read together with note 34 to our consolidated financial statements for the year ended September 30, 2008.

OFF-BALANCE SHEET ARRANGEMENTS

We issue guarantees in the normal course of business, mainly for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2008, the undiscounted amount of potential future payments for guarantees was €97 million.

CAPITAL EXPENDITURES

41 CAPITAL EXPENDITURES
€ IN MILLIONS

For the years ended September 30,	2006	2007	2008
Continuing operations	640	498	312

Depending on market developments and our business situation we currently expect to invest approximately €200 million in property, plant and equipment capital expenditures in the 2009 fiscal year, principally for our manufacturing facilities in Malacca, Malaysia, and in Kulim, Malaysia. We also continuously seek to improve productivity and upgrade technology at existing facilities. As of September 30, 2008, €44 million of this amount was committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance.

CREDIT FACILITIES

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities, which aggregate €987 million, of which €541 million remained available at September 30, 2008, comprise the following:

42 CREDIT FACILITIES
€ IN MILLIONS

			As of September 30, 2008		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	504	139	365
Short-term	no firm commitment	working capital, cash management	176	—	176
Long-term[1]	firm commitment	project finance	307	307	—
Total			987	446	541

1 Including current maturities.

In September 2004, we executed a $400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to $345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan originally intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, we drew $345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2008, $125 million was outstanding under Tranche A. Tranche B, which is a multicurrency revolving facility to be used for general corporate purposes, remained undrawn at September 30, 2008. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility have been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances.

At September 30, 2008, we were in compliance with our debt covenants under the relevant facilities.

We plan to fund our working capital and capital requirements from cash provided by operations, available funds, bank loans, government subsidies and, if needed, the issuance of additional debt or equity securities. We have also applied for governmental subsidies in connection with certain capital expenditure projects, but can provide no assurance that such subsidies will be granted on a timely basis or at all. We can provide no assurance that we will be able to obtain additional financing for our research and development, working capital or investment requirements or that any such financing, if available, will be on terms favorable to us.

Taking into consideration the financial resources available to us, including our internally generated funds and currently available banking facilities, we believe that we will be in a position to fund our capital requirements in the 2009 fiscal year.

PENSION PLAN FUNDING

Our projected pension benefit obligation, which takes into account future compensation increases, amounted to €377 million at September 30, 2008, compared to €415 million at September 30, 2007. The fair value of plan assets as of September 30, 2008 was €350 million, compared to €381 million as of September 30, 2007.

The actual return on plan assets between the last measurement dates amounted to negative 7.9 percent, or €(27) million, for domestic (German) plans and negative 5.2 percent, or €(2) million, for foreign plans, compared to the expected return on plan assets for that period of 6.5 percent for domestic plans and 7.0 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 7.1 percent, or €14 million, for domestic plans and 7.2 percent, or €3 million, for foreign plans.

At September 30, 2007 and 2008, the combined funding status of our pension plans reflected an underfunding of €34 million and €27 million, respectively.

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

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

FINANCIAL INSTRUMENTS

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

OUR EMPLOYEES

EMPLOYEES

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

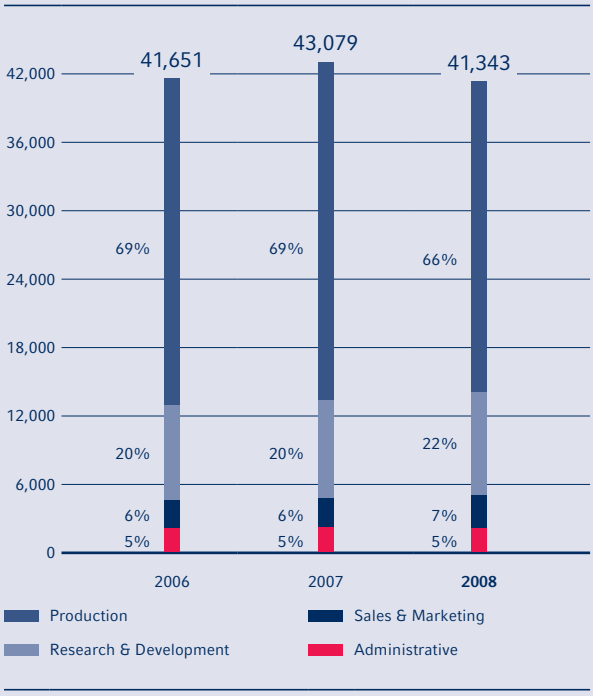
43 EMPLOYEES

Zum 30. September	2006	2007	2008
Function:			
Production	20,528	20,376	19,358
Research & Development	5,989	5,833	6,273
Sales & Marketing	1,781	1,832	1,905
Administrative	1,551	1,557	1,583
Infineon Logic	29,849	29,598	29,119
Qimonda	11,802	13,481	12,224
Total	41,651	43,079	41,343
Region:			
Germany	11,052	10,151	10,053
Europe	5,578	5,564	5,192
North America	532	581	821
Asia/Pacific	12,497	13,145	12,897
Japan	149	157	156
Other	41	—	—
Infineon Logic	29,849	29,598	29,119
Qimonda	11,802	13,481	12,224
Total	41,651	43,079	41,343

In the 2007 fiscal year, the number of employees in our logic business decreased in Germany primarily as a result of the phase out of manufacturing at Munich-Perlach, and the restructuring program initiated following the insolvency of BenQ's German subsidiary, but increased in the Asia/Pacific region due to expansion of production in Kulim, Malaysia, and research and development in Malaysia and China.

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

44 EMPLOYEES BY FUNCTION



PEOPLE AT INFINEON – HUMAN RESOURCES MANAGEMENT WITH REGARD TO IFX10+

- Actively demonstrate the responsibility we feel for our employees.
- Create efficient organizational structures that enhance value by acting together in the interests of our customers.
- Creating motivating working conditions by helping employees to master change processes and fostering a culture of innovation.

The launch of IFX10+ was also the dominant issue in Human Resources department in the fiscal year 2008, and the associated efforts should deliver wide-ranging positive results in the current fiscal year in particular.

The restructuring of our company was the first matter to be tackled. Achieving the objectives of IFX10+ safeguards Infineon's future prospects and protects jobs. Leaner structures will enable us to cut costs and boost EBIT, but we have to implement the necessary measures to reduce headcount in a socially responsible manner. What we aim for are mutually acceptable provisions that create a time window and financial framework within which the staff affected can find alternative employment. We are also working to establish channels of communication with other companies that are looking to recruit, and offering external consulting services. We consider it nothing less than our duty to work openly and constructively with employee representatives in relation to all employee concerns.

In the past fiscal year we already attained relevant agreements covering the majority of the targeted jobs to be discontinued worldwide, so it appears likely that we will complete the planned reduction over the next months.

The reorganization and realignment of our company were also priority issues under IFX10+. The company moved to a new system at the beginning of the current fiscal year comprising five divisions focusing on the existing customer and market segments plus stronger central functions and leaner management structures. The resulting adaptation of the personnel structure formed another of the focal points of human resources work as we sought to continue supporting our employees in a constantly evolving working environment.

Our employees have shown themselves most willing to adjust to new and more efficient corporate structures and to help mold the future of Infineon. The YIP (Your Idea Pays) program provides an excellent example of this commitment in practice: at Infineon, suggestions as to how we might be more frugal in our use of resources often originate from our workforce. One team from Dresden, for example, came up with the idea of reprocessing test wafers themselves, saving around €3.7 million in total while safeguarding jobs. Savings totaling around €100 million have been realized worldwide on the basis of the suggestions received.

Capable and committed employees and managers are essential for the effective implementation of IFX10+, as is improved internal communication of the type required for successful change management. In this regard, we are building on our company-wide principles (we commit, we innovate, we partner, we create value), which provide the foundation for a healthy, successful and diverse working environment. This ensures that the company remains an equitable place to work and offers equal opportunities to all.

Infineon's Leadership Practices are intended to create a working environment that respects the individual and to make sure we live up to our social responsibilities. We want our company to be a place where respect and values matter. This builds confidence among employees and customers alike. We also provide jobs that offer the

flexibility needed to balance family and career, opportunities for personal and professional development and assistance with building up a pension for retirement, all of which gives our employees good reason to back Infineon through all phases of the economic cycle.

Human resources work also involves managing general labor costs. The objective here is to ensure that remuneration structures are both attractive and commensurate with the value added by the role concerned. Here too market conditions have to taken into account. We see ourselves as a learning community and seek to enhance our employees' skills and capabilities through stimulating and challenging tasks, best practice sharing and targeted opportunities for continuing personal development. We believe that every one of our employees – and not just our engineers and managers – deserves the chance to learn how to do his or her job better and should be developed. Indeed, ultimately such an approach is central to putting the culture of innovation to which Infineon subscribes into practice at every level.

OUR RESPONSIBILITY IN OCCUPATIONAL SAFETY, IN ENVIRONMENT AND HEALTH PROTECTION

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

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

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

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

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

COMPENSATION REPORT

The compensation report is provided in the corporate governance report on pages 71 through 75 and is to be viewed as a part of the group operating and financial review.

RISK REPORT

INTRODUCTION

To a greater degree than most other businesses, the semiconductor industry is characterized by periods of rapid growth which are historically followed by periods of significant market contraction. Such periods of market contraction are characterized by surplus capacity, increasing order cancellations and above average price erosion and sales volume reductions. The risks associated with the cyclical nature of this business are complemented by the need for capital investments in order to achieve and sustain market leadership as well as the sector's extraordinarily rapid pace of technological change. In this environment we try to reduce our business risks and exploit the opportunities we face. Efficient risk and opportunity management therefore is one of our important success factors. It is integrated in all of our business activities and supports our goal of sustainable profitable growth.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

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

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

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

Because the success of our company is to a large degree based on successful R&D projects, we systematically use Monte-Carlo-Simulations for our most critical R&D projects. With this methodology, we try to get higher transparency with respect to financial performance and schedule deviations. Uncertain input parameters, such as revenue and cost figures, are modeled using probability density functions which are allowed to be dependent. The results of those analyses are documented in a uniform manner.

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

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

The risk and opportunity management system is comprehensively documented and published on our intranet. Thus all employees have access to the details of the risk management system. It is periodically controlled to ensure its legal compliance and correctness. These controls are performed by the internal corporate audit department.

Our independent auditor reviews the risk management system as part of their year-end-audit. They confirm that our Management Board has established an early warning system which is compliant with Section 91 paragraph 2 of the German Stock Corporation Act and which is explicitly able to detect early on risks which could endanger our company's future.

We identified the following risks and opportunities:

Market Risks

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

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

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

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

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

Qimonda

Market prices for DRAM have experienced extremely significant declines since the beginning of the 2007 calendar year. As a result of this intense pricing pressure, Qimonda continued to incur significant losses during the 2008 fiscal year, which are reflected in "loss from discontinued operations, net of income tax" in the Company's consolidated statements of operations. During the 2008 fiscal year, the Company also recorded material write-downs to the carrying value of Qimonda's assets to reflect them at current fair value less costs to sell. Infineon does not intend to make any further capital contributions to Qimonda and has repeatedly announced that it is seeking to dispose of its remaining 77.5 percent interest in that company. We continue to pursue all potential strategic alternatives for the disposal of our remaining interest in Qimonda, but can provide no assurance that we will be successful in this regard.

In order to address the ongoing adverse market conditions in the memory products industry and to better enable it to meet its current obligations in the short term, Qimonda has intensively explored operational and strategic alternatives to raise and conserve cash. In furtherance of these goals, on October 13, 2008 Qimonda announced a global restructuring and cost-reduction program that is intended to reposition Qimonda in the market and substantially increase its efficiencies through a wide-ranging realignment of its business. As a part of this program, Qimonda also announced that it had agreed to sell its 35.6 percent interest in Inotera Memories Inc. to Micron Technology, Inc. for US$400 million (approximately €296 million) in cash. This transaction closed in November 2008.

During the 2008 fiscal year, the Company committed to a plan to dispose of its interest in Qimonda. Accordingly, Infineon has classified the assets and liabilities of Qimonda as held for disposal and recorded the write-downs of Qimonda's assets described above totaling €1,303 million. The net book value of the Qimonda disposal group in the Company's consolidated balance sheet as of September 30, 2008 has been recorded at the estimated fair value less costs to sell of Qimonda. Upon disposal of its interest in Qimonda, the Company would also realize losses in accordance with IFRS related to unrecognized currency translation effects for the Qimonda disposal group which are recorded in equity. As of September 30, 2008, the amount of such losses recorded in shareholders' equity in accordance with IFRS totaled €187 million.

On December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package includes a €150 million loan from the German Free State of Saxony, a €100 million loan from a state bank in Portugal and a €75 million loan from us. In addition to this financing package, Qimonda has announced that it expects to receive guarantees totaling €280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda has announced that it is already in advanced negotiations regarding the financing of €150 million. The availability of the total financing package is contingent upon successful completion of the relevant state, federal and European Commission approval procedures as well as final agreement on the detailed terms and conditions of the transaction.

There can be no assurance that the operational, strategic and financial measures described above will enable Qimonda to continue to meet its obligations, or that Qimonda will be successful in implementing any further operational or strategic initiatives to adequately address its financial condition. There can also be no assurance that Infineon will be successful in disposing of its remain-

ing interest in Qimonda. In the event that Qimonda's ongoing operational and strategic efforts fail to generate adequate cash or to result in desired operational efficiencies and resulting cash savings, Qimonda may have difficulty meeting its obligations as they come due. In such a case, the financial condition and results of operations of the Company would be materially adversely affected.

In the event that Qimonda were to be unable to meet its obligations, Infineon may be exposed to certain significant liabilities related to the Qimonda business, including pending antitrust and securities law claims, the potential repayment of governmental subsidies received, and employee-related contingencies. Qimonda has accrued approximately €70 million in connection with the antitrust matters and anticipated defense costs in connection with the securities law matters. Given the uncertainty of the timing, nature, scope or success of any specific claim, Infineon is unable to meaningfully quantify its total potential exposure in respect of these matters, but Infineon is aware that such exposure, were it to arise, is likely to be material.

On November 7, 2008, the New York Stock Exchange ("NYSE") notified Qimonda that it was not in compliance with the NYSE's continued listing standards because the average closing price of its ADSs had been below US$1.00 over a consecutive 30-day trading period. Over the 12-month period ended November 19, 2008, Qimonda's share price fell 98 percent, from US$8.62 to US$0.11. Qimonda has notified the NYSE that it intends to regain compliance with this listing standard. If Qimonda cannot do so by May 7, 2009, however, the NYSE has indicated that it will commence suspension and delisting procedures against Qimonda.

Management Risks

To foster or extend our current business activities we may seek to acquire other companies or enter into different forms of cooperation or partnerships. Those kinds of cooperations could prove to be unsuccessful, particularly in terms of integration of people and products in existing business structures.

Operational Risks

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

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

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

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

In order to address quality risks in our products, we have established specific Quality Management strategies such as "Zero Defects" and "Six Sigma". The overall objective of these strategies is to prevent or solve problems, and to improve our business processes. Our quality management system (which includes the supplier development) has been certified on a worldwide basis according to ISO9001 and ISO/TS 16949 for a number of years.

Financial Risks

Because we operate our own manufacturing facilities, we require significant amounts of capital to build, expand, modernize and maintain them. We also require significant amounts of capital to fund research and development. These funding requirements should generally be financed by net cash provided by operating activities, the use of available credit facilities, available government grants and – depending upon market conditions – capital market offerings including equity related financial instruments.

Although we have applied for financial support from public authorities for a number of investment projects, we cannot guarantee that we will get the support on a timely basis or at all. We intend to continue to cooperate on R&D projects and production with other semiconductor companies in order to reduce our financing needs.

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2003 fiscal year we issued convertible subordinated notes due 2010, and in 2007 subordinated notes due 2010 exchangeable into Qimonda ADSs. Due to the high volatility of our core business and to maintain high operational flexibility, our liquid assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. Interest rate derivates are used to reduce the risk caused by changes in market interest rates.

In addition, the trading price of our shares on the Frankfurt Stock Exchange has recently fallen below €2 per share, which is the nominal value of each of our shares. Generally, we cannot sell shares to the public at a price per share below nominal value. Therefore, for so long as the trading price of our shares remains below €2 per share, we are generally unable to raise capital by issuing new shares, which significantly decreases our ability to raise capital.

In June 2003, we issued €700 million in convertible subordinated notes due 2010, and in September 2007, we issued €215 million in exchangeable subordinated notes due 2010. The convertible notes are convertible into ordinary shares of our company at a conversion price of €10.23 per share. The exchangeable notes are exchangeable into Qimonda ADSs at an exchange price of €10.48 per Qimonda ADS. Given the recent trading price of our ordinary shares and Qimonda ADSs, it is unlikely that a noteholder would convert or exchange its notes for our ordinary shares or Qimonda ADSs, as applicable. Therefore, we may be required to find an alternative source of funds, to repay the outstanding principal and accrued interest on the convertible and exchangeable notes in June and August 2010, respectively.

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

In general, our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of our estimated net exposure for of the initial two-month period, at least 50 percent of our estimated net exposure for the third month and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Part of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash flow basis considering actual orders received or made and all other planned income and expenses.

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

Information Technology Risks

Like other global technology companies, Infineon relies heavily on information technology and is increasingly dependent on information technology systems to support business processes as well as internal and external communications.

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

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

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

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

Human Resource Risks

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

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

Addressing rising risks in the current market environment, Infineon Logic has implemented its cost-reduction program IFX10+ in the third quarter of the 2008 fiscal year. Approximately 10 percent of Infineon Logic's workforce worldwide is expected to be impacted by IFX10+.

Legal Risks

Like other companies in the semiconductor industry, Infineon has been exposed to patent claims, claims relating to alleged defective or faulty products, and claims relating to the alleged infringement of statutory duties. Regardless of the outcome of these claims, we may incur substantial costs in defending ourselves against these claims. Infineon intends to exert substantial efforts in defending itself vigorously against such claims. For more information please refer to the notes to the consolidated financial statements "Litigation and Investigations".

In the area of intellectual property, the company benefits from various cross-license agreements with other companies. The Company aims to increase the number and scope of such cross-license agreements with leading competitors in order to reduce the risk of claims related to patent infringement.

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

Our global business strategy calls for maintaining research and development locations as well as manufacturing sites in various countries around the world. This may be the result of decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. Therefore, risks could develop based upon negative economic and political developments in our regional markets, changes in laws and policies affecting trade and investment aimed at limiting free trade and varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate, which restrict our entrepreneurial actions.

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

OVERALL INFINEON RISK SITUATION

At no time during the past fiscal year did we become aware of any substantial risks which would have threatened the existence of the Company. In addition, we are not aware of any risks which would reasonably be expected to endanger the existence of the Company.

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

INFINEON TECHNOLOGIES AG

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

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

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

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

For the years ended September 30,	2006	2007	2008
Net sales	7,914	5,003	5,365
Cost of goods sold	(7,228)	(4,231)	(4,425)
Gross profit	686	772	940
Operating expenses	(1,289)	(986)	(983)
Equity in earnings (losses) of associated companies, net	149	(174)	(2,555)
Other operating expense, net	(107)	(77)	(142)
Income (loss) before tax	(561)	(465)	(2,740)
Income tax	4	(6)	—
Net loss before extraordinary loss	(557)	(471)	(2,740)
Extraordinary loss	—	(34)	—
Net loss	(557)	(505)	(2,740)
Accumulated loss brought forward	(1,546)	(2,103)	(2,608)
Accumulated loss at end of year	(2,103)	(2,608)	(5,348)

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's net loss resulted primarily from impairments of the investment in Infineon Technologies Holding BV, Rotterdam (€1,613 million) and Qimonda AG, Munich (€1,021 million). In addition, there were charges for restructuring (€172 million) incurred during the 2008 fiscal year.

46 BALANCE SHEETS[1] (CONDENSED)
€ IN MILLIONS

For the years ended September 30,	2007	2008
Fixed and intangible assets	701	887
Investments	6,846	3,873
Non-current assets	7,547	4,760
Inventories	318	405
Receivables and other assets	809	985
Cash and marketable securities	938	722
Current assets	2,065	2,112
Total assets	9,612	6,872
Shareholders' equity	5,846	3,113
Short term provisions	765	645
Payables and other liabilities	3,001	3,114
Total liabilities and Shareholders' equity	9,612	6,872

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's financial position was primarily impacted by a decrease in investments, mainly related to the impairment of Infineon Technologies Holding B.V., Rotterdam and an impairment of Qimonda AG, Munich. The reduction in shareholders' equity mainly resulted from the net loss incurred in the 2008 fiscal year. Infineon Technologies AG's shareholders' equity ratio was 45 percent (2007: 61 percent).

DIVIDENDS

Since the stand-alone financial statements of Infineon Technologies AG for the 2007 fiscal year reported a net loss, no dividend was distributed. A net loss was also incurred in the 2008 fiscal year and therefore a dividend cannot be distributed.

MERGER

As of March 17, 2008, Infineon Technologies Mantel 17 GmbH was merged with Infineon Technologies AG.

RECENT DEVELOPMENTS RELATED TO QIMONDA

On December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package includes a €150 million loan from the German Free State of Saxony, a €100 million loan from a state bank in Portugal and a €75 million loan from us. In addition to this financing package, Qimonda has announced that it expects to receive guarantees totaling €280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda has announced that it is already in advanced negotiations regarding the financing of €150 million. The availability of the total financing package is contingent upon successful completion of the relevant state, federal and European Commission approval procedures as well as final agreement on the detailed terms and conditions of the transaction.

In the context of the extraordinary circumstances currently confronting the world economy in general and the semiconductor industry in particular, we and Qimonda have found it necessary to explore a wider range of financing alternatives. Given the conditions of the equity markets and the trading price of Qimonda's ADSs, as well as the severe credit crisis, Qimonda's opportunities to obtain further funding have been extremely limited. We and Qimonda have determined that accepting the offer of funding from the German Free State of Saxony and from a state bank in Portugal is the only realistic current alternative that will permit Qimonda to receive necessary financial resources. The government entities participating in this transaction have required that we also make funding available to Qimonda as a condition to their participation. In light of the severe negative consequences of an insolvency of Qimonda to that company and its employees, as well as Infineon's potential exposure to certain significant liabilities related to the Qimonda business, we believe that the provision of this funding by us at this time is in the best interest of Infineon and its shareholders.

SUBSEQUENT EVENTS

VARIOUS MATTERS

Subsequent to September 30, 2008, we repurchased notional amounts of €95 million and €22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. The repurchases were made out of available cash.

Effective October 1, 2008, we are organized into the following five operating segments: Automotive, Chip Card & Security, Industrial & Multimarket, Wireline Communications and Wireless Solutions.

On October 3, 2008, approximately 95 California schools, political subdivisions and public agencies that were previously putative class members of the multistate attorney general complaint described in note 34 to our consolidated financial statements filed suit in California Superior Court against us, Infineon Technologies 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 in note 34. The plaintiffs seek recovery of actual and treble damages in unspecified amounts, restitution, costs (including attorneys' fees) and injunctive and other equitable relief. We and Infineon Technologies North America have agreed to accept service of process as of November 19, 2008 in exchange for an extended period of time to respond to the complaint. The current response date is February 12, 2009.

On October 7, 2008, we and Third Dimension Semiconductor Inc. signed a Settlement and License Agreement and on October 21, 2008, filed a joint motion to dismiss the patent infringement case brought against us.

On October 13, 2008, Qimonda announced that it had entered into a share purchase agreement to sell its 35.6 percent stake in Inotera Memories, Inc., to Micron Technology, Inc., for cash proceeds of $400 million. The sale of the Inotera stake occurred in two equal tranches, on October 20, 2008 and November 26, 2008.

In the litigation led by LSI (see note 34), the court in the Eastern District of Texas stayed the case on June 20, 2008, while the ITC Case is pending. On October 17, 2008, Qimonda became a party to the ITC Case.

On October 21, 2008, we learned that the European Commission had commenced an investigation involving our Chip Card & Security segment for alleged violations of antitrust laws. The investigation is in its very early stages, and we are assessing the facts and monitoring the situation carefully.

On October 30, 2008, the district court in the MDL proceedings entered an order staying the indirect purchaser proceedings in the Northern District of California during the period that the Ninth Circuit Court of Appeals considers the appeal on the decision of the district court to dismiss certain claims of the plaintiffs.

On November 12, 2008, Volterra Semiconductor Corporation filed suit against Primarion, Inc., Infineon Technologies North America and Infineon Technologies AG in the United States District Court for the Northern District of California for alleged infringement of five U.S. patents by certain products offered by Primarion.

On November 25, 2008, Infineon Technologies AG, Infineon Technologies Austria AG and Infineon Technologies North America filed suit in the United States District Court for the District of Delaware against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (collectively "Fairchild") regarding (1) a complaint for patent infringement by certain products of Fairchild and (2) a complaint for declaratory judgment of non-infringement and invalidity of certain patents of Fairchild against the allegation of infringement of those patents by certain products of Infineon. Fairchild has filed a counterclaim in Delaware for a declaratory judgment on (1) infringement by Infineon of those patents which are the subject of Infineon's complaint for declaratory judgment and (2) non-infringement and invalidity of those patents which are the subject of Infineon's complaint for infringement. Fairchild has further filed another patent infringement suit against Infineon Technologies AG and Infineon Technologies North America in the United States District Court for the District of Maine alleging that certain products of Infineon infringe on two other patents of Fairchild which are not part of the Delaware lawsuit.

On December 5, 2008, we received a request for information from the European Commission regarding DRAM turnover data for our 2001 fiscal year.

QIMONDA

On December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. This proposed transaction is described under "Operating and Financial Review – Recent Developments Related to Qimonda".

OUTLOOK

INDUSTRY ENVIRONMENT AND OUTLOOK

The current global financial crisis and general slow-down in the world economy has resulted in a number of major economies entering into recession. This drop in economic activity has significantly affected the global semiconductor market. For the 2009 calendar year, analysts expect a contraction of the market. WSTS, for example, currently forecasts that the overall market will decrease (in U.S. dollar terms) by 2.2 percent in the 2009 calendar year (compared with its spring 2008 forecast of 5.8 percent growth). In December 2008, Gartner Dataquest forecast a decrease in worldwide semiconductor revenues of 16 percent in the 2009 calendar year. For the 2008 calendar year, WSTS currently forecasts a growth of world semiconductor revenues of 2.5 percent, compared to 4.7 percent in its spring 2008 forecast. Overall, we believe that a significant decline in global semiconductor revenues from 2008 levels cannot be ruled out. In the 2010 calendar year, WSTS currently forecasts world semiconductor revenues growth of 6.5 percent.

In the 2009 calendar year, iSuppli expects all semiconductor market segments to be affected by the economic downturn. Personal computers (PC) and mobile phones will remain the most significant applications. So-called "netbooks", which are small and low-cost portable computers, are expected to become a driver of growth in the PC market. Wireless infrastructure may be a driver in the wireless semiconductor market. In the automotive semiconductor market, safety applications, such as driver assistance and emergency calling, as well as energy-efficient and pollution-control systems, are expected to outperform the market. Similar trends are anticipated for renewable energy, energy-saving electric drives and medical in the industrial semiconductor market.

OUTLOOK FOR INFINEON LOGIC

Significant planning assumptions: When preparing this outlook, we made certain important planning assumptions for Infineon Logic.

We implemented International Financial Reporting Standards ("IFRS") as the primary accounting standards for Infineon effective October 1, 2008. While we are reporting our results for the 2008 fiscal year under United States Generally Accepted Accounting Standards ("U.S. GAAP"), the following outlook for the 2009 fiscal year is in accordance with IFRS. With the publication of the results for the first quarter of the 2009 fiscal year onwards, we will apply IFRS only. For ease of comparison, we will compare 2009 forecasts under IFRS to actual results in 2008 under IFRS.

As a result of the reclassification of Qimonda as discontinued operations effective March 31, 2008, all statements below reflect Infineon's continuing operations without Qimonda.

In addition, in line with our goal of increased efficiency, we reorganized the company along our target markets effective October 1, 2008. As a result, Infineon is organized in five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications.

Furthermore, from October 1, 2008, our Management Board uses Segment Profit to assess the operating performance of our reportable segments and as a basis for allocating resources among our segments. We have defined Segment Profit as Operating Income (Loss) under IFRS, net of asset impairments, restructuring and other related closure costs, stock-based compensation expense, acquisition-related amortization and gains/losses, gains/losses on sales of assets, businesses, or interests in subsidiaries, and other income/expense, including litigation settlement costs. Gains/losses on sales of assets, businesses, or interests in subsidiaries include, among others, gains or losses that may be realized from potential sales of Qimonda shares or other investments and activities.

To address rising risks in the market environment of the 2008 fiscal year as well as adverse currency trends, we implemented our IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. Under IFRS, a total of €172 million in expenses related to this program were recorded in the fourth quarter of the 2008 fiscal year. Due to the dramatic weakening of the global market since August 2008, we have identified very substantial additional savings, primarily in operating expenses, in addition to the originally announced annualized savings of at least €200 million by the end of the 2009 fiscal year. These additional savings, however, are likely to be more than completely offset by the simultaneous decline in our revenue expectations versus our planning assumptions when IFX10+ was originally conceived, as well as the increase in idle cost caused by the drop in capacity utilization of our manufacturing sites. Moreover, we cannot rule out the possibility that we may incur additional expenses or record additional charges in the future in connection with this cost reduction program.

For the purpose of forecasting our total Segment Profit from continuing operations in the 2009 fiscal year, we assumed a U.S. dollar/Euro exchange rate of 1.40. About 50 percent of our revenues and 30 percent of the costs are exposed to the U.S. dollar. Any strengthening of the U.S. dollar against the Euro would have a positive impact on revenues, primarily in the segments with the largest exposure to the U.S. dollar, such as Industrial & Multimarket, Wireless Solutions and Wireline Communications. A strengthening of the U.S. dollar would not, however, have any material impact on earnings for the first half of the 2009 fiscal year, as we have already hedged a significant portion of the expected cash flow. For the remainder of the 2009 fiscal year, a strengthening of the U.S. dollar would have a material impact on earnings, as we have hedged only a small portion of the expected cash flows.

Infineon Logic's Revenues: For the 2009 fiscal year, visibility is very limited. We note that the weakness in the global economy is having a severe impact on demand in all of our target markets, leading to a decrease in revenues in all operating segments, with the least severe effect on the Wireless Solutions segment, in the 2009 fiscal year. Based on our current forecast, we expect total revenues for Infineon in the 2009 fiscal year, consisting of the operating segments Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications, as well as Other Operating Segments and Corporate & Eliminations, to decrease

by at least 15 percent compared to the 2008 fiscal year. The year-over-year decrease is expected to be driven in particular by the Automotive segment, where world wide production cuts at car manufacturers, are expected to last throughout the full 2009 fiscal year, are having a severe impact on semiconductor demand. In addition, significant revenue decreases are anticipated in the Industrial & Multimarket, Chip Card & Security and Wireline Communications segments due to the general global weakening in demand. In the Industrial & Multimarket segment, an additional decrease in revenues is anticipated as a result of the disposal of the HDD business following its sale to LSI in the 2008 fiscal year. The Wireless Solutions segment is currently expected to be least severely affected by the revenue decrease in the 2009 fiscal year, due mainly to gains in market share.

Despite the down-turn of the worldwide economy, mentioned above, and the global recession, and despite the significant reduction in global semiconductor demand that has resulted from the global slow-down, we continue to see long-term growth in demand for our products beyond the expected decline, as our products address three current global issues: energy efficiency, communications, and security. We have organized our business around those growth drivers and expect added company value created by the products which address challenges linked to those trends. First, as natural resources become scarce, as costs of energy generation and consumption continue to rise, and as the awareness of environmental issues continues to increase, people and businesses are seeking to economize on energy usage. Our semiconductor solutions, particularly in the automotive and industrial businesses, enable improved energy efficiency. Second, people intensify communication and want flexible access to the internet in any place and at any time. We contribute to this trend through our products and solutions in the segments Wireless Solutions and Wireline Communications. Third, with increasing communication and people's need to access data securely anywhere and at any time, the need to protect data and intellectual property is growing. Likewise, the need to securely authenticate and identify users and travelers continues to grow. We cater to this trend in our Chip Card and Security activities.

Infineon Logic's Total Segment Profit: Under IFRS, Infineon Logic EBIT in the 2008 fiscal year was negative €52 million. Under IFRS, this translates into a total Segment Profit of €258 million. In the 2009 fiscal year, we expect Infineon total Segment Profit to decrease significantly compared to the total Segment Profit of €258 million under IFRS for the 2008 fiscal year and we expect negative total Segment Profit. The decline in Segment Profit expected for the 2009 fiscal year is anticipated to be caused principally by sharp revenue decreases in combination with idle capacity costs caused by ongoing low capacity utilization. This decline will be offset only in part by savings in connection with the IFX10+ cost-reduction program. Beyond the 2009 fiscal year, we expect that any increase in revenues from continuing operations would also lead to increased total Segment Profit for Infineon's continuing operations.

Fixed assets investment and depreciation for Infineon Logic: We are pursuing a differentiated manufacturing strategy for our five operating segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, particularly in the power semiconductor arena. In contrast, we do not plan to invest in our own manufacturing capacities starting with 65-nanometer structure sizes for the standard semiconductor manufacturing process, so called CMOS technology. We anticipate that our annual investment in property, plant and equipment and intangible assets including capitalized development costs, will fall to approximately €250 million in the 2009 fiscal year. This compares to an investment in property, plant and equipment and intangible assets including capitalized development costs of €370 million in the 2008 fiscal year as recorded under IFRS. In the 2009 fiscal year, depreciation expense is expected to total around €400 million and additional amortization of intangible assets, including capitalized development costs, will be around €50 million, compared to €496 million and €75 million in the prior year, respectively, as recorded under IFRS. In subsequent fiscal years, we will tailor our capital investment to the demand development, but expect to limit such investments to 10 percent or less of our revenues. We expect annual depreciation and amortization expense, including amortization charges for capitalized development costs under IFRS, to decrease further and to fall in line with our capital investment.

Expenditures for research & development for Infineon Logic: We expect expenditures for Research and Development (R&D) for Infineon Logic in the 2009 fiscal year to decrease by around 10 percent compared to the 2008 fiscal year and as recorded under IFRS, mainly due to the cost reduction measures in connection with the IFX10+ program.

In the Automotive segment, our R&D efforts are mainly focused on the technology development of analog, bipolar, and flash products, as well as new products, and the widening of the existing product portfolio. The development of new power technologies for industrial drives and power supply application and the widening of the product portfolio, particularly in power conversion ICs and industrial ASICs, are examples of areas of emphasis within R&D in the Industrial & Multimarket segment. In the Chip Card & Security segment, we have intensified our R&D efforts in developing next-generation, highly secure technologies and platforms being used in many fields of application. In the Wireless Solutions and Wireline Communications segments, our R&D spending is focused, for example, on developing next-generation system-on-a-chip products and system solutions for mobile phones and the broadband access market. Another important focus of our R&D activities is process technologies that we develop in alliances with several partners and consortia in order to maintain a competitive technology roadmap at an affordable cost level.

OPPORTUNITIES

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

We see volume opportunities in connection with greater demand in our target markets. Decreasing price erosion constitutes a further significant opportunity.

In particular, a recovery of the U.S. automotive market could lead to a better than expected development in demand.

For our communication business, opportunities arise particularly from a better than expected success of our mobile phone customers and from new customer projects.

Additional opportunities could be generated by a decrease in prices in the commodity and energy markets.

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

STRUCTURE OF THE SUBSCRIBED CAPITAL

The subscribed capital of the Company totaled €1,499,484,170 as of September 30, 2008. It is divided into 749,742,085 no par value registered shares. All shares carry the same rights and obligations. Each share carries one vote. In the U.S., our shares are traded in the form of American Depositary Shares ("ADS"). Each Infineon ADS currently represents one Infineon ordinary share.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

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

Pursuant to Section 67, paragraph 2 AktG, only those persons recorded in the Company's share register will be recognized as shareholders of the Company. For purposes of recording the shares in the Company's share register, shareholders are required to submit to the Company the number of shares held by them and, in the case of individuals, their name, address and date of birth, or in the case of legal entities, their company name, business address and registered offices. Pursuant to Section 67, paragraph 4 AktG, the Company is entitled to request information from any party registered in the Company's share register with regards to the extent to which the latter actually owns the shares for which it is registered as holder and, if this is not the case, to request that such party submit the information necessary for the maintenance of the share register with respect to the party for whom it holds the shares. As long as such information request is not complied with, Section 67, paragraph 2 AktG stipulates that voting rights of the respective shares may not be exercised.

SHAREHOLDINGS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

On March 11, 2008, Dodge & Cox, San Francisco, USA notified the Company pursuant to German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") Article 21, section 1 that, on March 7, 2008, the percentage of voting rights of Dodge & Cox International Stock Fund, San Francisco, USA attributable to shares of Infineon Technologies AG, Neubiberg, Germany exceeded the threshold of 10 percent and amount to 10.03 percent (corresponding to 75,227,800 voting rights). All of these voting rights were attributed to Dodge & Cox in accordance with WpHG Article 22, section 1, sentence 1, No. 6, which therefore indirectly on March 7, 2008, held 10.03 percent voting rights (corresponding to 75,227,800 voting rights at that time).

SHARES WITH SPECIAL CONTROL RIGHTS

Shares that confer special control rights have not been issued.

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

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

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

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

Pursuant to section 84, paragraph 1, sentence 1 AktG, members of the Management Board may be appointed for a maximum term of five years. They may be re-appointed or have their terms extended for one or more terms of up to a maximum of five years each. Section 5, paragraph 1, of the Articles of Association, and section 84, paragraph 2, AktG stipulate that the Supervisory Board may appoint a chairman and a deputy chairman of the Management Board. The Supervisory Board may revoke the appointment of a member of the Management Board and the chairman of the Management Board for good cause (section 84, paragraph 1, AktG).

RULES GOVERNING THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

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

POWERS OF THE MANAGEMENT BOARD

Repurchase of shares

By resolution of the general shareholders' meeting on February 14, 2008, the Management Board has been authorized, in accordance with section 71, paragraph 1, No. 8 AktG, to repurchase Company shares through August 13, 2009, within statutory limits, in an aggregate amount not exceeding 10 percent of the outstanding share capital at the time the resolution is passed. The authorization

may be used once or several times, in its entirety or partially. The authorization may not be used for the purpose of trading in the Company's shares. The authorization may also be used by dependent companies or companies in which the Company has a majority holding or by third parties acting on their own account or for dependent companies or companies in which the Company has a majority holding.

The Management Board decides whether own Company shares are purchased (a) through the stock exchange, (b) by means of a public offer to purchase addressed to all shareholders or a public invitation to submit offers for sale (referred to below as "public purchase offer"), or (c) by means of a public offer addressed to all shareholders or a public invitation to submit offers for the exchange of American Depositary Shares representing shares of Qimonda AG, Munich ("Qimonda ADS") against shares in the Company (referred to below as "public exchange offer"). If shares are purchased through the stock exchange, the purchase price per share (excluding incidental costs) paid by the Company may not be more than 10 percent above or below the price established in the XETRA (or comparable successor system) opening auction on the trading day. If shares are purchased by means of a public purchase offer addressed to all shareholders, a fixed purchase price or purchase price range may be specified. The purchase price per share paid by the Company (excluding incidental costs) in this case may not be more than 20 percent above or below the arithmetical average value of the closing prices of the share in XETRA trading (or a comparable successor system) on the fifth, fourth and third exchange trading day prior to the day of publication of the public purchase offer ("effective date"). If significant price changes occur after the effective date, the purchase price may be adjusted accordingly. If shares are purchased by means of a public exchange offer addressed to all shareholders, a fixed exchange ratio or exchange range may be specified. A cash payment may also be used to augment the exchange or as compensation for fractional amounts. Whichever of these methods is preferred for the exchange, the final exchange price in the form of one or more Qimonda ADS or arithmetical fractions thereof, including any cash or fractional amounts (excluding incidental costs), may not be more than 20 percent above or below the calculated value of one Infineon Technologies AG share surrendered in exchange. When determining this exchange price, the calculated value to be used for one Infineon Technologies AG share is the arithmetic mean of the closing prices in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the fifth, fourth and third exchange trading day prior to the day of publication of the public exchange offer ("effective date") and the value to be used for one Qimonda ADS is the arithmetic mean of the closing prices on the New York Stock Exchange on the fifth, fourth and third trading day prior to the effective date, converted into Euros using the ECB reference rate on the exchange trading day concerned. If significant price or exchange rate changes occur after the effective date, the public exchange offer may be adjusted.

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

Authorized Capital and Conditional Capital

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

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

ment Board is authorized to define, with the consent of the Supervisory Board, the further rights conveyed by the shares and the terms and conditions of the share issue.

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

In addition, by resolution of the general shareholders' meeting of February 14, 2008, the Management Board has been further authorized through February 13, 2013 to issue, once or in partial amounts, notes with warrants and/or convertible notes in a total nominal amount of up to €2 billion and with a term of up to 20 years, to be issued by the Company or by group companies, and to guarantee those notes issued by group companies of the Company. The Management Board is authorized to grant the holders or creditors of notes option or conversion rights up to 74,950,000 no par value Company registered shares, representing a notional portion of the share capital of up to €149,900,000 in accordance with the relevant terms of the notes. Therefore, the share capital has been conditionally increased by up to €149,900,000 through the issuance of up to 74,950,000 new no par value registered shares (Conditional Capital 2008; section 4, paragraph 11 of the Articles of Association). The shareholders shall, as a principle, have a right to subscribe to the notes; the Management Board, however, is authorized, with the approval of the Supervisory Board, to exclude the subscription right of the existing shareholders.

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

Conditional capital of up to a nominal amount of €91,635,548 (corresponding to 45,817,774 shares) is authorized for the purpose of issuing shares upon exercise of the preemptive rights granted under the Infineon Technologies AG stock option plan of 1999, in accordance with the authorization issued on October 18, 1999, and amended on February 16, 2000, and the Infineon Technologies AG 2001 International Long Term Incentive Plan, in accordance with the authorization of April 6, 2001 ("Conditional Capital I"; section 4, paragraph 6, of the Articles of Association).

Conditional capital of up to a nominal amount of €29,000,000 (corresponding to 14,500,000 shares) is authorized for the purpose of issuing shares upon exercise of subscription rights granted under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" on the basis of the authorization granted on April 6, 2001, and to the holders of subscription rights granted under the "Infineon Technologies AG Stock Option Plan 2006" on the basis of the authorization granted on February 16, 2006 ("Conditional Capital III"; section 4, paragraph 8, of the Articles of Association).

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

Further details of the various stock option plans are described in the notes to the consolidated financial statements under No. 27 Stock-based Compensation.

Significant Agreements in the event of a Change of Control as a result of a takeover bid

The credit facility executed by Infineon Technologies AG in September 2004 contains a change of control provision (note 22 to our consolidated financial statements). In the event of a change of control, the lenders are entitled to terminate the credit facility and to demand repayment of any outstanding sums. A change of control under the credit facilities occurs if a third party or a group acting in concert obtains control over Infineon Technologies AG.

The subordinated convertible notes issued on June 5, 2003 by the Company as guarantor through its subsidiary Infineon Technologies Holding B.V. with a nominal value of €700,000,000 due 2010, as well as the subordinated convertible notes issued by the Company on September 26, 2007 as guarantor through its subsidiary Infineon Technologies Investment B.V. with a nominal value of €215,000,000 due 2010 (note 22 to our consolidated financial statements), each contain a change of control provision that grants the noteholders an early redemption option in the event of a change of control.

Furthermore, certain cross-license agreements and development agreements contain change of control provisions, pursuant to which in the event of a change of control of Infineon the other party is entitled to terminate the agreement in the event of a change of control or the continuation shall depend on the other party's approval.

Agreements for Compensation in the event of a takeover bid

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

Comments of the Management Board on the information pursuant to section 315, paragraph 4, of the German Commercial Code

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

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

The change of control provisions agreed upon with the members of the Management Board are designed to protect the members of the Management Board and to enhance to their independence in the event of a change of control.

NEUBIBERG, DECEMBER 2008
Infineon Technologies AG

Management Board
PETER BAUER
PROF. DR. HERMANN EUL
DR. REINHARD PLOSS
DR. MARCO SCHRÖTER

Consolidated Financial Statements

47 CONSOLIDATED FINANCIAL STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2007 AND 2008

€ IN MILLIONS, EXCEPT FOR SHARE DATA

	Notes	2006	2007	2008	2008 ($ millions) (unaudited)
Net sales		4,114	4,074	4,321	6,084
Cost of goods sold	7	2,805	2,702	2,823	3,975
Gross profit		1,309	1,372	1,498	2,109
Research and development expenses		816	768	755	1,063
Selling, general and administrative expenses		520	500	569	801
Restructuring charges	8	23	45	181	255
Other operating expense (income), net	7	36	(20)	43	61
Operating (loss) income		(86)	79	(50)	(71)
Interest expense, net		(67)	(40)	(26)	(37)
Equity in earnings (losses) of associated companies, net	16	(2)	—	4	6
Other non-operating (expense) income, net		(41)	7	(16)	(23)
Minority interests	25	(7)	(14)	14	20
(Loss) income before income taxes, discontinued operations, and extraordinary loss		(203)	32	(74)	(105)
Income tax expense	9	(47)	(69)	(61)	(85)
Loss from continuing operations		(250)	(37)	(135)	(190)
Loss from discontinued operations, net of tax	4	(18)	(296)	(2,987)	(4,206)
Loss before extraordinay loss		(268)	(333)	(3,122)	(4,396)
Extraordinary loss, net of tax	3	—	(35)	—	—
Net loss		(268)	(368)	(3,122)	(4,396)
Basic and diluted loss per share from continuing operations in €	10	(0.34)	(0.05)	(0.18)	(0.25)
Basic and diluted loss per share from discontinued operations, net of tax in €	10	(0.02)	(0.40)	(3.98)	(5.60)
Basic and diluted loss per share for extraordinary loss, net of tax in €		—	(0.04)	—	—
Basic and diluted loss per share in €		(0.36)	(0.49)	(4.16)	(5.86)

See accompanying notes to the consolidated financial statements.

48 CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2007 AND 2008
€ IN MILLIONS

	Notes	2007	2008	2008 ($ millions) (unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents		1,073	749	1,055
Marketable securities	11	210	143	201
Trade accounts receivable, net	12	620	589	829
Inventories	13	598	663	934
Deferred income taxes	9	34	26	37
Other current assets	14	303	379	534
Assets held for disposal	4	5,653	2,224	3,131
Total current assets		8,491	4,773	6,721
Property, plant and equipment, net	15	1,462	1,311	1,846
Intangible assets, net	18	89	362	510
Long-term investments	16	24	33	46
Restricted cash		77	77	108
Deferred income taxes	9	446	402	566
Pension assets	31	4	16	23
Other assets	17	160	109	154
Total assets		10,753	7,083	9,974
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt and current maturities	22	260	207	291
Trade accounts payable	19	596	488	687
Accrued liabilities	20	379	410	577
Deferred income taxes	9	10	12	17
Other current liabilities	21	326	435	612
Liabilities held for disposal	4	1,897	2,091	2,945
Total current liabilities		3,468	3,643	5,129
Long-term debt	22	1,149	1,051	1,480
Pension liabilities	31	36	41	58
Deferred income taxes	9	23	3	4
Long-term accrued liabilities	23	22	24	34
Other liabilities	24	108	100	141
Total liabilities		4,806	4,862	6,846
Minority interests	25	1,033	457	644
Shareholders' equity:				
Ordinary share capital	26	1,499	1,499	2,111
Additional paid-in capital		5,864	5,872	8,268
Accumulated deficit		(2,148)	(5,274)	(7,426)
Accumulated other comprehensive loss	28	(301)	(333)	(469)
Total shareholders' equity		4,914	1,764	2,484
Total liabilities and shareholders' equity		10,753	7,083	9,974

See accompanying notes to the consolidated financial statements.

49 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2007 AND 2008

€ IN MILLIONS, EXCEPT FOR SHARE DATA

	Notes	Issued Ordinary shares (Shares)	Issued Ordinary shares (Amount)	
Balance as of October 1, 2005		747,569,359	1,495	
Net loss		—	—	
Other comprehensive income (loss)	28	—	—	
Total comprehensive loss				
Issuance of ordinary shares:				
Exercise of stock options	26	39,935	—	
Stock-based compensation	27	—	—	
Balance as of September 30, 2006		747,609,294	1,495	
Net loss		—	—	
Other comprehensive (loss) income	28	—	—	
Total comprehensive loss				
Issuance of ordinary shares:				
Exercise of stock options	26	2,119,341	4	
Stock-based compensation	27	—	—	
Deferred compensation, net		—	—	
Adjustment to initially apply SFAS 158, net of tax	31	—	—	
Balance as of September 30, 2007		749,728,635	1,499	
Net loss		—	—	
Other comprehensive (loss) income	28	—	—	
Total comprehensive loss				
Issuance of ordinary shares:				
Exercise of stock options	26	13,450	—	
Stock-based compensation	27	—	—	
Adjustment to initially apply FIN 48		—	—	
Balance as of September 30, 2008		749,742,085	1,499	

See accompanying notes to the consolidated financial statements.

Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability/ Defined benefit plans	Unrealized gains (loss) on securities	Unrealized gains (loss) on cash flow hedges	**Total**
5,800	(1,512)	(58)	(84)	12	(24)	5,629
—	(268)	—	—	—	—	(268)
—	—	(69)	(3)	(7)	5	(74)
						(342)
—	—	—	—	—	—	—
28	—	—	—	—	—	28
5,828	(1,780)	(127)	(87)	5	(19)	5,315
—	(368)	—	—	—	—	(368)
—	—	(105)	90	(12)	2	(25)
						(393)
15	—	—	—	—	—	19
17	—	—	—	—	—	17
4	—	—	—	—	—	4
—	—	—	(48)	—	—	(48)
5,864	(2,148)	(232)	(45)	(7)	(17)	4,914
—	(3,122)	—	—	—	—	(3,122)
—	—	(36)	12	(6)	(2)	(32)
						(3,154)
—	—	—	—	—	—	—
8	—	—	—	—	—	8
—	(4)	—	—	—	—	(4)
5,872	(5,274)	(268)	(33)	(13)	(19)	1,764

50 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2007 AND 2008

€ IN MILLIONS

	2006	2007	2008	2008 ($ millions) (unaudited)
Net loss	(268)	(368)	(3,122)	(4,396)
Less: Net loss from discontinued operations	18	296	2,987	4,206
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortization	702	609	542	763
Acquired in-process research and development	—	—	14	20
Recovery of doubtful accounts	21	(13)	3	4
Loss (gains) on sales of marketable securities	(3)	(7)	1	1
Gains on sales of businesses and interests in subsidiaries	—	(19)	(79)	(111)
Gains on disposals of property, plant and equipment	(8)	(10)	(4)	(6)
Equity in losses (earnings) of associated companies	2	—	(4)	(6)
Minority interests	7	14	(14)	(20)
Impairment charges	48	40	135	190
Stock-based compensation	19	12	5	7
Deferred income taxes	(29)	42	27	38
Changes in operating assets and liabilities:				
Trade accounts receivable	44	(46)	39	55
Inventories	2	(59)	(46)	(65)
Other current assets	107	(16)	17	24
Trade accounts payable	61	(95)	(77)	(108)
Accrued liabilities	20	(9)	49	69
Other current liabilities	(34)	(89)	50	70
Other assets and liabilities	(32)	(55)	12	18
Net cash provided by operating activities from continuing operations	677	227	535	753
Net cash provided by (used in) operating activities from discontinued operations	326	980	(659)	(928)
Net cash provided by (used in) operating activities	1,003	1,207	(124)	(175)

See accompanying notes to the consolidated financial statements.

51 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2006, 2007 AND 2008

€ IN MILLIONS

	2006	2007	2008	2008 ($ millions) (unaudited)
Cash flows from investing activities:				
Purchases of marketable securities available for sale	(317)	(75)	(574)	(808)
Proceeds from sales of marketable securities available for sale	693	341	601	846
Proceeds from sales of businesses and interests in subsidiaries	71	246	122	172
Business acquisitions, net of cash acquired	—	(45)	(353)	(497)
Investment in associated and related companies	117	(1)	—	(142)
Purchases of intangible assets, and other assets	(3)	(14)	(115)	(20)
Purchases of property, plant and equipment	(640)	(498)	(312)	(439)
Proceeds from sales of property, plant and equipment	27	26	11	15
Net cash used in investing activities from continuing operations	(52)	(20)	(620)	(873)
Net cash provided by (used in) investing activities from discontinued operations	(801)	(847)	4	6
Net cash used in investing activities	(853)	(867)	(616)	(867)
Cash flows from financing activities:				
Net change in short-term debt	163	(1)	(68)	(96)
Net change in related party financial receivables and payables	8	347	(5)	(7)
Proceeds from issuance of long-term debt	356	245	149	210
Principal repayments of long-term debt	(56)	(744)	(226)	(318)
Change in restricted cash	10	1	—	—
Proceeds from issuance of ordinary shares	—	23	—	—
Proceeds from issuance of shares to minority interest	(9)	—	—	—
Dividend payments to minority interests	—	(71)	(80)	(113)
Capital contributions	(483)	(14)	—	—
Net cash used in financing activities from continuing operations	(11)	(214)	(230)	(324)
Net cash provided by (used in) financing activities from discontinued operations	773	(307)	337	475
Net cash provided by (used in) financing activities	762	(521)	107	151
Net increase (decrease) in cash and cash equivalents	912	(181)	(633)	(891)
Effect of foreign exchange rate changes on cash and cash equivalents	(20)	(40)	(5)	(6)
Cash and cash equivalents at beginning of year	1,148	2,040	1,819	2,560
Cash and cash equivalents at end of year	2,040	1,819	1,181	1,663
Less: Cash and cash equivalents at end of year from discontinued operations	932	746	432	608
Cash and cash equivalents at end of year from continuing operations	1,108	1,073	749	1,055

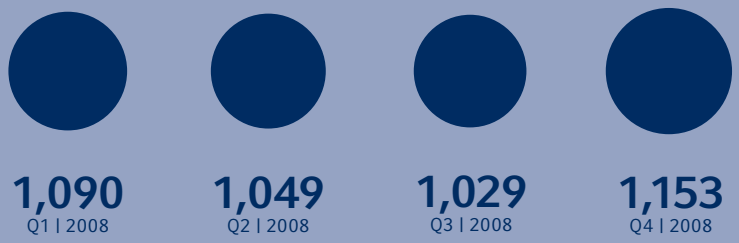
See accompanying notes to the consolidated financial statements.

10 11 12 13 14 15 16 17 18 19 20

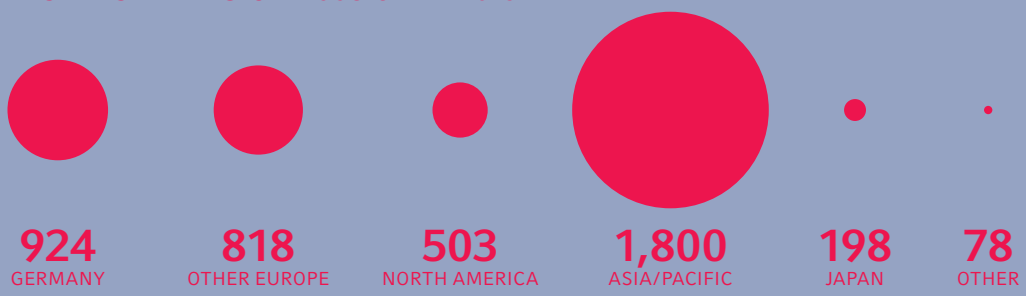
FINANCIAL STATEMENTS 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY NET SALES € in Millions



NET SALES BY REGION 2008 € in Millions



Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

Infineon Technologies AG and its subsidiaries (collectively, "Infineon" or the "Company") design, develop, manufacture and market a broad range of semiconductors and complete system solutions used in a wide variety of microelectronic applications, including computer systems, telecommunication systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. The Company's products include standard commodity components, full-custom devices, semi-custom devices and application-specific components for memory, analog, digital and mixed-signal applications. The Company has operations, investments and customers located mainly in Europe, Asia and North America. Effective May 1, 2006, substantially all of the memory products-related assets and liabilities, operations and activities of the Company were contributed to Qimonda AG ("Qimonda"), a stand-alone legal company (the "Formation"). References in these consolidated financial statements to "Infineon Logic" relate to the Company excluding Qimonda.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with HGB accounting principles and regulations. Pursuant to these requirements, in addition to the U.S. GAAP consolidated financial statements contained herein the Company prepared consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU") and additionally with requirements as set forth in section 315a paragraph 1 of HGB. The fiscal year-end for the Company is September 30. Beginning with the first quarter of the 2009 fiscal year, the Company will prepare its primary financial statements according to IFRS. For periods prior to the 2009 fiscal year, the Company prepared its primary financial statements according to U.S. GAAP. As part of its transition to IFRS, the Company has published IFRS consolidated financial statements for the 2007 and 2008 fiscal year as supplemental information.

All amounts herein are shown in Euro (or "€") except where otherwise stated. The accompanying consolidated balance sheet as of September 30, 2008, and the consolidated statements of operations and cash flows for the year then ended are also presented in U.S. dollars ("$"), solely for the convenience of the reader, at the rate of €1 = $1.4081, the Federal Reserve noon buying rate on September 30, 2008. The U.S. dollar convenience translation amounts have not been audited.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Gains and losses from sales of investments in marketable debt and equity securities, previously reported as part of the operating segment's EBIT, have been reclassified to the Corporate and Eliminations segment. In addition, during the second quarter of the 2008 fiscal year the Company committed to a plan to dispose of Qimonda. As a result, the historical results of Qimonda are reported as discontinued operations for all periods presented, and its assets and liabilities have been classified as held for disposal for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Infineon Technologies AG and its significant subsidiaries that are directly or indirectly controlled on a consolidated basis. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company evaluates its relationships with entities to identify whether they are variable interest entities ("VIEs"), and to assess whether it is the primary

beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. VIEs are entities for which either the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, the investors lack an essential characteristic of a controlling financial interest, or the investors' economic interests are disproportionate to the attached voting rights and substantially all of the entity's activities involve or are conducted for an investor with disproportionately few voting rights.

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies, generally through an ownership interest of 20 percent or more and that are not controlled by the Company ("Associated Companies") are accounted for using the equity method of accounting → NOTE 16. The equity in earnings of Associated Companies with fiscal year ends that differ by not more than three months from the Company's fiscal year end are recorded on a lag. Other equity investments ("Related Companies"), generally in which the Company has an ownership interest of less than 20 percent, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Company group, including entities held for disposal, consists of the following numbers of entities:

	Consolidated entities	Associated companies	Total
September 30, 2007	69	5	74
Additions	6	4	10
Disposals	(1)	(1)	(2)
September 30, 2008	74	8	82

REPORTING AND FOREIGN CURRENCY

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

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

The exchange rates of the primary currencies (€1.00 quoted into currencies specified below) used in the preparation of the accompanying consolidated financial statements are as follows:

	Exchange Rate		Annual average exchange rate	
	September 28, 2007	**September 29, 2008**	2007	**2008**
U.S. dollar	1.4180	1.4349	1.3339	1.5052
Japanese yen	163.2900	152.3000	158.7997	161.6773

SEGMENT REPORTING

Reporting of operating segments is based on those segments reported internally to the entity's chief operating decision-maker for purposes of allocating resources and assessing performance. Each of the segments has a segment manager reporting directly to the Company's Management Board, who has been identified as the relevant Chief Operating Decision Maker ("CODM") (see note 35).

REVENUE RECOGNITION

Sales

Revenue from products sold to customers is recognized, pursuant to U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition", when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts, volume rebates and

price protection, based on actual historical experience, at the time the related revenue is recognized. In general, returns are permitted only for quality-related reasons within the applicable warranty period. The Company records a provision for warranty costs as a charge to cost of sales, based on historical experience of warranty costs incurred as a percentage of net sales, because the Company's management believes that this is a reasonable estimate of potential losses to be incurred within the warranty period.

In accordance with business practice in the semiconductor industry, distributors can, in certain cases, apply for price protection. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included in such inventory. The authorization of the distributor's refund remains fully within the control of the Company. The Company calculates the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend represents the difference between the invoiced price and the standard list price to the distributor. The short outstanding inventory period, the visibility into the standard inventory pricing for standard products, and the long distributor pricing history have enabled the Company to reliably estimate price protection provisions at the end of the period.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License Income

License income is recognized when earned and realizable (see note 5). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional service. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 00–21, "Revenue Arrangements with Multiple Deliverables", revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

GRANTS

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

Grants that are related to items in income are presented as a reduction of the related expense in the consolidated statements of operations.

PRODUCT-RELATED EXPENSES

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

INCOME TAXES

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

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48"), and related guidance. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law and prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. As a result of the implementation of FIN 48, the Company recorded a charge to retained earnings of €4 million as of October 1, 2007 (see note 9).

Prior to October 1, 2007 the Company determined tax contingencies in accordance with SFAS No. 5, "Accounting for Contingencies". The Company recorded estimated tax liabilities to the extent the contingencies were probable and could be reasonably estimated.

SHARE-BASED COMPENSATION

The Company has equity-settled share-based compensation plans.

Pursuant to SFAS No. 123 (revised 2004) "Share-Based Payment", the Company accounts for share-based compensation using the fair value recognition provision. Under this provision, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. See note 27 for further information on share-based compensation.

ISSUANCE OF SHARES BY SUBSIDIARIES OR ASSOCIATED COMPANIES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less. Cash equivalents as of September 30, 2007 and 2008 were €1,023 million and €697 million, respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of three months or less.

RESTRICTED CASH

Restricted cash includes collateral deposits used as security under arrangements for deferred compensation, business acquisitions, construction projects, leases and financing (see note 34).

MARKETABLE SECURITIES AND INVESTMENTS

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

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is recognized using the straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. During each of the fiscal years ended September 30, 2007 and 2008 capitalized interest was €0. The estimated useful lives of assets are as follows:

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

LEASES

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

IMPAIRMENT OF LONG-LIVED ASSETS

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

FINANCIAL INSTRUMENTS

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements, to reduce this risk based on the net exposure to the respective currency. The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which provides guidance on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales, while undesignated derivatives relating to financing activities are recorded in other non-operating income (expense), net. Changes in fair value of derivatives designated as fair value hedges and the related changes in the hedged item are reflected in earnings. Changes in the fair value of derivatives designated as cash flow hedges are, to the extent effective, deferred in accumulated other comprehensive income and subsequently reclassified to earnings when the hedging transaction is reflected in earnings and, to the extent ineffective, included in earnings immediately. The fair value of derivative and other financial instruments is discussed in note 32.

PENSION PLANS

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS No. 87, "Employers' Accounting for Pensions". The assumptions used to calculate pension liabilities and costs are shown in note 31. Prior to the adoption of the recognition provision of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)", changes in the amount of the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions could result in gains or losses not yet recognized in the Company's consolidated financial statements. Amortization of an unrecognized net gain or loss is included as a component of the Company's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of that plan's assets. In that case, the amount of amortization recognized by the Company is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan.

Effective September 30, 2007, the Company adopted the recognition provision of SFAS No. 158, whereby the Company recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its consolidated statement of financial position. Changes in the funded status will be recognized in the year in which the changes occur through other comprehensive income. The incremental effects of the adoption of the recognition provision on the individual line items of the September 30, 2007 consolidated balance sheet are shown in note 31.

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

DISCONTINUED OPERATIONS

Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for sale or has been disposed of, the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

USE OF ESTIMATES

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

3. ACQUISITIONS

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

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

On October 24, 2007, the Company completed the acquisition of the mobility products business of LSI Corporation ("LSI") for cash consideration of €316 million ($450 million) plus transaction costs and a contingent performance-based payment of up to $50 million, in order to further strengthen its activities in the field of communications. The contingent performance-based payment is based on the relevant revenues in the measurement period following the completion of the transaction and ending December 31, 2008. The mobility products business develops semiconductors and software for mobile phone platform solutions. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill.

On April 28, 2008, the Company acquired Primarion, Inc., Torrance, California ("Primarion") for cash consideration of €32 million ($50 million) plus a contingent performance-based payment of up to $30 million. Primarion designs, manufactures and markets digital power integrated circuits ("ICs") for computing, graphics and communication applications. The contingent perfor-

mance-based payment is based on the relevant revenues in the measurement period beginning July 1, 2008 and ending June 30, 2009. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill.

The following table summarizes the Company's business acquisitions during the years ended September 30, 2007 and 2008:

€ in millions	2007	2008	2008
	CPE	LSI	Primarion
Acquisition Date	July 2007	October 2007	April 2008
Segment	Communication Solutions	Communication Solutions	Automotive, Industrial & Multimarket
Other current assets	6	19	1
Property, plant and equipment	1	8	1
Intangible assets:			
Technology	—	42	13
Customer relationships	—	73	—
Other	7	6	—
Goodwill	31	160	11
Other non-current assets	—	—	7
Total assets acquired	45	308	33
Current liabilities	—	(1)	(1)
Total liabilities assumed	—	(1)	(1)
Net assets acquired	45	307	32
In-process research & development	—	14	—
Cash paid (purchase consideration)	45	321	32

The consolidated statements of operations include the results of the acquired businesses from the acquisition date. The Company engaged an independent third party to assist in the valuation of net assets acquired. Based on discounted estimated future cash flows over the respective estimated useful life, an amount of €14 million was allocated to purchased in-process research and development and expensed as research and development during the 2008 fiscal year, because such costs are not capitalized under U.S. GAAP. The acquired intangible assets consist of technology assets of €55 million and customer relationship assets of €73 million, each with a weighted average estimated useful life of six years, and other intangible assets of €13 million with a weighted average estimated useful life of less than one year. The goodwill amounts are expected to be deductible for tax purposes.

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

4. DIVESTITURES AND DISCONTINUED OPERATIONS

POLYMER OPTICAL FIBER

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

HIGH POWER BIPOLAR BUSINESS

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG ("Siemens"). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens subsequently acquired a 40 percent interest in Bipolar for €37 million. The transaction received regulatory approval and subsequently closed on November 30, 2007. As a result of the sale, the Company realized a gain before tax of €27 million which was recorded in other operating expense (income), net during the fiscal year ended September 30, 2008. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounts for the retained interest in Bipolar under the equity method of accounting.

HARD DISK DRIVE BUSINESS

On April 25, 2008, the Company sold its hard disk drive ("HDD") business to LSI for cash consideration of €60 million ($95 million). The HDD business designs, manufactures and markets semiconductors for HDD devices. The Company transferred its entire HDD activities, including customer relationships, as well as know-how to LSI, and granted LSI a license for intellectual property. The transaction did not encompass the sale of significant assets or transfer of employees. As a result of this transaction, the Company realized a gain before tax of €41 million which was recorded in other operating expense (income), net during the 2008 fiscal year.

BAW BUSINESS

On August 11, 2008, the Company sold its bulk acoustic wave filter business ("BAW") to Avago for cash consideration of €21 million and entered into a supply agreement through December 2009. The BAW business designs, manufactures and markets cellular duplexers for N-CDMA and W-CDMA applications and filters for GPS. The total consideration received was allocated to the elements of the transaction on a relative fair value basis. As a result, the Company realized a gain before tax of €11 million which was recorded in other operating expense (income), net during the 2008 fiscal year, and deferred €6 million which will be realized over the term of the supply agreement.

QIMONDA

In conjunction with the Formation, Infineon Logic entered into contribution agreements and various other service agreements with Qimonda. In cases where physical contribution (ownership transfer) of assets and liabilities was not feasible or cost effective, the monetary value was transferred in the form of cash or debt.

The contribution agreements include provisions pursuant to which Qimonda agreed to indemnify Infineon against any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, incomplete transactions, continuing obligations, risks, encumbrances, guarantees and other matters relating to the memory products business that were transferred to it as part of the Formation. In addition, the contribution agreements provide for indemnification of Infineon Logic with respect to certain existing and future legal claims and potential restructuring costs. With the exception of the securities and certain patent infringement and antitrust claims identified in note 34 Qimonda is obligated to indemnify Infineon against any liability arising in connection with claims relating to the memory products business described in that section. Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon Logic and Qimonda, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrual that Infineon Logic transferred to Qimonda at Formation.

On August 9, 2006 Qimonda completed its IPO on the New York Stock Exchange through the issuance of 42 million ordinary shares which are traded as American Depositary Shares ("ADSs") under the symbol "QI". Subsequently, Infineon sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result, the Company's ownership interest in Qimonda decreased to 85.9 percent. On September 25, 2007, Infineon sold an additional 28.75 million Qimonda ADSs, which further reduced the Company's ownership interest in Qimonda to 77.5 percent.

On September 26, 2007, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued notes exchangeable into ADSs of Qimonda in the amount of €215 million. The coupon of the three-year exchangeable note is 1.375 percent per year. The exchange price is €10.48 for each Qimonda ADS, corresponding to an exchange premium of 35 percent. If all noteholders exercise their exchange rights, Infineon would deliver 20.5 million Qimonda ADSs, equivalent to approximately 6.0 percent of Qimonda's share capital (see note 22 and 25).

During the 2008 fiscal year, the Company committed to a plan to dispose of Qimonda. As a result, the results of Qimonda are reported as discontinued operations in the Company's consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the consolidated balance sheets for all periods presented. In addition, the Company recorded after-tax write-downs totaling €1,303 million, in order to remeasure Qimonda to its estimated current fair value less costs to sell. Pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets", the recognition of depreciation expense ceased as of March 31, 2008.

Market prices for DRAM have experienced extremely significant declines since the beginning of the 2007 calendar year. As a result of this intense pricing pressure, Qimonda continued to incur significant losses during the 2008 fiscal year, which are reflected in "loss from discontinued operations, net of income tax" in the Company's consolidated statements of operations. During the 2008 fiscal year, the Company also recorded material write-downs to the carrying value of Qimonda's assets to reflect them at current fair value less costs to sell. Infineon does not intend to make any further capital contributions to Qimonda and has repeatedly announced that it is seeking to dispose of its remaining 77.5 percent interest in that company.

In order to address the ongoing adverse market conditions in the memory products industry and to better enable it to meet its current obligations in the short term, Qimonda has intensively explored operational and strategic alternatives to raise and conserve cash. In furtherance of these goals, on October 13, 2008 Qimonda announced a global restructuring and cost-reduction program that is intended to reposition Qimonda in the market and substantially increase its efficiencies through a wide-ranging realignment of its business. As a part of

this program, Qimonda also announced that it had agreed to sell its 35.6 percent interest in Inotera Memories Inc. to Micron Technology, Inc. for US$400 million (approximately €296 million) in cash. This transaction closed in November 2008.

On December 21, 2008, the Company, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package includes a €150 million loan from the German Free State of Saxony, a €100 million loan from a state bank in Portugal and a €75 million loan from Infineon Logic. In addition to this financing package, Qimonda has announced that it expects to receive guarantees totaling €280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda has announced that it is already in advanced negotiations regarding the financing of €150 million. The availability of the total financing package is contingent upon successful completion of the relevant state, federal and European Commission approval procedures as well as final agreement on the detailed terms and conditions of the transaction.

There can be no assurance that the operational, strategic, and financial measures described above will enable Qimonda to continue to meet its obligations, or that Qimonda will be successful in implementing any further operational or strategic initiatives to adequately address its financial condition. There can also be no assurance that Infineon will be successful in disposing of its remaining interest in Qimonda. In the event that Qimonda's ongoing operational and strategic efforts fail to generate adequate cash or to result in desired operational efficiencies and resulting cash savings, Qimonda may have difficulty meeting its obligations as they come due. In such a case, the financial condition and results of operations of the Company would be materially adversely affected.

In the event that Qimonda were to be unable to meet its obligations, Infineon may be exposed to certain significant liabilities related to the Qimonda business, including pending antitrust and securities law claims, the potential repayment of governmental subsidies received, and employee-related contingencies. Qimonda has accrued approximately €70 million in connection with the antitrust matters and anticipated defense costs in connection with the securities law matters. Given the uncertainty of the timing, nature, scope or success of any specific claim, Infineon is unable to meaningfully quantify its total potential exposure in respect of these matters, but Infineon is aware that such exposure, were it to arise, is likely to be material.

On November 7, 2008, the New York Stock Exchange ("NYSE") notified Qimonda that it was not in compliance with the NYSE's continued listing standards because the average closing price of its ADSs had been below $1.00 over a consecutive 30-day trading period. Over the 12-month period ended November 19, 2008, Qimonda's share price fell 98 percent, from $8.62 to $0.11. Qimonda has notified the NYSE that it intends to regain compliance with this listing standard. If Qimonda cannot do so by May 7, 2009, however, the NYSE has indicated that it will commence suspension and delisting procedures against Qimonda.

ALTIS

ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") is a joint venture between the Company and International Business Machines Corporation, New York, USA ("IBM"), with each having equal voting representation. The Company is ALTIS' primary beneficiary and fully consolidates it in accordance with FIN 46R. In August 2007, the Company and IBM signed an agreement in principle to divest their respective shares in ALTIS via a sale to Advanced Electronic Systems AG ("AES"). Pursuant to SFAS No. 144, the assets and liabilities of ALTIS were classified as held for disposal in the consolidated balance sheet as of September 30, 2007, and the recognition of depreciation expense ceased as of August 1, 2007. As of September 30, 2008, negotiations with AES have not progressed as previously anticipated and could not be completed. Despite the fact that negotiations are ongoing with additional parties, the outcome of these negotiations is uncertain. As a result, the Company reclassified the disposal group's assets and liabilities previously classified as held for sale into held and used in the consolidated balance sheet as of September 30, 2008. Upon reclassification, an adjustment of €59 million was recorded in loss from continuing operations, resulting from the measurement of the disposal group at the lower of its carrying amount before being classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the disposal group been continuously classified as held and used, and its fair value at the date of the reclassification.

At September 30, 2007 and 2008, the carrying amounts of the major classes of assets and liabilities classified as held for disposal were as follows:

€ in millions	September 30, 2007	**September 30, 2008**
Cash and cash equivalents	746	432
Marketable securities	265	—
Trade accounts receivable, net	397	180
Inventories	659	289
Property, plant and equipment, net	2,350	2,059
Long-term investments	628	16
Other assets	608	551
Subtotal	5,653	3,527
Write-down	—	(1,303)
Total assets classified as held for disposal	5,653	2,224
Short-term debt and current maturities	128	346
Trade accounts payable	780	533
Accrued liabilities	147	219
Long-term debt	227	427
Other liabilities	615	566
Total liabilities held for disposal	1,897	2,091

The results of Qimonda presented in the consolidated statements of operations as discontinued operations for the years ended September 30, 2006, 2007 and 2008, consist of the following components:

€ in millions	2006	2007	**2008**
Net sales	3,815	3,608	1,785
Costs and expenses	(3,719)	(3,894)	(3,324)
Loss on measurement to fair value less costs to sell	—	—	(1,303)
Income (loss) from discontinued operations, before tax	96	(286)	(2,842)
Income tax expense	(114)	(10)	(145)
Loss from discontinued operations, net of tax	(18)	(296)	(2,987)

Summary financial information for the divested businesses (through the date of divestiture) for the years ended September 30, 2006, 2007 and 2008, are as follows:

€ in millions	2006	2007	**2008**
Sales:			
POF	26	14	—
Bipolar	72	78	—
HDD	107	124	50
BAW	29	10	11
Total	234	226	61
EBIT:			
POF	(1)	(6)	—
Bipolar	5	(1)	—
HDD	19	20	11
BAW	8	(8)	(4)
Total	31	5	7
Gain on sale before tax:			
POF	—	17	—
Bipolar	—	—	27
HDD	—	—	41
BAW	—	—	11
Other	—	3	—
Total	—	20	79

5. LICENSES

During the years ended September 30, 2006, 2007 and 2008, the Company recognized revenues related to license and technology transfer fees of €21 million, €20 million, and €54 million, respectively, which are included in net sales in the accompanying consolidated statements of operations. Included in these amounts are previously deferred license fees of €1 million, €1 million, and €1 million which were recognized as revenue pursuant to SAB 104 in the years ended September 30, 2006, 2007 and 2008, respectively, since the Company had fulfilled all of its obligations and the amounts were realized.

6. GRANTS

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying consolidated financial statements during the fiscal years ended September 30, 2006, 2007 and 2008, are as follows:

€ in millions	2006	2007	2008
Included in the consolidated statements of operations:			
Research and development	49	91	62
Cost of sales	5	31	26
Total	54	122	88

Deferred government grants amounted to €37 million and €31 million as of September 30, 2007 and 2008, respectively. The amounts of grants receivable as of September 30, 2007 and 2008 were €25 million and €25 million, respectively.

7. SUPPLEMENTAL OPERATING COST INFORMATION

The costs of services and materials are as follows for the years ended September 30:

€ in millions	2006	2007	2008
Raw materials, supplies and purchased goods	852	790	813
Purchased services	912	776	822
Total	1,764	1,566	1,635

Personnel expenses are as follows for the years ended September 30:

€ in millions	2006	2007	2008
Wages and salaries	1,316	1,317	1,475
Social levies	223	237	242
Pension expense (note 31)	31	34	17
Total	1,570	1,588	1,734

Other operating expense (income), net was as follows for the years ended September 30:

€ in millions	2006	2007	2008
Gains on sales of businesses and interests in subsidiaries	—	19	79
Goodwill and intangible assets impairment charges	(32)	(2)	(8)
Long-lived asset impairment charges	(4)	(4)	(122)
Litigation settlement charges, net of recoveries (note 34)	(7)	—	—
Other	7	7	8
Other operating (expense) income, net	(36)	20	(43)

Litigation settlement charges refer to the settlement of an antitrust investigation by the U.S. Department of Justice and related settlements with customers (see note 34).

Total rental expenses under operating leases amounted to €135 million, €115 million and €98 million for the years ended September 30, 2006, 2007 and 2008, respectively.

The average number of employees by geographic region was as follows for the years ended September 30:

	2006	2007	2008
Germany	11,384	10,553	10,085
Other Europe	5,872	5,604	5,280
North America	601	540	845
Asia/Pacific	12,009	12,905	13,094
Japan	156	151	161
Other	41	21	—
Infineon	30,063	29,774	29,465
Qimonda	11,003	12,775	12,990
Total	41,066	42,549	42,455

8. RESTRUCTURING

During the 2006 fiscal year, restructuring plans were announced to downsize the workforce at ALTIS and the Company's chip card back-end activities in order to maintain competitiveness and reduce cost. As part of these restructuring measures, the Company agreed upon plans to terminate approximately 390 employees and recorded restructuring charges in the 2007 fiscal year.

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

To address rising risks in the current market environment, adverse currency trends and below benchmark margins, the Company implemented the IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. The IFX10+ program includes measured target areas including product portfolio management, manufacturing costs reduction, value chain optimization, process efficiency, reorganization of the Company's structure along its target markets, and reductions in workforce. Approximately 10 percent of Infineon Logic's worldwide workforce is expected to be impacted by IFX10+.

During the years ended September 30, 2006, 2007 and 2008, charges of €23 million, €45 million and €181 million, respectively, were recognized as a result of the above-mentioned restructuring initiatives.

The development of the restructuring liability during the fiscal year ended September 30, 2008 was as follows:

€ in millions	September 30, 2007			**September 30, 2008**
	Liability	**Restructuring Charges, net**	**Payments**	**Liability**
Employee terminations	38	170	(36)	172
Other exit costs	6	11	(7)	10
Total	44	181	(43)	182

9. INCOME TAXES

Income (loss) from continuing operations before income taxes, extraordinary loss, and minority interest is attributable to the following geographic locations for the years ended September 30, 2006, 2007 and 2008, as follows:

€ in millions	2006	2007	**2008**
Germany	(318)	(150)	(208)
Foreign	122	196	120
Income (loss) from continuing operations before income taxes, extraordinary loss, and minority interest	(196)	46	(88)

Income tax expense (benefit) from continuing operations for the years ended September 30, 2006, 2007 and 2008, was as follows:

€ in millions	2006	2007	**2008**
Current taxes:			
Germany	63	24	3
Foreign	13	3	31
	76	27	34
Deferred taxes:			
Germany	(42)	40	64
Foreign	13	2	(37)
	(29)	42	27
Income tax expense	47	69	61

Total income taxes from continuing operations for the years ended September 30, 2006, 2007 and 2008 were allocated as follows:

€ in millions	2006	2007	2008
Income tax expense	47	69	61
Shareholder's equity, for other comprehensive loss (income)	—	2	(1)
	47	71	60

The Company's corporate statutory tax rate in Germany is 25 percent in the 2006 and 2007. Additionally, a solidarity surcharge of 5.5 percent is levied. The trade tax rate is 11 percent in 2006 and 2007. The combined statutory tax rate was 37 percent in 2006 and 2007.

On August 17, 2007 the Business Tax Reform Act 2008 was enacted in Germany including several changes to the taxation of German business activities, including a reduction of the Company's combined statutory corporate and trade tax rate in Germany to 28 percent, which comprises corporate tax of 15 percent plus a solidarity surcharge of 5.5 percent and trade tax of 12 percent. Most of the changes came into effect for the Company in its 2008 fiscal year. Pursuant to SFAS No. 109, the Company recorded a deferred tax charge of €28 million as of September 30, 2007, reflecting the reduction in value of the Company's deferred tax assets in Germany upon enactment.

Effective October 1, 2007, the Company adopted FIN 48 (see note 2). The total amount of gross unrecognized tax benefits from uncertain tax positions, is as follows:

€ in millions	
Balance as of October 1, 2007	138
Additions based on tax positions related to the current year	1
Additions for tax positions of prior years	124
Reductions for tax positions of prior years	(2)
Settlements	—
Balance as of September 30, 2008	261

The additions for tax positions of prior years relate mainly to filing of amended tax returns for prior periods. Uncertain tax positions, which, if recognized, would favorably affect the Company's effective tax rate amount to €68 million and €83 million as of September 30, 2007 and 2008, respectively.

The Company has accrued interest and penalties related to income tax liabilities of €4 million as of October 1, 2007. During the fiscal year ended September 30, 2008, the Company recognized accrued interest and penalties related to income tax liabilities in an amount of €3 million. Interest and penalties related to income tax liabilities are included in interest expense, net and other non-operating income (expense), net, respectively.

The Company's German and foreign tax returns are periodically examined by tax authorities, and several entities of the consolidated group are currently subject to such an examination. Generally, the Company's German tax returns from fiscal year 2002 onwards remain subject to examination by tax authorities. Although the timing of the resolution of tax authority examinations is uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could change within the next 12 months as a result of such ongoing and future examinations.

A reconciliation of income taxes for the fiscal years ended September 30, 2006, 2007 and 2008, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 37 percent for 2006 and 2007 and 28 percent for 2008 is as follows:

€ in millions	2006	2007	2008
Expected expense (benefit) for income taxes	(76)	17	(25)
Increase in available tax credits	(38)	(7)	(103)
Non-taxable investment income	(4)	(3)	—
Tax rate differential	(12)	(59)	(10)
Non deductible expenses	7	24	8
Change in German tax rate	3	28	—
Increase in valuation allowance	161	58	185
Other	6	11	6
Actual provision for income taxes	47	69	61

10 11 12 13 14 15 16 17 18 19 20

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

Deferred income tax assets and liabilities as of September 30, 2007 and 2008 relate to the following:

€ in millions	2007	2008
Deferred tax assets:		
Intangible assets	13	8
Property, plant and equipment	134	152
Deferred income	13	12
Net operating loss and tax credit carry-forwards	1,131	1,199
Other items	179	210
Gross deferred tax assets	1,470	1,581
Valuation allowance	(846)	(1,013)
Deferred tax assets, net	624	568
Deferred tax liabilities:		
Property, plant and equipment	(34)	(24)
Accounts receivable	(26)	(23)
Accrued liabilities and pensions	(110)	(103)
Other items	(7)	(5)
Deferred tax liabilities	(177)	(155)
Deferred tax assets, net	447	413

Net deferred income tax assets and liabilities presented in the accompanying consolidated balance sheets as of September 30, 2007 and 2008, are as follows:

€ in millions	2007	2008
Deferred tax assets:		
Current	34	26
Non-current	446	402
Deferred tax liabilities:		
Current	(10)	(12)
Non-current	(23)	(3)
Deferred tax assets, net	447	413

At September 30, 2008, the Company had in Germany tax loss carry-forwards of €3,029 million (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,231 million). In connection with the Formation of Qimonda, the net operating losses related to the memory products segment have been retained by Infineon Technologies AG. In other jurisdictions the Company had tax loss carry-forwards of €102 million and tax effected credit carry-forwards of €175 million. Such tax loss carry-forwards and tax effected credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three-year period as of September 30, 2008, which is significant evidence that the more likely than not criterion is not met pursuant to the provisions of SFAS No. 109, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2006, 2007 and 2008 by €161 million, €58 million, and €185 million, respectively, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2007 and 2008 were as follows:

€ in millions	2007	2008
Balance, beginning of the year	1,017	846
Applicable to continuing operations	58	185
Change in tax rate	(264)	—
Adjustment in corresponding net operating loss carry-forward	35	(18)
Balance, end of the year	846	1,013

In the 2007 and 2008 fiscal years, the Company recorded adjustments to certain net operating loss carry-forwards mainly as a result of tax assessment reconciliations and adjustments in connection with the adoption of FIN 48. As the adjustments were made in jurisdictions in which the Company is in cumulative loss positions, such adjustments were recorded directly to the valuation allowance and approximated €35 million and €18 in the 2007 and 2008 fiscal years, respectively.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2007 and 2008, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The Company reorganized certain businesses in different tax jurisdictions which resulted in deferred intercompany transactions. As of September 30, 2007 and 2008, deferred tax charges related to these transactions amounted to €56 million and €47 million, respectively, of which €50 million and €41 million, respectively are non-current (see note 17).

10. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") is calculated by dividing net loss by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments or ordinary share equivalents had been issued.

The computation of basic and diluted EPS for the years ended September 30, 2006, 2007 and 2008, is as follows:

	2006	2007	2008
Numerator (€ in millions):			
Loss from continuing operations	(250)	(37)	(135)
Loss from discontinued operations, net of tax	(18)	(296)	(2,987)
Loss before extraordinary loss	(268)	(333)	(3,122)
Extraordinary loss, net of tax	—	(35)	—
Net loss	(268)	(368)	(3,122)
Denominator (shares in millions):			
Weighted-average shares outstanding – basic and diluted	747.6	748.6	749.7
Basic and diluted loss per share (in €):			
Loss from continuing operations	(0.34)	(0.05)	(0.18)
Loss from discontinued operations, net of tax	(0.02)	(0.40)	(3.98)
Loss before extraordinary loss	(0.36)	(0.45)	(4.16)
Extraordinary loss, net of tax	—	(0.04)	—
Net loss	(0.36)	(0.49)	(4.16)

The weighted average of potentially dilutive instruments that were excluded from the diluted loss per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise not dilutive, includes 46.7 million, 41.2 million and 34.3 million shares underlying employee stock options for the years ended September 30, 2006, 2007 and 2008, respectively. Additionally, 86.5 million, 74.7 million and 65.0 million ordinary shares issuable upon the conversion of the convertible subordinated notes for the years ended September 30, 2006, 2007 and 2008, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

11. MARKETABLE SECURITIES

Marketable securities at September 30, 2007 and 2008 consist of the following:

€ in millions	2007				2008			
	Cost	Fair Value	Unrealized Gains	Unrealized Losses	Cost	Fair Value	Unrealized Gains	Unrealized Losses
Foreign government securities	8	10	2	—	5	7	2	—
Floating rate notes	—	—	—	—	—	—	—	—
Fixed term deposits	220	211	—	(9)	159	149	1	(11)
Other debt securities	15	18	3	—	—	—	—	—
Total debt securities	243	239	5	(9)	164	156	3	(11)
Equity securities	4	5	1	—	2	2	—	—
Total marketable securities	247	244	6	(9)	166	158	3	(11)
Reflected as follows:								
Marketable securities	219	210	—	(9)	154	143	—	(11)
Other assets (note 17)	28	34	6	—	12	15	3	—
Total marketable securities	247	244	6	(9)	166	158	3	(11)

Unrealized losses relating to securities held for more than 12 months as of September 30, 2007 and 2008, were €9 million and €11 million respectively.

Realized gains (losses) on sales of marketable securities are reflected as other non-operating income (expense), net and were as follows for the years ended September 30:

€ in millions	2006	2007	2008
Realized gains	3	7	—
Realized losses	—	—	(1)
Realized gains (losses), net	3	7	(1)

As of September 30, 2008, there were no significant fixed term deposits with contractual maturities between three and twelve months.

Debt securities as of September 30, 2008 had the following remaining contractual maturities:

€ in millions	Cost	Fair Value
Less than 1 year	5	6
Between 1 and 5 years	94	84
More than 5 years	65	66
Total debt securities	164	156

Actual maturities may differ due to call or prepayment rights.

12. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Third party – trade	583	590
Associated and Related Companies – trade	68	28
Trade accounts receivable, gross	651	618
Allowance for doubtful accounts	(31)	(29)
Trade accounts receivable, net	620	589

Activity in the allowance for doubtful accounts for the years ended September 30, 2007 and 2008 was as follows:

€ in millions	2007	2008
Allowance for doubtful accounts at beginning of year	45	31
Recovery of bad debt, net	(14)	(2)
Allowance for doubtful accounts at end of year	31	29

13. INVENTORIES

Inventories at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Raw materials and supplies	59	59
Work-in-process	354	372
Finished goods	185	232
Total Inventories	598	663

14. OTHER CURRENT ASSETS

Other current assets at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
VAT and other tax receivables	87	95
Grants receivable (note 6)	25	25
Associated and Related Companies – financial and other receivables	79	23
Third party – financial and other receivables	22	17
Receivable from German bank's deposit protection fund	—	121
Financial instruments (note 32)	27	10
Prepaid expenses	30	44
License fees receivable	2	10
Employee receivables	5	8
Other	26	26
Total other current assets	303	379

Cash and cash equivalents and marketable securities in the amount of €121 million were reclassified to accounts receivable from the German bank's deposit protection fund as of September 30, 2008.

15. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the years ended September 30, 2007 and 2008, is as follows:

€ in millions	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost:					
September 30, 2007	687	4,655	1,416	144	6,902
Additions	19	189	63	50	321
Impairments	—	(23)	—	—	(23)
Disposals	(19)	(158)	(109)	(1)	(287)
Reclassifications	7	115	13	(135)	—
Transfers[1]	18	27	(7)	6	44
Foreign currency effects	1	7	(1)	—	7
September 30, 2008	713	4,812	1,375	64	6,964
Accumulated depreciation:					
September 30, 2007	(440)	(3,733)	(1,267)	—	(5,440)
Depreciation	(29)	(365)	(103)	—	(497)
Disposals	19	149	105	—	273
Reclassifications	—	(2)	2	—	—
Transfers[1]	—	9	8	—	17
Foreign currency effects	—	(7)	1	—	(6)
September 30, 2008	(450)	(3,949)	(1,254)	—	(5,653)
Book value September 30, 2007	247	922	149	144	1,462
Book value September 30, 2008	263	863	121	64	1,311

1 Amounts shown as transfers in the year ended September 30, 2008 relate primarily to assets of the ALTIS disposal group that were reclassified into held and used.

16. LONG-TERM INVESTMENTS

Investments in Related Companies principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

A summary of activity for long-term investments for the years ended September 30, 2007 and 2008, is as follows:

€ in millions	Investment in Associated Companies	Investment in Related Companies	Total
Balance at September 30, 2006	—	23	23
Additions	—	1	1
Disposals	—	(3)	(3)
Impairments	—	(2)	(2)
Reclassifications	—	5	5
Balance at September 30, 2007	—	24	24
Additions	21	1	22
Disposals	(7)	(3)	(10)
Impairments	—	(2)	(2)
Equity in earnings	4	—	4
Reclassifications	—	(5)	(5)
Balance at September 30, 2008	18	15	33

On September 28, 2007, Infineon entered into a joint venture agreement with Siemens, whereby the Company contributed its high power bipolar business to the newly formed legal entity Bipolar, and Siemens subsequently acquired a 40 percent interest in Bipolar. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounted for the retained interest in Bipolar of 60 percent under the equity method of accounting (see note 4).

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis of €13 million, €2 million, and €2 million during the years ended September 30, 2006, 2007 and 2008, respectively.

There was no goodwill included in the amount of long-term investments at September 30, 2007 and 2008, respectively.

For the Associated Companies as of September 30, 2008, the aggregate summarized financial information for the fiscal years 2006, 2007 and 2008, is as follows:

€ in millions	2006	2007	2008
Sales	9	6	95
Gross profit	7	3	20
Net income (loss)	(6)	1	6

€ in millions	2006	2007	2008
Current assets	5	—	58
Non-current assets	4	5	11
Current liabilities	(12)	—	(28)
Non-current liabilities	—	(3)	(6)
Shareholders' equity	(3)	2	35

17. OTHER ASSETS

Other non-current assets at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Deferred tax charges (note 9)	50	41
Marketable securities (note 11)	34	15
Long-term receivables	19	21
Employee receivables	1	1
Associated and Related Companies – financial and other receivables	41	20
Other	15	11
Total	160	109

18. INTANGIBLE ASSETS

A summary of activity for intangible assets for the years ended September 30, 2007 and 2008 is as follows:

€ in millions	Goodwill	Other Intangibles	Total
Cost:			
September 30, 2006	29	357	386
Additions	31	19	50
Impairment charges	—	(2)	(2)
Disposals	(6)	(45)	(51)
Foreign currency effects	(1)	(3)	(4)
September 30, 2007	53	326	379
Additions	171	148	319
Impairment charges	—	(5)	(5)
Transfers[1]	—	2	2
Foreign currency effects	1	—	1
September 30, 2008	225	471	696
Accumulated amortization:			
September 30, 2006	—	(299)	(299)
Amortization	—	(34)	(34)
Disposals	—	40	40
Foreign currency effects	—	3	3
September 30, 2007	—	(290)	(290)
Amortization	—	(45)	(45)
Disposals	—	1	1
September 30, 2008	—	(334)	(334)
Carrying value September 30, 2006	29	58	87
Carrying value September 30, 2007	53	36	89
Carrying value September 30, 2008	225	137	362

1 Amounts shown as transfers in the year ended September 30, 2008 relate primarily to assets of the ALTIS disposal group that were reclassified into held and used.

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding fiscal years is as follows: 2009 €31 million; 2010 €28 million; 2011 €28 million; 2012 €26 million; and 2013 €23 million.

During the years ended September 30, 2006, 2007 and 2008, the Company recognized intangible assets impairment charges of €32 million, €2 million, and €8 million respectively.

During the year ended September 30, 2006, partially as a result of the insolvency of one of the Company's largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets principally in reporting units within the Communication Solutions segment might not be recoverable. Recoverability of these intangible assets was measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €38 million were recognized in other operating expense (income), net, representing the amount by which the carrying amount of the assets exceeded their fair value.

During the years ended September 30, 2007 and 2008, the Company did not recognize any impairments of goodwill.

19. TRADE ACCOUNTS PAYABLE

Trade accounts payable at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Third party – trade	527	473
Associated and Related Companies – trade	69	15
Total	596	488

20. ACCRUED LIABILITIES

Accrued liabilities at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Personnel costs	284	327
Warranties and licenses	41	32
Other	54	51
Total	379	410

A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2008 is as follows:

€ in millions	
Balance as of September 30, 2007	41
Accrued during the year	16
Settled or released during the year	(25)
Balance as of September 30, 2008	32

21. OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Deferred income	37	26
VAT and other taxes payable	82	100
Obligations to employees	90	197
Deferred government grants (note 6)	20	17
Financial instruments (note 32)	34	25
Interest	19	16
Settlement for anti-trust related matters (note 34)	20	20
Associated and Related Companies – financial and other payables	12	6
Other	12	28
Total	326	435

Other deferred income includes amounts relating to license income (see note 5) and deferred revenue. The non-current portion is included in other liabilities (see note 24).

22. DEBT

Debt at September 30, 2007 and 2008 consists of the following:

€ in millions	2007	2008
Short-term debt and current maturities:		
Loans payable to banks, weighted average rate 5.1%	127	139
Current portion of long-term debt	133	68
Total short-term debt and current maturities	260	207
Long-term debt:		
Exchangeable subordinated notes, 1.375%, due 2010	215	215
Convertible subordinated notes, 5.0%, due 2010	695	597
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.82%, due 2009–2013	214	217
Secured term loans, weighted average rate 2.45%, due 2013	4	2
Notes payable to governmental entity, due 2010	21	20
Total long-term debt	1,149	1,051

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

On September 26, 2007, the Company (as guarantor), through its subsidiary Infineon Technologies Investment B.V. (as issuer), issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes accrue interest at 1.375 percent per year. The notes are exchangeable into a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS any time during the exchange period, as defined, through maturity, corresponding to an exchange premium of 35 percent. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined, and an early redemption option in the event of a change of control, as defined. The Company may, at its option, redeem the outstanding notes in whole, but not in part, at the principal amount thereof together with accrued interest to the date of redemption, if the issuer has determined that, as a result of a publicly announced transaction, there is a substantial likelihood that the aggregate ownership of the share capital of Qimonda by the issuer, the guarantor and any of their respective subsidiaries will be less than 50 percent plus one share. In addition, the Company may, at its option, redeem the outstanding notes in whole, but not in part, at their principal amount together with interest accrued to the date of redemption, if the share price of the ADSs on each of 15 trading days during a period of 30 consecutive trading days commencing on or after August 31, 2009, exceeds 130 percent of the exchange price. The exchangeable notes are listed on the Frankfurt Stock Exchange. At September 30, 2008, unamortized debt issuance costs amounted to €4 million. Concurrently with this transaction, the Company loaned an affiliate of J.P. Morgan Securities Inc. 3.6 million Qimonda ADSs ancillary to the placement of the exchangeable subordinated notes. The affiliate of J.P. Morgan Securities Inc. sold these ADSs as part of the Qimonda ADSs sale on September 25, 2007. On October 25, 2007, 1.3 million Qimonda ADSs that had been borrowed were returned to the Company and the remaining 2.3 million Qimonda ADSs were returned to the Company on January 4, 2008.

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company, at a conversion price of €10.23 per share through maturity. The notes accrue interest at 5.0 percent per year. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined. The

noteholders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125 percent of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. On September 29, 2006 the Company (through the issuer) irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon conversion. During the 2008 fiscal year, the Company repurchased a notional amount of €100 million of its convertible subordinated notes due 2010. The transaction resulted in a net gain of €2 million before tax, which was recognized in interest expense, net. The repurchase was made out of available cash. At September 30, 2008, the outstanding notional amount was €600 million and unamortized debt issuance costs amounted to €3 million.

Concurrently with the issuance of $248 million in convertible notes due 2013 by Qimonda (as guarantor) through its subsidiary Qimonda Finance LLC (as issuer) on February 12, 2008, Infineon loaned Credit Suisse International 20.7 million Qimonda ADSs ancillary to the placement of the convertible notes, which remained outstanding as of September 30, 2008.

In September 2004, the Company executed a $400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to $345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan originally intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, the Company drew $345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2008, $125 million was outstanding under Tranche A. Tranche B, which is a multicurrency revolving facility to be used for general corporate purposes, remained undrawn at September 30, 2008. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility have been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances.

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

€ in millions			As of September 30, 2008		
Term	Nature of financial Institution Commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	504	139	365
Short-term	no firm commitment	working capital, cash management	176	—	176
Long-term[1]	firm commitment	project finance	307	307	—
Total			987	446	541

1 Including current maturities.

At September 30, 2008, the Company was in compliance with its debt covenants under the relevant facilities.

Interest expense for the years ended September 30, 2006, 2007 and 2008 was €65 million, €77 million and €71 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2008 are as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2009	207
2010	861
2011	82
2012	68
2013	40
Total	1,258

23. LONG-TERM ACCRUED LIABILITIES

Long-term accrued liabilities at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Asset retirement obligations	13	9
Post-retirement benefits	3	3
Personnel costs	6	7
Other	—	5
Total	22	24

24. OTHER LIABILITIES

Other non-current liabilities at September 30, 2007 and 2008 consist of the following:

€ in millions	2007	2008
Deferred income	30	43
Deferred government grants (note 6)	17	14
Settlement for antitrust related matters (note 34)	37	17
Deferred compensation	13	11
Other	11	15
Total	108	100

25. MINORITY INTEREST

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. In December 2005, the Company further amended its agreements with IBM in respect of the ALTIS joint venture and began to fully consolidate ALTIS, whereby IBM's 50 percent ownership interest is reflected as minority interest (see note 4).

Effective May 1, 2006, the Company contributed substantially all of the operations of its memory products segment, including the assets and liabilities that were used exclusively for these operations, to Qimonda, a stand-alone legal company. On August 9, 2006, Qimonda completed an initial public offering on the New York Stock Exchange through the issuance of 42 million ADSs which are traded under the symbol "QI", for an offering price of $13 per ADS. In addition, the Company sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result of these transactions, the Company reduced its shareholding in Qimonda to 85.9 percent. During the fourth quarter of the 2007 fiscal year, Infineon sold an additional 28.75 million Qimonda ADSs (including underwriters' over-allotment option), further reducing its ownership interest in Qimonda to 77.5 percent. The minority investors' ownership interest in Qimonda of 22.5 percent as of September 30, 2007 and 2008 is reflected as minority interest (see note 4).

26. ORDINARY SHARE CAPITAL

As of September 30, 2008 the Company had 749,742,085 registered ordinary shares, notional value of €2.00 per share, outstanding. During the years ended September 30, 2007 and 2008 the Company increased its share capital by €4 million and €0 million, respectively, by issuing 2,119,341 and 13,450 ordinary shares, respectively, in connection with the Company's Long-Term Incentive Plans.

AUTHORIZED AND CONDITIONAL SHARE CAPITAL

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. As of September 30, 2008, the Management Board may use these authorizations to issue new shares as follows:

- Through January 19, 2009, Authorized Share Capital II/2004 – in an aggregate nominal amount of up to €30 million to issue shares to employees (in which case the pre-emptive rights of existing shareholders are excluded).
- Through February 14, 2012, Authorized Share Capital 2007 – in an aggregate nominal amount of up to €224 million to issue shares for cash, where the pre-emptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the pre-emptive rights of shareholders may be excluded for all shares.

The Company has conditional capital of up to an aggregate nominal amount of €92 million (Conditional Share Capital I), of up to an aggregate nominal amount of €29 million (Conditional Share Capital III) and up to an aggregate nominal amount of €24.5 million (Conditional Share Capital IV/2006) that may be used to issue up to 72.6 million new registered shares in connection with the Company's long-term incentive plans (see note 27). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €152 million (Conditional Share Capital 2002) that may be used to issue up to 76 million new registered shares upon conversion of debt securities, issued in June 2003 and which may be converted at any time until May 22, 2010 (see note 22). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €248 million (Conditional Share Capital 2007) that may be used to issue up to 124 million new registered shares upon conversion of debt securities which may be issued before February 14, 2012. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €150 million (Conditional Share Capital 2008) that may be used to issue up to 75 million new registered shares upon conversion of debt securities which may be issued before February 13, 2013. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

DIVIDENDS

Under the German Stock Corporation Act (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of earnings (Bilanzgewinn) of the ultimate parent, as determined in accordance with the HGB. All dividends must be approved by shareholders.

The ordinary shareholders meeting held in February 2008 did not authorize a dividend for the 2007 fiscal year. No earnings are available for distribution as a dividend for the 2008 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2008.

Subject to market conditions, Infineon intends to retain future earnings for investment in the development and expansion of its business.

27. SHARE-BASED COMPENSATION

In 1999, the Company's shareholders approved a long-term incentive plan ("LTI 1999 Plan"), which provided for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI 1999 Plan, the Company could grant up to 48 million options over a five-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire seven years from the grant date.

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions; however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five year period. The exercise price of each option equals 105 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Com-

pany's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board decided annually within 45 days after publication of the financial results how many options to grant to the Management Board. The Management Board, within the same period, decided how many options to grant to eligible employees.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the LTI 2001 Plan. Under the terms of SOP 2006, the Company can grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of a share exceeds the trend of the comparative index Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date.

Under the SOP 2006, the Supervisory Board will decide annually within a period of 45 days after publication of the annual results or the results of the first or second quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to other eligible employees.

At the discretion of the Company, exercised options of the LTI 2001 Plan and SOP 2006 can be satisfied with shares either by issuing shares from the "Conditional Share Capital I" and "Conditional Share Capital III" for the LTI 2001 Plan or from the "Conditional Share Capital III" and "Conditional Share Capital IV/2006" for the SOP 2006 or by transferring shares held by the Company.

A summary of the status of the LTI 1999 Plan, the LTI 2001 Plan, and the SOP 2006 as of September 30, 2008, and changes during the fiscal year then ended are presented below (options in millions, exercise price in euro, intrinsic value in millions of euro):

	Number of options	Weighted-Average exercise price	Weighted-Average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2007	39.4	16.17	2.99	66
Granted	—	—		
Exercised	—	—		
Forfeited and expired	(6.2)	37.44		
Outstanding at September 30, 2008	33.2	12.30	2.28	—
Vested and expected to vest, net of estimated forfeitures at September 30, 2008	30.6	12.32	2.28	—
Exercisable at September 30, 2008	26.5	12.89	1.83	—

Options with an aggregate fair value of €51 million, €32 million and €26 million vested during the fiscal years ended September 30, 2006, 2007 and 2008, respectively. Options with a total intrinsic value of €0, €6 million and €0 were exercised during the fiscal years ended September 30, 2006, 2007 and 2008, respectively.

Changes in the Company's unvested options for the fiscal year ended September 30, 2008 are summarized as follows (options in millions, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted-Average exercise price	Weighted-Average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2007	13.6	3.50	4.77	35
Granted	—	—		
Vested	(6.5)	4.04		
Forfeited	(0.4)	3.23		
Unvested at September 30, 2008	6.7	2.96	4.05	—
Unvested options expected to vest	4.1	3.30	4.03	—

The fair value of each option grant issued pursuant to the 1999 and 2001 Long-Term Incentive Plans was estimated on the grant date using the Black-Scholes option-pricing model. Prior to the adoption of SFAS No. 123 (revised 2004), Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. Following the implementation of SFAS No. 123 (revised 2004), Infineon uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plan 2006 was estimated on the grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. The Company uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

Beginning on the date of adoption of SFAS No. 123 (revised 2004), forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Infineon has not made any dividend payments during the fiscal year ended September 30, 2008.

The following weighted-average assumptions were used in the fair value calculation during the fiscal years ended September 30, 2006, and 2007:

	2006	2007
Weighted-average assumptions:		
Risk-free interest rate	3.08%	3.91%
Expected volatility, underlying shares	43%	40%
Expected volatility, SOX index	—	36%
Forfeiture rate, per year	—	3.40%
Dividend yield	0%	0%
Expected life in years	5.07	3.09
Weighted-average fair value per option at grant date in €	3.19	2.03

As of September 30, 2008, there was a total of €4 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of less than one year.

SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense was allocated as follows for the fiscal years ended September 30, 2006, 2007 and 2008:

€ in millions, except for share data	2006	2007	2008
Compensation expense recognized:			
Cost of goods sold	6	2	1
Selling, general and administrative expenses	11	6	3
Research and development expenses	8	4	1
Total share-based compensation expense	25	12	5
Share-based compensation effect on basic and diluted loss per share in €	(0.03)	(0.02)	(0.01)

Cash received from stock option exercises was €19 million and €0 during the fiscal years ended September 30, 2007 and 2008, respectively. The amount of share-based compensation expense which was capitalized and remained in inventories for the fiscal years ended September 30, 2006, 2007 and 2008 was immaterial. Share-based compensation expense does not reflect any income tax benefits, since stock options are granted in tax jurisdictions where the expense is not deductible for tax purposes.

28. OTHER COMPREHENSIVE LOSS

The changes in the components of other comprehensive loss for the years ended September 30, 2006, 2007 and 2008 are as follows:

€ in millions	2006			2007			2008		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	(4)	—	(4)	(6)	—	(6)	(8)	—	(8)
Reclassification adjustment for losses (gains) included in net income or loss	(3)	—	(3)	(7)	1	(6)	2	—	2
Net unrealized (losses) gains, net	(7)	—	(7)	(13)	1	(12)	(6)	—	(6)
Unrealized gains (losses) on cash flow hedges	5	—	5	2	—	2	(2)	—	(2)
Additional minimum pension liability/ Defined benefit plans	(3)	—	(3)	95	(5)	90	12	—	12
Foreign currency translation adjustment	(69)	—	(69)	(105)	—	(105)	(36)	—	(36)
Other comprehensive loss	(74)	—	(74)	(21)	(4)	(25)	(32)	—	(32)

29. SUPPLEMENTAL CASH FLOW INFORMATION

€ in millions	2006	2007	2008
Cash paid for:			
Interest	109	93	62
Income taxes	71	80	16
Non-cash investing activities:			
Molstanda (note 3)	—	(41)	—
Non-cash financing activities:			
Molstanda (note 3)	—	76	—

30. RELATED PARTIES

The Company has transactions in the normal course of business with Associated and Related Companies ("Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Transactions between the Company and ALTIS subsequent to the consolidation of ALTIS during the first quarter of the 2006 fiscal year are no longer reflected as Related Party transactions (see note 16 and 25). Also, on April 3, 2006, Siemens disposed of its remaining shareholding in the Company. Transactions between the Company and Siemens subsequent to this date are no longer reflected as Related Party transactions.

Related Party receivables consist primarily of trade, financial, and other receivables from Associated and Related Companies, and totaled €194 million and €80 million as of September 30, 2007 and 2008, respectively. At September 30, 2007, current financial and other receivables from Associated and Related Companies included a revolving term loan of €52 million due from ALTIS.

Related Party payables consist primarily of trade, financial, and other payables from Associated and Related Companies, and totaled €81 million and €21 million as of September 30, 2007 and 2008, respectively.

Related Party receivables and payables as of September 30, 2007 and 2008 have been segregated first between amounts owed by or to companies in which the Company has an ownership interest, and second based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of products and services. Financial and other receivables and payables represent amounts owed relating to loans and advances and accrue interest at interbank rates.

Sales to Related Parties, consisting primarily of sales to Siemens group companies and Associated and Related Companies, totaled €366 million, €57 million, and €1 million in the 2006, 2007 and 2008 fiscal years, respectively. Included therein were sales to Siemens group companies totaling €316 million in the 2006 fiscal year and €0 in the 2007 and 2008 fiscal years.

Purchases from Related Parties, consisting primarily of purchases from Siemens group companies and Associated and Related Companies, totaled €200 million, €47 million, and €148 million in the 2006, 2007 and 2008 fiscal years, respectively. Included therein were purchases from Siemens group companies totaling €74 million in the 2006 fiscal year and €0 in the 2007 and 2008 fiscal years.

31. PENSION PLANS

Pension benefits provided by the Company are currently organized primarily through defined benefit pension plans which cover a significant portion of the Company's employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on ranking (both salary level and position). The measurement date for the Company's pension plans is June 30.

In February 2007, the Company transferred the majority of its existing domestic (German) pension plans into a new Infineon pension plan with effect from October 1, 2006. Under the new plan, employee benefits are predominantly based on contributions made by the Company, although defined benefit provisions are retained. The plan qualifies as a defined benefit plan and, accordingly, the change from the previous defined benefit plans is treated as a plan amendment pursuant to SFAS No. 87. In comparison to the existing domestic pension obligation, the additional impact on projected benefit obligation consists of unrecognized prior service cost of approximately €4 million (of which less than €1 million related to Infineon and €4 million related to Qimonda) and is reflected as a separate component of accumulated other comprehensive income (see note 28), and will be amortized as part of net periodic pension cost over the expected years of future service.

As a result of the adoption of SFAS No. 158 as of the end of the fiscal year ended September 30, 2007, the Company recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheets and recognized the change in that funded status in the year in which the changes occur through comprehensive income ("Recognition Provision"). Actuarial gains and losses and unrecognized prior service costs are to be recognized as a component of other comprehensive income, net of tax.

The following table summarizes the incremental effect as of September 30, 2007 resulting from the initial adoption of SFAS No. 158.

€ in millions	Before adoption of SFAS No. 158	Adjustments to initially apply SFAS No. 158	After adoption of SFAS No. 158
Prepaid pension costs	56	(56)	—
Current deferred income taxes	—	(1)	(1)
Intangible asset	1	(1)	—
Non-current pension asset	—	4	4
Current pension liability	—	—	—
Pension liabilities	(42)	6	(36)
Accumulated other comprehensive loss, net of tax	(3)	48	45

Information with respect to the Company's pension plans for the years ended September 30, 2006, 2007 and 2008 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

€ in millions	2006		2007		2008	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**
Accumulated benefit obligation end of year	(337)	(58)	(325)	(44)	(288)	(44)
Change in projected benefit obligation:						
Projected benefit obligation beginning of year	(333)	(79)	(390)	(71)	(342)	(73)
Service cost	(18)	(4)	(20)	(4)	(16)	(3)
Interest cost	(15)	(4)	(18)	(4)	(18)	(4)
Actuarial gains (losses)	(10)	7	79	(1)	60	(1)
Divestitures	—	—	2	—	4	—
Plan additions and amendments	—	—	—	—	1	(1)
Benefits paid	3	2	5	3	5	1
Plan transfers to Qimonda	(17)	—	—	—	7	—
Curtailments	—	6	—	1	—	—
Foreign currency effects	—	1	—	3	—	3
Projected benefit obligation end of year	(390)	(71)	(342)	(73)	(299)	(78)
Change in fair value of plan assets:						
Fair value at beginning of year	176	32	257	36	342	39
Contributions and transfers	63	4	65	4	11	3
Actual return on plan assets	13	3	25	4	(27)	(2)
Benefits paid	(3)	(2)	(5)	(3)	(5)	(1)
Plan transfers from/to Qimonda	8	—	—	—	(7)	—
Foreign currency effects	—	(1)	—	(2)	—	(3)
Fair value at end of year	257	36	342	39	314	36
Funded status	(133)	(35)	—	(34)	15	(42)
Unrecognized actuarial (gains) losses	136	(7)	40	(6)	29	(1)
Unrecognized prior service cost (benefit)	13	—	12	—	10	—
Post measurement date contributions	16	—	1	—	1	—
Net asset (liability) recognized	32	(42)	53	(40)	55	(43)

The above amounts are recognized as follows in the accompanying consolidated balance sheets as of September 30:

€ in millions	2006		2007		2008	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**
Prepaid pension cost	—	1	—	—	—	—
Intangible asset	13	—	—	—	—	—
Non-current pension asset	—	—	1	3	16	—
Current pension liability	—	—	—	—	—	(1)
Pension liabilities	(65)	(43)	—	(36)	—	(41)
Accumulated other comprehensive (income) loss	84	—	52	(7)	39	(1)
Net asset (liability) recognized	32	(42)	53	(40)	55	(43)

The amounts recognized in other comprehensive loss as of September 30, 2008, showing separately the amounts arising during the period and reclassification adjustments of other comprehensive income (loss) as a result of being recognized as components of net periodic benefit cost for the period, are as follows:

€ in millions	Unrecognized actuarial losses (gains)		Unrecognized prior service cost (benefits)		Accumulated other Comprehensive income (loss)	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Balance at beginning of year	40	(7)	12	—	52	(7)
Additions	(11)	6	(1)	—	(12)	6
Reclassification adjustment	—	—	(1)	—	(1)	—
Balance at end of the year	29	(1)	10	—	39	(1)

The amounts in accumulated other comprehensive loss that are expected to be recognized as components of the net periodic benefit cost in the 2009 fiscal year are actuarial gains in an amount of less than €1 million and prior service cost in an amount of €1 million.

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets are as follows:

€ in millions	2006		2007		**2008**	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**
Projected benefit obligation	390	61	—	60	—	78
Fair value of plan assets	257	24	—	24	—	36
Accumulated benefit obligation	337	51	—	44	—	43
Fair value of plan assets	257	24	—	17	—	16

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	2006		2007		**2008**	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**
Discount rate	4.8	5.3	5.5	5.6	6.5	6.1
Rate of compensation increase	2.5	1.8	2.5	2.3	2.5	2.8
Projected future pension increases	1.8	2.2	1.8	2.7	2.0	2.9
Expected return on plan assets	6.5	6.9	6.1	6.9	6.5	7.0

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

INVESTMENT STRATEGIES

The investment approach of the Company's pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The Company's pension plans' assets are invested with several investment managers. The plans

employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

PLAN ASSET ALLOCATION

As of September 30, 2007 and 2008 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

in %	2007		**2008**		Targeted Allocation	
	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**	Domestic plans	Foreign plans
Equity securities	37	60	34	47	36	47
Debt securities	34	22	36	16	31	17
Other	29	18	30	37	33	36
Total	100	100	100	100	100	100

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs.

Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in shares of Infineon.

The components of net periodic pension cost for the years ended September 30, 2006, 2007 and 2008 are as follows:

€ in millions	2006		2007		**2008**	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**
Service cost	(18)	(4)	(20)	(4)	(16)	(3)
Interest cost	(15)	(4)	(18)	(4)	(18)	(4)
Expected return on plan assets	11	2	15	3	22	3
Amortization of unrecognized prior service (cost) benefits	(1)	2	(1)	—	(1)	—
Amortization of unrecognized actuarial gains (losses)	(6)	—	(7)	1	—	—
Curtailment gain recognized	—	2	—	1	—	—
Net periodic pension cost (note 7)	(29)	(2)	(31)	(3)	(13)	(4)

The prior service costs relating to the pension plans are amortized in equal amounts over the expected years of future service of each active employee who is expected to receive benefits from the pension plans.

Unrecognized gains or losses are included in the net pension cost for the year, if as of the beginning of the year, the unrecognized net gains or losses exceed 10 percent of the greater of the projected benefit obligation or the market value of the plan assets. The amortization is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Actuarial gains (losses) amounted to €(3) million, €78 million and €59 million for the fiscal years ended September 30, 2006, 2007 and 2008, respectively. The increase in actuarial gains in the 2007 and 2008 fiscal year was primarily the result of the increase in the discount rate used to determine the benefit obligation.

It is not planned nor anticipated that any plan assets will be returned to any business entity during the next fiscal year.

The effect of employee terminations in connection with the Company's restructuring plans (see note 8), on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2006, 2007 and 2008 pursuant to the provisions of SFAS No. 88 "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The future benefit payments, which reflect future service, as appropriate, that are expected to be paid from the Company's pension plan for the next five fiscal years and thereafter are as follows:

Years ending September 30, (€ in millions)	Domestic plans	Foreign plans
2009	24	2
2010	24	2
2011	25	3
2012	20	2
2013	22	2
Thereafter	139	20

32. FINANCIAL INSTRUMENTS

The Company periodically enters into derivative financial instruments, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on the Company's foreign currency denominated net future cash flows. The Company does not enter into derivatives for trading or speculative purposes.

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2007 and 2008 are as follows:

€ in millions	2007		2008	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold:				
U.S. dollar	260	14	213	(5)
Japanese yen	15	—	5	—
Singapore dollar	—	—	10	—
Malaysian ringgit	3	—	3	—
Norwegian krone	2	—	—	—
Forward contracts purchased:				
U.S. dollar	283	(19)	157	(4)
Japanese yen	4	—	1	—
Singapore dollar	19	—	29	—
Great Britain pound	6	—	9	—
Malaysian ringgit	66	(1)	52	—
Norwegian krone	7	—	2	—
Other currencies	1	—	—	—
Currency Options sold:				
U.S. dollar	—	—	177	(5)
Currency Options purchased:				
U.S. dollar	—	—	163	1
Interest rate swaps	700	(10)	500	(1)
Other	123	9	77	(1)
Fair value, net		(7)		(15)

The Company enters into derivative instruments, primarily foreign exchange forward contracts, to hedge significant anticipated U.S. dollar cash flows from operations. During the fiscal year ended September 30, 2008, the Company designated as cash flow hedges certain foreign exchange forward contracts and foreign exchange options related to highly probable forecasted sales denominated in U.S. dollars. The Company did not record any ineffectiveness for these hedges for the fiscal year ended September 30, 2008. However, it excluded differences between spot and forward rates and the time value from the assessment of hedge effectiveness and included this component of financial instruments' gain or loss as part of cost of goods sold. It is estimated that €4 million of the net losses recognized directly in other comprehensive income as of September 30, 2008 will be reclassified into earnings during the 2009 fiscal year. All foreign exchange derivatives designated as cash flow hedges held as of September 30, 2008 have maturities of six months or less. Foreign exchange derivatives entered into by the Company to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period with unrealized gains and losses recognized in earnings. For the fiscal year ended September 30, 2007 and 2008, no gains or losses were reclassified from accumulated other comprehensive income as a result of the discontinuance of foreign currency cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

For the fiscal years ended September 30, 2006, 2007 and 2008, net gains (losses) related to foreign currency derivatives and foreign currency transactions included in determining net income (loss) amounted to €(11) million, €3 million and €15 million, respectively.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. At September 30, 2008, the subordinated convertible and exchangeable notes, both due 2010, were trading at a 12.07 percent and a 12.34 percent discount to par, respectively, based on quoted market values. The fair values of the Company's cash and cash equivalents, receivables and payables, as well as related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 11).

33. RISKS

The financial risks of the Company consist mainly of risks related to raise enough capital, interest rate risks, liquidity risks and currency exchange risks. Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and financial derivatives.

Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers.

The credit risk with respect to cash equivalents, marketable securities and financial derivatives is limited by transactions with a number of large international financial institutions, with pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

The Company's currency exchange risk is mainly caused by the U.S. Dollar and the Japanese Yen. Generally the Company's policy with respect to limiting short-term foreign currency exposure is to economically hedge at least 75 percent of its estimated net exposure for the initial two-month period, at least 50 percent of its estimated net exposure for the third month and, depending on the nature of the underlying transactions, a significant portion thereafter. An unfavorable development of the Euro to U.S. dollar rate could negatively affect the operative results of the Company.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others of such intellectual property rights. Conversely, the Company is exposed to assertions by others of infringement by the Company of their intellectual property rights.

Additionally, the Company faces risks in connection with claims relating to alleged defective or faulty products, claims relating to the alleged transgression of environmental rules or regulations and other general liability claims. Regardless of the outcome of these claims, the Company may incur substantial costs in defending itself against these claims. Infineon intends to exert substantial efforts in defending itself vigorously against such claims including the support of internal and external experts. For more details about current legal issues see note 34.

The quick pace of technological change coupled with the possibility of delays in the introduction of new products in the market could lead to a significant curtailment of our business which could in turn lead to a loss of customer relationships.

High price pressure and associated risks continue to affect the Company's business. As a substantial volume of the Company's products may be purchased by a select number of customers, operational results may also be dependent upon their success in the marketplace. The Company reacts to such developments by constantly seeking to widen its customer base.

The Company, through its use of third-party foundry and joint venture arrangements, uses a significant portion of manufacturing capacity that is outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is to a certain degree exposed to risks relating to price variations.

See also note 4 for additional risks related to Qimonda.

34. COMMITMENTS AND CONTINGENCIES

LITIGATION AND INVESTIGATIONS

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its investigation into alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. The Company has a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price-fixing charges related to DRAM sales to six Original Equipment Manufacturer ("OEM") customers that manufacture computers and servers. The Company has entered into settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from the Company. The Company has secured individual settlements with eight direct customers in addition to those OEM customers.

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against the Company, its U.S. subsidiary Infineon Technologies North America Corporation ("IF North America") and other DRAM suppliers, alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation ordered that these federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation ("MDL"). In September 2005, the Company and IF North America entered into a definitive settlement agreement with counsel 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 and entered final judgment and dismissed the claims with prejudice.

In April 2006, Unisys Corporation ("Unisys") filed a complaint against the Company and IF North America, among other DRAM suppliers, alleging state and federal claims for price-fixing and seeking recovery as both a direct and indirect purchaser of DRAM. The complaint was filed in the Northern District of California and has been related to the MDL proceeding described above. In October 2007, the court denied a motion of the Company, IF North America, and the other defendants to dismiss the Unisys complaint.

In February and March 2007, four more cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc., and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. All four cases were filed in the Northern District of California and have been related to the MDL described above. All defendants have filed joint motions for summary judgment and to exclude plaintiffs' principal expert in all of these cases, which have been scheduled for hearing on December 17, 2008.

Sixty-four additional cases were filed through October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except for one relating to foreign purchasers, described below) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999 (the Indirect U.S. Purchaser Class). The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law, and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

The foreign purchasers case referred to above was dismissed with prejudice and without leave to amend in March 2006; the plaintiffs have appealed to the Ninth Circuit Court of Appeals. On August 14, 2008, the Ninth Circuit issued its decision affirming the dismissal of this action. 23 of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pretrial proceedings as part of the MDL proceeding described above. 19 of the 23 transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for pre-trial proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pre-trial proceedings.

On January 29, 2008, the district court in the MDL proceedings entered an order granting in part and denying in part the defendants' motion for judgment on the pleadings directed at several of the claims. Plaintiffs filed a Third Amended Complaint on February 27, 2008. On March 28, 2008, the court granted plaintiffs leave to immediately appeal its decision to the Court of Appeals for the Ninth Circuit. On June 26, 2008, the Ninth Circuit Court of Appeals issued an order agreeing to hear the appeal and the parties submitted a stipulation and proposed order to that effect. The district court stayed proceedings pending the Court of Appeals' decision whether to accept the appeal and scheduled a hearing for October 30, 2008 to decide whether the stay should remain in place until the appeal is decided.

In July 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against the Company, IF North America and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. In October 2006, this action was made part of the MDL proceeding described above. In July 2006, the attorney generals of Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New

Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, IF North America and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. In September 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. In October 2006, the Company joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. In August 2007, the court entered orders granting the motions in part and denying the motions in part. Amended complaints in both actions were filed on October 1, 2007. On April 15, 2008, the court issued two orders in the New York and multistate attorneys general cases on the defendants' motions to dismiss. The order in the New York action denied the defendants' motion to dismiss. The order in the multistate attorney generals case partly dismissed and partly granted the motion. On May 13, 2008, the Company answered the complaint by the State of New York and the multistate complaint. On September 15, 2008, the Company filed an amended answer to the multistate complaint. Between June 25, 2007 and April 28, 2008, the state attorneys general of six states, Alaska, Delaware, Ohio, New Hampshire, Texas and Vermont, filed requests for dismissal of their claims. Plaintiffs California and New Mexico filed a joint motion for class certification seeking to certify classes of all public entities within both states. On September 5, 2008, the Court entered an order denying both states' motions for class certification. On September 15, 2008, the New York State Attorney General filed a motion for judgment on the pleadings regarding certain defendants' affirmative defenses to New York's amended complaint. A hearing for the motion was scheduled for December 17, 2008.

In April 2003, the Company received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. In light of its plea agreement with the DOJ, the Company made an accrual during the 2004 fiscal year for an amount representing the probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although the Company cannot more accurately estimate the amount of the actual fine. The Company is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised IF North America that it, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. No formal steps (such as subpoenas) have been taken by the Competition Bureau to date. The Company is fully cooperating with the Competition Bureau in its inquiry.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of 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.

Between September and November 2004, seven secuities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of purchasers of the Company's publicly-traded securities who purchased them during the period from March 2000 to July 2004 (the "Securities Class Actions"). The consolidated amended

complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend. In October 2006, the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. Plaintiffs filed a third amended complaint in July 2007. A hearing was held on November 19, 2007. On January 25, 2008, the court entered into an order granting in part and denying in part the defendants' motions to dismiss the Securities Class Action complaint. The court denied the motion to dismiss with respect to plaintiffs' claims under §§ 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 and dismissed the claim under § 20A of the act with prejudice. On August 13, 2008 the court denied a motion of the Company for summary judgment based on the statute of limitations. On August 25, 2008, the Company filed a motion for judgment on the pleadings against foreign purchasers, i.e., proposed class members who are neither residents nor citizens of the United States who bought securities of the Company on an exchange outside the United States. On August 25, 2008, the plaintiffs also filed a motion to certify the class. A hearing on both motions is scheduled for December 15, 2008.

The Company's directors' and officers' insurance carriers have denied coverage in the Securities Class Actions and the Company filed suit against the carriers in December 2005 and August 2006. The Company's claims against one D&O insurance carrier were finally dismissed in May 2007. The claim against the other insurance carrier is still pending.

In April 2007, Lin Packaging Technologies, Ltd. ("Lin") filed a lawsuit against the Company, IF North America and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products infringe two Lin patents. In November 2007, the parties settled and the case was dismissed.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. District Court for the Eastern District of Texas against Westell Technolgies, Inc. and 16 other defendants, including the Company and IF North America. The complaint alleges infringement of three U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants. On January 25, 2008, the Company and IF North America filed an answer and counterclaim. Wi-LAN's answer to the counterclaim was filed on March 20, 2008. On April 1, 2008, the Court granted the Company's and other non-US defendant's stipulated motion to dismiss without prejudice with respect to such non-US defendants. On July 29, 2008 the court determined the trial date and the date for the "Markman-Hearing" on the construction of essential terms of the asserted patents. The trial date is January 4, 2011; the Markman-Hearing is scheduled for September 1, 2010.

In October 2007, CIF Licensing LLC, New Jersey, USA ("CIF"), a member of the General Electric Group, filed suit in the Civil Court of Düsseldorf, Germany against Deutsche Telekom AG ("DTAG") alleging infringement of four European patents in Germany by certain CPE-modems and ADSL-systems (the "CIF Suit"). DTAG has given third-party notice to its suppliers – which include customers of Infineon – to the effect that a declaratory judgment of patent infringement would be legally binding on the suppliers. Since January 2008, various suppliers also gave their suppliers – including Infineon – third-party notice. On January 28, 2008, Infineon became a party in the suit on the side of DTAG. CIF then filed suit against Infineon alleging indirect infringement of one of the four European patents. DTAG, most of its suppliers and most of their suppliers have formed a joint defense group. Infineon is contractually obliged to indemnify and/or to pay damages to its customers upon different conditions and to different extents, depending on the terms of the specific contracts. By July 16, 2008, DTAG and all the parties who joined the CIF suit in Düsseldorf had filed their answer to the

complaint. At the same time, DTAG, Ericsson AB, Texas Instruments Inc., Nokia Siemens Networks and the Company partly jointly and partly separately filed actions of invalidity before the Federal Patent Court in Munich with respect to all four patents. Concerning the lawsuit in Düsseldorf, CIF must reply by March 9, 2009 and DTAG and the parties who joined the lawsuit on the side of DTAG must respond by September 28, 2009. A court hearing is scheduled for November and December 2009.

On April 12, 2008, Third Dimension Semiconductor Inc. filed suit in the U.S. District Court for the Eastern District of Texas against the Company and IF North America. The complaint alleges infringement of 3 U.S. patents by certain products, including power semiconductor devices sold under the name "CoolMOS". On May 20, 2008, Third Dimension Semiconductor Inc. filed an amended complaint adding one more U.S. patent to the lawsuit. On September 19, 2008, the Company and IF North America filed an answer and counterclaim.

On April 18, 2008, LSI filed a complaint with the U.S. International Trade Commission to investigate an alleged infringement by 18 parties of one LSI patent (the "ITC Case"). On June 6, 2008, LSI filed a motion to amend such complaint to add Qimonda and four other respondents to the investigation. In addition, LSI filed a lawsuit in the Eastern District of Texas on the same patent against all respondents in the ITC Case, including Qimonda (see note 36).

ACCRUALS AND THE POTENTIAL EFFECT OF THESE LAWSUITS

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued. As of September 30, 2008, Infineon Logic had accrued liabilities in the amount of €37 million related to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses for the DOJ related and securities class action complaints. In addition, as of September 30, 2008, Qimonda had accrued €36 million in connection with these matters. Under the contribution agreement in connection with the carve-out of the Qimonda business, Qimonda is required to indemnify the Company, in whole or in part, for any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities the Company incurs in connection with the antitrust actions and the Securities Class Action described above.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on the Company's financial condition and results of operations.

An adverse final resolution of the investigations or lawsuits described above could result in significant financial liability to, and other adverse effects on, the Company, which would have a material adverse effect on its results of operations, financial condition and cash flows. In each of these matters, the Company is continuously evaluating the merits of the respective claims and defending itself vigorously or seeking to arrive at alternative resolutions in the best interest of the Company, as it deems appropriate. Irrespective of the validity or the successful assertion of the claims described above, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations, financial condition and cash flows.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents, environmental matters, and other matters incidental to its businesses. The Company has accrued a liability for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material adverse effect on the Company's results of operations or cash flows in the period of settlement.

CONTRACTUAL COMMITMENTS

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2008[1]:

Payments Due by Period (€ in millions):	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	776	75	63	59	58	56	465
Unconditional purchase commitments	634	594	18	11	3	4	4
Total Commitments	1,410	669	81	70	61	60	469

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

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

OTHER CONTINGENCIES

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2008[1]:

Expirations by Period (€ in millions):	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Maximum potential future payments:							
Guarantees[2]	97	11	—	5	14	3	64
Contingent government grants[3]	47	20	12	4	5	6	—
Total contingencies	144	31	12	9	19	9	64

1 Certain expirations of contingencies that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of expirations in the particular case. Actual outcomes could differ from those estimates.
2 Guarantees are mainly issued for the payment of import duties, rentals of buildings, and contingent obligations related to government grants received.
3 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not otherwise guaranteed and could be refundable if the total project requirements are not met.

On a group-wide basis the Company has guarantees outstanding to external parties of €199 million as of September 30, 2008 (of which €97 million are guarantees of Infineon Logic and €102 million are guarantees of Qimonda). In addition, the Company, as parent company, has in certain customary circumstances guaranteed the settlement of certain of its consolidated subsidiaries' obligations to third parties. Such third party obligations are reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2008, such guarantees, principally relating to certain consolidated subsidiaries' third-party debt, totaled €1,578 million, of which €1,062 million are guarantees of Infineon Logic and €516 million are guarantees of Qimonda. Of these total guarantees €988 million relates to convertible and exchangeable notes issued, of which €815 million relates to convertible and exchangeable notes issued by Infineon Logic and €173 million relates to convertible notes issued by Qimonda.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the

Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2008, a maximum of €330 million of these subsidies could be refundable (of which €283 million relate to Qimonda).

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, enables the Company to centralize the majority of its Munich-area employees in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the gradual move of its employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in restricted cash as of September 30, 2008. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with SFAS No. 13, with monthly lease payments expensed on a straight-line basis over the lease term.

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition. A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2008 is presented in note 20.

35. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information".

The Company's reported organizational structure became effective on May 1, 2006, following the legal separation of its memory products business into the stand-alone legal entity, Qimonda. Furthermore, effective March 31, 2008, the results of Qimonda are reported as discontinued operations in the Company's consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda are classified as held for disposal in the consolidated balance sheets for all periods presented.

As a result, the Company operates primarily in two operating segments: Automotive, Industrial & Multimarket, and Communication Solutions. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

Following the completion of the Qimonda carve-out, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to Infineon's logic segments. In addition, Other Operating Segments includes net sales and earnings that Infineon Logic's 200-millimeter production facility in Dresden recorded from the sale of wafers to Qimonda under a foundry agreement. The Corporate and Eliminations segment reflects the elimination of these net sales and earnings. Furthermore, effective October 1, 2007, raw materials and work-in-process of the common production front-end facilities, and raw materials of the common back-end facilities, are no longer 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 no longer attributed to the operating segments, but is included in the Corporate and Eliminations segment. Only work-in-process of the back-end facilities and finished goods are attributed to the operating segments. Also effective October 1, 2007, the Company records gains and losses

from sales of investments in marketable debt and equity securities in the Corporate and Eliminations segment. The segments' results of operations of prior periods have been reclassified to be consistent with the revised reporting structure and presentation, as well as to facilitate analysis of current and future operating segment information.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). The Company's Management Board, has been collectively identified as the CODM. The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and EBIT. The CODM does not review asset information by segment nor does he evaluate the segments on these criteria on a regular basis, except that the CODM is provided with information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation and amortization expense to the operating segments based on production volume and product mix using standard costs. Information with respect to the Company's operating segments follows:

AUTOMOTIVE, INDUSTRIAL & MULTIMARKET

The Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.

COMMUNICATION SOLUTIONS

The Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.

OTHER OPERATING SEGMENTS

Remaining activities for certain product lines that have been disposed of, as well as other business activities, are included in the Other Operating Segments.

Selected segment data for the years ended September 30, 2006, 2007 and 2008 is as follows:

€ in millions	2006	2007	2008
Net sales:			
Automotive, Industrial & Multimarket	2,839	3,017	2,963
Communication Solutions[1]	1,205	1,051	1,360
Other Operating Segments[2]	310	219	100
Corporate and Eliminations[3]	(240)	(213)	(102)
Total	4,114	4,074	4,321

1 Includes sales of €0, €30 million and €10 million for the fiscal years ended September 30, 2006, 2007, and 2008, respectively, from sales of wireless communication applications to Qimonda.
2 Includes sales of €256 million, €189 million and €79 million for the fiscal years ended September 30, 2006, 2007 and 2008, respectively, from sales of wafers from Infineon Logic's 200-millimeter facility in Dresden to Qimonda under a foundry agreement.
3 Includes the elimination of sales of €256 million, €219 million and €89 million for the fiscal years ended September 30, 2006, 2007 and 2008, respectively, since these sales are not expected to be part of the Qimonda disposal plan.

€ in millions	2006	2007	2008
EBIT:			
Automotive, Industrial & Multimarket	240	291	315
Communication Solutions	(234)	(165)	(73)
Other Operating Segments	4	(12)	(3)
Corporate and Eliminations	(146)	(77)	(287)
Total	(136)	37	(48)
Adjust:			
Interest expense, net	(67)	(40)	(26)
Extraordinary loss, net of tax	—	35	—
(Loss) income before income taxes, discontinued operations, and extraordinary loss	(203)	32	(74)

€ in millions	2006	2007	2008
Depreciation and Amortization:			
Automotive, Industrial & Multimarket	411	401	341
Communication Solutions	246	186	186
Other Operating Segments	45	22	15
Corporate and Eliminations	—	—	—
Total	702	609	542

Income from investments accounted for using the equity method in the amount of €0 and €4 million was realized in the Automotive, Industrial and Multimarket segment during the years ended September 30, 2007 and 2008, respectively. None of the remaining reportable segments had income from investments accounted for using the equity method during any of the periods presented.

€ in millions	2006	2007	2008
Inventories:			
Automotive, Industrial & Multimarket	264	307	335
Communication Solutions	108	128	166
Other Operating Segments	—	—	—
Corporate and Eliminations	208	163	162
Total	580	598	663

As of September 30, 2006, 2007 and 2008, all inventories were attributed to the respective operating segment, since they were under the direct control and responsibility of the respective operating segment managers.

€ in millions	2007	2008
Goodwill:		
Automotive, Industrial & Multimarket	—	13
Communication Solutions	52	211
Other Operating Segments	—	—
Corporate and Eliminations	1	1
Total	53	225

Consistent with the Company's internal management reporting, certain items are included in Corporate and Eliminations and are not allocated to the operating segments. These include certain corporate headquarters costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges and employee share-based compensation expense are included in Corporate and Eliminations and not allocated to the operating segments for internal or external reporting purposes, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Eliminations. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in Corporate and Eliminations. Significant components of Corporate and Eliminations' EBIT for the years ended September 30, 2006, 2007 and 2008 are as follows:

€ in millions	2006	2007	2008
Corporate and Eliminations:			
Unabsorbed excess capacity costs	(33)	(7)	(21)
Restructuring charges (note 8)	(23)	(45)	(181)
Share-based compensation expense (note 27)	(25)	(12)	(5)
Impairment charges	(17)	—	(59)
Other, net	(48)	(13)	(21)
Total	(146)	(77)	(287)

The following is a summary of net sales and of property, plant and equipment by geographic area for the years ended September 30:

€ in millions	2006	2007	2008
Net sales:			
Germany	1,010	907	924
Other Europe	933	888	818
North America	535	564	503
Asia/Pacific	1,324	1,450	1,800
Japan	209	213	198
Other	103	52	78
Total	4,114	4,074	4,321

€ in millions	2006	2007	2008
Property, plant and equipment:			
Germany	624	383	434
Other Europe	494	446	316
North America	5	7	10
Asia/Pacific	556	623	549
Japan	4	3	2
Other	1	—	—
Total	1,684	1,462	1,311

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 7.

No single customer accounted for more than 10 percent of the Company's sales during the fiscal years ended September 30, 2006, 2007 or 2008.

The Company defines EBIT as earnings (loss) before income (loss) from discontinued operations, interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the Company's business and to evaluate its performance. The Company reports EBIT because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate operating segments. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, management finds a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for management to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing.

36. SUBSEQUENT EVENTS

VARIOUS MATTERS

Subsequent to September 30, 2008, the Company repurchased notional amounts of €95 million and €22 million of its exchangeable subordinated notes due 2010 and its convertible subordinated notes due 2010, respectively. The repurchases were made out of available cash.

Effective October 1, 2008, the Company is organized into the following five operating segments: Automotive, Chip Card & Security, Industrial & Multimarket, Wireline Communications and Wireless Solutions.

On October 3, 2008, approximately 95 California schools, political subdivisions and public agencies that were previously putative class members of the multistate attorney general complaint described in note 34 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 in note 34. The plaintiffs seek recovery of actual and treble damages in unspecified amounts, restitution, costs (including attorneys' fees) and injunctive and other equitable relief. The Company and Infineon Technologies North America have agreed to accept service of process as of November 19, 2008 in exchange for an extended period of time to respond to the complaint. The current response date is February 12, 2009.

On October 7, 2008, the Company and Third Dimension Semiconductor Inc. signed a Settlement and License Agreement and on October 21, 2008 filed a joint motion to dismiss the patent infringement case brought against the Company.

On October 13, 2008, Qimonda announced that it had entered into a share purchase agreement to sell its 35.6 percent stake in Inotera Memories, Inc., to Micron Technology, Inc., for cash proceeds of $400 million. The sale of the Inotera stake occurred in two equal tranches, on October 20, 2008 and November 26, 2008.

In the litigation led by LSI (see note 34), the court in the Eastern District of Texas stayed the case on June 20, 2008 while the ITC Case is pending. On October 17, 2008, Qimonda became a party to the ITC Case.

On October 21, 2008, the Company learned that the European Commission had commenced an investigation involving the Company's Chip Card & Security Division for alleged violations of antitrust laws. The investigation is in its very early stages, and the Company is assessing the facts and monitoring the situation carefully.

On October 30, 2008, the district court in the MDL proceedings entered an order staying the indirect purchaser proceedings in the Northern District of California during the period that the Ninth Circuit Court of Appeals considers the appeal on the decision of the district court to dismiss certain claims of the plaintiffs.

On November 12, 2008, Volterra Semiconductor Corporation filed suit against Primarion, Inc., IF North America and Infineon Technologies AG in the United States District Court for the Northern District of California for alleged infringement of five U.S. patents by certain products offered by Primarion.

On November 25, 2008, Infineon Technologies AG, Infineon Technologies Austria AG and IF North America filed suit in the United States District Court for the District of Delaware against Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (collectively "Fairchild") regarding (1) a complaint for patent infringement by certain products of Fairchild and (2) a complaint for declaratory judgment of non-infringement and invalidity of certain patents of Fairchild against the allegation of infringement of those patents by certain products of Infineon. Fairchild has filed a counterclaim

in Delaware for a declaratory judgment on (1) infringement by Infineon of those patents which are the subject of Infineon's complaint for declaratory judgment and (2) non-infringement and invalidity of those patents which are the subject of Infineon's complaint for infringement. Fairchild has further filed another patent infringement suit against Infineon Technologies AG and IF North America in the United States District Court for the District of Maine alleging that certain products of Infineon infringe on two other patents of Fairchild which are not part of the Delaware lawsuit.

On December 5, 2008, the Company received a request for information from the European Commission regarding DRAM turnover data for its 2001 fiscal year.

QIMONDA

On December 21, 2008, the Company, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda (see note 4).

ADDITIONAL INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

APPLICATION OF EXCEPTION REGULATIONS

Pursuant to HGB section 264a, partnerships, where unlimited liability is not held by a natural person, or another partnership with a natural person as the unlimited liability partner, or any other relationships of these kinds, are required to prepare financial statements similar to a limited liability corporation.

For Infineon Technologies Dresden GmbH & Co. OHG, effective December 15, 2008, reorganized into Infineon Technologies Dresden GmbH, Dresden, the Company intends to utilize the exception pursuant to HGB Section 264b, exempting these partnerships from the requirement to prepare and disclose separate financial statements, because they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the particular partnership.

Pursuant to HGB section 264 paragraph 3, the Company also intends to utilize the exception from preparing and disclosing separate financial statements due to a profit-or-loss-transfer agreement between Infineon Technologies AG and the following companies:

- COMNEON GmbH, Nuremberg,
- Infineon Technologies Finance GmbH, Munich, and
- Infineon Technologies Wireless Solutions GmbH, Neubiberg.

Pursuant to HGB Section 291 paragraph 1, the Company also intends to utilize the exception from preparing separate consolidated financial statements of Qimonda AG, Munich, due to the fact that it is a subsidiary of an entity which prepares separate financial statements.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 2 CORPORATE ACT (AKTG)

The Company did not make use of the authorization to repurchase and use its own shares, as granted by the general shareholders' meeting on February 14, 2008, and the Company did not repurchase any of its own shares in the 2008 fiscal year. As of September 30, 2008, the Company did not hold any of its own shares.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 8 CORPORATE ACT (AKTG)

The German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") requires each shareholder whose voting rights reaches, exceeds or, after exceeding, falls below the 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungaufsicht) immediately, but no later than four trading days after such shareholder has reached, exceeded or fallen below such a threshold. The Company has been notified of the changes in voting rights set forth below. The number of shares stated below is taken from the most recent shareholder notification and may therefore be outdated.

- On June 8, 2006, the Capital Group Companies, Inc., Los Angeles, USA has informed the Company according to WpHG Section 21, paragraph 1 and Section 22 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany have fallen below the threshold of 5 percent on June 7, 2006 and amount on that date to 4.949 percent (corresponding to 36,995,392 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentences 2 and 3.
- On June 14, 2006, Capital Group International, Inc., Los Angeles, USA has informed the Company according to WpHG Section 21, paragraph 1 and Section 22 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany have fallen below the threshold of 5 percent on June 7, 2006 and amount on that date to 4.949 percent (corresponding to 36,995,392 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentences 2 and 3.

- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has informed the Company according to WpHG Section 21, paragraph 1 and Section 23 that on February 7, 2008 its voting rights in Infineon Technologies AG, Neubiberg, Germany have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights).
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of ML UK Capital Holdings, London, United Kingdom, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to ML UK Capital Holdings in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of controlled undertakings through which the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings.
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG section 21 paragraph 1 WpHG that, on February 7, 2008 the voting rights of Merrill Lynch Holdings Limited, London, United Kingdom, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch Holdings Limited in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of controlled undertakings through which the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited.
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of Merrill Lynch Europe Intermediate Holdings, London, United Kingdom, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch Europe Intermediate Holdings in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of controlled undertakings through with the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited, which is controlled by Merrill Lynch Europe Intermediate Holdings.
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of Merrill Lynch Europe PLC, London, England, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch Europe PLC in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of controlled undertakings through which the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited, which is controlled by Merrill Lynch Europe Intermediate Holdings, which is controlled by Merrill Lynch Europe PLC.
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of Merrill Lynch International Holdings Inc., Wilmington, USA, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch International Holdings Inc. in accordance with WpHG Section 22, paragraph 1, sentence 1 No. 1. The chain of controlled undertakings through with the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited, which is controlled by Merrill Lynch Europe Intermediate Holdings, which is controlled by Merrill Lynch Europe PLC, which is controlled by Merrill Lynch International Holdings Inc.
- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of Merrill Lynch International Inc., Wilmington, USA, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch International Inc. in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of

controlled undertakings through with the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited, which is controlled by Merrill Lynch Europe Intermediate Holdings, which is controlled by Merrill Lynch Europe PLC, which is controlled by Merrill Lynch International Holdings Inc., which is controlled by Merrill Lynch International Inc.

- On February 15, 2008, Merrill Lynch International, London, United Kingdom, has further informed the Company according to WpHG Section 21, paragraph 1 that, on February 7, 2008 the voting rights of Merrill Lynch & Co Inc., Wilmington, USA, in Infineon Technologies AG, Neubiberg, Germany, have exceeded the thresholds of 3 percent and 5 percent and now amount to 5.25 percent (corresponding to 39,347,562 voting rights). All of these voting rights were attributed to Merrill Lynch & Co Inc. in accordance with WpHG Section 22, paragraph 1, sentence 1, No. 1. The chain of controlled undertakings through with the voting rights are held is: Merrill Lynch International, which is controlled by ML UK Capital Holdings, which is controlled by Merrill Lynch Holdings Limited, which is controlled by Merrill Lynch Europe Intermediate Holdings, which is controlled by Merrill Lynch Europe PLC, which is controlled by Merrill Lynch International Holdings Inc., which is controlled by Merrill Lynch International Inc, which is controlled by Merrill Lynch & Co Inc.
- On March 5, 2008, Brandes Investment Partners L.P. San Diego, USA, has informed the Company according to WpHG Section 21, paragraph 1 that, via shares its voting rights on Infineon Technologies AG, Neubiberg, Deutschland, have exceeded the threshold of 3 percent on February 12, 2008 and now amount to 3.08 percent (this corresponds to 23,073,601 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 3.08 percent of the voting rights is to be attributed to the company.
- On March 11, 2008, Dodge & Cox, San Francisco, USA, has informed the Company according to WpHG Section 21, paragraph 1 that, via shares the voting rights of Dodge & Cox International Stock Fund, San Francisco, USA, on Infineon Technologies AG, Neubiberg, Deutschland, have exceeded the threshold of 10 percent on March 7, 2008 and now amount to 10.03 percent (this corresponds to 75,227,800 voting rights).
- On March 11, 2008, Dodge & Cox, San Francisco, USA, has informed the Company according to WpHG Section 21, paragraph 1 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany, have exceeded the threshold of 10 percent on March 7, 2008 and now amount to 10.03 percent (this corresponds to 75,227,800 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 10.03 percent of the voting rights (this corresponds to 75,227,800 voting rights) is to be attributed to the company from Dodge & Cox International Stock Fund, which holds directly more than 10 percent on Infineon Technologies AG (10.03 percent).
- On December 2, 2008, Templeton Investment Counsel, LLC, Fort Lauderdale, Florida, USA, has informed the Company according to WpHG Section 21, paragraph 1 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the 5 percent limit on December 1, 2008 and amounted to 4.89 percent (corresponding to 36,691,854 Voting Rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 4.89 percent of the voting rights (corresponding to 36,691,854 Voting Rights) are to be attributed to the company.
- On December 12, 2008, AllianceBernstein L.P., New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008 its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6.
- On December 12, 2008, AllianceBernstein Corporation, New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.
- On December 12, 2008, Equitable Holdings LLC, New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.
- On December 12, 2008, AXA Equitable Life Insurance Company, New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below

the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.

- On December 12, 2008, AXA Equitable Financial Services, LLC, New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.
- On December 12, 2008, AXA Financial, Inc., New York, USA, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the threshold of 3 percent and amounted to 2.63 percent (corresponding to 19,686,346 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.
- On December 12, 2008, AXA S.A., Paris, France, has informed the Company according to WpHG Section 21, paragraph 1 that on December 9, 2008, its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the thresholds of 3 percent and 5 percent and amounted to 2.68 percent (corresponding to 20,078,742 voting rights). All of these voting rights are to be attributed according to WpHG Section 22, paragraph 1, sentence 1, No. 6 and sentence 2.
- On December 17, 2008, Templeton Global Advisors Limited, Nassau, Bahamas, has informed the Company according to WpHG Section 21, paragraph 1 that via shares its voting rights on Infineon Technologies AG, Neubiberg, Germany, have fallen below the 3 percent threshold on December 15, 2008 and amounted to 2.86 percent (corresponding to 21,412,923 Voting Rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 2.86 percent of the voting rights (corresponding to 21,412,923 voting rights) is to be attributed.

INFORMATION PURSUANT TO SECTION 161 GERMAN CORPORATE ACT (AKTG)

The compliance declaration prescribed by Section 161 AktG was executed by the Management Board and the Supervisory Board and made available to the shareholders on a continuous basis via the internet.

ACCOUNTING FEES PURSUANT SECTION 314 PARAGRAPH 1 NO. 9 HGB

Year-end Audit Fees

In the 2008 fiscal year, the audit fees charged by KPMG AG Wirtschaftsprüfungsgesellschaft previously known as KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("KPMG"), the Company's independent auditors, amounted to €4.6 million (thereof €2.8 million charged by the auditor engaged to audit the consolidated financial statements) in connection with professional services rendered for the annual audit of the Company's consolidated financial statements, including the audit of internal control over financial reporting as required for the 2008 fiscal year, as well as services normally provided by them in connection with statutory and regulatory filings or other compliance engagements.

Other Audit Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €1.0 million (thereof €0.6 million charged by the auditor engaged to audit the consolidated financial statements) in the 2008 fiscal year for other audit services. These services consisted mainly for the quarterly reviews.

Tax Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €0 (thereof €0 charged by the auditor engaged to audit the consolidated financial statements) in the 2008 fiscal year for professional services related primarily to tax compliance.

Other Fees

Fees of €0.9 million (of which €0.7 million related to the audit of the consolidated financial statements) were charged by KPMG in the 2008 fiscal year for other services. These services consisted of transaction and accounting advisory services, and IT system audits.

MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT COMPENSATION IN FISCAL YEAR 2008

Regarding the required information on the individual remuneration of the members of our Supervisory or Management Boards pursuant to HGB Section 314 par. 1 No. 6 subsection a, sentence 5 to 9, reference is made to the Compensation Report which is part of the Operating and Financial Review.

MANAGEMENT BOARD

The current members of our Management Board, their positions and their ages are as follows:

MANAGEMENT BOARD

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2008
Peter Bauer	48	September 30, 2011	Spokesman of the Management Board, Chief Executive Officer (since June 1, 2008)	Member of the Board of Directors of ◦ Infineon Technologies China Co., Ltd., Shanghai, Republic of China (since June 1, 2008) ◦ Infineon Technologies Asia Pacific Pte, Ltd., Singapore (since June 1, 2008) ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA (since June 1, 2008) ◦ Infineon Technologies Japan K.K., Tokyo, Japan (since June 12, 2008)
Prof. Dr. Hermann Eul	49	August 31, 2012	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of ◦ 7Layers AG, Ratingen
Dr. Reinhard Ploss	52	May 31, 2012	Member of the Management Board and Executive Vice President	Chairman of the Supervisory Board of ◦ Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors of ◦ Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia Member of the Supervisory Board of ◦ Qimonda AG, Munich (since August 19, 2008)
Dr. Marco Schröter (since April 1, 2008)	45	March 31, 2013	Member of the Management Board, Executive Vice President and Chief Financial Officer	Member of the Supervisory Board of ◦ Infineon Technologies Austria AG, Villach, Austria (since May 5, 2008) Member of the Board of Directors of (each since April 1, 2008) ◦ Infineon Technologies Asia Pacific Pte., Ltd., Singapore ◦ Infineon Technologies China Co., Ltd., Shanghai, Republic of China ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA
Resigned Members of the Management Board				
Dr. Wolfgang Ziebart (resigned as of May 31, 2008)	58		Chairman of the Management Board, President and Chief Executive Officer	Member of the Board of Directors of (each until May 31, 2008) ◦ Infineon Technologies China Co., Ltd., Shanghai, Republic of China ◦ Infineon Technologies Asia Pacific Pte, Ltd., Singapore ◦ Infineon Technologies Japan K.K., Tokyo, Japan ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA
Peter J. Fischl (retired as of March 31, 2008)	62		Member of the Management Board, Executive Vice President and Chief Financial Officer	Chairman of the Supervisory Board of ◦ Qimonda AG, Munich ◦ Infineon Technologies Austria AG, Villach, Austria (since December 5, 2007 until March 31, 2008) Member of the Board of Directors of (each until March 31, 2008) ◦ Infineon Technologies Asia Pacific Pte., Ltd., Singapore ◦ Infineon Technologies China Co., Ltd., Shanghai, Republic of China ◦ Infineon Technologies North America Corp., Wilmington, Delaware, USA

SUPERVISORY BOARD MEMBERS

The current members of our Supervisory Board, the Supervisory Board position held by them, their occupation, their principal external positions and their ages are as follows:

SUPERVISORY BOARD MEMBERS

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2008
Max Dietrich Kley Chairman	68	2010	Lawyer	Chairman of the Supervisory Board of ◦ SGL Carbon AG, Wiesbaden Member of the Supervisory Board of ◦ BASF SE, Ludwigshafen ◦ HeidelbergCement AG, Heidelberg ◦ Schott AG, Mainz Member of the Board of Directors of ◦ UniCredit S.p.A., Milan, Italy
Gerd Schmidt[1] Deputy Chairman	54	2009	Chairman of the Infineon Central Works Council Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer[1]	55	2009	Labor union clerk IG Metall, Berlin	
Alfred Eibl[1]	59	2009	Chairman of the Infineon Works Council ◦ Infineon Munich-Campeon	
Prof. Johannes Feldmayer	51	2010	Management Consultant	
Jakob Hauser[1]	56	2009	Chairman of the Works Council ◦ Qimonda AG, Munich	
Gerhard Hobbach[1]	46	2009	Deputy Chairman of the Infineon Works Council ◦ Infineon Munich-Campeon	
Prof. Dr. Renate Köcher	56	2010	Managing Director ◦ Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of ◦ Allianz SE, Munich ◦ BASF SE, Ludwigshafen (until January 14, 2008) ◦ MAN AG, Munich ◦ BMW AG, Munich (since May 8, 2008)
Dr. Siegfried Luther	64	2010	Managing Director ◦ Reinhard Mohn Verwaltungs GmbH, Gütersloh	Member of the Supervisory Board of ◦ WestLB AG, Duesseldorf/Muenster ◦ Wintershall Holding AG, Kassel ◦ EVONIK Industries AG, Essen (since December 3, 2007) Chairman of the Board of Administration of ◦ RTL Group S.A., Luxembourg Member of the Board of Administration of ◦ Compagnie Nationale à Portefeuille S.A., Loverval, Belgium

SUPERVISORY BOARD MEMBERS

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2008
Michael Ruth[1] Representative of Senior Management	48	2009	Corporate Vice President, Reporting and Planning ∘ Infineon Technologies AG	
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	55	2010	Professor ∘ Technical University, Munich	
Kerstin Schulzendorf[1]	46	2009	Member of the Works Council ∘ Infineon Dresden	
Dr. Eckart Sünner	64	2010	President Legal, Taxes & Insurance ∘ BASF SE, Ludwigshafen (until December 31, 2007) President, Chief Compliance Officer ∘ BASF SE, Ludwigshafen (since January 1, 2008)	Member of the Supervisory Board of ∘ K+S AG, Kassel
Alexander Trüby[1]	38	2009	Member of the Works Council ∘ Infineon Dresden	
Prof. Dr. rer. nat. Martin Winterkorn	61	2010	Chairman of the Management Board ∘ Volkswagen AG, Wolfsburg	Chairman of the Supervisory Board of ∘ Audi AG, Ingolstadt Member of the Supervisory Board of ∘ Salzgitter AG, Salzgitter ∘ FC Bayern Munich AG, Munich ∘ TÜV Süddeutschland Holding AG, Munich Member of the Board of Administration of ∘ SEAT S.A., Barcelona, Spanien Chairman of the Board of Directors of ∘ Scania AB, Södertälje, Sweden (since May 3, 2007)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	64	2010	Member of the Corporate Executive (until December 31, 2007) Management Consultant (since January 1, 2008) ∘ Siemens AG, Munich	Member of the Supervisory Board of ∘ Deutsche Messe AG, Hanover ∘ BSH Bosch und Siemens Hausgeräte GmbH, Munich (until April 30, 2008) ∘ Leoni AG, Nuremberg ∘ SAP AG, Walldorf Chairman of the Board of Administration of ∘ Siemens Ltd., Peking, Republic of China (until May 19, 2008) ∘ Siemens S.A., Lisbon, Portugal (until April 28, 2008) ∘ Siemens Ltd., Mumbai, India (until March 31, 2008) ∘ Siemens Ltd., Seoul, Korea (since May 1, 2007)

1 Employee representative.

THE SUPERVISORY BOARD MAINTAINS THE FOLLOWING PRINCIPAL COMMITTEES

Executive Committee
Max Dietrich Kley
Gerd Schmidt
Prof. Dr. rer. nat. Martin Winterkorn

Investment, Finance and Audit Committee
Max Dietrich Kley
Dr. Siegfried Luther
Gerd Schmidt

Mediation Committee
Max Dietrich Kley
Gerd Schmidt
Alexander Trüby
Prof. Dr. rer. nat. Martin Winterkorn

Nomination Committee
Max Dietrich Kley
Prof. Johannes Feldmayer
Prof. Dr. Renate Köcher
Dr. Siegfried Luther
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel
Dr. Eckart Sünner
Prof. Dr. rer. nat. Martin Winterkorn
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

Strategy and Technology Committee
Alfred Eibl
Jakob Hauser
Alexander Trüby
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel
Prof. Dr. rer. nat. Martin Winterkorn
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

Qimonda Committee
Alfred Eibl
Prof. Johannes Feldmayer
Dr. Siegfried Luther
Gerd Schmidt

The members of our Supervisory Board, individually or in the aggregate, do not own, directly or indirectly, more than 1 percent of our company's outstanding share capital.

The business address of each of the members of our Supervisory Board is Infineon Technologies AG, Am Campeon 1–12, D-85579 Neubiberg, Germany.

SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES
AS OF SEPTEMBER 30, 2008

Name and location of company	Share in capital
Infineon Group:	
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100%
Infineon Technologies Austria AG, Villach, Austria	100%
Infineon Technologies China Co. Ltd., Shanghai, China	100%
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany[1]	100%
Infineon Technologies Finance GmbH, Neubiberg, Germany	100%
Infineon Technologies France S.A.S., Saint Denis, France	100%
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	100%
Infineon Technologies Investment B.V., Rotterdam, The Netherlands	100%
Infineon Technologies Japan K.K., Tokyo, Japan	100%
Infineon Technologies North America Corp., Wilmington/Delaware, USA	100%
Infineon Technologies SensoNor AS, Horten, Norway	100%
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia	100%
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies Wireless Solution GmbH, Neubiberg, Germany	100%
Primarion Inc., Torrance, California, USA	100%
Infineon Technologies Bipolar GmbH & Co. KG, Warstein, Germany	60%
ALTIS Semiconductor S.N.C., Essonnes, France	50%
Qimonda Gruppe[2]	
Qimonda AG, Munich, Germany	78%
Qimonda Asia Pacific Pte. Ltd., Singapore	78%
Qimonda Dresden GmbH & Co. OHG, Dresden, Germany	78%
Qimonda Europe GmbH, Munich, Germany	78%
Qimonda Holding B.V., Rotterdam, The Netherlands	78%
Qimonda Investment B.V., Rotterdam, The Netherlands	78%
Qimonda Japan K.K., Tokyo, Japan	78%
Qimonda Malaysia Sdn. Bhd., Malacca, Malaysia	78%
Qimonda Module (Suzhou) Co., Ltd., Suzhou, China	78%
Qimonda North America Corp., Wilmington/Delaware, USA	78%
Qimonda Portugal S.A., Vila do Conde, Portugal	78%
Qimonda Richmond, LLC, Wilmington/Delaware, USA	78%
Qimonda Technologies (Suzhou) Co., Ltd., Suzhou, China	49%
Inotera Memories Inc., Taoyuan, Taiwan[3]	28%

1 Effective December 15, 2008, reorganized into Infineon Technologies Dresden GmbH.
2 Ownership percentages are net of Qimonda's minority interest.
3 On October 13, 2008, Qimonda announced that they entered into a share purchase agreement to sell its 35.6 percent stake in Inotera Memories, Inc, to Micron Technology, Inc, for cash proceeds of US$400 million. The sale of the Inotera stake occurred in two equal tranches, on October 20, 2008 and November 26, 2008, respectively.

Neubiberg December 22, 2008
Infineon Technologies AG
Management Board

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of September 30, 2008. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2008, our company's disclosure controls and procedures were (1) designed to ensure that material information relating to Infineon, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by Infineon in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act as a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and board of our company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control Integrated Framework. Based on our assessment, management concluded that, as of September 30, 2008, our internal control over financial reporting is effective based on those criteria.
Our independent registered public accounting firm has issued an attestation report on our management's assessment of our company's internal control over financial reporting. This report appears on page 186 of this Annual Report.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

No change in our internal control over financial reporting occurred during the fiscal year ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LIMITATIONS

There are inherent limitations to the effectiveness of any system of disclosure and internal controls, including the possibilities of faulty judgments in decision-making, simple error or mistake, fraud, the circumvention of controls by individual acts or the collusion of two or more people, or management override of controls. Accordingly, even an effective disclosure and internal control system can provide only reasonable assurance with respect to disclosures and financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of a disclosure and internal control system may vary over time.

Report of Independent Registered Public Accounting Firm

The Supervisory Board of Infineon Technologies AG:

We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries (the Company) as of September 30, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2008. We also have audited the Company's internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's

internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control – Integrated Framework issued by COSO.

MUNICH, GERMANY DECEMBER 23, 2008

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

(PREVIOUSLY KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT)

Consolidated Financial Data 2004–2008

CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG[1]

€ IN MILLIONS

As of and for the financial years ended September 30,	2004	2005	2006	2007	2008
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales	4,187	3,934	4,114	4,074	4,321
By region:					
Germany	1,277	1,122	1,010	907	924
Other Europe	921	878	933	888	818
North America	389	437	535	564	503
Asia/Pacific	1,262	1,132	1,324	1,450	1,800
Japan	233	230	209	213	198
Other	105	135	103	52	78
By Segments[2]:					
Automotive, Industrial & Multimarket	2,540	2,516	2,839	3,017	2,963
Communication Solutions	1,689	1,391	1,205	1,051	1,360
Other Operating Segments	16	285	310	219	100
Corporate and Eliminations	(58)	(258)	(240)	(213)	(102)
Total	4,187	3,934	4,114	4,074	4,321
Cost of goods sold	2,608	2,745	2,805	2,702	2,823
Gross profit	1,579	1,189	1,309	1,372	1,498
Research and development expenses	871	903	816	768	755
Selling, general and administrative expenses	486	449	520	500	569
Restructuring charges	15	77	23	45	181
Other operating expense (income), net	62	79	36	(20)	43
Operating (loss) income	145	(319)	(86)	79	(50)
Interest expense (income), net	(11)	3	(67)	(40)	(26)
Equity in earnings (losses) of associated companies, net	2	12	(2)	—	4
Other non-operating income (expense), net	(54)	13	(41)	7	(16)
Minority interests	1	—	(7)	(14)	14
Income (loss) before income taxes, discontinued operations, and extraordinary loss	83	(291)	(203)	32	(74)
Income tax benefit (expense)	57	(33)	(47)	(69)	(61)
Income (loss) from continuing operations	140	(324)	(250)	(37)	(135)
Income (loss) from discontinued operations, net of tax	(79)	12	(18)	(296)	(2,987)
Net (loss) income before extraordinary loss	61	(312)	(268)	(333)	(3,122)
Extraordinary loss, net of tax	—	—	—	(35)	—
Net (loss) income	61	(312)	(268)	(368)	(3,122)
Basic and diluted loss per share from continuing operations	0.19	(0.43)	(0.34)	(0.05)	(0.18)
Basic and diluted loss per share from discontinued operations, net of tax	(0.11)	0.01	(0.02)	(0.40)	(3.98)
Basic and diluted loss per share for extraordinary loss, net of tax	—	—	—	(0.04)	—
Basic and diluted income (loss) per share	0.08	(0.42)	(0.36)	(0.49)	(4.16)
EBIT by Segments[2]					
Automotive, Industrial & Multimarket	252	132	240	291	315
Communication Solutions	(44)	(297)	(234)	(165)	(73)
Other Operating Segments	(75)	4	4	(12)	(3)
Corporate and Eliminations	(39)	(133)	(146)	(77)	(287)
Total	94	(294)	(136)	37	(48)

1 Colums may not add due to rounding.
2 Effective January 1, 2005, we reorganized certain of our business units to better reflect our customer and market profiles. Accordingly, the segment results for prior years have been reclassified to be consistent with the reporting structure and presentation of the 2005 financial year, and to facilitate analysis of current and future operating segment information.

CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG[1] CONTINUATION
€ IN MILLIONS

As of and for the financial years ended September 30,	2004	2005	2006	2007	2008
SUMMARY CONSOLIDATED BALANCE SHEET DATA					
Cash and cash equivalents	31	516	1,108	1,073	749
Marketable securities	1,936	858	477	210	143
Trade accounts receivable, net	613	552	574	620	589
Inventories	592	538	580	598	663
Deferred income taxes	69	76	50	34	26
Other current assets	561	801	593	303	379
Assets held for disposal	4,750	4,861	5,861	5,653	2,224
Total current assets	8,552	8,202	9,243	8,491	4,773
Property, plant and equipment, net	1,201	1,535	1,684	1,462	1,311
Intangible Assets, net	312	158	86	89	362
Long-term investments	311	235	23	24	33
Restricted cash	109	88	78	77	77
Deferred income taxes	367	425	466	446	402
Pension assets	—	—	—	4	16
Other assets	124	210	113	160	109
Total non-current assets	2,424	2,651	2,450	2,262	2,310
Total assets	10,976	10,853	11,693	10,753	7,083
Short-term debt and current maturities	103	99	797	260	207
Long-term debt	1,400	1,458	1,058	1,149	1,051
Shareholders' equity	5,978	5,629	5,315	4,914	1,764
SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash provided by operating activities from continuing operations	1,164	607	677	227	535
Net cash provided by (used in) investing activities from continuing operations	(761)	682	(52)	(20)	(620)
Depreciation and amortization from continuing operations	568	1,316	702	609	542
Purchases of property, plant and equipment from continuing operations	(393)	(442)	(640)	(498)	(312)
The IFX Share (as of September 30)					
Dividend per share in €	0	0	0	0	0
Closing price Xetra Trading System in €	8.22	8.18	9.35	12.09	3.92
Closing price New York Stock Exchange (NYSE) in US Dollar	10.22	9.92	11.83	17.18	5.59
Shares outstanding in million	747.6	747.6	747.6	749.7	749.7
Market capitalization	6,145	6,115	6,990	9,064	2,939
Market capitalization in US Dollar million	7,640	7,416	8,844	12,880	4,191
Key Figures					
Equity ratio	54%	52%	45%	46%	25%
Debt-to-equity ratio	25%	28%	35%	29%	71%
Return on Capital Employed (ROCE)[3]	2%	(5%)	(2%)	1%	(2%)
Net cash position (as of September 30)[4]	464	(183)	(270)	(126)	(366)
Employees (period end in total figures)					
Total	24,512	26,834	29,849	29,598	29,119
By Region:					
Germany	10,103	12,061	11,052	10,151	10,053
Other Europe	4,296	4,077	5,578	5,564	5,192
North America	815	699	532	581	821
Asia/Pacific	9,107	9,829	12,497	13,145	12,897
Japan	123	131	149	157	156
Other	68	37	41	—	—
By Function:					
Production	15,281	17,428	20,528	20,376	19,358
Research & development	5,740	5,961	5,989	5,833	6,273
Sales & Marketing	1,782	1,752	1,781	1,832	1,905
Administrative	1,709	1,693	1,551	1,557	1,583

3 Return on Capital Employed (RoCE) = EBIT divided by capital employed.
4 Cash and cash equivalents plus marketable securities minus short and long-term debt.

Financial and Technology Glossary

FINANCIAL GLOSSARY

ACCUMULATED BENEFIT OBLIGATION (ABO) ○ An approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed.

ADS ○ American Depositary Shares – ADS are U.S.-traded stock certificates for non-U.S. stocks. These certificates simplify access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S.-based companies. Infineon's ADS are listed on the New York Stock Exchange (NYSE) at a 1:1 ratio.

CARVE-OUT ○ Legal separation of business operations (e.g. business units).

CASH FLOW ○ The cash-effective balance arising from inflows and outflows of funds over the financial year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash the company spent for investment, or cash it raised from divestitures), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

DAX ○ Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

DEFERRED TAXES ○ Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

DERIVATIVE ○ A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

EBIT ○ Infineon defines EBIT as "Earnings Before Interest and Taxes." This is the measure that Infineon uses to evaluate the operating performance of its segments.

EBIT MARGIN ○ An indicator of operating performance, calculated as the percentage of EBIT in relation to net sales.

EPS ○ Earnings (loss) Per Share – basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

EQUITY METHOD ○ Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

FREE CASH FLOW ○ Inflow and outflow of cash from operating and investing activities excluding purchases or sales of marketable securities.

GOODWILL ○ An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under U.S. GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year.

GROSS CASH POSITION ○ Total of cash and cash equivalents and marketable securities.

GROSS PROFIT OR MARGIN ○ Net sales less cost of goods sold.

IFRS ○ International Financial Reporting Standards; Infineon prepares its consolidated financial statements according to IFRS, as adopted by the European Union.

JOINT VENTURE ○ A form of business partnership between companies engaging in a commercial enterprise.

MINORITY INTEREST ○ Proportional share in net income not ascribed to the consolidated group but to outside shareholders that hold a minority share in the equity of the company's subsidiaries.

NET CASH POSITION ○ Gross cash position less long-term and short-term debt.

PROJECTED BENEFIT OBLIGATION (PBO) ○ A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

REGISTERED SHARES ○ Shares registered in the name of a certain person. This person's details and number of shares are registered in the company's share ledger in accordance with securities regulations. Only individuals registered in the company's share ledger are considered shareholders of the company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

SEC ○ Securities and Exchange Commission. The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.

U.S. GAAP ○ Accounting principles generally accepted in the United States of America.

TECHNOLOGY GLOSSARY

2G ○ Second generation, i.e. digital mobile telephony. Subsequent to the first generation (analog), 2G digital signals offer good overall sound quality and numerous data services. Second generation mobile communications standard in Europe: GSM.

2.5G ○ Currently most commonly used mobile communications infrastructure. 2.5-generation mobile communications standard in Europe: GPRS.

3G ○ Third generation of mobile communications. Provides broadband transmission of voice and data with considerably higher capacity compared to second generation. Third generation mobile communications standard in Europe: UMTS.

300-MILLIMETER TECHNOLOGY ○ Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters. At Infineon, the term is used as a synonym for the manufacture of memory chips on a 300-millimeter wafer.

300-MILLIMETER PRODUCTION SITE ○ A semiconductor production site which can process wafers with a diameter of 300 millimeters.

ABS ○ The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

ADSL2, ADSL2+ ○ ADSL2 and ADSL2+ are further developments of the ADSL (Asymmetric Digital Subscriber Line) standard, which above all improve the data rates and range of ADSL connections. The increased range allows network providers to offer ADSL to a higher number of potential customers, while the increased data rates allow for new services like high-definition television (HDTV) over the Internet. ADSL2+ increases the maximum data rate to 25 megabits per second downstream compared to the 16 megabits per second with ADSL2. These data rates easily allow the transmission of multiple TV or single HDTV channels.

ASIC ○ Application-Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

ASSP ○ Application-Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

BACK-END MANUFACTURING ○ The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

BASEBAND IC ○ A baseband IC processes the digital signals received and those to be sent. This complex component usually contains a digital signal processor, microcontroller, memory and analog circuits. Essentially, it is the core of a wireless communications system.

BIT ○ Information unit; can take one of two values "true"/"false" or "0"/"1".

BLUETOOTH ○ Technology for wireless voice and data transmission over short distances.

BURIED WORDLINE ○ A new DRAM cell architecture in which trench technology is used in a different form: The actual storage capacitor will in future no longer be implemented in the form of a trench etched deep into the silicon; instead it will be "stacked" above the word and bit connecting lines and the switching transistors. Trenches are still produced on the wafer, but now, instead of the storage capacitors, they accommodate the "word" connecting paths to the memory cells, the "wordlines", as they are known; that is why the cell architecture is called buried wordline. Ultimately, buried-wordline technology, by providing an optimized and simplified cell structure, is intended to lower manufacturing costs and at the same time reduce the power consumption of the DRAM chips.

BYTE ○ Unit of information in data processing components. One byte is equivalent to 8 bits.

CHIP CARD ○ Plastic card with built-in memory chip or microprocessor, which can be combined with a Personal Identification Number (PIN).

CMOS ○ Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to produce microchips with low power usage and a high level of integration.

CooLMOS ○ High-voltage power transistor for voltages from 300 to 1,200 V.

CPE ○ Customer Premises Equipment are user end devices in a computer network, telephone network or in telephone systems. Such end devices are normally the property of the end consumer or customer and are connected to a telephone or data network (Internet or LAN). Telephones, fax machines and modems are the most frequently found CPE devices. In the context of DSL, the term "CPE" designates DSL modems.

DECT ○ Digital Enhanced Cordless Telecommunications. Uniform European standard for digital wireless communications systems.

DRAM ○ Dynamic Random Access Memory. Widely used, low-cost memory chip technology based on high-level integration. Examples of DRAM chips: SDR SDRAM, DDR SDRAM, DDR2 SDRAM, Graphics RAM (see RAM).

DSL ○ Digital Subscriber Line. A broadband digital connection over telephone networks.

EDGE ○ Enhanced Data Rates for GSM Evolution. Describes a technology for an increased data rate in GSM mobile communications networks which, to date, is only very rarely applied. Like GPRS, EDGE is a further evolutionary development of the GSM technology, and can be introduced in mobile communications networks with moderate effort.

ESP ○ Electronic Stability Program. A vehicular technology system that uses sensors and computers to brake individual wheels in order to prevent skidding.

eWLB ○ embedded Wafer-Level Ball Grid Array. → PAGES 44 AND 45.

FAB ○ See back-end (manufacturing) or front-end (manufacturing)

FRONT-END ○ Front-end process is the designation for all process steps that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the front-end process, the wafer may have been through as many as 500 individual process steps.

GIGA ○ 2^{30}, in information technology, e.g. Gigabit (Gbit), Gigabyte (GByte).

GPRS ○ General Packet Radio Service. New generation of mobile communications (2.5 group) for higher data transmission rates (up to 115 kilobits per second) in GSM networks.

GPS ○ Global Positioning System. Satellite-based location identification and positioning system based on the transit-time differences of received signals.

GRAPHICS MEMORY ○ A specially extended variant of memory chips that is optimized for graphics applications and used on high-end graphics cards. Using an internal command pipeline, access sequences can be buffered on the chip and higher access bandwidths achieved as a result.

GSM ○ Global System for Mobile Communications. Currently the most widely used digital mobile communications standard in the world.

HDTV ○ High Definition Television is a generic term for a number of television standards characterized by an increased vertical, horizontal and/or temporal resolution compared to conventional television. This is accompanied by the transition from the 4:3 to the 16:9 aspect ratio.

HOME GATEWAY ○ This allows high-speed data transmissions from and to private homes. It can be considered as the next evolutionary step following the set-top box (decoder).

HSPDA ○ High-Speed Download Packet Access. A third-generation (UMTS) mobile phone communications protocol. HSDPA allows for the rapid transmission of data from the base station to the mobile phone unit at up to 7.2 megabits per second. This makes it possible for large amounts of data such as films, pictures, Internet pages, and e-mail to be downloaded to a mobile phone at high speeds. HSPDA is not only used in mobile phones, laptop users also work via data cards with the fast mobile data link.

HSUPA ○ High-Speed Uplink Packet Access. A third-generation (UMTS) mobile phone communications protocol, like HSPDA. HSUPA allows for the rapid transmission of data from the mobile phone unit to the base station at currently up to 5.8 megabits per second. This makes it possible for large amounts of data such as films, pictures, and e-mail to be uploaded fast from a mobile phone. HSUPA is currently in an early stage of roll-out.

IAD ○ Integrated Access Device. Customer premise equipments for the next generation network (NGN) that combine telephone, internet, and television signals, provided to customers through their telephone jacks. Users can connect their computers, telephones, and television decoders to IADs.

IC ○ Integrated Circuit. Electronic component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

IGBT MODULE ○ Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high blocking voltage, and their ability to be triggered with negligible power. Modules are formed using several IGBTs in parallel within a single casing. These modules are used to drive electric motors both in automotive and industrial applications. Motor speed and torque can be regulated along a gradual scale. Trains such as Germany's ICE and France's TGV use IGBT modules for an efficient and rapid electrical drive control.

IHM ○ IGBT High-Power Module. Semiconductor power module featuring multiple internal IGBTs (see IGBT module) that is designed for switching loads in the megawatt range.

IPTV ○ Internet Protocol Television. Describes the digital transmission of TV programs and movies over a digital data network, and uses the Internet Protocol (IP) on which the Internet is based. The transmission of digital video signals demands a high data rate (about six to eight megabits per second for HDTV). Therefore, IPTV was not possible before the wide spread of broadband Internet connections to customers (e.g. ADSL2, cable modem or VDSL) and introduction of new compression methods.

ISDN ○ Integrated Services Digital Network. Type of online connection, integrating telecommunications services such as telephone, fax or data transmissions into one single network.

KILO ○ 2^{10}, in information technology, e.g. Kilobit (Kbit), Kilobyte (Kbyte).

LTE ○ Long-Term Evolution. LTE is regarded as currently the most promising alternative to succeed the UMTS standard. First lab tests promise a data transfer rate of 100 megabits per second. This is intended to enable mobile telecommunications providers to offer interactive services, including high-speed data transfer and television (IPTV), as well as voice.

MEGA ○ 2^{20}, in information technology, e.g. Megabit (Mbit), Megabyte (Mbyte).

MEGAHERTZ ○ Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz. The Hertz determines the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

MICROCONTROLLER ○ A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of the highest complexity can be designed in a microcontroller and controlled by software.

MICRON (MICROMETER) ○ Metric linear measure, corresponding to the millionth part of a meter (10^{-6} m). Symbol: µm. As an example, the diameter of a single human hair is 0.1 millimeters, or 100 µm.

MOBILE PHONE PLATFORM ○ This platform is a working mobile phone, to which the customer only needs to add peripheral items such as the casing, keyboard, battery, and display. Customers can therefore design, produce and distribute a mobile phone without the need for great technical expertise.

PDA ○ Personal Digital Assistant. An electronic address book, appointment calendar and notebook; usually synchronized with the user's PC.

PLATFORM ○ See mobile phone platform.

POWER SEMICONDUCTOR ○ Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the "open" and the "closed" state. With the fast sequences of on/off pulses, almost any form of energy flow can be created, e.g. a sinus wave.

RADIO-FREQUENCY (RF) TRANSCEIVER ○ The term "transceiver", created from the words "transmitter" and "receiver", is used to describe a combination of transmitter and receiver in a single component that is used in wireline and wireless communications. Radio-frequency transceivers are used in wireless communications, for example in mobile phones and cordless telephones.

RAM ○ Random Access Memory. Semiconductor memory that can be accessed in any order. The name is derived from, and is in contrast to, the sequential access memory of a tape storage medium. Data memory, known as main memory, contains programs and data. Examples: SRAM and SDRAM (see DRAM).

ROM ○ Read-Only Memory. Digital, non-volatile data memory in which data can be permanently stored regardless of the power supply. The most recent developments are in the form of flash memories (NAND and NOR).

SEMICONDUCTOR ○ Crystalline material; its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

SERVER ○ General term used to describe powerful computers within computer networks which fulfill various tasks. Examples are print servers, web servers, mail servers, database servers, etc.

SHDSL ○ Single-Pair High-speed Digital Subscriber Line. A symmetrical DSL transmission technology used in digital wide area networks and supporting data transfer rates of up to 4 megabits per second.

SILICON ○ A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

SINGLE-CHIP SOLUTION ○ This type of chip, used in mobile phones, combines the functions of several other chips. Single-chip solutions combine the three most important mobile-phone chips into one: baseband chips, radio-frequency transceiver chips, and power-supply chips. Memory is also included into more recent single-chip generations. Single-chip solutions reduce the number of required components, thereby lowering costs for telephone testing and mounting.

SIM CARDS ○ Subscriber Identity Module cards. Chip cards that are inserted into mobile phones in order to identify the user within the network. They are used by mobile phone networks to provide connections to their customers.

SMART PHONE ○ A smart phone combines the performance of a PDA with a mobile phone. Depending on the manufacturer, the device will be more PDA or more mobile phone. This means that smart phones can log on to a mobile phone network or, as small computers, also run applications like a PDA.

SMS ○ Short Message Service. A telecommunications service for transmitting text messages. It was originally developed for GSM mobile communications and is now also available via landline connections.

SPI ○ Serial Peripheral Interface. A bus system based on a very loose synchronous serial data bus standard and enabling digital circuits to interface with one another. It is typically used in automobiles, for example, and connects peripheral units to a microcontroller.

STREET CABINET ○ A distribution rack at the curb from which the last mile is deployed to the end user's home. The street cabinet is also connected to the central office via copper or fiber lines.

UMTS ○ Universal Mobile Telecommunications System. Designed to be the future global digital standard for mobile communications. UMTS enables data transmission of up to two megabits per second.

VDSL2 ○ Very High Data Rate Digital Subscriber Line. VDSL, like ADSL, is a digital transmission technology for the connection of customers using copper wires. It offers significantly higher data rates of up to 52 megabits per second. This decreases the maximum range of the bridgeable copper wire to a maximum of 1.5 kilometers. The use of VDSL is therefore restricted to hybrid networks as an extension to an already existing fiber-optics connection. The successor VDSL2 will offer bandwidths of up to 100 megabits per second. The targeted range for this speed is about 200 meters.

VOICE-OVER-IP (VoIP) ○ IP telephony is the ability to telephone via a computer network using the Internet Protocol. IP telephony used to conduct conversations over the Internet is referred to as Internet telephony. The essential difference to conventional telephony is that voice data is not transmitted via a switched connection through a telephone network, but split up into IP packages which travel through the network to their destination along an unspecified route. IP telephony can share the infrastructure, i.e. the network, with other communications services.

WAFER ○ Thin slice of semiconductor material (mostly silicon, but germanium or gallium arsenide also common) from which the actual chip is produced. Typical diameters for wafers currently are 200 millimeters and 300 millimeters.

WLAN ○ Wireless Local Area Network. A local computer network which connects computers with each other or the Internet via a radio connection.

XDSL ○ xDigital Subscriber Line. Generic term for various technical concepts for broadband digital data transmission via existing twisted copper wires. Depending on the configuration, the "x" stands for Asymmetric (A), High bit-rate (H), Single line (S), Symmetric high bit-rate (SH) or Very high bit-rate (V).

INFINEON TECHNOLOGIES AG
FISCAL YEAR 2009
IMPORTANT
FINANCIAL REPORTING DATES*

FRIDAY, FEBRUARY 6
Publication of first quarter 2009 results

THURSDAY, FEBRUARY 12, 10.00 A.M. CET
2009 Shareholder's Annual General Meeting in Munich, Germany at the ICM (Internationales Congress Center München)

THURSDAY, APRIL 30
Publication of second quarter 2009 results

WEDNESDAY, JULY 29
Publication of third quarter 2009 results

THURSDAY, NOVEMBER 19
Publication of fourth quarter and fiscal year 2009 results

*preliminary

CAPTIONS

COVER

eWLB package technology
The exploded diagram on the cover shows a chip produced using embedded wafer-level ball grid array (eWLB) technology with the underside uppermost. The five levels are (from bottom to top): 1) backside protective layer 2) plastic encapsulation 3) silicon chip 4) copper interconnect layer 5) ball solder contacts. → PAGES 44 AND 45 for more about eWLB technology.

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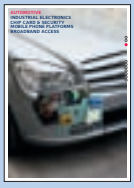

AUTOMOTIVE
Main-beam headlights, dipped-beam headlights, daytime running lights, stop lights, indicators, front fog lights, rear fog lights, parking lights, marker lights – there are many different lighting components in a front or rear light unit. Our **SPI power controller (SPOC)** brings high and low power bulbs and LEDs to life.

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INDUSTRIAL ELECTRONICS
Trains use a supply voltage of about 15,000 volts. The picture shows one of up to 300 of our **IHM traction high-voltage IGBT power modules**, which control the electric motors in high-speed trains and locomotives like the TAURUS locomotive operated by Austria's ÖBB. The TAURUS generates 9,000 metric horse power (6.75 MW), making it one of the world's most powerful locomotives.

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CHIP CARD & SECURITY
Microchips are helping to make financial transactions, logistics systems and border controls ever simpler yet ever more secure worldwide. Our **SLE66CLXxxPE contactless 16-bit microcontroller**, for example, is used in the electronic passports issued by Denmark, Germany and the USA.

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MOBILE PHONE PLATFORMS
Having already gained camera and GPS functions, mobile phones are now adding the internet as well. Content such as maps and new photos, for instance, can be transferred very quickly using the HSDPA data turbo. Our **XMM™6080**, which requires just 6.5 square centimeters of board space, is the industry's most compact HSDPA platform.

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BROADBAND ACCESS
The popularity of internet television and video-on-demand continues to grow, and providing these services often involves maintaining data streams with the very minimum of errors for hours on end. Our **XWAY™ DANUBE single-chip solution for the ADSL2+ standard** is able to do just this, in fact it already is in devices like Deutsche Telekom's broadband terminals.

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INFINEON TECHNOLOGIES AG

HEADQUARTERS ◦ Am Campeon 1–12, 85579 Neubiberg/Munich, Germany, Phone +49-89-234-0
CONTACT FOR INVESTORS AND ANALYSTS ◦ Investor.Relations@infineon.com, Phone +49-89-234-26655, Fax +49-89-234-955 2987
MEDIA CONTACT ◦ Media.Relations@infineon.com, Phone +49-89-234-28480, Fax +49-89-234-955 4521
VISIT US ON THE WEB ◦ www.infineon.com