Notes to the consolidated financial statements

1 DESCRIPTION OF BUSINESS, FORMATION, AND BASIS OF PRESENTATION

Description of business

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

Formation

Infineon Technologies AG was formed as a legal entity as of April 1, 1999 (the "Formation"), through the contribution by Siemens Aktiengesellschaft ("Siemens") of substantially all of its semiconductor-related investments, operations, and activities. The Company had its initial public offering ("IPO") on March 13, 2000, is listed on the New York Stock Exchange, and is one of the DAX 30 companies on the Frankfurt Stock Exchange.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to the transitional regulation of the German Bilanzrechtsreformgesetz Article 58, paragraph 3 EGHGB, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein.

All amounts herein are shown in millions of euros (or "€") except where otherwise stated.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Results of operations have not been affected by these reclassifications.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries on a consolidated basis. Investments in companies in which the Company has an ownership interest of 20% or more but which are not controlled by the Company ("Associated Companies") are accounted for using the equity method of accounting (see note 16). The equity in earnings of Associated Companies with different financial year ends is principally recorded on a three-month lag. Other equity investments ("Related Companies"), in which the Company has an ownership interest of less than 20%, are recorded at cost. The effects of all significant inter-company transactions are eliminated.

The Company group consists of the following numbers of entities in addition to the Company:

	Consolidated subsidiaries	Associated companies	Total
September 30, 2004	56	15	**71**
Additions	2	–	**2**
Disposals	(2)	(4)	**(6)**
September 30, 2005	56	11	**67**

Additionally, the Company has 31 (2004: 30) subsidiaries and 7 (2004: 9) Associated Companies that were accounted for under the equity method for each of the years ended September 30, 2004 and 2005, and under the cost method in prior years, as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Company. The effect of not consolidating these companies for the year ended September 30, 2003, on consolidated assets, revenues, and net income (loss) of the Company was less than 1%. For the years ended September 30, 2004 and 2005, not consolidating these companies had no effect on the Company's net income (loss), and impacted the Company's consolidated assets and revenues by less than 1%.

Reporting and foreign currency

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

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 translation of the previous periods are included in other comprehensive income (loss) and reported as a separate component of shareholders' equity.

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

Currency in €		Exchange rate September 30		Annual average exchange rate	
		2004	2005	2004	2005
U.S. dollar	1 $	0.8115	**0.8290**	0.8209	**0.7869**
Japanese yen	100 JPY	0.7320	**0.7357**	0.7545	**0.7331**
Great Britain pound	1 GBP	1.4667	**1.4650**	1.4704	**1.4507**
Singapore dollar	1 SGD	0.4793	**0.4911**	0.4808	**0.4749**

Revenue recognition

Sales

Revenue from products sold to customers is recognized, pursuant to 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 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, which is typically 12 months. Distributors can, in certain cases, apply for stock rotation or scrap allowances and price protection. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included in such inventory. In some cases, rebate programs are offered to specific customers whereby the customer 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 entered into after July 1, 2003, 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

(euro in millions, except where otherwise stated)

Grants for capital expenditures include both tax-free government grants (Investitionszulage) and taxable grants for investments in property, plant and equipment (Investitionszuschüsse). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred (see note 22) and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset (see note 6) and thereby reduce depreciation expense in future periods. Other taxable grants reduce the related expense (see notes 6, 20, and 22).

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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

Stock-based compensation

The Company accounts for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees", and recognizes compensation cost over the pro rata vesting period. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123" (see note 24).

Issuance of shares by subsidiaries or Associated Companies

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in earnings pursuant to SAB Topic 5:H, "Accounting for Sales of Stock by a Subsidiary" (see note 16).

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, 2004 and 2005, were €541 and €1,093, 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 notes 31).

Marketable securities

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

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 is valued at cost less accumulated depreciation. Spare parts, maintenance, and repairs are expensed as incurred. Depreciation expense is recognized using the straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. During the years ended September 30, 2004 and 2005, capitalized interest was €9 and €9, respectively. 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.

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 financial year, whereby if the carrying amount of a reporting unit with goodwill exceeds its fair value, the amount of impairment is determined by 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 appraised value or measured by discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

Long-term investments

The Company assesses declines in the value of investments accounted for under the equity and cost methods to determine whether such decline is other-than-temporary, thereby rendering the investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time, and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the individual company, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

(euro in millions, except where otherwise stated)

Financial instruments

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149, which provides guidance on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Generally the Company does not designate its derivative instruments as hedge transactions. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales, while undesignated derivatives relating to financing activities are recorded in other non-operating expense. Changes in fair value of derivatives designated as fair value hedges and the related hedged items 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 29.

Pension plans

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements Nos. 87, 88, and 106", which revises employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003) requires additional disclosures to those in the original SFAS No. 132, which it replaces. During the year ended September 30, 2004, the Company adopted SFAS No. 132 (revised 2003) with disclosures provided in note 28.

Use of estimates

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

Recent accounting pronouncements

In June 2004, EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments", was issued which includes new guidance for evaluating and recording other-than-temporary impairment losses on debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and cost method investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. While the disclosure requirements for specified debt and equity securities and cost method investments were effective for annual periods ending after December 15, 2003, the FASB has directed the FASB staff to delay the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The Company does not expect the adoption of EITF Issue No. 03-1 to have a significant impact on its consolidated financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4", which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), requiring that such costs be recognized as current period charges and requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for the Company's financial year beginning October 1, 2005. The Company does not expect the implementation of SFAS No. 151 to have a significant impact on its consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – an Amendment of APB Opinion No. 29", which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company adopted SFAS No. 153 for nonmonetary asset exchanges occurring on or after July 1, 2005. The adoption SFAS No. 153 did not have a significant impact on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payments". SFAS No. 123 (revised 2004) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123 (revised 2004) eliminates the alternative method of accounting for employee share-based payments previously available under APB No. 25. The Securities and Exchange Commission issued guidance on April 14, 2005, announcing that public companies will be required to adopt SFAS No. 123 (revised 2004) by their first financial year beginning after June 15, 2005. Accordingly, the Company will adopt SFAS No. 123 (revised 2004) in the first quarter of the 2006 financial year. The adoption of SFAS No. 123 (revised 2004) is not expected to have a significant effect on the Company's consolidated financial position or cash flows but is expected to have an adverse effect on its results of operations, the exact amount of which is not currently determinable.

3 ACQUISITIONS

The Company established the Infineon Technologies Flash joint venture (then called "Ingentix") in which the Company initially held a 51% ownership interest with Saifun Semiconductors Ltd. ("Saifun") in April 2001. In the 2003 financial year, the Company increased its ownership interest to 70% by contributing additional capital and converting existing shareholder loans to equity. The joint venture operated through two companies, Infineon Technologies Flash GmbH & Co. KG, located in Dresden, Germany, and Infineon Technologies Flash Ltd., located in Netanya, Israel. During December 2004, Saifun and the Company modified their cooperation agreement. As a consequence, the Company consummated the acquisition of Saifun's remaining 30% share in the Infineon Technologies Flash joint venture in January 2005 and was granted a license for the use of Saifun NROM® technologies, in exchange for $95 million to be paid in quarterly installments over 10 years and additional purchase consideration primarily in the form of net liabilities assumed aggregating €7 (see note 5). The assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed amounted to €7 and was allocated to goodwill. The preliminary purchase price allocation may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. The Company has sole ownership and responsibility for the business and started to account for its entire financial results in the second quarter of the 2005 financial year (see note 21).

On April 30, 2004, the Company completed its acquisition of 100% of ADMtek Inc., Hsinchu, Taiwan ("ADMtek") in exchange for €75 in cash (of which €6 is held in escrow subject to the accuracy of the seller's representations and warranties). Payment of an additional €28, held in escrow and reflected as restricted cash, is contingent upon employee retention and the achievement of certain performance and development milestones over a two-year period, and is to be recognized as the milestones are achieved. As of September 30, 2005, €8 has been paid to ADMtek and €13 was released to the Company since certain performance and development milestones were not achieved. Accordingly, the remaining balance held in escrow amounted to €13 as of September 30, 2005. This acquisition was designed to enable access to the home gateway systems market for the wireline communications business.

The Company acquired 92.5% of the outstanding shares of SensoNor AS ("SensoNor") on June 18, 2003, following a public tender offer, and acquired the remaining 7.5% by June 30, 2003, for total cash consideration of €34. In addition, the Company contributed capital of €13 in connection with the consummation of the transaction. SensoNor develops, produces, and markets tire pressure and acceleration sensors. With this acquisition the Company aimed to strengthen its position in semiconductor sensors for the automotive business. During the year ended September 30, 2004, following the restructuring of the SensoNor business, the Company recorded a purchase accounting adjustment reducing the previously established deferred tax asset valuation allowance by €8 and decreasing goodwill correspondingly. During the year ended September 30, 2005, the Company increased its share capital of SensoNor and recorded a purchase accounting adjustment reducing the previously established deferred tax asset valuation allowance by €30 and decreasing goodwill and other intangible assets by €14 and €16, respectively.

On April 1, 2003, the Company completed the acquisition of the net assets of MorphICs Technology Inc. ("MorphICs"), a developer of digital baseband circuits of third generation wireless communications for €6 in cash. The acquisition agreement provided for the payment of contingent purchase consideration of €9 upon the achievement of specified events. As of September 30, 2005, €6 of contingent purchase consideration was forfeited since certain performance criteria were not achieved. The remaining contingent purchase consideration balance of €3 is subject to the achievement of certain performance criteria during the 2006 financial year.

On September 9, 2002, the Company acquired all of the shares of Ericsson Microelectronics AB ("MIC"). MIC, based in Sweden, is a supplier of Radio Frequency (RF) microelectronic components for wireless applications, high end power amplifiers, Bluetooth components, and broadband communications. MIC is a strategic supplier to Ericsson, a market leader in base stations, Bluetooth solutions, and RF components for mobile phones and wireless infrastructure. The Company also entered into a strategic supply agreement with Ericsson for a period of two years with certain specified purchase thresholds, pursuant to which €50 was recorded as a liability as of September 30, 2002.

In June 2003, the Company and Ericsson signed an amendment to the MIC acquisition agreement. The companies intended to strengthen their strategic cooperation in various areas of mobile phone technology and wireless infrastructure, including Bluetooth solutions, RF ICs, RF Power and other applications. Furthermore, the companies agreed to eliminate the remaining acquisition indebtedness, as well as the historic and future purchase thresholds of Ericsson and related penalties. In addition, the Company received €50 from Ericsson. These amounts were recorded as an adjustment, principally to the originally recorded goodwill, as well as to intangible assets and deferred taxes. Additionally, following the restructuring of the MIC business, the Company recorded a purchase accounting adjustment reversing the previously established deferred tax asset valuation allowance in the amount of €16 during the year ended September 30, 2003.

The following table summarizes the Company's acquisitions during the years ended September 30, 2003, 2004, and 2005:

	2003		2004	2005
	SensoNor	Other	ADMtek	Flash
Acquisition Date	June 2003	2003	April 2004	January 2005
Segment	Automotive, Industrial and Multimarket	Various	Communication	Memory Products
Cash	3	–	18	**1**
Other current assets	6	1	10	**16**
Property, plant and equipment	25	1	2	**4**
Intangible assets				
Current product technology	5	5	14	**–**
Core technology	–	–	5	**58**
Patents (Customer Relationship)	–	2	2	**–**
In process R&D	4	2	9	**–**
Goodwill	–	6	23	**7**
Other non-current assets	38	–	1	**3**
Total assets acquired	81	17	84	**89**
Current liabilities	(11)	(9)	(8)	**(45)**
Non-current liabilities (including debt)	(36)	–	(1)	**(2)**
Total liabilities assumed	(47)	(9)	(9)	**(47)**
Net assets acquired	34	8	75	**42**
Cash paid (Purchase Consideration)	34	8	75	**–**

The above acquisitions have been accounted for by the purchase method of accounting and, accordingly, the consolidated statements of operations include the results of the acquired companies from their respective acquisition dates.

(euro in millions, except where otherwise stated)

For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of these valuations, amounts allocated to purchased in-process research and development of €6 and €9 were expensed as research and development in the years ended September 30, 2003 and 2004, respectively, because the technological feasibility of products under development had not been established and no future alternative uses existed.

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 DISCONTINUED OPERATION AND DIVESTITURES

Discontinued operation

Pursuant to an agreement reached between the Company and OSRAM GmbH ("Osram"), the Company transitioned all of its opto-electronic activities to Osram as of March 31, 2003. The agreement provides for the transfer of all customer relationships and related backlog, the cancellation by the Company of all of its opto-electronic distribution agreements, as well as providing the Company with certain rights of return related to unsold inventory as of March 31, 2003. The Company did not incur a loss on the discontinuation of the opto-electronics business.

The following table presents comparative information of the discontinued operation, which was previously reported as part of the Other Operating Segments, for the year ended September 30, 2003:

	2003
Opto-electronics	
Sales:	
Third parties	113
Related parties	32
Net sales	145
Income (loss) from discontinued operation before tax	–
Income tax benefit (expense)	–
Net income (loss) from discontinued operation	–

The discontinued operation had no impact on the Company's results of operations and had no outstanding balances as of and for the years ended September 30, 2004 or 2005.

Divestitures

In August 2003, the Company sold its investment in UMCi and incurred a pre-tax loss on disposal of €9, which is reflected in other operating expense, net.

On July 1, 2002, the Company completed the sale of its gallium arsenide business, reflected in the Communication segment, including specified non-manufacturing tangible and intangible assets, as well as specified customer contracts and liabilities. The Company received initial cash proceeds of €50. Contingent purchase price adjustments were based on the level of gallium arsenide related product sales, at prices substantially below market, generated by the purchaser through September 30, 2004, and other adjustments. Contingent consideration adjustments were realized during the financial year ended September 30, 2004, which resulted in an obligation for the Company of €13 that was paid during the 2005 financial year.

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

On April 29, 2004, the Company entered into an agreement with Finisar Corporation ("Finisar") to sell the fiber optics business, reflected in the Communication segment. The agreement was amended on October 11, 2004, pursuant to which the Company would receive 110 million shares of Finisar's common stock in exchange for its fiber optics business and financial assistance with restructuring measures to be taken in future periods. The final number of Finisar shares that the Company would receive would have been subject to adjustment for changes in working capital of the fiber optics business. Additionally, the agreement contained a three-year non-compete clause and limited the aggregate indemnification liability to 20% of the consideration paid by Finisar. The purchase agreement would be terminated by mutual consent if the transaction were not to be consummated by March 31, 2005.

On January 11, 2005, the Company decided to terminate the agreement with Finisar dated October 11, 2004. On January 25, 2005, Finisar and the Company entered into a new agreement under which Finisar acquired certain assets of the Company's fiber optics business. Under the terms of the new agreement, the Company received 34 million shares of Finisar's common stock valued at €40 as consideration for the sale of inventory, fixed assets, and intellectual property associated with the design and manufacture of fiber optic transceivers. The Company also committed to provide Finisar with contract manufacturing services under separate supply agreements for up to one year following the closing. The transaction did not require shareholder or regulatory approval and closed on January 31,

(euro in millions, except where otherwise stated)

2005. As a result of the transaction, the Company realized a gain before tax of €21 which was recorded in other operating income.

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

The Company retained ownership of its remaining fiber optics businesses consisting of bi-directional fiber transmission (BIDI) components for Fiber-To-The-Home (FTTH) applications, parallel optical components (PAROLI) and plastic optical fiber (POF) components that are used in automotive applications, which were reclassified from held for sale to held and used during the second quarter of the 2005 financial year, and were restructured. The reclassification of the retained fiber optic businesses into the held and used category was measured at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation expense that would have been recognized had the retained fiber optic businesses been continuously classified as held and used, or the fair value of the assets on January 25, 2005. Accordingly, the Company recognized an impairment charge of €34 in other operating expenses during the second quarter of the 2005 financial year.

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

On April 7, 2005, the Company and Exar Corporation ("Exar") entered into an agreement whereby Exar acquired for $11 million cash a significant portion of the Company's optical networking business unit. The acquisition included assets relating to multi-rate TDM framer products, Fiber Channel over SONET/SDH, Resilent Packet Ring (RPR), as well as certain intellectual property for Data Over SONET products. As a result of the sale, the Company reclassified related non-current assets into assets held for sale during the second quarter of the 2005 financial year and reduced their carrying value to the net sale proceeds.

The sale of the assets was consummated during the third quarter of the 2005 financial year.

Summary financial information for the divested businesses (through the date of divestiture) for the years ended September 30, 2003, 2004, and 2005, are as follows:

	2003	2004	2005
Sales:			
Gallium Arsenide	45	–	**–**
Fiber Optics	41	35	**23**
BIDI	7	10	**6**
Total	93	45	**29**
EBIT:			
Gallium Arsenide	5	–	**–**
UMCi	(11)	–	**–**
Infineon Ventures GmbH	(25)	(52)	**(3)**
Fiber Optics	(25)	(33)	**(27)**
BIDI	(9)	(28)	**(20)**
Total	(65)	(113)	**(50)**
Gain (loss) on sale before tax:			
Gallium Arsenide	–	–	**–**
UMCi	(9)	–	**–**
Infineon Ventures GmbH	–	–	**13**
Fiber Optics	–	–	**21**
BIDI	–	–	**2**
Other	(1)	(2)	**3**
Total (note 7)	(10)	(2)	**39**

5 LICENSES

During the years ended September 30, 2003, 2004, and 2005, the Company recognized revenues related to license and technology transfer fees of €183, €76, and €175, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €135, €48, and €33, which were recognized as revenue pursuant to SAB 104, in the years ended September 30, 2003, 2004, and 2005, respectively, since the Company had fulfilled all of its obligations and all such amounts were realized.

In March 2000, the Company entered into technology transfer agreements with ProMOS Technologies Inc. ("ProMOS"), and restructured existing agreements with Mosel Vitelic Inc. ("MVI"), the majority shareholder of ProMOS. As part of these agreements, previously unrecognized license fees due from

(euro in millions, except where otherwise stated)

MVI were rescheduled and recognized as revenue over the life of the new contracts.

In February 2003, the Company, ProMOS, and MVI agreed to extinguish third party indebtedness of €60, which was subject to a guarantee by the Company, as well as offset other indebtedness between the parties. As a result, the Company recognized previously deferred license income of €60 related to this guaranteed indebtedness during the year ended September 30, 2003, since the amounts had been earned and realized.

Due to a revision of the technology transfer agreement between the Company and ProMOS, an additional €36 of previously deferred license income was recognized as revenue during the year ended September 30, 2003, as the Company had fulfilled its respective obligations.

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

In connection with the joint technology development with Nanya Technology Corporation ("Nanya") (see note 16), in 2003 the Company granted Nanya a license to use its 110-nanometer technology in Nanya's existing operations. License income related to the technology is recognized over the estimated life of the technology.

In connection with the extension of a capacity reservation agreement with Winbond Electronics Corp., Hsinchu, Taiwan ("Winbond") in August 2004, the Company granted Winbond a license to use its 110-nanometer technology in Winbond's production process for the manufacture of products for the Company. The license income was deferred and is being recognized over the life of the capacity reservation agreement.

On March 18, 2005, the Company and Rambus Inc. ("Rambus") reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in the Company's memory products. In exchange for this worldwide license, the Company agreed to pay $50 million in quarterly installments of $6 million between November 15, 2005, and November 15, 2007. During the second quarter of the 2005 financial year, the Company recorded the license and corresponding liability in the amount of €37, representing the estimated present value of the minimum future license payments. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, the Company would make additional quarterly payments which may aggregate a maximum of an additional $100 million. The agreement also provides the Company with an option for acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company has simultaneously granted Rambus a fully-paid perpetual license for memory interfaces. In addition to the licenses, the two companies agreed to the dismissal of all pending litigation and released each other from all existing legal claims.

In connection with the acquisition of Saifun's remaining 30% share in the Infineon Technologies Flash joint venture during January 2005, the Company was granted a license for the use of Saifun NROM® technologies (see note 3). During the second quarter of the 2005 financial year, the Company recorded the license of €58 and a corresponding liability in the amount of €58, representing the estimated fair value of the license and minimum future license payments, respectively. The Company retained the option to terminate the entire license or parts thereof at any time without penalty. During the quarter ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 and €29, respectively, as of June 30, 2005.

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 years ended September 30, 2003, 2004, and 2005, are as follows:

	2003	2004	2005
Included in the consolidated statements of operations:			
Research and development	59	74	**50**
Cost of sales	54	86	**121**
	113	160	**171**
Construction grants deducted from the cost of fixed assets	17	49	**–**
Deferred government grants (notes 20 and 22)	303	281	**288**

7 SUPPLEMENTAL OPERATING COST INFORMATION

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

	2003	2004	2005
Raw materials, supplies, and purchased goods	1,675	1,621	**1,867**
Purchased services	1,126	1,232	**1,166**
Total	2,801	2,853	**3,033**

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

	2003	2004	2005
Wages and salaries	1,490	1,532	**1,664**
Social levies	268	280	**285**
Pension expense (note 28)	27	28	**28**
Total	1,785	1,840	**1,977**

Other operating expense, net, is as follows for the years ended September 30:

	2003	2004	2005
Gain (loss) from sale of businesses (note 4)	(10)	(2)	**39**
Goodwill and intangible assets impairment charges (note 17)	(68)	(71)	**(57)**
Long-lived asset impairment charges	–	–	**(39)**
Antitrust related charges (note 31)	(20)	(194)	**(20)**
Amortization of debt issuance costs	(4)	(8)	**(4)**
Other	17	18	**(11)**
Other operating expense, net	(85)	(257)	**(92)**

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

	2003	2004	2005
Germany	16,043	16,340	**16,334**
Other Europe	4,753	5,507	**5,606**
North America	2,779	2,822	**3,108**
Asia-Pacific	7,725	9,220	**10,919**
Japan	108	126	**147**
Other	115	112	**44**
Total	31,523	34,127	**36,158**

(euro in millions, except where otherwise stated)

8 RESTRUCTURING

In 2003, the Company announced restructuring measures aimed at reducing costs, including downsizing its workforce, outsourcing and decentralizing certain functions and operations. As part of the restructuring, the Company planned to terminate approximately 550 employees, mainly in corporate functions and logic manufacturing operations, as well as through the outsourcing of certain functions to external providers.

In 2004, the Company announced further restructuring measures aimed at reducing costs, including downsizing its workforce and outsourcing and decentralizing certain functions and operations. As part of the restructuring, the Company announced plans to terminate approximately 325 employees. The 2004 terminations were primarily the result of relocating operations from Regensburg and Munich to Dresden and the downsizing of design centers in England, Ireland, Sweden, and the United States. These plans were completed in the 2005 financial year.

During the 2005 financial year, the Company agreed upon additional restructuring measures aimed at reducing costs, downsizing its workforce, and consolidating certain functions and operations. As part of the restructuring, the Company agreed upon plans to terminate approximately 350 employees. The terminations were primarily the result of the closedown of fiber optics operations in Germany and the United States. It is expected that the terminations will be completed in the 2006 financial year. In addition, the Company took measures to restructure its chip manufacturing within the manufacturing cluster Perlach, Regensburg, and Villach. Production from Munich-Perlach will be transferred primarily to Regensburg and to a lesser extent to Villach. Manufacturing at Munich-Perlach is expected to be phased out by early 2007 as numerous products complete their production life span. As part of the restructuring, the Company agreed upon plans to terminate approximately 600 employees. It is expected that the terminations will be completed in the 2007 financial year.

During the years ended September 30, 2003, 2004, and 2005, charges of €29, €17, and €78, respectively, were recognized as a result of the restructuring initiatives undertaken by the Company. In addition, during the 2003 financial year, €11 which had been previously accrued under restructuring, was forgiven in partial consideration for the execution of a service agreement and was therefore deferred, included in accrued liabilities, and recognized over the term of the service agreement.

The development of the restructuring liability during the year ended September 30, 2005, is as follows:

September 30	2004	2005			
	Liabilities	Reclassification	Restructuring charges	Payments	Liabilities
Employee terminations	10	2	74	(22)	64
Other exit costs	6	–	4	(2)	8
Total	16	2	78	(24)	72

(euro in millions, except where otherwise stated)

9 INCOME TAXES

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2003, 2004, and 2005:

	2003	2004	2005
Germany	(506)	153	**(298)**
Foreign	147	44	**104**
Total	(359)	197	**(194)**

Income tax expense (benefits) for the years ended September 30, 2003, 2004, and 2005 is as follows:

	2003	2004	2005
Current taxes:			
Germany	18	53	**31**
Foreign	50	5	**1**
	68	58	**32**
Deferred taxes:			
Germany	40	129	**66**
Foreign	(24)	(33)	**22**
	16	96	**88**
Income tax expense	84	154	**120**

Total income taxes for the years ended September 30, 2003, 2004, and 2005 were allocated as follows:

	2003	2004	2005
Income taxes from continuing operations	84	154	**120**
Goodwill and intangible assets, for initial recognition of acquired tax benefits that previously were included in the valuation allowance (note 3)	(16)	(8)	**(30)**
Shareholders' equity, for unrealized holding gains (losses), unrealized gains (losses) on cash flow hedges and additional minimum pension liabilities	(4)	(10)	**–**
	64	136	**90**

The Company's statutory tax rate in Germany is 25%. Additionally, a solidarity surcharge of 5.5% and trade tax of 13% is levied, for a combined statutory tax rate of 39%.

A reconciliation of income taxes for the years ended September 30, 2003, 2004, and 2005, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 41% (which includes a one year flood victim relief levy of 2%) for 2003 and 39% for 2004 and 2005 is as follows:

	2003	2004	2005
Expected (benefit) expense for income taxes	(147)	77	**(76)**
Increase in available tax credits	(35)	(26)	**(5)**
Non-taxable investment (income) loss	14	6	**(26)**
Foreign tax rate differential	1	(51)	**(18)**
Non-deductible expenses and other provisions	58	69	**29**
Change in German tax rate – effect on opening balance	2	–	**–**
Change in German tax rate – effect on current year	7	–	**–**
Increase in valuation allowance	182	54	**192**
In-process research and development	1	3	**–**
Other	1	22	**24**
Actual provision for income taxes	84	154	**120**

(euro in millions, except where otherwise stated)

Deferred income tax assets and liabilities as of September 30, 2004 and 2005, relate to the following:

	2004	2005
Deferred tax assets:		
Intangible assets	100	**26**
Property, plant and equipment	155	**203**
Deferred income	109	**111**
Net operating loss and tax credit carry-forwards	919	**1,065**
Other items	227	**169**
Gross deferred tax assets	1,510	**1,574**
Valuation allowance	(567)	**(740)**
Deferred tax assets	943	**834**
Deferred tax liabilities:		
Intangible assets	49	**11**
Property, plant and equipment	125	**81**
Accounts receivable	11	**36**
Accrued liabilities and pensions	75	**72**
Other items	39	**41**
Deferred tax liabilities	299	**241**
Deferred tax assets, net	644	**593**

Net deferred income tax assets and liabilities are presented in the accompanying consolidated balance sheets as of September 30, 2004 and 2005, as follows:

	2004	2005
Deferred tax assets:		
Current	140	**125**
Non-current	541	**550**
Deferred tax liabilities:		
Current	(16)	**(17)**
Non-current	(21)	**(65)**
Deferred tax assets, net	644	**593**

At September 30, 2005, the Company had in Germany tax loss carry-forwards of €2,140 (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,147); in other jurisdictions the Company had tax loss carry-forwards of €232 and tax effected credit carry-forwards of €107. 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, 2005, the impact of forecasted future taxable income is excluded from such an assessment, pursuant to the provisions of SFAS No. 109. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2005, by €192, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future. During the years ended September 30, 2003 and 2004, valuation allowances relating to continuing operations in the amount of €182 and €54, respectively, were established for tax loss carry-forwards which, on a more likely than not basis, would not be fully utilized.

On December 27, 2003, the German government enacted new tax legislation which limits the application of a German corporation's tax loss carry-forwards to 60% of the annual taxable income of the corporation in any given year. The new legislation did not limit the length of the carry-forward period, which is unlimited. For the Company, the new tax law was effective starting in the 2004 financial year. The new legislation resulted in additional current tax of €13 and €0 for the years ended September 30, 2004 and 2005, respectively.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2004 and 2005, were as follows:

	2003	2004	2005
Balance, beginning of the year	310	521	**567**
Applicable to continuing operations	182	54	**192**
Deferred tax assets acquired in business combinations	45	–	**–**
Purchase accounting adjustments	(16)	(8)	**(30)**
Adjustment in corresponding net operating loss carry-forward	–	–	**11**
Balance, end of the year	521	567	**740**

(euro in millions, except where otherwise stated)

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2005, because 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. Therefore, tax expense for the years ended September 30, 2004 and 2005, of €54 and €85, respectively, have been deferred of which €39 and €71, respectively, are non-current (see note 17).

10 EARNINGS (LOSS) PER SHARE

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

The computation of basic and diluted EPS for the years ended September 30, 2003, 2004, and 2005, is as follows (shares in million):

	2003	2004	2005
Numerator:			
Net income (loss)	(435)	61	**(312)**
Denominator:			
Weighted-average shares outstanding – basic	720.9	734.7	**747.6**
Effect of dilutive instruments	–	1.9	**–**
Weighted-average shares outstanding – diluted	720.9	736.6	**747.6**
Earnings (loss) per share in €:			
Basic and diluted	(0.60)	0.08	**(0.42)**

The weighted average of potentially dilutive instruments that were excluded from the diluted earnings (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, include 28.0 million, 24.1 million, and 39.4 million shares underlying employee stock options for the years ended 2003, 2004, and 2005, respectively. Additionally, 96.6 million, 86.5 million, and 86.5 million ordinary shares issuable upon the conversion of the subordinated convertible notes at September 30, 2003, 2004, and 2005, 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, 2004 and 2005, consist of the following:

	2004				2005			
	Cost	Fair value	Unrealized gain	Unrealized loss	Cost	Fair value	Unrealized gain	Unrealized loss
Foreign government securities	9	10	1	–	**9**	**11**	**2**	**–**
Floating rate notes	548	551	7	(4)	**260**	**268**	**8**	**–**
Other debt securities	271	272	1	–	**16**	**18**	**2**	**–**
Total debt securities	828	833	9	(4)	**285**	**297**	**12**	**–**
Equity securities	13	12	1	(2)	**4**	**5**	**1**	**–**
Fixed term deposits	1,112	1,112	–	–	**590**	**590**	**2**	**(2)**
Total marketable securities	1,953	1,957	10	(6)	**879**	**892**	**15**	**(2)**
Reflected as follows								
Current assets	1,935	1,938	9	(6)	**850**	**858**	**10**	**(2)**
Non-current assets (note 17)	18	19	1	–	**29**	**34**	**5**	**–**
Total marketable securities	1,953	1,957	10	(6)	**879**	**892**	**15**	**(2)**

(euro in millions, except where otherwise stated)

Unrealized losses relating to securities held for more than 12 months as of September 30, 2004 and 2005, were €4 and €0, respectively.

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

	2003	2004	2005
Realized gains	60	10	**8**
Realized losses	(4)	(1)	**–**
Realized gains (losses), net	56	9	**8**

As of September 30, 2005, fixed term deposits of €5 had contractual maturities between three and twelve months.

Debt securities as of September 30, 2005, had the following remaining contractual maturities:

	Cost	Fair value
Less than 1 year	262	**270**
Between 1 and 5 years	4	**5**
More than 5 years	19	**22**
Total debt securities	285	**297**

Actual maturities may differ due to call or prepayment rights.

12 TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable at September 30, 2004 and 2005, consist of the following:

	2004	2005
Third party – trade	879	**839**
Siemens group – trade (note 27)	206	**145**
Associated and Related Companies – trade (note 27)	12	**12**
Trade accounts receivable, gross	1,097	**996**
Allowance for doubtful accounts	(41)	**(44)**
Trade accounts receivable, net	1,056	**952**

Activity in the allowance for doubtful accounts for the years ended September 30, 2004 and 2005, is as follows:

	2004	2005
Allowance for doubtful accounts at beginning of year	26	**41**
Provision for bad debt, net	15	**3**
Allowance for doubtful accounts at end of year	41	**44**

13 INVENTORIES

Inventories at September 30, 2004 and 2005, consist of the following:

	2004	2005
Raw materials and supplies	84	**87**
Work-in-process	560	**569**
Finished goods	316	**366**
Total inventories	960	**1,022**

14 OTHER CURRENT ASSETS

Other current assets at September 30, 2004 and 2005, consist of the following:

	2004	2005
Financial instruments (note 29)	106	**73**
Assets held for sale	88	**–**
Grants receivable	84	**122**
VAT and other tax receivables	147	**84**
License fees receivable	–	**19**
Associated and Related Companies – financial and other receivables (note 27)	49	**5**
Third party – financial and other receivables	40	**68**
Siemens group – financial and other receivables (note 27)	18	**18**
Prepaid expenses	19	**26**
Employee receivables (note 27)	9	**8**
Intangible pension asset (note 28)	–	**14**
Other	30	**32**
Total other current assets	590	**469**

(euro in millions, except where otherwise stated)

At September 30, 2004, other current assets included assets held for sale relating to the Company's fiber optics business (see note 4).

Summarized balance sheet information for the fiber optics business is set forth below:

September 30	2004
Current assets	47
Non-current assets	41
Total assets held for sale	**88**
Current liabilities	23
Non-current liabilities	8
Total liabilities related to assets held for sale (note 20)	**31**

There are no assets held for sale for the fiber optics business as of September 30, 2005.

15 PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the year ended September 30, 2005, is as follows:

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost					
September 30, 2004	1,101	7,002	2,176	484	**10,763**
Additions	30	385	151	832	**1,398**
Impairments	(15)	(19)	(5)	–	**(39)**
Disposals	(3)	(558)	(212)	–	**(773)**
Reclassifications	–	(2)	34	–	**32**
Transfers	292	685	80	(1,057)	**–**
Foreign currency effects	22	56	8	(6)	**80**
September 30, 2005	1,427	7,549	2,232	253	**11,461**
Accumulated depreciation					
September 30, 2004	(548)	(4,752)	(1,876)	–	**(7,176)**
Depreciation	(73)	(910)	(237)	–	**(1,220)**
Disposals	3	513	205	–	**721**
Transfers	–	–	–	–	**–**
Foreign currency effects	(4)	(26)	(5)	–	**(35)**
September 30, 2005	(622)	(5,175)	(1,913)	–	**(7,710)**
Book value September 30, 2004	553	2,250	300	484	**3,587**
Book value September 30, 2005	805	2,374	319	253	**3,751**

On April 23, 2004, the Company announced plans to recommence the expansion of capacity at its Richmond, Virginia, plant, which involved the completion of construction and equipment installation for a 300-millimeter fabrication facility. The construction and qualification of the expanded facility was completed during the 2005 financial year and commercial production began during the fourth quarter of the 2005 financial year. The total investment in the expansion of the Richmond plant amounted to €787.

On December 8, 2004, the Company announced plans to build a new front-end production plant in Kulim High Tech Park, Malaysia. The facility will mainly produce power and logic chips used in automotive and industrial power applications. The Company plans to invest in total approximately $1 billion. The construction started in early 2005 and the start of production is scheduled for 2006. As of September 30, 2005, the Company had invested a total of €39 in this new front-end production plant.

(euro in millions, except where otherwise stated)

16 LONG-TERM INVESTMENTS, NET

A summary of activity for long-term investments for the year ended September 30, 2005, is as follows:

	Investment in associated companies	Investment in related companies	Total
Balance at September 30, 2004	664	44	**708**
Additions	87	48	**135**
Disposals	–	(71)	**(71)**
Dividend payments	(51)	–	**(51)**
Capitalized interest	(1)	–	**(1)**
Impairments	(26)	(3)	**(29)**
Equity in earnings	57	–	**57**
Reclassification	(16)	3	**(13)**
Foreign currency effects	44	–	**44**
Balance at September 30, 2005	758	21	**779**

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

The following significant Associated Companies as of September 30, 2005, are accounted for using the equity method of accounting:

Name of the associated company	Direct and indirect ownership
Advanced Mask Technology Center GmbH & Co. KG, Dresden, Germany ("AMTC")	**33.3 %**
ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS")	**50.1 %**
Hwa-Ken Investment Inc., Taipei, Taiwan ("Hwa-Ken")	**50.0 %**
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	**45.9 %**
StarCore LLC, Austin, Texas, USA ("StarCore")	**41.1 %**

The Company has accounted for these investments under the equity method of accounting due to the lack of unilateral control (see note 2). The above companies are principally engaged in the research and development, design, and manufacture of semiconductors and related products.

On May 16, 2002, the Company entered into the AMTC joint venture with its Partners Advanced Micro Devices Inc., USA ("AMD"), and DuPont Photomasks Inc., USA ("DuPont"), with the purpose of developing and manufacturing advanced photo masks. In addition, the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly, as of September 30, 2005, €17 was deferred which is being recognized over the term of the purchase agreement. Toppan Printing Co., Ltd. acquired DuPont in April 2005 which led to a name change; the former DuPont is now named Toppan Photomasks Inc., Ltd.

ALTIS is a joint venture between the Company and International Business Machines Corporation ("IBM"), with each having equal voting representation. During the year ended September 30, 2003, the Company and IBM amended the original shareholders agreement. Pursuant to the amendment, the Company will ratably increase its capacity reservation in the production output of ALTIS from 50% to 100% during calendar years 2004 through 2007. IBM and the Company agreed that they will decide the future business model of ALTIS not later than January 1, 2007. Additionally, the Company was granted an option through July 1, 2007, to acquire IBM's interest in ALTIS. The Company is currently in negotiations with IBM regarding the future business model of ALTIS.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a joint venture (Inotera, held directly and indirectly through the Company's investment in Hwa-Ken Investment Inc.) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to the agreements, the Company and Nanya had developed advanced 90-nanometer technology, and are developing 70-nanometer technology, the cost of which will be borne two-thirds by the Company and one-third by Nanya. The new 300-millimeter manufacturing facility is funded by Inotera and employs the technology developed under the aforementioned agreements to manufacture DRAM products, and its capacity is anticipated to be completed in three phases. During the year ended September 30, 2004, Inotera completed the construction and started mass production. The second phase was completed in the 2005 financial year, while the third phase is anticipated to be completed in the 2006 financial year. The joint venture partners are obliged to each purchase one-half of the facility's production based, in part, on market prices. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation in respect of DRAM products. The agreement provides for the joint development of advanced 60-nanometer production technologies for 300-millimeter wafers, starting September 2005. The cost of the development will be borne two-thirds by the Company and one-third by Nanya.

(euro in millions, except where otherwise stated)

The cooperation is the extension of the existing co-development of 90 and 70-nanometer production technologies, and is expected to help each partner expand its position in the DRAM market while sharing development costs. The first 300-millimeter wafer memory products using the new 60-nanometer process are expected to leave the production line in 2008.

The Company invested €342 and €83 in Inotera during the years ended September 30, 2004 and 2005, respectively. The investment includes interest capitalization of €7 and €6 during the years ended September 30, 2004 and 2005, respectively. During the year ended September 30, 2004, Inotera issued shares to employees which diluted the Company's shareholding at that time while increasing its proportional share of Inotera shareholders' equity by €2. At September 30, 2005, the Company's direct and indirect ownership interest in Inotera was 45.9%.

On October 7, 2004, Inotera's application for public company status was accepted by the Taiwanese Securities and Futures Bureau. Since April 2005, Inotera has been listed on the GreTai market in Taiwan. On October 26, 2005, Inotera submitted an application for an initial public offering of its common stock to the Taiwanese stock exchange.

In November 2003 the Company, together with United Epitaxy Company, Ltd. ("UEC"), Hsinchu, Taiwan, founded a joint venture company ParoLink. The Company initially invested €6, held a 56% ownership interest in ParoLink and accounted for its investment in ParoLink using the equity method, since substantive participating minority rights prevented the exercise of unilateral control. In connection with the Company's disposal of its fiber optics business (see note 4), the Company acquired the minority interest in ParoLink, terminated the joint venture with UEC and recorded an impairment to reduce the investment to its estimated fair value of €3.

On October 1, 2002, the Company, Agere Systems Inc., and Motorola Inc. incorporated StarCore, based in Austin, Texas. StarCore focuses on developing, standardizing, and promoting Digital Signal Processor (DSP) core technology. As of September 30, 2005, the Company held a 41.1% ownership interest with an aggregate value of €15.

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 €30, €65, and €29 for the years ended September 30, 2003, 2004, and 2005, respectively. In connection with the termination of the Company's venture capital activities, an impairment charge of €28 was recognized as of September 30, 2004, to reduce the carrying value of the Company's venture investment portfolio to the expected realizable value (see note 4).

Goodwill of €32 and €15 is included in the amount of long-term investments at September 30, 2004 and 2005, respectively.

For the Associated Companies as of September 30, 2005, the aggregate summarized financial information for the financial years 2003, 2004, and 2005, is as follows:

	2003	2004	2005
Sales	596	539	**969**
Gross profit	65	26	**187**
Net income (loss)	2	(25)	**90**

	2003	2004	2005
Current assets	243	400	**744**
Non-current assets	679	1,492	**2,234**
Current liabilities	(302)	(383)	**(452)**
Non-current liabilities	(15)	(338)	**(908)**
Shareholders' equity	605	1,171	**1,618**

17 OTHER ASSETS

Other non-current assets at September 30, 2004 and 2005, consist of the following:

	2004	2005
Intangible assets, net	398	**315**
Grants receivable	92	**–**
Deferred tax expense (note 9)	39	**71**
Prepaid pension cost (note 28)	27	**–**
Long-term receivables	24	**23**
Marketable securities (note 11)	19	**34**
Associated and Related Companies – financial and other (note 27)	10	**67**
Notes receivable	3	**–**
Employee receivables (note 27)	2	**2**
Other	13	**30**
Total	627	**542**

(euro in millions, except where otherwise stated)

A summary of activity for intangible assets for the years ended September 30, 2004 and 2005, is as follows:

	Goodwill	Other intangibles	Total
Cost			
September 30, 2003	243	339	**582**
Additions	–	125	**125**
Impairment charges (note 7)	(71)	–	**(71)**
Disposals	–	(75)	**(75)**
Acquisitions (note 3)	23	30	**53**
Purchase accounting adjustments (note 3)	(8)	–	**(8)**
Foreign currency effects	(15)	(5)	**(20)**
September 30, 2004	172	414	**586**
Additions	–	64	**64**
Impairment charges (note 7)	(18)	(39)	**(57)**
Disposals	(6)	(36)	**(42)**
Acquisitions (note)	7	58	**65**
Purchase accounting adjustments (note 3)	(14)	(16)	**(30)**
Foreign currency effects	2	3	**5**
September 30, 2005	143	448	**591**
Accumulated amortization			
September 30, 2003	(25)	(146)	**(171)**
Amortization	–	(89)	**(89)**
In-process R&D	–	(9)	**(9)**
Disposals	–	75	**75**
Foreign currency effects	4	2	**6**
September 30, 2004	(21)	(167)	**(188)**
Amortization	–	(96)	**(96)**
Disposals	–	5	**5**
Foreign currency effects	3	–	**3**
September 30, 2005	(18)	(258)	**(276)**
Carrying value September 30, 2003	218	193	**411**
Carrying value September 30, 2004	151	247	**398**
Carrying value September 30, 2005	125	190	**315**

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding financial years is as follows: 2006 €59; 2007 €51; 2008 €29; 2009 €11; 2010 €7.

In June 2003, the Company entered into technology development and license agreements with IBM and Chartered Semiconductor for advanced logic process manufacturing technology. Licenses of €43 are amortized over the expected life of the related technology of five years.

In connection with the acquisition of Saifun's remaining 30% share in the Infineon Technologies Flash joint venture, the Company was granted a license for the use of Saifun NROM® technologies (see note 3). The license of €28 is being amortized over the expected useful life of the related technologies of ten years.

In March 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio. The license of €37 is being amortized over the expected useful life of the related technologies of ten years.

During the years ended September 30, 2003, 2004, and 2005, the Company recognized intangible assets impairment charges of €68, €71, and €57, respectively.

As a result of the combination of below-forecasted operating results and moderated market expectations, the Company, taking the technical milestones achieved to date into account, revised the forecasted returns for the optical networking reporting unit of the Communication segment. Accordingly, the Company tested the reporting unit's goodwill for impairment using a present value technique based on discounted estimated future cash flows pursuant to SFAS No. 142 and recognized an impairment charge of €68 during the year ended September 30, 2003.

As part of the Company's annual goodwill impairment test for the year ended September 30, 2004, the Company recognized an impairment charge of €71 to reduce the reporting unit's goodwill to its estimated fair value, principally as a result of a decline in revenue and lowered market development expectations during the 2004 financial year.

(euro in millions, except where otherwise stated)

During the year ended September 30, 2005, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets in the Customer Premises Equipment, Wireless Infrastructure, Short Range Wireless, RF Engine and Optical Networking reporting units within the Communication segment may not be recoverable. Recoverability of these intangible assets was measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €57 were recognized in other operating expenses, representing the amount by which the carrying amount of the assets exceeded their fair value.

18 TRADE ACCOUNTS PAYABLE

Trade accounts payable at September 30, 2004 and 2005, consist of the following:

	2004	2005
Third party – trade	969	**868**
Siemens group – trade (note 27)	61	**61**
Associated and Related Companies – trade (note 27)	68	**140**
Total	1,098	**1,069**

19 ACCRUED LIABILITIES

Accrued liabilities at September 30, 2004 and 2005, consist of the following:

	2004	2005
Personnel costs	279	**274**
Warranties and licenses	78	**53**
Settlement for antitrust related matters (note 31)	67	**31**
Interest	33	**34**
Other	98	**105**
Total	555	**497**

On September 15, 2004, the Company entered into a plea agreement with the United States Department of Justice in connection with its antitrust investigation (see note 31) and agreed to pay a fine aggregating $160 million over a five-year period. The related amount due within one year is included in accrued and other current liabilities, and the long-term portion is reflected as other non-current liabilities (see note 22).

20 OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2004 and 2005, consist of the following:

	2004	2005
VAT and other taxes payable	272	**202**
Payroll obligations to employees	124	**130**
Deferred government grants (note 6)	90	**106**
Other deferred income	58	**22**
Restructuring (note 8)	16	**72**
Financial instruments (note 29)	17	**74**
Associated and Related Companies – financial and other (note 27)	2	**4**
Liabilities related to assets held for sale (note 14)	31	**–**
Settlement for antitrust related matters (note 31)	–	**31**
Other	20	**59**
Total	630	**700**

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 22).

(euro in millions, except where otherwise stated)

21 DEBT

Debt at September 30, 2004 and 2005, consists of the following:

	2004	2005
Short-term debt:		
Loans payable to banks, weighted average rate 2.21 %	53	**51**
Loans payable, weighted average rate 4.5 %	18	**–**
Current portion of long-term debt	498	**48**
Capital lease obligations	2	**–**
Total short-term debt and current maturities	571	**99**
Long-term debt:		
Convertible subordinated notes, 4.25 %, due 2007	636	**633**
Convertible subordinated notes, 5.0 %, due 2010	688	**690**
Loans payable to banks:		
Unsecured term loans, weighted average rate 2.58 %, due 2006–2013	69	**206**
Secured term loans, weighted average rate 1.50 %, due 2006–2010	7	**9**
Notes payable to governmental entity, rate 3.18 %, due 2027	27	**28**
Total long-term debt	1,427	**1,566**

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements. The loans payable, representing working capital advances to the Company's flash memory subsidiaries in the amount of €18 as of September 30, 2004, were netted against the purchase price as part of the acquisition of the minority interest in the Company's Flash joint venture (see note 3).

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 in subordinated convertible 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 euro 10.23 per share through maturity. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The notes accrue interest at 5.0% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer, and cannot be converted for the first three years. The note holders have a negative pledge relating to future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125% 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. At September 30, 2005, unamortized debt issuance costs were €10.

On February 6, 2002, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €1,000 in subordinated convertible notes due 2007 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 28.2 million of the Company's ordinary shares at a conversion price of euro 35.43 per share through maturity. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The convertible notes accrue interest at 4.25% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer. The note holders have a negative pledge relating to any future capital market indebtedness, as defined. The note holders have an early redemption option in the event of 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 115% 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. During the financial year ended September 30, 2004, the Company redeemed a notional amount of €360 of the convertible subordinated notes due 2007, which resulted in a net gain of €6 before tax. At September 30, 2005, the outstanding notional amount was €640 and unamortized debt issuance costs were €3.

(euro in millions, except where otherwise stated)

A €450 syndicated credit facility relating to the expansion of the Dresden manufacturing facility, which was fully drawn as of September 30, 2004, and had been reported under current portion of long-term debt, was repaid as of September 30, 2005.

In September 2004 the Company executed a $400/€400 syndicated credit facility with a five year term. The facility consists of two tranches: Tranche A is a $400 million term loan intended to finance the expansion of its Richmond, Virginia, manufacturing facility. Tranche B is a €400 multicurrency revolving facility to be used for general corporate purposes. The maximum outstanding amount of Tranche A will decrease on the basis of a repayment schedule that foresees equal installments starting from September 30, 2006. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders have been granted a negative pledge relating to the Company's future financial indebtedness with certain permitted encumbrances. At September 30, 2005, no amounts were outstanding under this facility.

A €124 non-recourse project financing facility for the expansion of the Porto, Portugal, manufacturing facility was executed in May 2005. At September 30, 2005, an amount of €80 has been drawn under this facility. The Company anticipates satisfying the repayment schedule starting 2008 and ending 2013 from available funds.

The Company has established independent financing arrangements with several financial institutions, in the form of both short and long-term credit facilities, which are available for anticipated funding purposes:

			As of September 30, 2005		
Term	**Nature of financial institution commitment**	**Purpose/intended use**	**Aggregate facility**	**Drawn**	**Available**
short-term	firm commitment	working capital, guarantees	120	51	69
short-term	no firm commitment	working capital, cash management	305	–	305
long-term	firm commitment	working capital	731	–	731
long-term[1]	firm commitment	project finance	335	291	44
Total			1,491	342	1,149

1 Including current maturities.

At September 30, 2005, the Company was in compliance with its debt covenants under the relevant facilities. Interest expense for the years ended September 30, 2003, 2004, and 2005 was €115, €126, and €83, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2005, are as follows:

Year ending September 30	**Amount**
2006	99
2007	650
2008	51
2009	64
2010	733
Thereafter	68
Total	1,665

22 OTHER LIABILITIES

Other non-current liabilities at September 30, 2004 and 2005, consist of the following:

	2004	**2005**
Deferred government grants (note 6)	191	**182**
Settlement for antitrust related matters (note 31)	109	**88**
Pension liabilities (note 28)	98	**162**
Long-term advance	45	**–**
Minority interest	39	**81**
Deferred income (note 5)	18	**38**
Post-retirement benefits (note 28)	5	**5**
Other	63	**86**
Total	568	**642**

(euro in millions, except where otherwise stated)

23 ORDINARY SHARE CAPITAL

As of September 30, 2005, the Company had 747,569,359 registered ordinary shares of euro 2.00 notional value per share outstanding. During the year ended September 30, 2004, the Company increased its share capital by €53 by issuing 26,679,255 shares valued at €278 in connection with the acquisition of the remaining interests of other investors in the SC300 GmbH & Co. KG ("SC300"). During the year ended September 30, 2003, due to the achievement of certain milestones, 96,386 shares representing contingent purchase consideration in connection with the Catamaran acquisition, were released from third party escrow, and are reflected as issued in the accompanying statement of shareholders' equity.

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, 2005, the Management Board may use these authorizations to issue new shares as follows:

- Through January 21, 2007, Authorized Share Capital I/2002 – in an aggregate nominal amount of up to €297 to issue shares for cash, where the preemptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the preemptive rights of shareholders may be excluded for all shares.
- Through January 19, 2009, Authorized Share Capital II/2004 – in an aggregate nominal amount of up to €30 to issue shares to employees (in which case the preemptive rights of existing shareholders are excluded).

The Company has conditional capital of up to an aggregate nominal amount of €96 (Conditional Share Capital I) and of up to an aggregate nominal amount of €29 (Conditional Share Capital III) that may be used to issue up to 62.5 million new registered shares in connection with the Company's long-term incentive plans (see note 24). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €50 (Conditional Share Capital II) that may be used to issue up to 25 million new registered shares upon conversion of debt securities, issued in February 2002, and which may be converted at any time until January 23, 2007 (see note 21). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €136.8 (Conditional Share Capital II/2002) that may be used to issue up to 68.4 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 21). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €213.2 (Conditional Share Capital II/2002) that may be used to issue up to 106.6 million new registered shares upon conversion of debt securities which may be issued before January 21, 2007. These shares will have dividend rights from the beginning of the financial 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 January 2005 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2005 financial year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2005.

24 STOCK-BASED COMPENSATION

Fixed stock option plans

In 1999, the shareholders approved a share option plan (the "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% 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 ("LTI") Plan (the "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 can grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board will decide annually within three months after publication of the financial results how many options to grant to the Management Board. The Management Board will, within the same three-month period, decide how many options to grant to eligible employees.

A summary of the status of the LTI 1999 Plan and the LTI 2001 Plan as of September 30, 2005, and changes during the three years then ended is presented below (options in millions, exercise price in euro):

	2003		2004		2005	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding at beginning of year	19.9	€35.96	29.9	€25.56	**36.0**	**€22.59**
Granted	11.7	€8.97	8.1	€12.32	**6.7**	**€9.10**
Exercised	–	–	–	–	**–**	**–**
Forfeited and expired	(1.7)	€32.80	(2.0)	€25.17	**(1.8)**	**€24.07**
Outstanding at end of year	29.9	€25.56	36.0	€22.59	**40.9**	**€20.33**
Exercisable at end of year	9.6	€48.56	13.2	€39.89	**19.6**	**€29.93**

The following table summarizes information about stock options outstanding and exercisable at September 30, 2005 (options in millions, exercise price in euro):

	Outstanding			Exercisable	
Range of exercise prices	Number of options	Weighted-average remaining life (in years)	Weighted-average exercise price	Number of options	Weighted-average exercise price
€5 – €10	16.6	4.95	€8.99	5.0	€8.93
€10 – €15	8.9	4.98	€12.41	1.0	€12.63
€15 – €20	0.2	3.84	€15.75	0.1	€15.75
€20 – €25	6.7	3.18	€23.70	5.0	€23.70
€25 – €30	0.1	3.02	€27.40	0.1	€27.43
€40 – €45	4.2	1.46	€42.03	4.2	€42.03
€50 – €55	0.1	2.50	€53.26	0.1	€53.26
€55 – €60	4.1	2.16	€55.18	4.1	€55.18
Total	40.9	4.02	€20.33	19.6	€29.93

Fair value disclosures

As described in note 2, the Company applies APB Opinion 25 and its related interpretations to account for stock-based compensation. SFAS No. 123 establishes an alternative to determine compensation expense based on the fair value of the options at the grant date calculated through the use of option pricing models. Option pricing models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the options granted to the Company's employees with their exercise restrictions. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company estimated the fair value of each option grant at the date of grant using a Black-Scholes option-pricing model based on a single-option valuation approach with forfeitures recognized as they occur. The following weighted-average assumptions were used for grants for the years ended September 30:

	2003	2004	2005
Weighted-average assumptions:			
Risk-free interest rate in %	3.85	3.68	**3.02**
Expected volatility in %	59	59	**58**
Dividend yield in %	0	0	**0**
Expected life in years	4.50	4.50	**4.50**
Weighted-average fair value per option at grant date in €	4.41	5.88	**4.03**

If the Company had accounted for stock option grants and employee stock purchases under its plans according to the fair value method of SFAS No. 123, and thereby recognized compensation expense based on the above fair values over the respective option vesting periods, net income (loss) and earnings (loss) per share would have been reduced (increased) to the pro forma amounts indicated below, pursuant to the provisions of SFAS No. 148 for the years ended September 30:

	2003	2004	2005
Net (loss) income:			
As reported	(435)	61	**(312)**
Deduct:			
Stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	7	2	**–**
Add:			
Total stock-based employee compensation expense determined under fair–value-based method for all awards, net of related tax effects	(43)	(37)	**(39)**
Pro forma	(471)	26	**(351)**
Basic earnings (loss) per share:			
As reported	€(0.60)	€0.08	**€(0.42)**
Pro forma	€(0.65)	€0.03	**€(0.47)**

(euro in millions, except where otherwise stated)

25 OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 2003, 2004, and 2005 are as follows:

	2003			2004			2005		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	11	–	11	4	–	4	**13**	**(1)**	**12**
Reclassification adjustment for losses (gains) included in net income (loss)	4	(2)	2	(11)	–	(11)	**(4)**	**–**	**(4)**
Net unrealized (losses) gains	15	(2)	13	(7)	–	(7)	**9**	**(1)**	**8**
Unrealized gains (losses) on cash flow hedges	–	–	–	1	–	1	**(25)**	**–**	**(25)**
Additional minimum pension liability	4	(2)	2	28	(10)	18	**(85)**	**1**	**(84)**
Foreign currency translation adjustment	(76)	–	(76)	(41)	–	(41)	**64**	**–**	**64**
Other comprehensive (loss) income	(57)	(4)	(61)	(19)	(10)	(29)	**(37)**	**–**	**(37)**
Accumulated other comprehensive income (loss) – beginning of year	(41)	14	(27)	(98)	10	(88)	**(117)**	**–**	**(117)**
Accumulated other comprehensive income (loss) – end of year	(98)	10	(88)	(117)	–	(117)	**(154)**	**–**	**(154)**

26 SUPPLEMENTAL CASH FLOW INFORMATION

The Company issued shares to redeem the redeemable interest of €278 related to the SC300 venture during the year ended September 30, 2004 (see note 23).

Following the Company's spin-off from Siemens, the Company established a pension plan for its U.S. employees separate from the Siemens U.S. pension plan. At the time of the spin-off, the funded status of the Company's allocated portion of the Siemens U.S. pension plan relating to the transferred employees was reflected as an accrued pension liability. Subsequently, Siemens transferred assets to fund this liability based on an actuarial determination. The difference between the actuarial valuation at the funding date and the originally allocated liability of €(6) is reflected as an equity transaction during the year ended September 30, 2003.

	2003	2004	2005
Cash paid for:			
Interest	104	144	**91**
Income taxes	53	59	**79**
Operating activities:			
Cash received for tax-free government grants	34	65	**33**
Non-cash investing and financing activities:			
Contributions to Siemens	(6)	–	**–**
Assets acquired through capital lease transactions	5	–	**–**

(euro in millions, except where otherwise stated)

27 RELATED PARTIES

The Company has transactions in the normal course of business with Siemens group companies and with Related and Associated Companies (together, "Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Related Party receivables at September 30, 2004 and 2005, consist of the following:

	2004	2005
Current:		
Siemens group – trade	206	**145**
Associated and Related Companies – trade	12	**12**
Siemens group – financial and other (note 14)	18	**18**
Associated and Related Companies – financial and other (note 14)	49	**5**
Employee receivables (note 14)	9	**8**
	294	**188**
Non-current:		
Associated and Related Companies – financial and other (note 17)	10	**67**
Employee receivables (note 17)	2	**2**
	12	**69**
Total Related Party receivables	306	**257**

Related Party payables at September 30, 2004 and 2005, consist of the following:

	2004	2005
Siemens group – trade (note 18)	61	**61**
Associated and Related Companies – trade (note 18)	68	**140**
Associated and Related Companies – financial and other (note 20)	2	**4**
Total Related Party payables	131	**205**

Related Party receivables and payables have been segregated first between amounts owed by or to Siemens group companies and 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.

The Company and IBM have both extended revolving term loans to ALTIS. As of September 30, 2004 and 2005, the outstanding balance of the Company's loan to ALTIS was €42 and €57, respectively, and is included in current Associated and Related Companies – financial and other receivables as of September 30, 2004, and in non-current Associated and Related Companies – financial and other as of September 30, 2005.

(euro in millions, except where otherwise stated)

Transactions with Related Parties during the years ended September 30, 2003, 2004, and 2005, include the following:

	2003	2004	2005
Sales to Related Parties:			
Siemens group companies	836	957	**861**
Associated and Related Companies	163	69	**55**
Total sales to Related Parties	999	1,026	**916**
Purchases from Related Parties:			
Siemens group companies	413	264	**226**
Associated and Related Companies	470	357	**615**
Total purchases from Related Parties	883	621	**841**
Interest income from (expense to) Related Parties:			
Interest income from Related Parties	4	2	**2**
Interest expense to Related Parties	(1)	–	**–**
Total	3	2	**2**

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €86, €23, and €38 for the years ended September 30, 2003, 2004, and 2005, respectively. Sales are principally conducted through the Company's own independent sales organization directly to third parties. Where the Company has not established its own independent sales organization in a certain country, a commission is paid to the Siemens group sales organizations where they assist in making sales directly to third parties.

Purchases from Siemens group companies primarily include purchases of fixed assets, inventory, IT services, and administrative services.

In February 2004, the Company completed the purchase of assets, including certain liabilities, of the Protocol Software operations of Siemens AG, in exchange for €13 and the employment of approximately 145 of Siemens' mobile communication software engineers.

On August 10, 2000, Siemens issued guaranteed exchangeable notes with an aggregate nominal amount of €2,500. The notes bore a 1% fixed annual interest rate and were to be redeemed by Siemens on August 10, 2005. Each note could be exchanged, in certain circumstances, through July 27, 2005, for 1,000 of the Company's shares. During the year ended September 30, 2004, Siemens repurchased €1,905 of the exchangeable notes and in August 2005 redeemed the remaining €595 notes outstanding at 105.2% of the face value thereof.

On January 12, 2004, Siemens reported that it had sold 150 million shares of Infineon Technologies AG, thereby reducing the shareholding of Siemens Nederland N.V. below the threshold of 10%. As of September 30, 2004, the remaining Siemens interest in the Company of 18.2% was held in a non-voting trust. In November 2004 the trust agreement between the non-voting trust and Siemens AG terminated according to its terms and the 136,292,363 Company shares held pursuant to the trust agreement were transferred to Siemens AG. As of September 30, 2005, the aggregate number of shares beneficially owned by Siemens AG with sole voting and dispositive power was 136,292,363, equaling 18.2% of the Company's issued share capital.

(euro in millions, except where otherwise stated)

28 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.

Information with respect to the Company's pension plans for the years ended September 30, 2003, 2004, and 2005 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

	2003		2004		2005	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Accumulated benefit obligations end of year	(205)	(52)	(226)	(56)	**(337)**	**(64)**
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(218)	(58)	(243)	(70)	**(271)**	**(78)**
Service cost	(13)	(5)	(14)	(7)	**(16)**	**(7)**
Interest cost	(13)	(4)	(13)	(4)	**(15)**	**(4)**
Actuarial gains (losses)	3	(5)	–	3	**(89)**	**(2)**
Business combinations	–	(7)	(1)	(1)	**–**	**–**
Divestitures	–	–	1	–	**1**	**4**
New plan created	–	–	–	(2)	**–**	**–**
Plan amendments	(4)	–	(3)	–	**(8)**	**–**
Benefits paid	2	1	2	1	**2**	**2**
Curtailment	–	3	–	–	**4**	**1**
Foreign currency effects	–	5	–	2	**–**	**(1)**
Projected benefit obligations end of year	(243)	(70)	(271)	(78)	**(392)**	**(85)**
Change in fair value of plan assets:						
Fair value at beginning of year	120	26	143	27	**174**	**30**
Contributions and transfers	22	2	19	2	**17**	**4**
Actual return on plan assets	3	–	14	3	**19**	**2**
Benefits paid	(2)	(1)	(2)	(1)	**(2)**	**(2)**
Business combination	–	4	–	–	**–**	**–**
New plan created	–	–	–	–	**–**	**–**
Foreign currency effects	–	(4)	–	(1)	**–**	**1**
Fair value at end of year	143	27	174	30	**208**	**35**
Funded status	(100)	(43)	(97)	(48)	**(184)**	**(50)**
Unrecognized actuarial loss	66	6	59	2	**138**	**4**
Unrecognized prior service cost (benefit)	4	(2)	7	(2)	**14**	**(2)**
Post measurement date contributions	16	–	1	1	**16**	**1**
Net liability recognized	(14)	(39)	(30)	(47)	**(16)**	**(47)**

The above net liability is recognized as follows in the accompanying consolidated balance sheets as of September 30:

	2003		2004		2005	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Prepaid pension cost (note 17)	–	1	27	–	**–**	**–**
Intangible asset (note 14)	4	–	–	–	**14**	**–**
Accumulated other comprehensive income	29	–	–	–	**85**	**–**
Accrued pension liabilities (note 22)	(47)	(40)	(51)	(47)	**(115)**	**(47)**
Other current liabilities	–	–	(6)	–	**–**	**–**
Net liability recognized	(14)	(39)	(30)	(47)	**(16)**	**(47)**

(euro in millions, except where otherwise stated)

Other current liabilities of €6 at September 30, 2004, related to pension liabilities of the fiber optic business which was held for sale.

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets are as follows:

	2003		2004		2005	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Projected benefit obligation	243	70	271	78	**393**	**85**
Fair value of plan assets	143	27	174	30	**208**	**35**
Accumulated benefit obligations	205	48	53	51	**337**	**57**
Fair value of plan assets	143	22	–	23	**208**	**26**

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

	2003		2004		2005	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate in %	5.8	5.9	5.8	5.6	**4.5**	**4.8**
Rate of compensation increase in %	3.0	3.9	3.0	3.7	**2.5**	**3.1**
Projected future pension increases in %	1.3	2.6	1.3	2.6	**1.3**	**2.2**
Expected return on plan assets in %	4.9	6.8	6.8	7.0	**7.3**	**6.9**

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

Investment strategies

The investment approach of the Company's pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The Company's pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities, and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an 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.

(euro in millions, except where otherwise stated)

Plan asset allocation

As of September 30, 2004 and 2005, the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2004		2005		Targeted allocation	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities in %	45	60	**44**	**57**	45	59
Debt securities in %	46	38	**51**	**35**	52	35
Other in %	9	2	**5**	**8**	3	6
Total in %	100	100	**100**	**100**	100	100

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

The components of net periodic pension cost for the years ended September 30, 2003, 2004, and 2005 are as follows:

	2003		2004		2005	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Service cost	(13)	(5)	(14)	(7)	**(16)**	**(7)**
Interest cost	(13)	(4)	(13)	(4)	**(15)**	**(4)**
Expected return on plan assets	6	2	11	2	**13**	**2**
Amortization of unrecognized losses	(3)	–	(3)	–	**(3)**	**–**
Curtailment gain recognized	–	3	–	–	**1**	**1**
Net periodic pension cost (note 7)	(23)	(4)	(19)	(9)	**(20)**	**(8)**

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% 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 €(2), €3 and €(91) for the years ended September 30, 2003, 2004, and 2005, respectively. The increase in actuarial losses in the 2005 financial year was primarily the result of the reduction of the discount rate used to determine the benefit obligation and new mortality tables used in the actuarial calculations for the domestic plans.

On September 25, 2000, the Company established the Infineon Technologies Pension Trust e.V. (the "Pension Trust") for the purpose of funding future pension benefit payments for employees in Germany in order to reduce the Company's exposure to certain risks associated with defined benefit plans. The Company contributed €155 of cash and marketable debt and equity securities, which qualify as plan assets under SFAS No. 87 "Employers' Accounting for Pensions", to the Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities.

(euro in millions, except where otherwise stated)

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, 2003 and 2005, 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 financial years and thereafter are as follows:

Years ending September 30	Domestic plans	Foreign plans
2006	7	1
2007	7	1
2008	8	2
2009	10	2
2010	13	2
2011–2015	77	18

During the year ended September 30, 2002, the Company established a deferred savings plan for its German employees, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €9 and €14 as of September 30, 2004 and 2005, respectively, is actuarially determined and accounted for on the same basis as the Company's other pension plans.

The Company provides post-retirement health care benefits to eligible employees in the United States. The Company recognized net periodic benefit cost of less than €1 for each of the years ended September 30, 2003, 2004, and 2005. The net liability recognized in the accompanying balance sheet was €5 as of September 30, 2004 and 2005.

29 FINANCIAL INSTRUMENTS

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

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2004 and 2005, are as follows:

	2004		2005	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold:				
U.S. dollar	371	8	**838**	**(20)**
Japanese yen	4	–	**9**	**–**
Singapore dollar	–	–	**2**	**–**
Forward contracts purchased:				
U.S. dollar	56	(1)	**195**	**4**
Japanese yen	55	–	**42**	**–**
Singapore dollar	29	–	**23**	**–**
Great Britain pound	4	–	**5**	**–**
Czech Koruna	–	–	**1**	**–**
Malaysian Ringgit	–	–	**32**	**1**
Other currencies	5	–	**23**	**(1)**
Currency Options sold:				
U.S. dollar	520	(16)	**527**	**(21)**
Currency Options purchased:				
U.S. dollar	514	9	**522**	**3**
Cross currency interest rate swap:				
U.S. dollar	406	60	**389**	**21**
Interest rate swaps	1,442	29	**1,442**	**14**
Other	–	–	**259**	**(2)**
Fair value, net		89		**(1)**

During the year ended September 30, 2004, the Company designated two interest rate swap agreements with a total notional amount of €500, as fair value hedges of a corresponding principal amount of its convertible notes due 2007. The change in fair value of these hedges during the years ended September 30, 2004 and 2005, were €1 and €(5), respectively, and was reflected as part of interest expense. During the fourth quarter of the 2005 financial year the Company de-designated those fair value hedges. The change in fair value since inception of the hedge of €(4) will be amortized into interest expense over the remaining term of the convertible notes.

The Company entered into interest rate swap agreements with independent financial institutions, which are designated as a cash flow hedge of interest rate fluctuations on forecasted future lease payments during the first 10 years of the Campeon lease agreement (see note 31). The ineffective portion of the cash flow hedge was €0 for the years ended September 30, 2004 and 2005. The effective portion of €1 and €(24) is deferred in other comprehensive income and is expected to be reclassified ratably into earnings as part of the lease expense, from the commencement of the lease, over the relevant period of the lease term.

Interest expense, net, was partially offset by gains resulting from interest rate swap agreements in the amount of €11, €22, and €21 for the years ended September 30, 2003, 2004, and 2005, respectively.

Gains and losses on derivative financial instruments included in determining net income (loss), with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other non-operating income (expense), were as follows for the years ended September 30:

	2003	2004	2005
Gains (losses) from foreign currency derivatives:			
Cost of sales	8	44	**(14)**
Other non-operating (expense) income	106	3	**(10)**
	114	47	**(24)**
Gains (losses) from foreign currency transactions:			
Cost of sales	(40)	(50)	**(5)**
Other non-operating (expense) income	(106)	(12)	**50**
	(146)	(62)	**45**
Net gains (losses) from foreign currency derivatives and transactions	(32)	(15)	**21**

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, 2005, the convertible notes due 2007 and the convertible notes due 2010 were trading at a 1.2% and a 9.4% premium to par, respectively, based on quoted market values.

The fair values of the Company's cash and cash equivalents, receivables, 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).

30 RISKS

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities, and financial derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures, as well as comprehensive credit evaluations for all customers. Related Parties account for a considerable portion of sales and trade receivables. The credit risk with respect to cash equivalents, marketable securities and financial derivatives is limited by transactions with a number of large international financial institutions, with pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others of such intellectual property rights. Conversely, the Company is exposed to assertions by others of infringement by the Company of their intellectual property rights.

The Company, through its use of third-party foundry and joint venture arrangements, uses a significant portion of manufacturing capacity that is outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is exposed, to a certain extent, to fluctuations in product procurement cost.

(euro in millions, except where otherwise stated)

The Company has established policies and procedures which serve as business conduct guidelines for its employees. Should these guidelines not be adhered to, the Company could be exposed to risks relating to wrongful actions by its employees.

Approximately 10,000 of the Company's employees are covered by collective bargaining agreements. The collective bargaining agreements pertain primarily to certain of the Company's non-management employees in Germany (affecting approximately 6,400 employees), the Czech Republic (affecting approximately 400 employees) and Austria (affecting approximately 2,300 employees). The agreement in Germany is perpetual, but can be terminated by the trade union with a notice of one month prior to February 28, 2006. The agreement in Austria expires on May 1, 2006. The provisions of these agreements generally remain in effect until replaced by a subsequent agreement. Agreements for periods after expiration are to be negotiated with the respective trade unions through a process of collective negotiations.

31 COMMITMENTS AND CONTINGENCIES

Litigation

In March 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus has granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in its memory products. In exchange for this worldwide license, the Company agreed to pay $50 million in quarterly installments of $6 million from November 15, 2005, through November 15, 2007. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, the Company will make additional quarterly payments which may aggregate a maximum of an additional $100 million. The agreement also provides the Company an option for acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company simultaneously granted to Rambus a fully-paid perpetual license for memory interfaces.

On May 7, 2003, ProMOS filed arbitration proceedings against the Company, seeking payment of approximately $36 million for DRAM products sold to the Company, damages in the amount of approximately $338 million for non-delivery of technology and an affirmative judgment that ProMOS be allowed to continue to use the technology already transferred by the Company. The Company filed counterclaims seeking a judgment that ProMOS be required to cease using the Company's technology and pay damages of approximately $568 million, after deduction of $36 million for DRAM products sold to the Company.

On November 10, 2004, the Company and ProMOS reached an agreement regarding ProMOS' license of the Company's DRAM technology transferred to ProMOS. The S17 to S12 License Agreement of 2000 was amended and remains in effect. ProMOS has been, and continues to be, licensed to produce and sell products using the technology transferred by the Company, and to develop its own processes and products. As full consideration for the ongoing license for use of the Company's technology, ProMOS agreed to pay the Company $156 million in four installments over a period through April 30, 2006, against which the Company's accrued payable for DRAM products purchased from ProMOS of $36 million was offset. All claims (including litigation, arbitration or other complaints) raised by both sides have been withdrawn. The Company recognized the relevant license income in the first quarter of the 2005 financial year.

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 ongoing investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count related to the pricing of DRAM products between July 1, 1999, and June 15, 2002. Under the terms of the agreement, the Company agreed to pay a fine of $160 million. The fine plus accrued interest is to be paid in equal annual installments through 2009. On October 25, 2004, the plea agreement was accepted by the U.S. District Court for the Northern District of California. Therefore, the matter has been fully resolved between the Company and the DOJ, subject to the Company's obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The wrongdoing charged by the DOJ was limited 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.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against the Company, its U.S. subsidiary, and other DRAM suppliers.

Sixteen cases were filed between June 2002 and September 2002 in the following U.S. federal district courts: one in the Southern District of New York, five in the District of Idaho, and 10 in the Northern District of California. Each of the federal district court cases purports to be on behalf of a class of individuals and entities who purchased DRAM directly from various DRAM suppliers in the United States of America during a specified time period commencing on or after October 1, 2001 ("Direct U.S. Purchaser Class"). The complaints allege price-fixing in violation of the Sherman Act and seek treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation held a hearing and subsequently ordered that the foregoing federal cases be transferred to the U.S. District Court for the Northern District of California (San Francisco) for coordinated or consolidated pretrial proceedings as part of a Multi-District Litigation ("MDL"). In June 2005, with the permission of the U.S. District Court for the Northern District of California, the plaintiffs filed a second amended complaint alleging that the unlawful conduct commenced on approximately April 1, 1999, and continued through at least June 30, 2002. The Company has reached a settlement agreement with the Direct U.S. Purchaser Class (subject to approval by the U.S. District Court for the Northern District of California) and has secured individual settlements with seven direct customers in addition to those OEMs identified by the DOJ.

Sixty-three additional cases were filed between August 2, 2002, and September 16, 2005, in numerous federal and state courts throughout the United States of America. Each of these state and federal cases (except a case filed in the U.S. District Court for the Eastern District of Pennsylvania) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States of America during specified time periods commencing in or after 1999 ("Indirect U.S. Purchaser Class"). The Eastern District of Pennsylvania case purports to be on behalf of a class of foreign individuals and entities who directly purchased DRAM outside of the United States of America between April 1999 and June 2000 ("Direct Foreign 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 unspecified amounts, restitution, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In response to a petition filed by one of the plaintiffs, a judge appointed by the Judicial Council of California subsequently ordered that the then-pending California state cases be coordinated for pretrial purposes and recommended that they be transferred to San Francisco County Superior Court for coordinated or consolidated pretrial proceedings. Subsequently 12 of the state court cases and the U.S. District Court for the Eastern District of Pennsylvania case were ordered transferred to the U.S. District Court for the Northern District of California (San Francisco) for coordinated and consolidated pretrial proceedings as part of the MDL described above. After this transfer, the plaintiffs dismissed two of the transferred state court cases. Two additional transferred state court cases were subsequently remanded back to their relevant state courts. The Company is defending against these actions vigorously.

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. The Company has reassessed the matter after its plea agreement with the DOJ and made an accrual during the 2004 financial year for a 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 such actual fine. The Company is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised the Company's U.S. subsidiary that it and its affiliated companies are among the targets of a formal inquiry into alleged violations of the Canadian Competition Act in the DRAM industry. No compulsory process (such as subpoenas) has been commenced. The Company is cooperating with the Competition Bureau in its inquiry.

In October 2004, a proposed class proceeding was commenced against the Company in the Canadian province of Quebec on behalf of indirect purchasers, who purchased products in Quebec from certain OEM customers which contained DRAM during the period from July 1999 to June 2002, seeking damages in unspecified amounts, investigation costs, interest, and legal costs in respect of activities which are the subject of the Company's September 15, 2004, plea agreement with the DOJ. In the period from December 2004 to February 2005, three other proposed class proceedings were commenced in the provinces of Ontario, Quebec and British Columbia on behalf of all direct and indirect purchasers resident, respectively, in Canada (in the case commenced in the province of Ontario), the province of Quebec and British Columbia, who purchased DRAM or products which contained DRAM during the period from July 1999 to June 2002, seeking damages, punitive damages, investigation and administration costs, in unspecified amounts, interest, and legal costs.

Between September 30, 2004, and November 4, 2004, a total of seven securities class action complaints were filed against the Company in the U.S. District Courts for the Northern District of California and the Southern District of New York. The plaintiffs voluntarily dismissed the New York cases, and on June 30, 2005, filed a Consolidated Amended Complaint in California, effectively consolidating all the lawsuits. The Consolidated Amended Complaint alleges violations of the U.S. federal securities laws and seeks damages on behalf of a purported class of purchasers of the Company's publicly traded securities during the period from March 13, 2000, to July 19, 2004. The Company is vigorously defending against allegations of U.S. securities laws violations.

In late 2002, MOSAID Technologies Inc. ("MOSAID") alleged that the Company was violating 11 DRAM-related U.S. patents of MOSAID. In December 2002, the Company filed an action in the U.S. District Court for the Northern District of California seeking a declaratory judgment that the Company was not violating such patents. On February 7, 2003, MOSAID filed a counter-suit opposing the Company's motion for declaratory judgment and seeking damages for the alleged patent infringement. On November 3, 2003, MOSAID announced that it had filed an amended counterclaim to add two new patents to its previous claims. This matter has since been consolidated under the federal multidistrict litigation rules with another lawsuit filed by MOSAID against Samsung Electronics Co. Ltd. ("Samsung") in the U.S. District Court for the District of New Jersey. On April 1, 2005, the U.S. District Court issued a summary judgment order that the Company's products did not infringe most of MOSAID's asserted claims, leaving the infringement of only two claims in one patent still to be determined. A trial date for these claims has not yet been scheduled. On April 6, 2005, MOSAID filed an additional lawsuit in the U.S. District Court for the Eastern District of Texas, alleging that the Company's DRAM products infringe one or more claims of three MOSAID patents. A trial on this issue has been scheduled for October 2006. The Company intends to vigorously defend against MOSAID's claims.

On March 5, 2005, Tessera Technologies, Inc. ("Tessera") filed a lawsuit in the U.S. District Court for the Eastern District of Texas, alleging that the Company's products containing ball grid array packages infringe five Tessera patents. On April 13, 2005, Tessera amended its complaint to allege that the Company and Micron violated U.S. antitrust law, Texas unfair competition law, and Texas business tort law by conspiring to harm the sale of Rambus' RDRAM chips, thereby injuring Tessera's ability to sell chip packaging for RDRAM chips. A trial has been scheduled for August 2006. The Company intends to vigorously defend against Tessera's claims.

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 or the range cannot be estimated, the minimum amount is accrued. As of September 30, 2005, the Company had accrued liabilities in the amount of €144 related to the antitrust investigations and related antitrust and securities civil claims 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 results of operations, financial position, and cash flows.

An adverse final resolution of the antitrust investigations or related civil claims or the securities class action lawsuits described above could result in substantial financial liability to, and other adverse effects upon the Company, which would have a material adverse effect on its business, results of operations, and financial condition. Irrespective of the validity or the successful assertion of the above-referenced claims, 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 position, and cash flows.

An adverse final resolution in the MOSAID or Tessera lawsuits could result in significant financial liabilities to, and other adverse effects upon the Company, which would have a material adverse effect on the Company's results of operations, financial position, and cash flows.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents 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 year of settlement.

In connection with the Company's formation, Siemens retained certain facilities located in the U.S. and certain related environmental liabilities. Businesses contributed to the Company by Siemens historically conducted operations at certain of these facilities and, under applicable law, could be required to contribute to the environmental remediation of these facilities despite their retention by Siemens. Siemens has provided guarantees to certain third parties and governmental agencies, and all involved parties have recognized Siemens as the responsible party for all applicable sites. No assessments have been made of the extent of environmental remediation, if any, that could be required, and no claims have been made against the Company in this regard. The Company believes its potential exposure, if any, to liability for remediating the U.S. facilities retained by Siemens is therefore low.

Contractual commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2005[1, 2]:

Payments due by period	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	**850**	94	71	61	56	54	514
Unconditional purchase commitments	**1,505**	1,379	45	24	9	9	39
Other long-term commitments	**138**	46	46	46	–	–	–
Total commitments	**2,493**	1,519	162	131	65	63	553

1 Certain payments of obligations or expirations of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of payments or expirations in the particular case. Actual outcomes could differ from those estimates.
2 Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not accurately quantifiable at September 30, 2005. Purchases under these arrangements aggregated approximately €950 for the year ended September 30, 2005.

In December 2002, the Company and Semiconductor Manufacturing International Corporation ("SMIC") entered into a technology transfer and capacity reservation agreement. In exchange for the technology transfer, SMIC will reserve specified capacity over a five-year period, with product purchases based on a market price formula. In 2004 the parties amended their agreement to include next generation technology.

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture Company ("CSVC") for the construction of a back-end manufacturing facility in the People's Republic of China. The capital invested by CSVC earns an annual return and has a liquidation preference. All accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company has consolidated 100% of the results of operations of the joint venture from inception.

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.

(euro in millions, except where otherwise stated)

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, 2005[1]:

Expirations by period	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Maximum potential future payments:							
Guarantees	**462**	99	204	23	5	–	131
Contingent government grants[2]	**516**	67	101	128	42	55	123
Total contingencies	**978**	166	305	151	47	55	254

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

The Company has guarantees outstanding to external parties of €462 as of September 30, 2005. 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 obligations are reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2005, such inter-company guarantees, principally relating to certain consolidated subsidiaries' third-party debt, aggregated €1,604, of which €1,340 relates to convertible notes issued.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met as of September 30, 2005, a maximum of €516 of these subsidies could be refundable.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, will enable the Company to centralize the majority of its Munich-area employees, who are currently situated in various locations throughout Munich, in one central physical working environment. MoTo is 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 has begun the gradual move of employees to this new location. 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 in escrow, which was included in restricted cash as of September 30, 2005, and could not be utilized by the lessor prior to occupation. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement will be 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.

(euro in millions, except where otherwise stated)

A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2005, is as follows:

	2005
Balance as of October 1, 2004	**68**
Accrued during the year, net	33
Settled during the year	(51)
Balance as of September 30, 2005	**50**

32 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".

Effective January 1, 2005, the Company simplified its organization to create shorter and faster decision paths across the entire Company, a stronger customer orientation, as well as greater efficiency and flexibility. The Mobile business and Wireline Communication segment have been combined into the new Communication segment to align the Company's structure with market developments. At the same time, the security and chip card activities and the ASIC & Design Solutions business have been integrated into the extended Automotive, Industrial and Multimarket segment. The segments' financial position and results of operations of prior years 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.

As a result, the Company now operates primarily in three major operating segments, two of which are application-focused: Automotive, Industrial and Multimarket, and Communication; and one of which is product focused: Memory Products. 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.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). Each of the segments has a segment manager reporting directly to the Chief Executive Officer and Chief Financial Officer, who have been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and EBIT. The CODM does not review asset information by segment, nor does he evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs. Information with respect to the Company's operating segments follows:

Automotive, Industrial and Multimarket

The Automotive, Industrial and Multimarket segment designs, develops, manufactures, and markets semiconductors and complete system solutions for use in automotive, industrial, and multimarket applications.

Communication

The Communication segment designs, develops, manufactures, and markets a wide range of ICs, other semiconductors, and complete system solutions for wireline and wireless communication applications.

Memory Products

The Memory Products segment designs, develops, manufactures, and markets semiconductor memory products with various packaging and configuration options and performance characteristics for standard, specialty, and embedded memory 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.

(euro in millions, except where otherwise stated)

Selected segment data for the years ended September 30, 2003, 2004, and 2005 is as follows:

	2003	2004	2005
Net sales:			
Automotive, Industrial and Multimarket	2,186	2,540	**2,516**
Communication	1,428	1,689	**1,391**
Memory Products	2,485	2,926	**2,826**
Other Operating Segments	21	11	**12**
Corporate and Reconciliation	32	29	**14**
Total	6,152	7,195	**6,759**

	2003	2004	2005
EBIT:			
Automotive, Industrial and Multimarket	148	252	**134**
Communication	(213)	(44)	**(295)**
Memory Products	31	169	**122**
Other Operating Segments	(50)	(75)	**(4)**
Corporate and Reconciliation	(215)	(46)	**(140)**
Total	(299)	256	**(183)**

	2003	2004	2005
Depreciation and amortization:			
Automotive, Industrial and Multimarket	356	398	**400**
Communication	305	232	**185**
Memory Products	768	683	**724**
Other Operating Segments	8	7	**7**
Corporate and Reconciliation	–	–	**–**
Total	1,437	1,320	**1,316**

	2003	2004	2005
Equity in earnings (losses) of Associated Companies:			
Automotive, Industrial and Multimarket	–	–	**–**
Communication	4	5	**4**
Memory Products	22	(16)	**54**
Other Operating Segments	(1)	(4)	**(2)**
Corporate and Reconciliation	(7)	1	**1**
Total	18	(14)	**57**

	2003	2004	2005
Inventories:			
Automotive, Industrial and Multimarket	332	359	**336**
Communication	209	266	**201**
Memory Products	415	334	**484**
Other Operating Segments	3	1	**1**
Corporate and Reconciliation	–	–	**–**
Total	959	960	**1,022**

Goodwill at September 30, 2004 and 2005, is reflected in the following segments:

	2004	2005
Goodwill:		
Automotive, Industrial and Multimarket	13	**–**
Communication	51	**27**
Memory Products	81	**88**
Other Operating Segments	6	**8**
Corporate and Reconciliation	–	**2**
Total	151	**125**

Due to the organizational structure of the operating segments, there are currently no sales transactions between operating segments. Accordingly, net sales by operating segment represent sales to external customers.

As of September 30, 2003 and 2004, raw material and work-in-process of certain common logic production front-end facilities, and work-in-process of the common back-end facilities, were not under the direct control or responsibility of any of the operating segment managers, but rather of the site management. The site management was responsible for the execution of the production schedule, volume, and units. Accordingly, this inventory was not attributed to any operating segment, but was included in the "Corporate and Reconciliation" column. Only unstarted wafers of the back-end facilities ("chip stock") and finished goods were attributable to the operating segments and included in the segment information reported to the CODM. As of September 30, 2005, all inventory was attributed to the respective operating segment, since it was under the direct control and responsibility of the respective operating segment managers. Prior periods have been reclassified to conform to the current year presentation.

(euro in millions, except where otherwise stated)

Certain items are included in Corporate and Reconciliation and are not allocated to the segments, consistent with the Company's internal management reporting. These include certain corporate headquarters' costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges are included in corporate and reconciliation and not allocated to the segments for internal or external reporting purposes, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by corporate and reconciliation. 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 reconciliation. Significant components of corporate and reconciliation EBIT for the years ended September 30, 2003, 2004, and 2005 are as follows:

	2003	2004	2005
Corporate and Reconciliation:			
Unabsorbed excess capacity costs	(101)	(34)	**(12)**
Restructuring charges	(29)	(17)	**(78)**
Corporate information technology development costs	(13)	–	**–**
Other, net	(72)	5	**(50)**
Total	(215)	(46)	**(140)**

The following is a summary of net sales and of property, plant and equipment by geographic area for the years ended September 30:

	2003	2004	2005
Net sales:			
Germany	1,535	1,675	**1,354**
Other Europe	1,112	1,263	**1,210**
North America	1,393	1,524	**1,504**
Asia-Pacific	1,821	2,263	**2,223**
Japan	256	364	**332**
Other	35	106	**136**
Total	6,152	7,195	**6,759**

	2003	2004	2005
Property, plant and equipment:			
Germany	2,152	1,962	**1,625**
Other Europe	652	514	**516**
North America	641	619	**1,093**
Asia-Pacific	369	490	**515**
Japan	1	1	**2**
Other	2	1	**–**
Total	3,817	3,587	**3,751**

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 7.

Except for sales to Siemens, which are discussed in note 27, no single customer accounted for more than 10% of the Company's sales during any of the years ended September 30, 2003, 2004, and 2005. Sales to Siemens are made primarily by the non-memory product segments.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the Company's business, and to evaluate its performance. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate operating segments.

EBIT is determined as follows from the consolidated statements of operations, without adjustment to the U.S. GAAP amounts presented:

For the years ended September 30	2003	2004	2005
Net (loss) income	(435)	61	**(312)**
Add: Income tax expense	84	154	**120**
Interest expense, net	52	41	**9**
EBIT	(299)	256	**(183)**

(euro in millions, except where otherwise stated)

33 SUBSEQUENT EVENTS

In November 2005, the Company's Supervisory Board approved a plan to transfer the assets and liabilities of its Memory Products segment into a separate, wholly owned subsidiary of the Company (this "drop-down" of assets and liabilities, or "Teilbetrieb", is known as an "Ausgliederung" under German law).

ADDITIONAL DISCLOSURES

Additional information to the U.S. GAAP consolidated financial statements pursuant to the transition regulation of the "Bilanzrechtsreformgesetz" in Article 58, paragraph 3 EGHGB

The Company has prepared consolidated financial statements and a group management report for the financial year ended September 30, 2005, in accordance with the German Commercial Code (the "Statutory Report"). The Company has elected to prepare its financial information on the basis of U.S. GAAP in compliance with the requirements of the German Commercial Code. The Statutory Report includes the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, Supplemental Disclosures, and Group Management Report.

Significant differences between German GAAP and U.S. GAAP

Introduction

Infineon Technologies AG, as a German parent company, is subject to the German Commercial Code ("Handelsgesetzbuch", or "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to the transition regulation of the "Bilanzrechtsreformgesetz" in Article 58, paragraph 3 EGHGB the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company has prepared its consolidated financial statements in accordance with U.S. GAAP. The following is a description of the significant differences between German GAAP and U.S. GAAP. Additionally, as a U.S. listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the U.S. Securities and Exchange Commission.

Fundamental differences

The primary difference between German GAAP and U.S. GAAP is that they are based on different concepts. The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. German GAAP is oriented towards the protection of creditors, placing emphasis on the prudence concept.

Financial statement presentation

The balance sheet presentation under U.S. GAAP is based on the planned realization of assets and the maturity of liabilities in the normal course of business. The balance sheet presentation under German GAAP is principally defined in HGB section 266, and is based on the enterprise's planned holding time for the respective asset, liability, or equity.

Revenue recognition

Revenue recognition is generally the same under German and U.S. GAAP, whereby revenue is recognized when realized and earned. Differences in the timing of recognition can exist in transactions when the Company retains on-going financial, operational or performance commitments, or the contractual amounts are not objectively verifiable.

Marketable securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under U.S. GAAP, the Company's marketable securities are classified as available for sale and valued at fair market value as of the balance sheet date. Unrealized gains and losses are reported in other comprehensive income net of deferred taxes.

Inventories

Inventory valuation is based on manufacturing costs under both German and U.S. GAAP. Manufacturing costs under U.S. GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs. Under German GAAP certain overhead costs can be excluded from the valuation of inventory.

Goodwill

Under U.S. GAAP, pursuant to SFAS No. 141 in connection with SFAS No. 142, goodwill arising from business combinations accounted for as a purchase after June 30, 2001, is no longer amortized, but rather tested for impairment at the reporting unit level at least annually. Under German GAAP, such goodwill is amortized over four years or its estimated useful life, whichever is shorter.

In-process research and development

Under German GAAP, in-process research and development projects acquired in a business combination are not specifically identified but rather included as part of goodwill. Under U.S. GAAP, acquired in-process research and development is specifically identified, valued, and charged to expense at the date of acquisition.

Derivative financial instruments

Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealized gains are not recognized whereas unrealized losses are accrued for. Under U.S. GAAP derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in results of operations or other comprehensive income, depending on whether the derivative financial instrument is designated as part of a hedge transaction and on the type of hedge transaction.

Deferred taxes

The main difference in accounting for deferred taxes relates to the fact, that under German GAAP deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed “more likely than not” that the deferred tax asset will not be realized.

Pension and other post-retirement obligations

Under U.S. GAAP, pension obligations are recognized based on the projected benefit obligation using the projected unit credit method. This is also permitted under German GAAP.

Furthermore, different interest rates are used for the evaluation of accrued liabilities.

Under U.S. GAAP, establishing and funding a trust, independent of the Company, results under certain conditions in a corresponding reduction in pension obligations from the balance sheet. Under German GAAP, pension assets and obligations are recorded gross on the balance sheet until such obligations are legally settled.

Stock-based compensation

Under German GAAP, the Company recognizes as expense the difference between the fair market value of the Infineon shares and the exercise price of the stock options, if the fair market value is higher.

Under U.S. GAAP, the Company accounts for stock-based compensation under the intrinsic value method pursuant to APB Opinion 25 which does not result in compensation cost if the fair market value of the stock does not exceed the exercise price of the option on the measurement date. Following the implementation of SFAS 123 (revised 2004), the Company will begin to recognize the cost of granted stock options in the consolidated statements of operations in the first quarter of the 2006 financial year.

Equity offering costs

Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under U.S. GAAP such costs are recorded as additional paid-in capital.

Accrued liabilities

Under German GAAP, certain costs can be accrued for anticipated future events under certain circumstances. Under U.S. GAAP, recognition of an accrued liability represents an existing obligation to third parties and must meet very specific recognition criteria.

Foreign currency translation
Under German GAAP, foreign currency denominated assets and liabilities are recorded at the spot rate on the transaction date, with only unrealized losses reflected in results of operations at the balance sheet date. Under U.S. GAAP, foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealized gains and losses reflected in results of operations. As of September 30, 2004 and 2005, the Company has also denominated current positions at the balance sheet using the spot rate for German GAAP purposes.

Grants subsidies
Under German GAAP, non-taxable investment subsidies and interest subsidies can be recognized in results of operations when received. Under U.S. GAAP, these amounts are deferred and recognized in results of operations during the periods over which the related expense is incurred.

Depreciation on property, plant and equipment
Under U.S. GAAP, depreciation on property, plant and equipment is based on the estimated economic useful life of the asset. Under German GAAP, depreciation on property, plant and equipment is predominantly based on the depreciation rate used for tax purposes.

Equity method accounting
Under German GAAP, consolidated financial statements could include the equity in earnings of associated companies accounted for pursuant to local accounting principles. Under U.S. GAAP, equity in earnings is determined pursuant to U.S. GAAP.

Gain on Associated Company share issuance
Under German GAAP, a capital increase of an associated company which increases the proportional valuation of the Company's investment is reflected in results of operations. Under U.S. GAAP and specific SEC regulations, statement of operations recognition is subject to additional criteria, which, if not met, requires recognition as an adjustment to shareholders' equity.

Minority interest
Under German GAAP, the consideration of minority interest within the first consolidation and the allocation of the investor's share of the results of operations of the investee, is based on the legal ownership percentage. Under U.S. GAAP, the consolidation of minority interest is based on economic interests in the investee and therefore the accounting for minority interest can differ under German GAAP from U.S. GAAP.

Application of exception regulations
Pursuant to HGB section 264a, partnerships, where the unlimited liability is not held by a natural person, or another partnership with a natural person as the unlimited liability partner, are required to prepare financial statements similar to a limited liability corporation. Pursuant to HGB section 264b, such partnerships are exempt from preparing separate financial statements, if they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the respective partnership.

Infineon utilizes the exemption in respect of the following companies:

- COMNEON GmbH & Co. OHG, Nuremberg
- Infineon Technologies Dresden GmbH & Co. OHG, Dresden
- Infineon Technologies Flash GmbH & Co. KG, Dresden (previously Ingentix GmbH & Co. KG, Munich)
- Infineon Technologies Immobilien Regensburg GmbH & Co. KG, Regensburg
- Infineon Technologies SC 300 GmbH & Co. KG, Dresden

Pursuant to HGB section 264 par. 3, the Company also utilizes the exception from preparing separate financial statements due to a profit-transfer agreement of the following company:

- Infineon Technologies Finance GmbH, Munich

Information pursuant to Section 160 Section 1 No. 8 Corporate Act (AktG)

Wachovia Trust Company National Association, Wilmington, DE 19801, USA, informed the Company, by letter dated December 1, 2004, that their share of the voting rights of Infineon Technologies AG fell below the thresholds of 10% and 5% on November 29, 2004. Their new interest in voting rights would amount to 0.00%, equaling 0 shares representing the same number of voting rights.

Siemens AG, Berlin and Munich, Germany, informed the Company, by letter dated November 29, 2004, that their share of the voting rights of Infineon Technologies AG exceeded the thresholds of 5% and 10% on November 29, 2004. Their new interest in voting rights would amount to 18.23%, equaling 136,292,363 shares representing the same number of voting rights.

The Capital Group International Inc., Los Angeles, USA, informed the Company, by letter dated October 2, 2003, that their share of the voting rights of Infineon Technologies AG exceeded the threshold of 5% on September 25, 2003. Their new interest in voting rights would amount to 5.068%, representing 36,534,489 shares. The voting rights would be attributable to the Capital Group International Inc. pursuant to section 22 (1) 1 No. 6 in connection with section 22 (1) 2 and 3 WpHG.

Information pursuant to Section 161 Corporate Act (AktG)

The compliance declaration prescribed by section 161 AktG was submitted on November 23, 2004, and made available to the shareholders on a continuous basis via the Internet.

Accounting fees

During the 2005 financial year, KPMG, our auditors, charged us an aggregate of €3 in connection with professional services rendered for the worldwide audit of our financial statements.

BOARD OF DIRECTORS AND SUPERVISORY BOARD

The remuneration of the Supervisory Board for the year ended September 30, 2005, was €0.6 (consisting of fixed components €0.6, variable components €0 and other consideration of €0). In addition, the members of the Supervisory Board received 1,500 share appreciation rights each. The total remuneration of the Management Board for the year ended September 30, 2005 consisted of fixed salary of €5.2 and other compensation of €0.2. During the year ended September 30, 2005, the Company established a provision for variable bonus of the Management Board of €0.5, which is linked to the realization of the “return on capital employed”, which is defined as earnings before interest, taxes, other operating expense (income) and other non-operating expense (income), divided by capital employed. Additionally the Management Board members received 475,000 stock options granted at an exercise price of euro 9.18. The stock options were granted to the Management Board in connection with the Long-Term-Incentive-Plan-2001, which is also the basis for the share appreciation rights. The fair value of each stock option and stock appreciation right at their grant date, if measured under the same conditions as stock options, was euro 4.07.

The individual compensation of our Chairman Dr. Ziebart consisted of fixed components of euro 1,600,000, variable components of euro 100,000 and other compensation of euro 33,052. Furthermore, Dr. Ziebart received 190,000 stock options granted at an exercise price of euro 9.18.

Former members of the Management Board received remuneration in an amount of €4.7 during the 2005 financial year. This amount had been accrued as of September 30, 2004. As of September 30, 2005, accrued pension liabilities for former members of the Management Board amounted to €10.4. A severance agreement with Dr. Schumacher was concluded which provided for the payment of €5.25 to settle all possible claims Dr. Schumacher may have had under his employment contract. Half of this amount was paid in the 2005 financial year. No definitive agreement has been reached with Dr. von Zitzewitz, who left the Management Board of the Company in July 2005, with respect to his possible claims under his employment contract. Although we believe that no further payments (with the possible exception of pension payments) are warranted, any such agreement could involve further payments to Dr. von Zitzewitz.

The following persons were nominated for the Board of Directors and Supervisory Board:

Board of Directors

Name	Age	Membership of the Management Board and other comparable governing bodies during the year ended September 30, 2005
Dr. Wolfgang Ziebart	55	Chairman, President and Chief Executive Officer Additional company positions Comparable positions Member of the Board of Directors of --- Infineon Technologies China Co., Ltd., Shanghai, China
Peter Bauer	45	Executive Vice President Additional external positions Member of the Supervisory Board of --- Siemens VDO Automotive AG, Munich Additional company positions Comparable positions Member of the Supervisory Board of --- Infineon Technologies Austria AG, Villach, Austria Deputy Chairman of the Board of Directors --- Infineon Technologies Japan K.K., Tokyo, Japan Member of the Boards of Directors of --- Infineon Technologies Asia Pacific Pte., Ltd., Singapore --- Infineon Technologies China Co., Ltd., Shanghai, China --- Infineon Technologies North America Corp., Wilmington, Delaware, USA --- Infineon Technologies Savan Ltd., Netanya, Israel
Prof. Dr. Hermann Eul	46	Executive Vice President Additional external positions Member of the Supervisory Board of --- 7Layers AG, Ratingen

Board of Directors

Name	Age	Membership of the Management Board and other comparable governing bodies during the year ended September 30, 2005
Peter J. Fischl	59	Executive Vice President and Chief Financial Officer Additional company positions Comparable positions Chairman of the Supervisory Board of --- Infineon Technologies Austria AG, Villach, Austria Member of the Boards of Directors of --- Infineon Technologies Asia Pacific Pte., Ltd., Singapore --- Infineon Technologies China Co., Ltd., Shanghai, China --- Infineon Technologies North America Corp., Wilmington, Delaware, USA
Kin Wah Loh	50	Executive Vice President Additional external positions Director --- Accton Technologies Corp., Hsinchu, Taiwan (Republic of China) Additional company positions Comparable positions Member of the Boards of Directors of --- Infineon Technologies Asia Pacific Pte., Ltd., Singapore --- Infineon Technologies China Co., Ltd., Shanghai, China --- Infineon Technologies Japan K.K., Tokyo, Japan
Resigned members of the Board of Directors:		
Dr. Andreas von Zitzewitz	45	Executive Vice President until July 16, 2005 Additional external positions Member of the Supervisory Board of --- Steag Hamatech AG, Sternenfels

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2005
Max Dietrich Kley	65	2010	€58,000.00	Chairman Member of the Supervisory Board of BASF AG Additional external positions Chairman of the Supervisory Board of --- SGL Carbon AG, Wiesbaden Member of the Supervisory Boards of --- Schott AG, Mainz --- HeidelbergCement AG, Heidelberg --- Bayerische Hypo- und Vereinsbank AG, Munich
Klaus Luschtinetz[1]	62	2009	€43,500.00	Deputy Chairman (since January 20, 2004) Chairman of the Infineon central works council Deputy Chairman of the Infineon works council, Munich Balan-/St.-Martin-Straße Comparable external positions Member of the board of administration of Siemens Employees Health Insurance, Munich (until June 2005)
Alfred Eibl[1]	56	2009	€37,458.00	Deputy Chairman (until January 20, 2004) Member of the Infineon works council, Munich Balan-/St.-Martin-Straße
Dr. Joachim Faber	55	2010	€35,041.00	Member of the Management Board of Allianz AG Additional external positions Member of the Supervisory Board --- Bayerische Börse AG, Munich Company positions Chairman of the Supervisory Board of --- Allianz Dresdner Global Investor Deutschland GmbH --- DEGI Deutsche Gesellschaft für Immobilienfonds mbH --- DIT Deutsche Investment Trust Gesellschaft für Wertpapieranlagen mbH Comparable company positions Member of the Supervisory Board of --- AGF Asset Management S.A., Paris, France --- ART Allianz Risk Transfer, Zurich, Switzerland

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2005
Johannes Feldmayer	49	2010	€19,333.00	Member of the Central Management Board of --- Siemens AG Company positions Comparable positions Member of the board of administration of --- Siemens A.E., Athens, Greece Chairman of the Supervisory Board of --- Siemens Rt., Budapest, Hungary Chairman of shareholders' representatives of --- Siemens sro, Prague, Czech Republic Deputy Chairman of the boards of administration of --- Siemens S.A. Madrid, Spain --- Siemens S.p.A. Milan, Italy --- Siemens Schweiz AG, Zurich, Switzerland Member of the boards of administration of --- Siemens France S.A., Saint-Denis, France --- Siemens A.S., Istanbul, Turkey --- Siemens A.S., Copenhagen, Denmark Member of the Supervisory Boards of --- Siemens Holdings plc, Bracknell, Great Britain --- Siemens AB, Stockholm, Sweden --- Siemens AG, Vienna, Austria Comparable external positions Member of the Supervisory Board of --- Exxon Mobil Central Europe Holding GmbH, Hamburg
Jakob Hauser[1]	53	2009	€37,458.00	Member of the Infineon central works council Chairman of the Infineon works council, Munich-Perlach

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2005
Dr. Stefan Jentzsch	44	2010	€29,000.00	Member of the Management Board of --- Bayerische Hypo- und Vereinsbank AG (until November 18, 2005) Additional external positions Member of the Supervisory Boards of --- Deutsche Börse AG, Frankfurt --- Premiere AG, Munich (since March 9, 2005) --- DAB Bank AG, Munich (until March 8, 2005) Company positions Member of the Supervisory Board of --- HVB Systems AG, Munich Chairman of the board of administration of --- HVB Wealth Management Holding GmbH, Munich Deputy chairman of the Supervisory Boards of --- Vereins- und Westbank AG, Hamburg --- HVB Info AG, Munich (until May 31, 2005) Comparable positions Member of the Supervisory Board of --- Bank Austria Creditanstalt AG, Vienna, Austria Chairman of the Supervisory Boards of --- HVB Alternative Financial Products AG, Vienna, Austria --- HVB Alternative Investment AG, Vienna, Austria
Prof. Dr. Renate Köcher	53	2010	€19,333.00	Director --- Institut für Demoskopie Allensbach Member of the Supervisory Boards of --- Allianz AG, Munich --- BASF AG, Ludwigshafen --- MAN AG, Munich
Michael Ruth[1]	45	2009	€29,000.00	Infineon Technologies AG, Senior Vice President Strategy Planning and Controlling – Advanced Logic Representative of senior management Additional company positions Comparable positions Member of the board of administration of --- ALTIS Semiconductor S.N.C., Essonnes, France
Dieter Scheitor[1]	54	2009	€29,000.00	Team leader of the electrical industry unit of the Management Board of IG Metall, Frankfurt
Gerd Schmidt[1]	51	2009	€29,000.00	Deputy Chairman of the Infineon central works council Chairman of the Infineon works council, Regensburg West
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	52	2010	€22,958.00	Professor at the Munich Technical University

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2005
Kerstin Schulzendorf[1]	43	2009	€29,000.00	Deputy Chairman of the Infineon works council, Dresden
Alexander Trüby[1]	35	2009	€37,458.00	Member of the Infineon works council, Dresden
Prof. Dr. rer. nat. Martin Winterkorn	58	2010	€39,875.00	Chairman of the Management Board of --- Audi AG Member of the Management Board of --- Volkswagen AG Additional external positions Member of the Supervisory Boards of --- Salzgitter AG, Salzgitter --- FC Bayern München AG, Munich --- TÜV Süddeutschland Holding AG, Munich Additional company positions Comparable positions Member of the boards of administration of --- SEAT S.A., Barcelona, Spain --- Automobili Lamborghini Holding SpA, Sant' Agata Bolognese, Bologna, Italy
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	61	2010	€37,458.00	Member of the Management Board of --- Siemens AG Additional external positions Member of the Supervisory Board of --- Deutsche Messe AG, Hanover Company positions Member of the Supervisory Board of --- BSH Bosch and Siemens Hausgeräte GmbH, Munich Comparable company positions Chairman of the boards of administration of --- Siemens Ltd., Beijing, China --- Siemens K.K., Tokyo, Japan --- Siemens S.A., Lisbon, Portugal --- Siemens Ltd., Mumbai, India
Resigned members of the Board of Directors:				
Resigned January 25, 2005:				
Günther Fritsch			€9,666.00	
Dr. h.c. Martin Kohlhaussen			€14,500.00	
Univ.-Prof. Dr.-Ing. Ingolf Ruge			€14,500.00	

1 Employee representative.

The Supervisory Board maintains the following committees

Mediation Committee

Max Dietrich Kley (since September 1, 2004)
Klaus Luschtinetz (since January 20, 2004)
Alexander Trüby (since January 20, 2004)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (until April 29, 2005)

Executive Committee

Max Dietrich Kley (since September 1, 2004)
Klaus Luschtinetz (since January 20, 2004)
Prof. Dr. Martin Winterkorn (since August 1, 2005)
Dr. Martin Kohlhaussen (until January 25, 2005)

Investment, Finance and Audit Committee

Max Dietrich Kley (since September 1, 2004)
Dr. Joachim Faber (since April 29, 2005)
Klaus Luschtinetz (since January 20, 2004)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (from October 1, 2004 until January 25, 2005)

Strategy and Technology Committee (in existence until April 30, 2005)

Alfred Eibl
Jakob Hauser
Alexander Trüby
Prof. Dr. rer. nat. Schmitt-Landsiedel (since January 25, 2005)
Prof. Dr. rer. nat. Martin Winterkorn
Univ.-Prof. Dr.-Ing. Ingolf Ruge (from October 1, 2004 until January 31, 2005)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (from October 1, 2004 until April 20, 2005)

Significant Subsidiaries and Associated Companies

Name and location of company	Share in capital
EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke, Germany	100 %
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany	100 %
Infineon Technologies SC300 GmbH & Co. OHG, Dresden, Germany	100 %
Infineon Technologies Finance GmbH, Munich, Germany	100 %
Infineon Technologies Flash GmbH &Co. KG, Dresden, Germany	100 %
Infineon Technologies Austria AG, Villach, Austria	100 %
Infineon Technologies-Fabrico de Semicondutores, Portugal S.A., Vila do Conde, Portugal	100 %
Infineon Technologies France S.A.S., Saint Denis, France	100 %
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	100 %
SensoNor AS, Horten, Norway	100 %
Infineon Technologies Holding North America Inc., Wilmington, Delaware, USA	100 %
Infineon Technologies Richmond LP, Wilmington, Delaware, USA	100 %
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100 %
Infineon Technologies China Co. Ltd., Shanghai, China	100 %
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies (Integrated Circuit) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies Japan K.K., Tokyo, Japan	100 %
Infineon Technologies Suzhou Co., Ltd., Suzhou, China	73 %
ALTIS Semiconductor S.N.C., Essonnes, France	50 %
Inotera Memories Inc., Taoyuan, Taiwan	44 %