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 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 under the symbol IFX, 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 German Commercial Code Implementation Act ("Einführungsgesetz zum HGB-EGHGB"), Article 58, paragraph 5, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein.

All amounts herein are shown in millions of euro (or "€") except where otherwise stated. The accompanying consolidated balance sheet as of September 30, 2006, and the consolidated statements of operations and cash flows for the year then ended are also presented in U.S. dollars ("$"), solely for the convenience of the reader, at the rate of €1 = $1.2687, the Federal Reserve noon buying rate on September 29, 2006. The U.S. dollar convenience translation amounts have not been audited.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. 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 and that are not controlled by the Company ("Associated Companies") are accounted for using the equity method of accounting (see note 17). The equity in earnings of Associated Companies with financial year ends that differ by not more than three months from the Company's financial year are 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 intercompany transactions are eliminated. In addition, the Company evaluates its relationships with entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board ("FASB") Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51", and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements.

The Company group consists of the following numbers of entities:

	Consolidated subsidiaries	Associated companies	Total
September 30, 2005	56	11	**67**
Additions	14	–	**14**
Disposals	(4)	(4)	**(8)**
September 30, 2006	66	7	**73**

Reporting and Foreign Currency

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

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the 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	
		2005	2006	2005	2006
U.S. dollar	1 $	0.8290	**0.7899**	0.7869	**0.8117**
Japanese yen	100 JPY	0.7357	**0.6696**	0.7331	**0.6978**
Great Britain pound	1 GBP	1.4650	**1.4756**	1.4507	**1.4595**
Singapore dollar	1 SGD	0.4911	**0.4981**	0.4749	**0.5016**

Revenue Recognition

Sales

Revenue from products sold to customers is recognized, pursuant to U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition", when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection, based on actual historical experience, at the time the related revenue is recognized. In general, returns are permitted only for quality related reasons within the applicable warranty period, 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 or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License Income

License income is recognized when earned and realizable (see note 6). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional service.

Pursuant to Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables", revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

Grants

Grants for capital expenditures include both tax-free government grants (Investitionszulage) and taxable grants for investments in property, plant and equipment (Investitionszuschüsse). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset and thereby reduce depreciation expense in future periods. Other taxable grants reduce the related expense (see notes 7, 21 and 23).

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.

(euro in millions, except where otherwise stated)

Income Taxes

Income taxes are accounted for under the asset and liability method pursuant to FASB Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

Stock-based Compensation

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

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. SFAS No. 123 (revised 2004) eliminates the alternative method of accounting for employee share-based payments previously available under APB No. 25. Prior period amounts have not been restated and do not reflect the recognition of stock-based compensation (see note 26).

Issuance of shares by Subsidiaries or Associated Companies

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

Cash and Cash Equivalents

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less. Cash equivalents as of September 30, 2005 and 2006 were €1,093 and €1,926, respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of three months or less.

Restricted Cash

Restricted cash includes collateral deposits used as security under arrangements for deferred compensation, business acquisitions, construction projects, leases and financing (see note 33).

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 are 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, 2005 and 2006 capitalized interest was €9 and €0, 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.

Goodwill and Other Intangible Assets

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

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

Impairment of Long-lived Assets

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

Financial Instruments

(euro in millions, except where otherwise stated)

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, net. 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 31.

Pension Plans

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS No. 87, "Employers' Accounting for Pensions". The assumptions used to calculate pension liabilities and costs are shown in Note 30. Changes in the amount of the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions can result in gains or losses not yet recognized in the Company's consolidated financial statements. Amortization of an unrecognized net gain or loss is included as a component of the Company's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of that plan's assets. In that case, the amount of amortization recognized by the Company is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan. The Company also records a liability for amounts payable under the provisions of its various defined contribution plans.

Use of Estimates

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

Recent Accounting Pronouncements

In 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. The Company adopted SFAS No. 151 with effect from October 1, 2005, which did not 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 March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations", which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and (or) method of settlement. The Company adopted Interpretation No. 47 during the 2006 financial year, which did not have a significant impact on its consolidated financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections". SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting and reporting of a change in accounting principle. The Company is required to adopt SFAS No. 154 for accounting changes and error corrections that occur after September 30, 2006. The Company's results of operations and financial condition will only be impacted following the adoption of SFAS No. 154 if it implements changes in accounting principle that are addressed by the standard or corrects accounting errors in future periods.

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

In September 2006, the FASB released SFAS No. 157, "Fair Value Measurements", which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for financial years beginning after November 15, 2007, and interim periods within those financial years. SFAS No. 157 is effective for the Company for financial years beginning after October 1, 2008, and interim periods within those financial years. The Company is in the process of evaluating the impact that the adoption of SFAS No. 157 will have on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158 "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)", which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). The Company currently measures the funded status of its plans annually on June 30. The Recognition Provision of SFAS No. 158 is effective for the Company as of the end of the financial year ending September 30, 2007, and the Measurement Date Provision is effective for the Company as of the end of the financial year ending September 30, 2009. The Company does not expect the change in the annual measurement date to September 30 to have a significant impact on its consolidated financial position and results of operations. As of September 30, 2006 the application of the Recognition Provision of SFAS No. 158 would have resulted in an increase in other long-term liabilities of €66, a recognized pension asset of €2, and an increase in accumulated other comprehensive loss of €60.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial are now considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the year of adoption. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006, with earlier adoption encouraged. The Company does not expect that the adoption of SAB No. 108 will have a significant impact on its consolidated financial position and results of operations.

3. Separation of Memory Products Business

Effective May 1, 2006, substantially all the memory products-related assets and liabilities, operations and activities of Infineon were contributed to Qimonda AG ("Qimonda"), a stand-alone legal company (the "Formation"). In conjunction with the Formation, the Company entered into contribution agreements and various other service agreements with Qimonda. In cases where physical contribution (ownership transfer) of assets and liabilities was not feasible or cost effective, the monetary value was transferred in the form of cash or debt. The Company's operations in Japan and Korea are expected to be legally transferred to Qimonda during the 2007 financial year, and are to be held for Qimonda's benefit until such transfer occurs. The Company's investment in Inotera Memories Inc. ("Inotera") is held in trust by Infineon subject to the expiration or release of applicable lock-up provisions under Taiwan securities law (see note 17 and 35). The Company's investment in Advanced Mask Technology Center GmbH & Co. ("AMTC") is intended to be transferred to Qimonda after approval by the other shareholders in the venture. The Company completed an initial public offering of the ordinary shares of Qimonda during the three months ended September 30, 2006 (see note 24).

The contribution agreements include provisions pursuant to which Qimonda agreed to indemnify Infineon against any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, incomplete transactions, continuing obligations, risks, encumbrances, guarantees and other matters relating to the memory products business that were transferred to it as part of the Formation. In addition, the contribution agreements provide for indemnification of Infineon with respect to certain existing and future legal claims and potential restructuring costs incurred in connection with the rampdown of production in one module of Infineon Technologies Dresden GmbH & Co. OHG. With the exception of the securities and certain patent infringement and antitrust claims identified in note 33, Qimonda is obligated to indemnify Infineon against any liability arising in connection with the claims relating to the memory products business described in that section. Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon and Qimonda, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrual that Infineon transferred to Qimonda at the formation. Qimonda has agreed to indemnify Infineon for 60% of any license fee payments to which Infineon may agree in connection with ongoing negotiations relating to licensing and cross-licensing arrangements with a third party. These payments could be substantial and could remain in effect for lengthy periods.

On July 18, 2006, under the Company's Master Loan Agreement with Qimonda, Qimonda extended the terms of its loans due to Infineon with an aggregate principal amount outstanding of $565 million at that date, with original maturities in July and August 2007. In this agreement, Qimonda agreed not to draw further amounts under the agreement, and to repay all outstanding amounts by no later than two years after the date of its IPO. An amount of €107 was repaid during the quarter ended September 30, 2006.

On August 9, 2006 Qimonda completed its IPO on the New York Stock Exchange through the issuance of 42 million ordinary shares which are traded as American Depositary Shares (ADSs) under the symbol "QI", for an offering price of $13 per ADS. As a result, the Company's ownership interest in Qimonda was diluted to 87.7% and its proportional share of Qimonda's equity decreased by €53, which loss the Company reflected as part of non-operating expenses under gain on subsidiaries and associated company share issuance, net during the quarter ended September 30, 2006. The net offering proceeds amounted to €406 (before tax benefits available to Qimonda of €9) and are classified as proceeds from issuance of shares from subsidiaries within cash flows from financing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006. Qimonda intends to use the offering proceeds to finance investments in its manufacturing facilities and for research and development.

In addition, Infineon sold 6.3 million shares upon exercise of the underwriters' over-allotment option. As a result, the Company's ownership interest in Qimonda decreased to 85.9% and the Company recognized a loss of €12, which was reflected as part of other operating expenses, net during the quarter ended September 30, 2006. The net over-allotment proceeds amounted to €58 and are classified as proceeds from sale of businesses and interests in subsidiaries within cash flows from investing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006.

4. Acquisitions

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

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 was 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, was contingent upon employee retention and the achievement of certain performance and development milestones over a two-year period, and was to be recognized as the milestones were achieved. As of September 30, 2006, €10 has been paid to former shareholders or employees of ADMtek and €22 was released to the Company since certain performance and development milestones were not achieved. The remaining balance held in escrow amounted to €2 as of September 30, 2006. 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, 2006, all contingent purchase consideration was forfeited since certain performance criteria were not achieved.

The following table summarizes the Company's acquisitions during the years ended September 30, 2004, and 2005 (there were no significant acquisitions during the 2006 financial year):

	2004	2005
	ADMtek	Flash
Acquisition Date **Segment**	**April 2004** **Communication Solutions**	**January 2005** **Qimonda**
Cash	18	1
Other current assets	10	16
Property, plant and equipment	2	4
Intangible assets		
Current product technology	14	–
Core technology	5	58
Patents (Customer Relationship)	2	–
In process R&D	9	–
Goodwill	23	7
Other non-current assets	1	3
Total assets acquired	84	89
Current liabilities	(8)	(45)
Non-current liabilities (including debt)	(1)	(2)
Total liabilities assumed	(9)	(47)
Net assets acquired	75	42
Cash paid (Purchase Consideration)	75	–

(euro in millions, except where otherwise stated)

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

For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of these valuations, amounts allocated to purchased in-process research and development of €9 were expensed as research and development in the year ended September 30, 2004, 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.

5. Divestitures

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

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

On April 8, 2005, the Company sold to VantagePoint Venture Partners its entire share interest in Finisar's common stock. As a result of the sale, the Company recorded an other-than-temporary impairment of €8 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 in the 2005 financial year, and deferred €1 which was 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, 2004, 2005 and 2006, are as follows:

	2004	2005	2006
Sales:			
Fiber Optics	35	23	–
BIDI	10	6	–
Total	45	29	–
EBIT:			
Infineon Ventures GmbH	(52)	(3)	–
Fiber Optics	(33)	(27)	–
BIDI	(28)	(20)	–
Total	(113)	(50)	–
Gain (loss) on sale before tax:			
Infineon Ventures GmbH	–	13	–
Fiber Optics	–	21	–
BIDI	–	2	–
Other	(2)	3	–
Total (note 8)	(2)	39	–

6. Licenses

During the years ended September 30, 2004, 2005 and 2006, the Company recognized revenues related to license and technology transfer fees of €76, €175 and €29, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €48, €33 and €12, which were recognized as revenue pursuant to SAB 104, in the years ended September 30, 2004, 2005 and 2006, respectively, since the Company had fulfilled all of its obligations and all such amounts were realized.

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 its joint technology development with Nanya Technology Corporation ("Nanya"), in 2003 the Company granted Nanya a license to use its 110-nanometer technology in Nanya's existing operations. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation with respect to the joint development of advanced 58-nanometer production technologies for 300-millimeter wafers (see note 17). 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. On August 29, 2006, Qimonda signed agreements with Winbond to expand their existing cooperation and capacity reservation. Under the terms of the agreements, Qimonda will transfer its 80-nanometer DRAM trench technology to Winbond's 300-millimeter wafer facility. In return, Winbond will manufacture DRAMs for computing applications using this technology exclusively for Qimonda. The license income was deferred and is being recognized over the life of the capacity reservation agreements.

On March 18, 2005 the Company and Rambus Inc. ("Rambus") reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in the Company's memory products. In exchange for this worldwide license, the Company agreed to pay $50 million in quarterly installments of $6 million between November 15, 2005 and November 15, 2007. As of March 31, 2005, the Company recorded a license and corresponding liability in the amount of €37, representing the estimated present value of the minimum future license payments. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, Qimonda would make additional quarterly payments which may accumulate up to a maximum of an additional $100 million.

(euro in millions, except where otherwise stated)

Because Rambus' ability to conclude the agreements is not within the Company's control, the Company is not able to estimate whether additional payment obligations may arise. The agreement also provides the Company an option for acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company simultaneously granted to Rambus a fully-paid perpetual license for memory interfaces. In addition to the licenses, the two companies agreed to the immediate dismissal of all pending litigation and released each other from all existing legal claims.

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 4). During the three months ended March 31, 2005, 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 three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 and €29, respectively, as of June 30, 2005. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 as of September 30, 2006.

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID Technologies Inc. ("MOSAID") settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. MOSAID purchased fifty patents from Infineon and Qimonda, including patents related to a range of technologies such as DRAM memory, power management ICs, semiconductor process technology and digital radio applications. Under the terms of the settlement agreements, Infineon and Qimonda retain royalty-free "lives of the patents" licenses to use these patents in the manufacturing and sale of any products. In addition, MOSAID granted to Infineon and Qimonda a six-year license to use any MOSAID patents in the manufacturing and sale of semiconductor products, as well as a "lives of the patents" license to those MOSAID patent families that had been in dispute. In exchange for these licenses, the Company and Qimonda agreed to make license payments commencing on July 1, 2006 over a six-year term (see note 18).

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

7. Grants

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying consolidated financial statements during the years ended September 30, 2004, 2005 and 2006, are as follows:

	2004	2005	2006
Included in the consolidated statements of operations:			
Research and development	74	50	**67**
Cost of sales	86	121	**86**
	160	171	**153**
Construction grants deducted from the cost of fixed assets (note 28)	49	–	**49**

Deferred government grants amounted to €288 and €212 as of September 30, 2005 and 2006, respectively. The amounts of grants receivable as of September 30, 2005 and 2006 were €122 and €125, respectively.

(euro in millions, except where otherwise stated)

8. Supplemental Operating Cost Information

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

	2004	2005	2006
Raw materials, supplies and purchased goods	1,621	1,867	**2,244**
Purchased services	1,232	1,166	**1,330**
Total	2,853	3,033	**3,574**

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

	2004	2005	2006
Wages and salaries	1,532	1,664	**1,827**
Social levies	280	285	**319**
Pension expense (note 30)	28	28	**37**
Total	1,840	1,977	**2,183**

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

	2004	2005	2006
Gain (loss) from sale of businesses	(2)	39	**–**
Goodwill and intangible assets impairment charges (note 18)	(71)	(57)	**(38)**
Long-lived asset impairment charges	–	(39)	**(6)**
Litigation settlement charges (note 33)	(194)	(20)	**(60)**
Amortization of debt issuance costs	(8)	(4)	**(3)**
Other	18	(11)	**(1)**
Other operating expense, net	(257)	(92)	**(108)**

Litigation settlement charges refer to the settlement of an antitrust investigation by the U.S. Department of Justice and related settlements with customers (see note 20), as well as, during the year ended September 30, 2006, the settlement of Tessera litigation (see notes 6 and 18).

Total rental expenses under operating leases amounted to €126, €125 and €151 for the years ended September 30, 2004, 2005 and 2006, respectively.

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

	2004	2005	2006
Germany	16,340	16,334	**15,822**
Other Europe	5,507	5,606	**7,455**
North America	2,822	3,108	**3,283**
Asia-Pacific	9,220	10,919	**14,285**
Japan	126	147	**180**
Other	112	44	**41**
Total	34,127	36,158	**41,066**

Of the total average number of employees listed above, 10,309, 10,332 and 11,003 for the years ended September 30, 2004, 2005 and 2006, respectively, were employees of Qimonda.

9. Restructuring

In 2004, 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 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 close down of fiber optics operations in Germany and the United States. The terminations were 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

(euro in millions, except where otherwise stated)

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 2006 financial year, restructuring plans were announced to downsize the workforce at ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") and the Company's chip card back-end activities in order to maintain competitiveness and reduce cost. As of September 30, 2006, the Company's expectation is that a total of 450 employees would be terminated. The exact amount of the restructuring charges can not be estimated at this time due to ongoing negotiations with works councils.

During the years ended September 30, 2004, 2005 and 2006, charges of €17, €78 and €23, respectively, were recognized as a result of the above mentioned restructuring initiatives undertaken by the Company.

The development of the restructuring liability during the year ended September 30, 2006 is as follows:

September 30	2005	2006		
	Liabilities	Restructuring Charges	Payments	Liabilities
Employee terminations	64	**22**	**(29)**	**57**
Other exit costs	8	**1**	**(3)**	**6**
Total	72	**23**	**(32)**	**63**

10. Income Taxes

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2004, 2005 and 2006:

	2004	2005	2006
Germany	153	(298)	**(378)**
Foreign	44	104	**294**
Total	197	(194)	**(84)**

Income tax expense (benefit) for the years ended September 30, 2004, 2005 and 2006 are as follows:

	2004	2005	2006
Current taxes:			
Germany	53	31	**126**
Foreign	5	1	**41**
	58	32	**167**
Deferred taxes:			
Germany	129	66	**(21)**
Foreign	(33)	22	**15**
	96	88	**(6)**
Income tax expense	154	120	**161**

Total income taxes for the years ended September 30, 2004, 2005 and 2006 were allocated as follows:

	2004	2005	2006
Income taxes	154	120	**161**
Goodwill and intangible assets, for initial recognition of acquired tax benefits that previously were included in the valuation allowance (note 4)	(8)	(30)	**–**
Shareholder's equity, for unrealized holding gains (losses), unrealized gains (losses) on cash flow hedges and additional minimum pension liabilities	(10)	–	**–**
	136	90	**161**

The Company's statutory tax rate in Germany is 25%. Additionally, a solidarity surcharge of 5.5% is levied. The trade tax decreased in respect of Infineon Technologies AG from 13% in 2004 and 2005 to 11% in 2006 due to the move of the Company's headquarters in 2006. Therefore, the combined statutory tax rate was 39% in 2004 and 2005 and 37% in 2006.

(euro in millions, except where otherwise stated)

A reconciliation of income taxes for the financial years ended September 30, 2004, 2005 and 2006, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 39% for 2004 and 2005, and 37% for 2006, is as follows:

	2004	2005	2006
Expected expense (benefit) for income taxes	77	(76)	**(31)**
Increase in available tax credits	(26)	(5)	**(36)**
Non-taxable investment (income) loss	6	(26)	**(31)**
Foreign tax rate differential	(51)	(18)	**(50)**
Non deductible expenses	69	29	**13**
Change in German tax rate – effect on opening balance	–	–	**3**
Increase in valuation allowance	54	192	**292**
In-process research and development	3	–	**–**
Other	22	24	**1**
Actual provision for income taxes	154	120	**161**

The Company has set up operations in a jurisdiction which grants a tax holiday from the 2005 financial year onwards, which has a remaining term of three years. Compared to ordinary taxation in the country of residence, this resulted in tax savings of €0 and €16 for the years ended September 30, 2005 and 2006, respectively, which are reflected in the foreign tax rate differential.

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

Deferred income tax assets and liabilities as of September 30, 2005 and 2006 relate to the following:

	2005	2006
Deferred tax assets:		
Intangible assets	26	**95**
Property, plant and equipment	203	**264**
Deferred income	111	**94**
Net operating loss and tax credit carry-forwards	1,065	**1,350**
Other items	169	**179**
Gross deferred tax assets	1,574	**1,982**
Valuation allowance	(740)	**(1,091)**
Deferred tax assets	834	**891**
Deferred tax liabilities:		
Intangible assets	11	**4**
Property, plant and equipment	81	**103**
Accounts receivable	36	**17**
Accrued liabilities and pensions	72	**118**
Other items	41	**11**
Deferred tax liabilities	241	**253**
Deferred tax assets, net	593	**638**

Net deferred income tax assets and liabilities are presented in the accompanying consolidated balance sheets as of September 30, 2005 and 2006 as follows:

	2005	2006
Deferred tax assets:		
Current	125	**97**
Non-current	550	**627**
Deferred tax liabilities:		
Current	(17)	**(26)**
Non-current	(65)	**(60)**
Deferred tax assets, net	593	**638**

At September 30, 2006, the Company had in Germany tax loss carry-forwards of €2,733 (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,449); in other jurisdictions the Company had tax loss carry-forwards of €246 and tax effected credit carry-forwards of €128. Such tax loss carry-forwards and tax effected credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim. In connection with the Formation of Qimonda, the net operating losses related to the memory products segment have been retained by Infineon Technologies AG.

(euro in millions, except where otherwise stated)

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, 2006, 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, 2004, 2005 and 2006 by €54, €192, and €292, respectively, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

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 changes in valuation allowance for deferred tax assets during the years ended September 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006
Balance, beginning of the year	521	567	**740**
Applicable to continuing operations	54	192	**292**
Purchase accounting adjustments (note 4)	(8)	(30)	**–**
Adjustment in corresponding net operating loss carry-forward	–	11	**59**
Balance, end of the year	567	740	**1,091**

In the 2005 and 2006 financial years, the Company recorded adjustments to certain net operating loss carry-forwards mainly as a result of final tax assessment reconciliations. As the adjustments were made in jurisdictions in which the Company is in cumulative loss positions, such adjustments were recorded directly to the valuation allowance and approximated €11 and €59 in the 2005 and 2006 financial years, respectively.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2005 and 2006, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The Company reorganized certain businesses in different tax jurisdictions which resulted in deferred intercompany transactions. Therefore, tax expenses for the years ended September 30, 2005 and 2006 of €85 and €63, respectively, have been deferred of which €71 and €56, respectively, are non-current (see note 18).

11. 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, 2004, 2005 and 2006, is as follows (shares in millions):

	2004	2005	2006
Numerator:			
Net income (loss)	61	(312)	**(268)**
Denominator:			
Weighted-average shares outstanding-basic	734.7	747.6	**747.6**
Effect of dilutive instruments	1.9	–	**–**
Weighted-average shares outstanding-diluted	736.6	747.6	**747.6**
Earnings (loss) per share in €:			
Basic and diluted	0.08	(0.42)	**(0.36)**

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 24.1 million, 39.4 million and 46.7 million shares underlying employee stock options for the years ended 2004, 2005 and 2006, respectively. Additionally, 86.5 million ordinary shares issuable upon the conversion of the subordinated convertible notes at September 30, 2004, 2005 and 2006, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

12. Marketable Securities

Marketable securities at September 30, 2005 and 2006 consist of the following:

	2005				2006			
	Cost	Fair value	Unrealized Gains	Unrealized Losses	Cost	Fair wert	Unrealized Gains	Unrealized Losses
Foreign government securities	9	11	2	–	**9**	**11**	**2**	**–**
Floating rate notes	260	268	8	–	**156**	**162**	**6**	**–**
Other debt securities	16	18	2	–	**14**	**18**	**4**	**–**
Total debt securities	285	297	12	–	**179**	**191**	**12**	**–**
Equity securities	4	5	1	–	**4**	**5**	**1**	**–**
Fixed term deposits	590	590	2	(2)	**460**	**453**	**–**	**(7)**
Total marketable securities	879	892	15	(2)	**643**	**649**	**13**	**(7)**
Reflected as follows:								
Current assets	850	858	10	(2)	**616**	**615**	**6**	**(7)**
Non-current assets (note 18)	29	34	5	–	**27**	**34**	**7**	**–**
Total marketable securities	879	892	15	(2)	**643**	**649**	**13**	**(7)**

Unrealized losses relating to securities held for more than 12 months as of September 30, 2005 and 2006, were €0 and €7, respectively.

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

	2004	2005	2006
Realized gains	10	8	**3**
Realized losses	(1)	–	**–**
Realized gains, net	9	8	**3**

As of September 30, 2006, fixed term deposits of €51 had contractual maturities between three and twelve months.

Debt securities as of September 30, 2006 had the following remaining contractual maturities:

	Cost	Fair value
Less than 1 year	2	**2**
Between 1 and 5 years	159	**167**
More than 5 years	18	**22**
Total debt securities	179	**191**

Actual maturities may differ due to call or prepayment rights.

(euro in millions, except where otherwise stated)

13. Trade Accounts Receivable, net

Trade accounts receivable at September 30, 2005 and 2006 consist of the following:

	2005	2006
Third party – trade	839	**1,304**
Siemens group – trade (note 29)	145	**–**
Associated and Related Companies – trade (note 29)	12	**8**
Trade accounts receivable, gross	996	**1,312**
Allowance for doubtful accounts	(44)	**(67)**
Trade accounts receivable, net	952	**1,245**

Activity in the allowance for doubtful accounts for the years ended September 30, 2005 and 2006 is as follows:

	2005	2006
Allowance for doubtful accounts at beginning of year	41	**44**
Provision for bad debt, net	3	**23**
Allowance for doubtful accounts at end of year	44	**67**

14. Inventories

Inventories at September 30, 2005 and 2006 consist of the following:

	2005	2006
Raw materials and supplies	87	**125**
Work-in-process	569	**777**
Finished goods	366	**300**
Total Inventories	1,022	**1,202**

15. Other Current Assets

Other current assets at September 30, 2005 and 2006 consist of the following:

	2005	2006
Financial instruments (note 31)	73	**22**
Grants receivable (note 7)	122	**125**
VAT and other tax receivables	84	**189**
License fees receivable	19	**14**
Associated and Related Companies – financial and other receivables (note 29)	5	**1**
Third party – financial and other receivables	68	**61**
Siemens group – financial and other receivables (note 29)	18	**–**
Prepaid expenses	26	**36**
Employee receivables (note 29)	8	**7**
Intangible pension asset (note 30)	14	**13**
Other	32	**14**
Total other current assets	469	**482**

16. Property, Plant and Equipment, net

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 production started in September 2006. On September 12, 2006 the Company announced the opening of the facility. At full capacity, the facility will employ about 1,700 people. Maximum capacity will be about 100,000 wafer starts per month using wafers with a diameter of 200-millimeter. As of September 30, 2006, the Company had invested a total of €269 in this new front-end production plant.

(euro in millions, except where otherwise stated)

A summary of activity for property, plant and equipment for the year ended September 30, 2006 is as follows:

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost					
September 30, 2005	1,427	7,549	2,232	253	**11,461**
Additions	57	561	130	462	**1,210**
Impairments	–	(6)	–	–	**(6)**
Disposals	(20)	(253)	(126)	(2)	**(401)**
Reclassifications	15	458	58	(513)	**18**
Transfers[1]	101	951	24	20	**1,096**
Foreign currency effects	(26)	(87)	(9)	(2)	**(124)**
September 30, 2006	1,554	9,173	2,309	218	**13,254**
Accumulated depreciation					
September 30, 2005	(622)	(5,175)	(1,913)	–	**(7,710)**
Depreciation	(103)	(1,015)	(220)	–	**(1,338)**
Disposals	19	202	126	–	**347**
Reclassifications	–	(23)	5	–	**(18)**
Transfers[1]	(32)	(790)	(14)	–	**(836)**
Foreign currency effects	6	52	7	–	**65**
September 30, 2006	(732)	(6,749)	(2,009)	–	**(9,490)**
Book value September 30, 2005	805	2,374	319	253	**3,751**
Book value September 30, 2006	822	2,424	300	218	**3,764**

1 Transfers during the financial year ended September 30, 2006 are primarily related to the initial consolidation of ALTIS.

17. Long-term Investments

A summary of activity for long-term investments for the years ended September 30, 2005 and 2006, 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**
Reclassifications	(16)	3	**(13)**
Foreign currency effects	44	–	**44**
Balance at September 30, 2005	758	21	**779**
Additions	5	1	**6**
Disposals	–	(3)	**(3)**
Dividend payments	(29)	–	**(29)**
Capitalized interest	(1)	–	**(1)**
Impairments	(13)	–	**(13)**
Equity in earnings	78	–	**78**
Consolidation of ALTIS	(202)	4	**(198)**
Gain on share issuance	72	–	**72**
Reclassifications	10	1	**11**
Foreign currency effects	(43)	–	**(43)**
Balance at September 30, 2006	635	24	**659**

(euro in millions, except where otherwise stated)

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, 2006 are accounted for using the equity method of accounting:

Name of the Associated Company	Direct and indirect ownership in %[1]
Advanced Mask Technology Center GmbH & Co. KG, Dresden, Germany ("AMTC")	28.6
Hwa-Keng Investment Inc., Taipei, Taiwan ("Hwa-Keng")	43.0
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	30.9
Ramtron International Corp., Colorado Springs, Colorado, USA ("Ramtron")	15.5

1 Direct and indirect ownership percentages are net of Qimonda's minority interest.

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

On May 16, 2002, the Company entered into the AMTC joint venture with its partners Advanced Micro Devices Inc., USA ("AMD"), and DuPont Photomasks Inc., USA ("DuPont"), with the purpose of developing and manufacturing advanced photo masks. In addition, the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly, as of September 30, 2006, €15 was deferred which is being recognized over the term of the purchase agreement. Toppan Printing Co., Ltd. acquired DuPont in April 2005 which led to a name change; former DuPont is now named Toppan Photomasks Inc., Ltd.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a joint venture (Inotera, held directly and indirectly through the Company's investment in Hwa-Keng Investment Inc.) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to several agreements, the Company and Nanya had developed advanced 90-nanometer and have been developing 75- and 58-nanometer technology. 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 third and last phase was completed in the 2006 financial year. In May 2005 the groundbreaking for the second manufacturing module took place. The manufacturing ramp is expected to take place through calendar year 2007. The second module is fully funded by Inotera. The joint venture partners are obliged to each purchase one-half of the facility's production based, in part, on market prices.

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. No further investments were made during the year ended September 30, 2006.

On March 17, 2006 Inotera successfully completed an IPO on the Taiwanese stock exchange of 200 million ordinary shares, representing 7.97% of its outstanding share capital before IPO, for an issuance price of NT$33 per share. As a result, the Company's ownership interest was diluted to 41.4% while its proportional share of Inotera's equity increased by approximately €30, which gain the Company recognized as part of non-operating income during the three months ended June 30, 2006.

On May 10, 2006, Inotera successfully completed a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400,000,000 ordinary shares) which are traded on the Euro MTF market and represent 14.8% of its outstanding share capital before the offering, for an issuance price of NT$33 per ordinary share. As a result, the Company's ownership interest was diluted to 36.0% (30.9% net of Qimonda's minority interest) while its proportional share of Inotera's equity increased by €42, which gain the Company reflected as part of non-operating income during the three months ending September 30, 2006.

(euro in millions, except where otherwise stated)

The agreement governing the joint venture with Nanya allows Infineon to transfer its shares in Inotera to Qimonda. However, under Taiwanese law, Infineon's shares in Inotera are subject to a compulsory restriction on transfer (lock-up) as a result of Inotera's IPO. Infineon may only transfer these shares to Qimonda gradually over the four years following Inotera's IPO. The Company has sought an exemption from this restriction that would permit the immediate transfer of all of these shares to Qimonda. In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which Infineon holds its Inotera shares in trust for Qimonda until the shares can be transferred. This trust agreement provides for Infineon to transfer the shares to Qimonda as and when the transfer restrictions expire or Qimonda receives the exemption from the lock-up (see note 35).

Hwa-Keng, a Taiwanese company, was formed for the purpose of facilitating the distribution of Inotera shares to Inotera's employees. Hwa-Keng is in the process of being dissolved since its business purpose has been fulfilled with the Inotera IPO. The dissolution will not cause any loss for the Company.

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 financial 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.

In December 2005, the Company further amended its agreements with IBM in respect of ALTIS, and extended its product purchase agreement with ALTIS through 2009. Pursuant to the December 2005 amendment, the Company granted to IBM an option to require the Company to acquire four-fifths of IBM's 50% interest in the joint venture (or a total of 40% of the outstanding shares of ALTIS) at any time after April 1, 2006 and prior to January 1, 2009. In connection with the exercise of such option, IBM would be required to make a payment to the Company to settle the respective interests of the parties. In addition, the Company granted to IBM a second option to require the Company to acquire up to four-fifths of IBM's 50% interest in the joint venture (or a total of 40% of the outstanding shares of ALTIS) in increments of 10% after April 1, 2006 and prior to January 1, 2009. The amendment also permits IBM to sell its interest in ALTIS to a third party meeting certain specified criteria.

Under the December 2005 amendment, the Company and IBM also agreed a number of administrative matters regarding the governance and management of ALTIS, as well as related cost-allocation and accounting matters. The Company and IBM continue to evaluate the future business model of ALTIS, and have agreed that they will reach a decision on this matter no later than January 1, 2009. As previously agreed, the Company will increase the percentage of the output of ALTIS that it purchases from 87.5% in 2006 to 100% in 2007 and beyond.

The Company evaluated the amendment in accordance with FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51" and concluded that it held an interest in a variable interest entity in which the Company is determined to be the primary beneficiary. Accordingly, the Company began to fully consolidate ALTIS following the December 19, 2005 amendment whereby IBM's 50% ownership interest has been reflected as a minority interest.

The following table summarizes the elimination of the investment in ALTIS as previously accounted for under the equity method of accounting, and the Company's initial consolidation of ALTIS during first quarter of the 2006 financial year:

Consolidation date Segment	ALTIS December 2005 Communication Solutions
Cash	119
Inventories	45
Other current assets	10
Property, plant and equipment	212
Long-term investment	(202)
Other non-current assets	(47)
Total assets consolidated	**137**
Current liabilities	(79)
Non-current liabilities (including debt)	6
Deferred tax liabilities	3
Minority Interests	207
Total liabilities consolidated	**137**
Net assets consolidated	–
Cash paid	–

Ramtron develops specialty semiconductor memory products, and is based in Colorado Springs, Colorado. Since the acquisition in 2001 the investment in Ramtron has been accounted for under the equity method of accounting. The Company has two representatives on the board of directors of Ramtron and the ability to exercise significant influence over operating and financial policies of Ramtron (see note 35).

(euro in millions, except where otherwise stated)

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 5), the Company acquired the minority interest in ParoLink, terminated the joint venture with UEC and recorded an impairment to reduce the investment to its estimated fair value of €3. During January 2006, the joint venture partners decided to dissolve and liquidate ParoLink. The liquidation is expected to be completed in the 2007 financial year.

On October 1, 2002, the Company, Agere Systems Inc. and Motorola Inc. incorporated StarCore LLC. ("StarCore"), based in Austin, Texas. StarCore focuses on developing, standardizing and promoting Digital Signal Processor (DSP) core technology. In the 2006 financial year the shareholders decided by consensus to pursue their objectives in DSP core technology individually and to liquidate StarCore. As a consequence the Company recorded an impairment of €13.

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 €65, €29 and €13 for the years ended September 30, 2004, 2005 and 2006, respectively. In connection with the termination of the Company's venture capital activities, an impairment charge of €28 was recognized in the 2004 financial year, to reduce the carrying value of the Company's venture investment portfolio to the expected realizable value (see note 5).

Goodwill of €15 and €0 is included in the amount of long-term investments at September 30, 2005 and 2006, respectively.

For the Associated Companies as of September 30, 2006, the aggregate summarized financial information for the financial years 2004, 2005 and 2006, is as follows:

	2004	2005	2006
Sales	60	482	**918**
Gross profit	(2)	158	**328**
Net income (loss)	(43)	74	**215**

	2004	2005	2006
Current assets	236	535	**1,128**
Non-current assets	1,013	1,924	**1,827**
Current liabilities	(211)	(341)	**(530)**
Non-current liabilities	(328)	(898)	**(645)**
Shareholders' equity	710	1,220	**1,780**

18. Other Assets

Other non-current assets at September 30, 2005 and 2006 consist of the following:

	2005	2006
Intangible assets, net	315	**230**
Grants receivable	–	**13**
Deferred tax expense (note 10)	71	**56**
Long-term receivables	23	**20**
Marketable securities (note 12)	34	**34**
Associated and Related Companies – financial and other[1] (note 29)	67	**–**
Employee receivables (note 29)	2	**2**
Other	30	**21**
Total	542	**376**

1 The decrease during the financial year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

A summary of activity for intangible assets for the years ended September 30, 2005 and 2006 is as follows:

	Goodwill	Other intangibles	Total
Cost			
September 30, 2004	172	414	**586**
Additions	–	64	**64**
Impairment charges (note 8)	(18)	(39)	**(57)**
Disposals	(6)	(36)	**(42)**
Acquisitions (note 4)	7	58	**65**
Purchase accounting adjustments (note 4)	(14)	(16)	**(30)**
Foreign currency effects	2	3	**5**
September 30, 2005	143	448	**591**
Additions	–	56	**56**
Impairment charges (note 8)	(7)	(31)	**(38)**
Disposals	(11)	(26)	**(37)**
Foreign currency effects	(7)	(1)	**(8)**
September 30, 2006	118	446	**564**
Accumulated amortization			
September 30, 2004	(21)	(167)	**(188)**
Amortization	–	(96)	**(96)**
Disposals	–	5	**5**
Foreign currency effects	3	–	**3**
September 30, 2005	(18)	(258)	**(276)**
Amortization	–	(67)	**(67)**
Disposals and reductions	–	5	**5**
Foreign currency effects	1	3	**4**
September 30, 2006	(17)	(317)	**(334)**
Carrying value September 30, 2004	151	247	**398**
Carrying value September 30, 2005	125	190	**315**
Carrying value September 30, 2006	101	129	**230**

(euro in millions, except where otherwise stated)

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding financial years is as follows: 2007 €46; 2008 €34; 2009 €17; 2010 €12; 2011 €10.

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 4). During the three months ended March 31, 2005 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 three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 as of September 30, 2006.

In March 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio. The license of €37 is being amortized over the expected useful life of the related technologies of ten years (see note 6).

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. The license of €32 is being amortized over the expected useful life of the related technologies of six years (see note 6).

During the years ended September 30, 2004, 2005 and 2006, the Company recognized intangible assets impairment charges of €71, €57 and €38, respectively.

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 Optical Networking 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.

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

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

19. Trade Accounts Payable

Trade accounts payable at September 30, 2005 and 2006 consist of the following:

	2005	**2006**
Third party – trade	868	**1,165**
Siemens group – trade (note 29)	61	**–**
Associated and Related Companies – trade[1] (note 29)	140	**80**
Total	1,069	**1,245**

1 The decrease during the financial year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

(euro in millions, except where otherwise stated)

20. Accrued Liabilities

Accrued liabilities at September 30, 2005 and 2006 consist of the following:

	2005	2006
Personnel costs	274	**353**
Warranties and licenses	53	**54**
Settlement for antitrust related matters (note 33)	31	**53**
Interest	34	**37**
Other	105	**65**
Total	497	**562**

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 33) 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 23). As a result of this agreement and other antitrust related investigations and customer settlements (see note 33), the Company recorded other operating expenses with an aggregate of €194, €20 and €23 during the years ended September 30, 2004, 2005 and 2006, respectively (see note 8).

21. Other Current Liabilities

Other current liabilities at September 30, 2005 and 2006 consist of the following:

	2005	2006
VAT and other taxes payable	202	**212**
Payroll obligations to employees	130	**128**
Deferred government grants (note 7)	106	**95**
Other deferred income	22	**62**
Restructuring (note 9)	72	**63**
Financial instruments (note 31)	74	**11**
Associated and Related Companies – financial and other (note 29)	4	**9**
Settlement for anti-trust related matters (note 33)	31	**24**
Other	59	**71**
Total	700	**675**

Other deferred income includes amounts relating to license income (see note 6) and deferred revenue. The non-current portion is included in other liabilities (see note 23).

22. Debt

Debt at September 30, 2005 and 2006 consists of the following:

	2005	2006
Short-term debt:		
Loans payable to banks, weighted average rate 2.46%	51	**51**
Convertible subordinated notes, 4.25%, due 2007	–	**638**
Current portion of long-term debt	48	**108**
Total short-term debt and current maturities	99	**797**
Long-term debt:		
Convertible subordinated notes, 4.25%, due 2007	633	**–**
Convertible subordinated notes, 5.0%, due 2010	690	**692**
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.62%, due 2008–2013	206	**458**
Secured term loans, weighted average rate 1.57%, due 2013	9	**7**
Other loans payable, weighted average rate 4.35%, due 2011	–	**3**
Notes payable to governmental entity, rate 2.52%, due 2010–2027	28	**48**
Total long-term debt	1,566	**1,208**

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

(euro in millions, except where otherwise stated)

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. 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. 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. On September 29, 2006 the Company (through the issuer) irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon conversion. At September 30, 2006, unamortized debt issuance costs were €8.

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. 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. On September 29, 2006, the Company (through the issuer) irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon conversion. These convertible notes are due on the February 6, 2007, and the Company expects to redeem the notes at their principal outstanding amount using available cash to the extent that they have not previously been redeemed, converted or purchased and cancelled. On September 30, 2006, the outstanding notional amount was €640 and unamortized debt issuance costs were €2.

In September 2004 the Company executed a $400/€400 million syndicated credit facility with a five-year term. The facility consisted of two tranches: Tranche A was a $400 million term loan intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, the Company drew $345 million under this Tranche A, the amount being equal to the maximum outstanding amount permitted as of September 30, 2006. The loan will decrease on the basis of a repayment schedule that foresees equal installments, falling due in March and September each year. Tranche B was a €400 multicurrency revolving facility to be used for general corporate purposes. In connection with the arrangement of the Qimonda credit facility described below, the Company voluntarily cancelled an amount of €100 in August 2006, so that €300 remains available. At September 30, 2006, no amounts were outstanding under Tranche B. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility have been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances.

In August 2006, Qimonda entered into a multicurrency revolving loan facility in an aggregate principal amount of €250. The facility matures three years from the date of the Qimonda's initial public offering, and may be extended for one additional year at the option of the lenders at the end of the facility's first year of operation. Qimonda entered into this facility primarily as a source of backup liquidity. Loans made under the facility, which may be used for working capital requirements and/or general corporate purposes, may have various maturities, ranging from one to twelve months, or longer as agreed by the parties. The facility contains several covenants, agreements and financial ratios customary for such transactions including negative pledge, limitation on indebtedness, restriction on asset dispositions; limitations on mergers and reorganizations, required maintenance of minimum liquidity levels and financial ratios; and limitation on dividend payments. Qimonda was in compliance with these covenants as of September 30, 2006. As of September 30, 2006, no amounts were outstanding under this facility.

A €124 non-recourse project financing facility for the expansion of the Qimonda Portugal manufacturing facility was fully drawn as of September 30, 2006.

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.

Term	Nature of financial institution commitment	Purpose/intended use	As of September 30, 2006 Aggregate facility	Drawn	Available
short-term	firm commitment	working capital, guarantees	95	51	44
short-term	no firm commitment	working capital, cash management	309	–	309
long-term	firm commitment	working capital	823	273	550
long-term[1]	firm commitment	project finance	351	351	–
Total			1,578	675	903

1 Including current maturities.

At September 30, 2006, the Company was in compliance with its debt covenants under the relevant facilities.

Interest expense for the years ended September 30, 2004, 2005 and 2006 was €126, €83 and €109, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2006 are as follows:

Year ending September 30	Amount
2007	797
2008	157
2009	181
2010	744
2011	55
Thereafter	71
Total	2,005

23. Other Liabilities

Other non-current liabilities at September 30, 2005 and 2006 consist of the following:

	2005	2006
Deferred government grants (note 7)	182	**117**
Settlement for antitrust related matters (note 33)	88	**62**
Pension liabilities (note 30)	162	**134**
Deferred income (note 6)	38	**40**
Post-retirement benefits (note 30)	5	**4**
License fees payable	54	**41**
Other	32	**59**
Total	561	**457**

24. Minority Interest

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

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. In December 2005, the Company further amended its agreements with IBM in respect of the ALTIS joint venture and began to fully consolidate ALTIS, whereby IBM's 50% ownership interest is reflected as minority interest (see note 17).

Effective May 1, 2006, the Company contributed substantially all of the operations of its Memory Products segment, including the assets and liabilities that were used exclusively for these operations, to Qimonda, a stand-alone legal company. On August 9, 2006, Qimonda completed an initial public offering on the New York Stock Exchange through the issuance of 42 million ordinary shares which are traded as ADSs under the symbol "QI", for an offering price of $13 per ADS. In addition, the Company sold 6.3 million Qimonda shares upon exercise of the underwriters' over-allotment option, which reduced its shareholding in Qimonda to 85.9%. The minority investors' 14.1% ownership interest is reflected as minority interest (see note 3).

(euro in millions, except where otherwise stated)

25. Ordinary Share Capital

As of September 30, 2006 the Company had 747,609,294 registered ordinary shares, notional value of euro 2.00 per share, outstanding. During the year ended September 30, 2006 the Company increased its share capital by €0.08 by issuing 39,935 shares in connection with the Company's Long-Term Incentive Plan. 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 SC300 GmbH & Co. KG ("SC300").

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, 2006, 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 pre-emptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the pre-emptive rights of shareholders may be excluded for all shares.

> 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 pre-emptive rights of existing shareholders are excluded).

The Company has conditional capital of up to an aggregate nominal amount of €96 (Conditional Share Capital I), of up to an aggregate nominal amount of €29 (Conditional Share Capital III) and up to an aggregate nominal amount of €24.5 (Conditional Share Capital IV/2006) that may be used to issue up to 74.7 million new registered shares in connection with the Company's long-term incentive plans (see note 26). 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 22). 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 22). 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 February 2006 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2006 financial year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2006.

26. Stock-based Compensation

Fixed Stock Option Plans

In 1999, the shareholders approved a share option plan ("LTI 1999 Plan"), which provided for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI 1999 Plan, the Company could grant up to 48 million options over a five-year period. The exercise price of each option equals 120% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire seven years from the grant date.

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions; however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

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

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the LTI 2001 Plan. Under the terms of SOP 2006, the Company can grant up to 13 million options over a three-year period. The exercise price of each option equals 120% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of a share exceeds the trend of the comparative index "Philadelphia Semiconductor Index" for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date. During the 2006 financial year, no options were granted under the SOP 2006.

In 2006, the Qimonda shareholders approved a stock option plan (the "Qimonda 2006 SOP"). Under the terms of the Qimonda 2006 SOP, Qimonda can grant up to 6 million non-transferable option rights over a three-year period which grant the holder the right to receive ordinary shares issued by Qimonda. The exercise price of each option equals 100% of the average closing price of Qimonda's ADSs on the New York Stock Exchange during the five trading days prior to the grant date. Granted options are only exercisable if the price of Qimonda ADSs as quoted on the New York Stock Exchange exceeds the trend of the comparative index "Philadelphia Semiconductor Index" for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to Qimonda's ADSs reaching the exercise price on at least one trading day, and expire six years from the grant date. During the 2006 financial year, no options were granted under the Qimonda 2006 SOP.

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

A summary of the status of the LTI 1999 Plan and the LTI 2001 Plan as of September 30, 2006, and changes during the three years then ended is presented below (options in millions, exercise price in euro, intrinsic value in millions of euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated intrinsic value
Outstanding at beginning of year	40.9	€ 20.33	4.02	–
Granted	7.5	€ 8.20		
Exercised	–	–		–
Forfeited and expired	(3.6)	€ 22.65		
Outstanding at end of year	44.8	€ 18.12	3.54	14
Vested and expected to vest, net of estimated forfeitures at end of year	44.4	€ 18.21	3.52	13
Exercisable at end of year	25.6	€ 24.68	2.37	3

Options with an aggregated fair value of €51 completed vesting during the financial year ended September 30, 2006.

Changes in the Company's unvested options for the financial year ended September 30, 2006 are summarized as follows (options in millions, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated intrinsic value
Unvested at beginning of year	21.2	€ 5.28		
Granted	7.5	€ 3.19		
Vested	(8.2)	€ 6.22		
Forfeited	(1.3)	€ 4.51		
Unvested at end of year	19.2	€ 4.11	1.72	11
Unvested options expected to vest	18.8	€ 4.13	1.72	11

Fair value disclosures

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model. Prior to the adoption of SFAS No. 123 (revised 2004), the Company relied on historical volatility measures when estimating the fair value of stock options granted to employees. Following the implementation of SFAS No. 123 (revised 2004), the Company uses a combination of implied volatilities from traded options on the Company's stock and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted is estimated based on historical experience. Beginning on the date of adoption of SFAS No. 123 (revised 2004), forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. The Company has not made any dividend payments during the financial year ended September 30, 2006 nor does it have plans to pay dividends in the foreseeable future.

The following weighted-average assumptions were used in the Black-Scholes option-pricing model:

	2004	2005	2006
Weighted-average assumptions:			
Risk-free interest rate in %	3.68	3.02	**3.08**
Expected volatility in %	59	58	**43**
Dividend yield in %	0	0	**0**
Expected life in years	4.50	4.50	**5.07**
Weighted-average fair value per option at grant date in euro in €	5.88	4.03	**3.19**

Stock-Based Compensation Expense

Stock-based compensation expense was allocated as follows for the financial year ended September 30, 2006:

	2006
Compensation expense recognized:	
Cost of sales	**7**
Selling, general and administrative expenses	**12**
Research and development expenses	**9**
Total stock-based compensation expense	**28**
Stock-based compensation effect on basic and diluted loss per share	**(0.04)**

The amount of stock-based compensation cost which was capitalized and remained in inventories during the financial year ended September 30, 2006 was immaterial. Stock-based compensation expense does not reflect any income tax benefits, since stock options are granted in tax jurisdictions where the expense is not deductible for tax purposes. In addition, stock-based compensation expense did not have a significant cash flow effect during the financial year ended September 30, 2006, since no material exercises of stock options occurred during the period. As of September 30, 2006, there was a total of €26 in unrecognized compensation expense related to unvested stock options which is expected to be recognized over a weighted-average period of 1.72 years.

Prior to the 2006 financial year, the Company applied the provisions of APB No. 25, as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of SFAS No. 123".

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, "Accounting for Stock-Based Compensation", 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 provision of SFAS No. 148:

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

27. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 2004, 2005 and 2006 are as follows:

	2004			2005			2006		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	4	–	4	13	(1)	12	**6**	**(1)**	**5**
Reclassification adjustment for losses (gains) included in net income (loss)	(11)	–	(11)	(4)	–	(4)	**(13)**	**1**	**(12)**
Net unrealized (losses) gains	(7)	–	(7)	9	(1)	8	**(7)**	**–**	**(7)**
Unrealized gains (losses) on cash flow hedges	1	–	1	(25)	–	(25)	**5**	**–**	**5**
Additional minimum pension liability	28	(10)	18	(85)	1	(84)	**(3)**	**–**	**(3)**
Foreign currency translation adjustment	(41)	–	(41)	64	–	64	**(69)**	**–**	**(69)**
Other comprehensive (loss) income	(19)	(10)	(29)	(37)	–	(37)	**(74)**	**–**	**(74)**
Accumulated other comprehensive income (loss) – beginning of year	(98)	10	(88)	(117)	–	(117)	**(154)**	**–**	**(154)**
Accumulated other comprehensive income (loss) – end of year	(117)	–	(117)	(154)	–	(154)	**(228)**	**–**	**(228)**

(euro in millions, except where otherwise stated)

28. 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 25).

	2004	2005	2006
Cash paid for:			
Interest	144	91	116
Income taxes	59	79	117
Non-cash investing and financing activities:			
Construction grants deducted from cost of fixed assets (note 7)	49	–	49

29. Related Parties

The Company has transactions in the normal course of business with Associated and Related Companies ("Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up. Transactions between the Company and ALTIS subsequent to the consolidation of ALTIS during the first quarter of the 2006 financial year are no longer reflected as Related Party transactions (see note 17).

On April 3, 2006, Siemens disposed of its remaining shareholding in the Company. Transactions between the Company and Siemens subsequent to this date are no longer reflected as Related Party transactions.

Related Party receivables at September 30, 2005 and 2006 consist of the following:

	2005	2006
Current:		
Siemens group – trade (note 13)	145	**–**
Associated and Related Companies – trade (note 13)	12	**8**
Siemens group – financial and other (note 15)	18	**–**
Associated and Related Companies – financial and other (note 15)	5	**1**
Employee receivables (note 15)	8	**7**
	188	**16**
Non-current:		
Associated and Related Companies – financial and other[1] (note 18)	67	**–**
Employee receivables (note 18)	2	**2**
	69	**2**
Total Related Party receivables	257	**18**

1 The decrease during the financial year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

(euro in millions, except where otherwise stated)

Related Party payables at September 30, 2005 and 2006 consist of the following:

	2005	2006
Siemens group – trade (note 19)	61	–
Associated and Related Companies – trade[1] (note 19)	140	**80**
Associated and Related Companies – financial and other (note 21)	4	**9**
Total Related Party payables	205	**89**

1 The decrease during the financial year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

Related Party receivables and payables as of September 30, 2006, 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 inter-bank rates.

Transactions with Related Parties during the years ended September 30, 2004, 2005 and 2006, include the following:

	2004	2005	2006
Sales to Related Parties:			
Siemens group companies	957	861	**322**
Associated and Related Companies	69	55	**61**
Total sales to Related Parties	1,026	916	**383**
Purchases from Related Parties:			
Siemens group companies	264	226	**73**
Associated and Related Companies[1]	357	615	**575**
Total purchases from Related Parties	621	841	**648**

1 The decrease during the financial year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

Purchases from Associated and Related Companies during the years ended September 30, 2005 and 2006 are principally related to products purchased from Inotera.

	2004	2005	2006
Interest income from (expense to) Related Parties			
Interest income from Related Parties	2	2	**1**
Interest expense to Related Parties	–	–	**–**
Total	2	2	**1**

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €23, €38 and €21 for the years ended September 30, 2004, 2005 and 2006, 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.

(euro in millions, except where otherwise stated)

30. 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, 2004, 2005 and 2006 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

	2004		2005		2006	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Accumulated benefit obligations end of year	(226)	(56)	(337)	(64)	**(378)**	**(61)**
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(243)	(70)	(271)	(78)	**(392)**	**(85)**
Service cost	(14)	(7)	(16)	(7)	**(24)**	**(5)**
Interest cost	(13)	(4)	(15)	(4)	**(17)**	**(4)**
Actuarial gains (losses)	–	3	(89)	(2)	**(13)**	**8**
Business combinations	(1)	(1)	–	–	**–**	**–**
Divestitures	1	–	1	4	**–**	**–**
New plan created	–	(2)	–	–	**–**	**–**
Plan amendments	(3)	–	(8)	–	**–**	**–**
Benefits paid	2	1	2	2	**3**	**2**
Curtailment gain	–	–	4	1	**–**	**7**
Foreign currency effects	–	2	–	(1)	**–**	**2**
Projected benefit obligations end of year	(271)	(78)	(392)	(85)	**(443)**	**(75)**
Change in fair value of plan assets:						
Fair value at beginning of year	143	27	174	30	**208**	**35**
Contributions and transfers	19	2	17	4	**63**	**4**
Actual return on plan assets	14	3	19	2	**14**	**2**
Benefits paid	(2)	(1)	(2)	(2)	**(3)**	**(2)**
Foreign currency effects	–	(1)	–	1	**–**	**(1)**
Fair value at end of year	174	30	208	35	**282**	**38**
Funded status	(97)	(48)	(184)	(50)	**(161)**	**(37)**
Unrecognized actuarial (gains) losses	59	2	138	4	**144**	**(8)**
Unrecognized prior service cost (benefit)	7	(2)	14	(2)	**13**	**–**
Post measurement date contributions	1	1	16	1	**16**	**1**
Net asset (liability) recognized	(30)	(47)	(16)	(47)	**12**	**(44)**

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

	2004		2005		2006	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Prepaid pension cost	27	–	–	–	**–**	**1**
Intangible asset (note 15)	–	–	14	–	**13**	**–**
Accumulated other comprehensive income	–	–	85	–	**88**	**–**
Accrued pension liabilities (note 23)	(51)	(47)	(115)	(47)	**(89)**	**(45)**
Other current liabilities	(6)	–	–	–	**–**	**–**
Net liability recognized	(30)	(47)	(16)	(47)	**12**	**(44)**

(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:

	2004		2005		2006	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Projected benefit obligation	271	78	392	85	**443**	**64**
Fair value of plan assets	174	30	208	35	**282**	**26**
Accumulated benefit obligations	53	51	337	57	**378**	**54**
Fair value of plan assets	–	23	208	26	**282**	**26**

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

	2004		2005		2006	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate in %	5.8	5.6	4.5	4.8	**4.8**	**5.3**
Rate of compensation increase in %	3.0	3.7	2.5	3.1	**2.5**	**1.8**
Projected future pension increases in %	1.3	2.6	1.3	2.2	**1.8**	**2.2**
Expected return on plan assets in %	6.8	7.0	7.3	6.9	**6.5**	**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, 2005 and 2006 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2005		2006		Targeted allocation	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities in %	44	57	**33**	**59**	52	59
Debt securities in %	51	35	**33**	**26**	18	26
Other in %	5	8	**34**	**15**	30	15
Total in %	100	100	**100**	**100**	100	100

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

The components of net periodic pension cost for the years ended September 30, 2004, 2005 and 2006 are as follows:

	2004		2005		2006	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Service cost	(14)	(7)	(16)	(7)	**(24)**	**(5)**
Interest cost	(13)	(4)	(15)	(4)	**(17)**	**(4)**
Expected return on plan assets	11	2	13	2	**13**	**3**
Amortization of unrecognized prior service cost	–	–	–	–	**(1)**	**2**
Amortization of unrecognized losses	(3)	–	(3)	–	**(7)**	**–**
Curtailment gain recognized	–	–	1	1	**–**	**3**
Net periodic pension cost (note 8)	(19)	(9)	(20)	(8)	**(36)**	**(1)**

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 €3, €(91) and €(5) for the financial years ended September 30, 2004, 2005 and 2006, 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.

(euro in millions, except where otherwise stated)

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.

In September 2006, Qimonda established a pension trust for the purpose of funding future pension benefit payments for its employees in Germany. A portion of the Company’s pension plan assets have been allocated to Qimonda for periods prior to its formation based on the proportion of Qimonda’s projected benefit obligation to the total Company’s projected benefit obligation. Accordingly, the Company transferred €26 in cash from its Pension Trust into the Qimonda pension trust.

The effect of employee terminations, in connection with the Company’s restructuring plans (see note 9), on the Company’s pension obligation is reflected as a curtailment in the years ended September 30, 2005 and 2006 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
2007	10	2
2008	8	2
2009	9	2
2010	12	2
2011	13	2
2012–2016	80	18

During the year ended September 30, 2002, the Company established a deferred savings plan for its employees in Germany, whereby a portion of the employee’s salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €14 and €17 as of September 30, 2005 and 2006, 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, 2004, 2005 and 2006. The net liability recognized in the accompanying balance sheet was €5 and €4 as of September 30, 2005 and 2006, respectively.

31. 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, 2005 and 2006 are as follows:

	2005		2006	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold				
U.S. dollar	838	(20)	**682**	**1**
Japanese yen	9	–	**30**	**–**
Singapore dollar	2	–	**–**	**–**
Great Britain pound	–	–	**1**	**–**
Malaysian Ringgit	–	–	**6**	**–**
Forward contracts purchased:				
U.S. dollar	195	4	**209**	**(1)**
Japanese yen	42	–	**24**	**–**
Singapore dollar	23	–	**27**	**–**
Great Britain pound	5	–	**7**	**–**
Czech Koruna	1	–	**–**	**–**
Malaysian Ringgit	32	1	**35**	**–**
Other currencies	23	(1)	**–**	**–**
Currency Options sold:				
U.S. dollar	527	(21)	**259**	**(5)**
Currency Options purchased:				
U.S. dollar	522	3	**252**	**2**
Cross currency interest rate swaps:				
U.S. dollar	389	21	**–**	**–**
Interest rate swaps	1,442	14	**1,200**	**5**
Other	259	(2)	**218**	**9**
Fair value, net		(1)		**11**

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) is being amortized into interest expense over the remaining term of the convertible notes.

The Company entered into interest rate swap agreements with independent financial institutions during the year ended September 30, 2004, which were designated as a cash flow hedge of interest rate fluctuations on forecasted future lease payments during the first 10 years of the Campeon lease agreement (see note 33). The ineffective portion of the cash flow hedge was €0 for the years ended September 30, 2004, 2005, and 2006. The effective portion of €(22) was deferred in other comprehensive income until the commencement of the lease in the first quarter of the 2006 financial year, and is being amortized ratably into lease expense over the lease term of 15 years.

Interest expense, net was partially offset by gains resulting from interest rate swap agreements in the amount of €22 and €21 for the financial years ended September 30, 2004 and 2005, respectively, and was impacted by a loss of €34 for the financial year ended September 30, 2006.

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:

	2004	2005	2006
Gains (losses) from foreign currency derivatives:			
Cost of sales	44	(14)	**50**
Other non-operating (expense) income	3	(10)	**15**
	47	(24)	**65**
Gains (losses) from foreign currency transactions:			
Cost of sales	(50)	(5)	**(19)**
Other non-operating (expense) income	(12)	50	**(46)**
	(62)	45	**(65)**
Net losses from foreign currency derivatives and transactions	(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, 2006 the convertible notes due 2007 and the convertible notes due 2010 were trading at a 0.2% and a 12.5% premium to par, respectively, based on quoted market values. The fair values of the Company's cash and cash equivalents, receivables and payables, as well as related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 12).

32. 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 9,000 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 4,700 employees), Austria (affecting approximately 2,300 employees) and France (affecting approximately 2,000 employees including ALTIS). The agreement in Germany is perpetual, but can be terminated by the trade union with a notice of one month prior to March 31, 2007. The agreement in Austria expires on May 1, 2007. The minimum salaries stipulated in the agreement in France are subject to yearly revision coming into effect on January 1st each year. The provisions of these agreements generally remain in effect until replaced by a subsequent agreement. Agreements for periods after expiration are to be negotiated with the respective trade unions through a process of collective negotiations.

33. Commitments and Contingencies

Litigation

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 into alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. The Company has a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price fixing charges related to DRAM sales to six Original Equipment Manufacturer (OEM) customers that manufacture computers and servers. The Company has entered into settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from the Company.

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

Sixteen cases were filed between June and September 2002 in several U.S. federal district courts, purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period (the Direct U.S. Purchaser Class), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation ordered that these federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pretrial proceedings as part of a Multi District Litigation (MDL).

In September 2005, the Company and its principal U.S. subsidiary entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (subject to approval by the U.S. District Court and to an opportunity for individual class members to opt out of the settlement). Under the terms of the settlement agreement the Company agreed to pay approximately $21 million. In addition to this settlement payment, the Company agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class (after opt-outs) during the settlement period exceeded $208.1 million. The additional amount payable would be calculated by multiplying the amount by which these sales exceed $208.1 million by 10.53%. The Company does not currently expect that any such additional amount will have a material adverse effect on its financial condition or results of operations. The settlement was provisionally approved on May 10, 2006, and the final hearing for approval of the settlement was scheduled for November 1, 2006. As of September 30, 2006, the Company had secured individual settlements with eight direct customers in addition to those OEMs identified by the DOJ (see note 35).

On April 28, 2006, Unisys Corporation filed a complaint against the Company and its principal U.S. subsidiary, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International Inc. filed a complaint against the Company and its principal U.S. subsidiary, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both of these complaints were filed in the Northern District of California, and have been related to the MDL described above. Both Unisys and Honeywell opted out of the direct purchaser class and settlement, so their claims are not barred by the Company's settlement with the Direct U.S. Purchaser Class.

Sixty-four additional cases were filed between August and October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except for one relating to foreign purchasers, which was subsequently dismissed with prejudice) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999. The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Twenty-three of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pretrial proceedings as part of the MDL described above. Nineteen of the 23 transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for pretrial proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pretrial proceedings. The defendants have filed two motions for judgment on the pleadings directed at several of the claims; these motions are pending. After these have been decided the indirect purchaser plaintiffs in the MDL proceedings will have the opportunity to file any motion for class certification. No trial date has yet been scheduled in the MDL. The Company intends to vigorously defend against the indirect purchaser cases.

On July 13, 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against the Company, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. On July 14, 2006, the attorneys general of California, Alaska, Arizona, Arkansas, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. On September 8, 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. The Company intends to vigorously defend against both of these actions.

In April 2003, the Company received a request for information from the European Commission in connection with its investigation of practices in the European market for DRAM ICs. 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, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. The Company is fully cooperating with the Competition Bureau in its inquiry.

Between December 2004 and February 2005 two putative class proceedings were filed in the Canadian provinces of Quebec, and one was filed in each of Ontario and British Columbia against the Company, its principal U.S. subsidiary and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM. In the British Columbia action, the certification motion has been scheduled for May 2007. In one Quebec class action preliminary motions are to be scheduled early in 2007; the other Quebec action has been stayed pending developments in the one that is going forward. The Company intends to vigorously defend against these proceedings.

Between September and November 2004 seven securities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of purchasers of the Company's publicly-traded securities who purchased them during the period from March 2000 to July 2004. The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend (see note 35).

The Company believes these claims are without merit and is vigorously defending itself in this action. Because this action is in its early stages, the Company is unable to provide an estimate of the likelihood of an unfavorable outcome to the Company or of the amount or range of potential loss arising from the action. If the outcome of this action is unfavorable, or if the Company incurs substantial legal fees in defending this action regardless of outcome, it may have a material adverse effect on the Company's financial condition and results of operations. The Company's directors' and officers' insurance carriers have denied coverage in the class action and the Company filed suit against the carriers in December 2005 and August 2006.

In late 2002, MOSAID filed suit alleging that the Company was violating eleven of its DRAM-related U.S. patents. Subsequently, the Company sought a declaratory judgment that it did not violate these patents, MOSAID filed certain counterclaims, the Company won summary judgment with respect to most of these patents, and MOSAID alleged infringement of additional patents.

On June 14, 2006, the parties announced that they had settled all pending litigation and appeals, and the outstanding suit was subsequently dismissed with prejudice. As part of the settlement, Infineon and Qimonda have taken a worldwide license to the MOSAID patent portfolio (note 6).

Tessera Inc. filed a lawsuit in March 2005 alleging that some of the Company's products were infringing five Tessera patents, and later amended its complaint to allege that the Company had violated U.S. antitrust law, Texas unfair competition law, and Texas business tort law by conspiring to harm the sale of Rambus DRAM ("RDRAM") chips, thereby injuring Tessera's ability to license chip packaging technology for RDRAM chips.

On August 1, 2006, Infineon and Qimonda entered into settlement agreements with Tessera Inc. in respect of all of Tessera's patent infringement and antitrust claims and all counterclaims and other claims Infineon and Qimonda raised against Tessera. As part of the settlement, Infineon and Qimonda have entered into license agreements with Tessera, effective July 1, 2006, that provide the companies world-wide, nonexclusive, non-transferable and non-sublicensable licenses to use a portfolio of Tessera patents relating to packaging for integrated circuits in Infineon and Qimonda's production. The license agreements will be effective until May 2012, when they will automatically expire unless the companies notify Tessera by November 2011 that they elect to extend the agreements for an additional five years until May 2017. Upon expiration of the extended term, if any, the companies' licenses to use the patents covered by the licenses will become fully paid-up and perpetual.

Under the license agreements, Infineon and Qimonda paid Tessera $10 million and $40 million in license fees in August 2006, respectively, and will pay additional royalty payments over a six-year period based on the volume of components Infineon and Qimonda sell that are subject to the licenses. In the event the companies elect to extend the agreements past their initial term, they will continue to pay royalties at 50% of the rates agreed to for the initial term of the license agreements. Pursuant to the contribution agreement Qimonda entered into with Infineon, Qimonda is required to indemnify Infineon with respect to 80% of the court costs and legal fees that Infineon faces in respect of the Tessera suits (note 6).

Accruals and the Potential Effect of these Lawsuits

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the range cannot be estimated, the minimum amount is accrued. As of September 30, 2006, the Company had accrued liabilities in the amount of €139 related to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses for the DOJ related and securities class action complaints.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on the Company's financial condition and results of operations.

An adverse final resolution of the antitrust investigations or related civil claims or the securities class action lawsuits described above could result in significant financial liability to, and other adverse effects on, the Company, which would have a material adverse effect on its results of operations, financial condition and cash flows. Irrespective of the validity or the successful assertion of the claims described above, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations, financial condition and cash flows.

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

Contractual Commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2006[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	**959**	104	91	85	66	64	549
Unconditional purchase commitments	**1,396**	1,171	153	25	15	11	21
Other long-term commitments	**132**	66	66	–	–	–	–
Total Commitments	**2,487**	1,341	310	110	81	75	570

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, 2006. Purchases under these arrangements aggregated €1,204 for the year ended September 30, 2006.

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.

(euro in millions, except where otherwise stated)

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

Other Contingencies

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2006[1]:

Expirations by period	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Maximum potential future payments:							
Guarantees[2]	**198**	6	20	12	–	14	146
Contingent government grants[3]	**548**	156	129	36	55	27	145
Total contingencies	**746**	162	149	48	55	41	291

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

The Company has guarantees outstanding to external parties of €198 as of September 30, 2006. 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, 2006, such inter-company guarantees, principally relating to certain consolidated subsidiaries' third-party debt, aggregated €1,503, 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, 2006, a maximum of €548 of these subsidies could be refundable.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, enables the Company to centralize the majority of its Munich-area employees in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the gradual move of its employees to this new location in the 2006 financial year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 in escrow, which was included in restricted cash as of September 30, 2006. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with SFAS No. 13, with monthly lease payments expensed on a straight-line basis over the lease term.

(euro in millions, except where otherwise stated)

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition.

A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2006 is as follows:

	2006
Balance as of September 30, 2005	**50**
Accrued during the year, net	**39**
Settled during the year	**(38)**
Balance as of September 30, 2006	**51**

34. Operating Segment and Geographic Information

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information".

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

The Company operates primarily in three major operating segments, two of which are application focused: Automotive, Industrial & Multimarket, and Communication Solutions; and one of which is product focused: Qimonda. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

Following the completion of the Qimonda carve-out the Other Operating Segments for the 2005 and 2006 financial years include net sales that Infineon's 200-millimeter production facility in Dresden records from the sale of wafers to Qimonda under foundry agreements. The Corporate and Eliminations segment reflects the elimination of these intra-group net sales. For the 2004 financial year, the Infineon 200-millimeter production facility in Dresden was part of the Qimonda organization.

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

Automotive, Industrial & Multimarket

The Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.

Communication Solutions

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

Qimonda

Qimonda designs memory technologies and develops, manufactures, markets and sells a large variety of memory products on a module, component and chip level.

Other Operating Segments

Remaining activities for certain product lines that have been disposed of, as well as other business activities, are included in the Other Operating Segments.

(euro in millions, except where otherwise stated)

Selected segment data for the years ended September 30, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Net sales:			
Automotive, Industrial & Multimarket	2,540	2,516	**2,839**
Communication Solutions	1,689	1,391	**1,205**
Other Operating Segments[1]	16	285	**310**
Corporate and Eliminations[2]	(58)	(258)	**(240)**
Subtotal	4,187	3,934	**4,114**
Qimonda	3,008	2,825	**3,815**
Infineon Group	7,195	6,759	**7,929**

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

	2004	2005	2006
EBIT:			
Automotive, Industrial & Multimarket	252	134	**246**
Communication Solutions	(44)	(295)	**(231)**
Other Operating Segments	(75)	4	**4**
Corporate and Eliminations	(39)	(137)	**(236)**
Subtotal	94	(294)	**(217)**
Qimonda[1]	162	111	**202**
Infineon Group	256	(183)	**(15)**

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

	2004	2005	2006
Depreciation and Amortization:			
Automotive, Industrial & Multimarket	370	431	**411**
Communication Solutions	192	309	**246**
Other Operating Segments	6	48	**45**
Corporate and Eliminations	–	–	**–**
Subtotal	568	788	**702**
Qimonda	752	528	**703**
Infineon Group	1,320	1,316	**1,405**

	2004	2005	2006
Equity in earnings (losses) of Associated Companies:			
Automotive, Industrial & Multimarket	–	–	**–**
Communication Solutions	5	4	**(2)**
Other Operating Segments	(4)	(2)	**–**
Corporate and Eliminations	1	10	**–**
Subtotal	2	12	**(2)**
Qimonda	(16)	45	**80**
Infineon Group	(14)	57	**78**

	2004	2005	2006
Inventories:			
Automotive, Industrial & Multimarket	359	336	**365**
Communication Solutions	232	201	**214**
Other Operating Segments	1	1	**1**
Corporate and Eliminations	–	–	**–**
Subtotal	592	538	**580**
Qimonda	368	484	**622**
Infineon Group	960	1,022	**1,202**

	2005	2006
Goodwill:		
Automotive, Industrial & Multimarket	–	**–**
Communication Solutions	27	**22**
Other Operating Segments	8	**6**
Corporate and Eliminations	2	**1**
Subtotal	37	**29**
Qimonda	88	**72**
Infineon Group	125	**101**

(euro in millions, except where otherwise stated)

As of September 30, 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 eliminations segment. 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 and 2006, all inventories were attributed to the respective operating segment, since they were under the direct control and responsibility of the respective operating segment managers. Prior periods have been reclassified to conform to the current year presentation.

Certain items are included in corporate and eliminations and are not allocated to the logic segments, consistent with the Company's internal management reporting. These include certain corporate headquarters' costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges and employee stock-based compensation expense are included in corporate and eliminations and not allocated to the logic segments for internal or external reporting purposes, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by corporate and eliminations. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in corporate and eliminations. Significant components of corporate and elimination EBIT for the years ended September 30, 2004, 2005 and 2006 are as follows:

	2004	2005	2006
Corporate and Eliminations:			
Unabsorbed excess capacity costs	(35)	(12)	**(33)**
Restructuring charges	(17)	(78)	**(23)**
Stock-based compensation expense	–	–	**(25)**
Other, net[1]	13	(47)	**(155)**
Total	(39)	(137)	**(236)**

1 Includes aggregate charges of approximately €80 in the 2006 financial year incurred primarily in connection with the formation of Qimonda, the dilution of the Company's interest in Qimonda following its IPO, as well as the Company's sale of Qimonda shares upon exercise of the underwriters' over-allotment option.

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

	2004	2005	2006
Net sales:			
Germany	1,675	1,354	**1,327**
Other Europe	1,263	1,210	**1,360**
North America	1,524	1,504	**2,126**
Asia-Pacific	2,263	2,223	**2,498**
Japan	364	332	**461**
Other	106	136	**157**
Total	7,195	6,759	**7,929**

	2004	2005	2006
Property, plant and equipment:			
Germany	1,962	1,625	**1,279**
Other Europe	514	516	**638**
North America	619	1,093	**1,105**
Asia-Pacific	490	515	**737**
Japan	1	2	**4**
Other	1	–	**1**
Total	3,587	3,751	**3,764**

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 8.

Except for sales to Siemens, which are discussed in note 29, no single customer accounted for more than 10% of the Company's sales during the financial years ended September 30, 2004 and 2005. Sales to Siemens were made primarily by the logic segments. No single customer accounted for more than 10% of the Company's sales during the financial year ended September 30, 2006.

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.

(euro in millions, except where otherwise stated)

For the financial years ended September 30, 2004, 2005 and 2006, EBIT is determined as follows from the consolidated statements of operations, without adjustment to the U.S. GAAP amounts presented:

Year ending September 30	2004	2005	2006
Net (loss) income	61	(312)	**(268)**
Adjust: Income tax expense	154	120	**161**
Interest expense, net	41	9	**92**
EBIT	256	(183)	**(15)**

35. Subsequent Events

During October 2006, following the insolvency of one of the Company's largest mobile phone customers, BenQ Mobile GmbH & Co OHG, Infineon announced restructuring plans to downsize its workforce. As part of the restructuring, it is expected that a total of approximately 400 employees will be terminated worldwide, thereof almost 200 employees in the German locations of Munich, Salzgitter and Nuremberg. The Company anticipates that the planned restructuring will result in charges of approximately €30 during the first quarter of the 2007 financial year, although the exact amount of the restructuring charges can not be estimated at this time due to the early stage of the negotiations with works councils.

In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which Infineon holds shares in Inotera in trust for Qimonda until the shares can legally be transferred. This trust agreement provides for Infineon to transfer the shares to Qimonda as and when Infineon receives an exemption from the statutory lock-up. During October 2006, the Taiwanese authorities granted an exemption to the Company to transfer the shares, which is expected to be finalized during the three months ending December 31, 2006.

On October 11, 2006, the plaintiffs filed a second amended complaint in the U.S. securities class action litigation in the Northern District of California. The Company's claim against one D&O insurance carrier was dismissed on November 13, 2006. The Company intends to file an appeal against this decision (see note 33).

On October 23, 2006, the action filed on July 13, 2006 by the New York state attorney general in the U.S. District Court for the Southern District of New York case was made part of the MDL proceeding pending in the Northern District of California (see note 33).
The settlement agreement with counsel to the Direct U.S. Purchaser Class was approved by the U.S. District Court for the Northern District of California in the hearing held on November 1, 2006 (see note 33).

In November 2006, Qimonda sold its investment in Ramtron through a private placement. As a result of the sale, Qimonda expects to record a gain of €3 during the three months ending December 31, 2006.

Additional Information

Additional Information to the U.S. GAAP consolidated financial statements pursuant to the German Commercial Code Implementation Act ("Einführungsgesetz zum HGB-EGHGB"), Article 58, paragraph 5

The Company has prepared consolidated financial statements and a group management report for the financial year ended September 30, 2006 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

(euro in millions, except where otherwise stated)

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"). The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to the German Commercial Code Implementation Act ("Einführungsgesetz zum HGB-EGHGB"), Article 58, paragraph 5, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein. The following is a description of the significant differences between German GAAP and U.S. GAAP. Additionally, as a U.S. listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the U.S. Securities and Exchange Commission ("SEC").

Fundamental Differences

The fundamental 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.

Basis of Consolidation

Under German GAAP as well as under U.S. GAAP, investments in companies in which an ownership interest of 20% or more is held and that are not controlled are accounted for using the equity method of accounting. Other equity investments in which an ownership interest of less than 20% is held are recorded at cost. The effects of all significant intercompany transactions are eliminated. In addition, under U.S. GAAP, as opposed to German GAAP, companies are required to evaluate relationships with entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51", and to assess whether they the primary beneficiary of such entities. If the determination is made that a company is the primary beneficiary, then that entity is included in the consolidated financial statements of the company for U.S. GAAP purposes.

Financial Statement Presentation

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

Revenue Recognition

Revenue recognition is generally the same under German 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, "Business Combinations", in connection with SFAS No. 142, "Goodwill and other Intangible Assets", goodwill arising from business combinations accounted for as a purchase after June 30, 2001 is no longer amortized, but rather tested for impairment at the reporting unit level at least annually. Under German GAAP, such goodwill is amortized over four years or its estimated useful life, 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

Through October 1, 2005, the Company recorded stock-based compensation expense under German GAAP for the excess of the trading price of the Company's stock and the exercise price of the stock-option instrument. Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) "Share-based Payment". Accordingly, for U.S. GAAP purposes stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. Under German GAAP, in accordance with section 272 paragraph 2 No. 2 HGB, the fair value of the awards as determined under SFAS 123 (revised 2004) is recorded at date of grant within additional paid-in capital, and compensation cost is recognized as expense over the period during which the employee is required to provide service in exchange for the award.

Equity Offering Costs

Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under U.S. GAAP such costs are recorded as 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, 2005 and 2006, 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 US GAAP, depreciation on property, plant and equipment is based on the estimated economic useful life of the asset. Under German GAAP, depreciation on property, plant and equipment is predominantly based on the depreciation rate used for tax purposes.

Equity Method Accounting

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

Gain on Associated Company Share Issuance

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

Minority Interest

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

Application of Exception Regulations

Pursuant to HGB section 264a, partnerships, where unlimited liability is not held by a natural person, or another partnership with a natural person as the unlimited liability partner, are required to prepare financial statements similar to a limited liability corporation.

For the following companies:

> Qimonda Dresden GmbH & Co. OHG, Dresden
> Infineon Technologies Dresden GmbH & Co. OHG, Dresden, and
> Infineon Technologies Immobilien Regensburg GmbH & Co. KG, Regensburg

The Company utilizes the exception pursuant to HGB section 264b, requiring these partnerships to prepare separate financial statements, because they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the respective partnership.

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

> COMNEON GmbH, Nuremberg
> Infineon Technologies Finance GmbH, Munich

Pursuant to HGB section 291 par. 1, the Company also utilizes the exception from preparing separate consolidated financial statements of Qimonda AG, Munich, due to the fact, that it is a subsidiary of parent company, which prepares separate financial statements.

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

Brandes Investment Partners L.P. informed the Company, by letter dated March 9, 2006, that its share of the voting rights of Infineon Technologies AG exceeded the 5% threshold on March 7, 2006. Its interest in voting rights amounted to 5.13%, equalling 24,103,296 American Depositary Receipts and 14,268,400 ordinary shares of the Company. All voting rights are imputable to Brandes Investment Partners L.P. according to WpHG section 22 par. 1 sentence 1 No. 6.

Dodge & Cox Investment Managers informed the Company, by letter dated April 11, 2006, that the share of the voting rights of Infineon Technologies AG held by Dodge & Cox International Stock Fund, a Delaware statutory trust and an investment company registered under the U.S. Investment Company Act of 1940, exceeded the 5% threshold on April 10, 2006. The interest in voting rights amounted to 5.07%, equalling 37,927,800 shares representing the same number of voting rights. All voting rights are imputable to Dodge & Cox Investment Managers according to WpHG section 22 par. 1 sentence 1 No. 6.

Dodge & Cox Investment Managers informed the Company, by letter dated April 24, 2006, that their share of the voting rights of Infineon Technologies AG exceeded the 5% threshold on April 10, 2006. The interest in voting rights amounted to 5.07%, equalling 37,927,800 shares representing the same number of voting rights. All voting rights are imputable to Dodge & Cox Investment Managers according to WpHG section 22 par. 1 sentence 1 No. 6.

Siemens AG, Berlin and Munich, Germany, informed the Company, by letter dated April 4, 2006, that their share of the voting rights of Infineon Technologies AG fell below the thresholds of 5% and 10% on April 3, 2006. Their new interest in voting rights would amount to 0.00%, equalling 0 shares representing the same number of voting rights.

The Capital Group International Inc., Los Angeles, USA, informed the Company, by letter dated June 14, 2006, that their share of the voting rights of Infineon Technologies AG fell below the threshold of 5% on June 7, 2006. Their new interest in voting rights amounted to 4.949%, representing 36,995,392 shares. The voting rights were attributable to the Capital Group International Inc. pursuant section 22 (1) 1 No. 6 in connection with section 22 (1) 2 and 3 WpHG.

The Capital Group Companies Inc., Los Angeles, USA, informed the Company, by letter dated June 8, 2006, that their share of the voting rights of Infineon Technologies AG fell below the threshold of 5% on June 7, 2006. Their new interest in voting rights amounted to 4.949%, representing 36,995,392 shares. The voting rights were attributable to the Capital Group Companies

Inc. pursuant section 22 (1) 1 No. 6 in connection with section 22 (1) 2 and 3 WpHG.

Information pursuant Section 6.6 German Corporate Governance

On August 14, 2006, Dr. Wolfgang Ziebart, chairman of the management board of the Company, purchased 20,000 shares of the Company at a price of €8.39 per share.

Information pursuant to Section 161 Corporate Act (AktG)

The compliance declaration prescribed by section 161 AktG was submitted on November 17, 2005 and made available to the shareholders on a continuous basis via the internet.

Accounting fees pursuant section 314 paragraph 1 No. 9 HGB

Principal Accountant Fees and Services

Year-end Audit Fees. In the 2006 financial year, the audit fees charged by KPMG, the Company's independent auditors, amounted to €4.0 million (thereof €2.3 million charged by the auditor engaged to audit the consolidated financial statements) in connection with professional services rendered for the annual audit of the Company's consolidated financial statements, including the audit of internal control over financial reporting as required for the 2006 financial year, as well as services normally provided by them in connection with statutory and regulatory filings or other compliance engagements.

Other Audit Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €2.9 million (thereof €2.2 million charged by the auditor engaged to audit the consolidated financial statements) in the 2006 financial year for other audit services. These services consisted of the carve-out audit of Qimonda and quarterly reviews.

Tax Fees

In addition to the amounts described above, KPMG charged the Company an aggregate of €0.1 million (thereof €0.0 million charged by the auditor engaged to audit the consolidated financial statements) in the 2006 financial year for professional services related primarily to tax compliance.

Other Fees

Fees of €1.4 million (thereof €0.9 million charged by the auditor engaged to audit the consolidated financial statements) were charged by KPMG in the 2006 financial year for other services. These services consisted of transaction and accounting advisory services, IT system audits, the review of internal controls over financial reporting for the 2005 financial year and services related to the transition to IFRS.

Management Board and Supervisory Board

The Executive Committee of the Supervisory Board is responsible for determining the compensation of members of our Management Board. Such compensation reflects our company's size and global orientation, its financial position, and the level and structure of management compensation at comparable companies in and outside Germany. In addition, the compensation reflects each member's responsibilities and contributions. In particular, this compensation consists of the following principal components:

> An annual base salary, which is paid out partly in 12 monthly installments and partly at the beginning of the following financial year, net of statutory deductions.
> An annual variable bonus, which is based on several success related measures. In the 2006 financial year, this was linked to the "return on capital employed", which we define as earnings after taxes, adjusted for non-ordinary items, divided by capital employed. By this means we seek to assure that bonuses are only payable in the event of positive business progress. The bonus is paid out after the financial year end. In addition to this bonus, the employment agreements of the members of the Management Board provide for the award of extraordinary bonuses for special services rendered. Wolfgang Ziebart and Kin Wah Loh each received an extraordinary bonus of €100,000 in the 2006 financial year for special services rendered in the 2005 financial year.
> Stock options, which were granted under the terms of our 2001 plan (prior to the adoption of our new 2006 plan by our shareholders in February 2006), and which serve as a form of long-term incentive compensation with a risk component. Half of the options granted vest after two years, 25% after three years and 25% after four years. The options are exercisable until December 12, 2012 at an exercise price of €8.20 per share. The fair value of the options on the date of grant was €3.19 per share, based on the Black-Scholes valuation model.

The following table outlines the gross cash compensation of the members of our Management Board for the 2006 financial year:

	Base Compensation in €			Incentive Compensation	
	Base Salary				
Member	Amount paid in monthly installments	Amount paid after fiscal year end	Additional Compen sation[1]	Bonus[2]	Total compen-sation
Dr. Wolfgang Ziebart	800,000	800,000	35,563	100,000	**1,735,563**
Peter Bauer	360,000	540,000	16,438	–	**916,438**
Prof. Dr. Hermann Eul	350,000	58,333[3]	9,058	–	**417,391**
Peter J. Fischl	400,000	600,000	30,379	–	**1,030,379**
Kin Wah Loh	243,750[4]	450,000[5]	111,769[6]	100,000	**905,519**
Total	2,153,750	2,448,333	203,207	200,000	**5,005,290**

1 Generally consists of perquisites, including the provision of company cars and payment of insurance premiums.
2 During the 2005 financial year, our company established a provision for variable bonuses of the Management Board of €0.5 million, of which €0.3 million was released and €0.2 million was paid during the 2006 financial year. During the 2006 financial year, our company established a provision for variable bonuses of the Management Board of €0.8 million.
3 This amount includes the one time payment paid-out in the 2006 financial year for the 2005 financial year.
4 This amount includes prorated monthly installments until 15 April, 2006, the day on which Mr. Loh resigned from the Management Board.
5 This amount includes the one time payment paid-out in the 2006 financial year for the 2005 financial year and the prorated one time payment for the 2006 financial year.
6 One time payment to Mr. Loh in compensation for higher personal income tax rates caused by the length of his stay in Germany as compared to tax rates in Singapore where Mr. Loh is resident.

The following option grants were made to members of the Management Board during the 2006 financial year:

Member	Number of Shares subject to options
Dr. Wolfgang Ziebart	160,000
Peter Bauer	80,000
Prof. Dr. Hermann Eul	80,000
Peter J. Fischl	80,000
Kin Wah Loh	80,000
Total	480,000

A total of €100,000 was paid to former members of the Management Board during the 2006 financial year. As of September 30, 2006, accrued pension liabilities for former members of the Management Board amounted to €16.0 million.

Supervisory Board

The compensation of the Supervisory Board is set out at Article 11 of our Articles of Association (Satzung), and consists of a base retainer of €25,000 per year (with the chairman receiving 200% of this amount and the deputy chairmen and each member of certain committees (excluding those required by law) receiving 150% of this amount). The aggregate cash compensation of the members of our Supervisory Board for the 2006 financial year was €0.6 million. The individual cash compensation of each member of the Supervisory Board is provided in the table of Supervisory Board members, below. In addition, the members of the Supervisory Board received a variable component consisting of the grant of 1,500 share appreciation rights per year, which are granted and may be exercised for cash under the same conditions as options granted under our then current long-term incentive plan. These share appreciation rights may only be settled in cash, not through the issuance of shares. Half of the rights vest after two years, 25% after three years and 25% after four years. The fair value of the rights on the date of grant was €3.19 per share, based on the Black-Scholes valuation model.

The members of our Management Board and Supervisory Board, as of September 30, 2006 are as follows:

MANAGEMENT BOARD

Name	Age	Term expires	Position on the Management Board and other positions during the year ended September 30, 2006
Dr. Wolfgang Ziebart	56	August 31, 2009	Chairman, President and Chief Executive Officer Member of the Board of Directors of > Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China > Infineon Technologies Asia Pacific Pte, Ltd., Singapore > Infineon Technologies Japan K.K., Tokyo, Japan > Infineon Technologies North America Corp., Wilmington, Delaware, USA
Peter Bauer	46	September 30, 2008	Executive Vice President Member of the Supervisory Board of > Siemens VDO Automotive AG, Munich (until March 15, 2006) > Infineon Technologies Austria AG, Villach, Austria Deputy Chairman of the Board of Directors of > Infineon Technologies Japan K.K., Tokyo, Japan (until May 18, 2006) Member of the Board of Directors of > Infineon Technologies Asia Pacific Pte., Ltd., Singapore (until May 8, 2006) > Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until May 8, 2006) > Infineon Technologies North America Corp., Wilmington, Delaware, USA (until March 31, 2006) > Infineon Technologies Savan Ltd., Netanya, Israel (until February 15, 2006)
Prof. Dr. Hermann Eul	47	July 31, 2008	Executive Vice President Member of the Supervisory Board of > 7Layers AG, Ratingen Member of the Board of Directors of > Infineon Technologies Asia Pacific Pte., Ltd., Singapore (until May 8, 2006) > Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until May 8, 2006)

MANAGEMENT BOARD

Name	Age	Term expires	Position on the Management Board and other positions during the year ended September 30, 2006
Peter J. Fischl	60	May 31, 2008	Executive Vice President and Chief Financial Officer Chairman of the Supervisory Board of > Qimonda AG, Munich > Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors of > Infineon Technologies Asia Pacific Pte., Ltd., Singapore > Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China > Infineon Technologies North America Corp., Wilmington, Delaware, USA > Infineon Technologies Japan K.K., Tokyo, Japan
Resigned Members of the Management Board:			
Kin Wah Loh	51		Executive Vice President until April 15, 2006 (resigned April 15, 2006) Chairman of the Management Board of Qimonda AG (since April 15, 2006) Member of the Board of Directors of > Infineon Technologies Asia Pacific Pte, Ltd. Singapore (until May 8, 2006) > Infineon Technologies China Co, Ltd., Shanghai, People's Republic of China (until May 8, 2006) > Infineon Technologies Japan K.K., Tokyo, Japan Director of > Accton Technologies Corp., Hsinchu, Taiwan, Republic of China (until June 8, 2006)

SUPERVISORY BOARD

Name	Age	Term expires	Compensation[2]	External positions during the year ended September 30, 2006
Max Dietrich Kley	66	2010	€59,500	Chairman Member of the Supervisory Board > BASF AG, Ludwigshafen Chairman of the Supervisory Board > SGL Carbon AG, Wiesbaden Member of the Supervisory Board > Schott AG, Mainz > HeidelbergCement AG, Heidelberg > Bayerische Hypo- und Vereinsbank AG, Munich (until November 28, 2005) Member of the Board of Directors > UniCredit S.p.A., Milan, Italy (since January 11, 2006)
Klaus Luschtinetz[1]	63	2007	€44,625	Deputy Chairman Chairman of the Infineon central Works Council (until June 30, 2006)
Wigand Cramer[1] (since April 20, 2006)	53	2009	€12,396	Labor union clerk of IG Metall, Berlin
Alfred Eibl[1]	57	2009	€35,948	Member of the Infineon Works Council, Munich
Prof. Johannes Feldmayer	50	2009	€29,750	Member of the Corporate Executive Committee > Siemens AG, Munich Chairman of the Board of Administration > Siemens A.E., Athens, Greece Chairman of the Supervisory Board > Siemens Rt. Budapest, Hungary > Siemens Sp. zo.o., Warsaw, Poland (since October 1, 2005) Chairman of shareholders' representatives > Siemens s.r.o., Prague, Czech Republic Deputy Chairman of the Board of Administration > Siemens S.A., Madrid, Spain > Siemens S.p.A., Milan, Italy > Siemens Schweiz AG, Zurich, Switzerland Member of the Board of Administration > Siemens France S.A., Saint-Denis, France > Siemens A.S., Istanbul, Turkey > Siemens A.S., Copenhagen, Denmark Member of the Supervisory Board > Siemens Holdings plc, Bracknell, Great Britain > Siemens AB, Stockholm, Sweden > Siemens AG, Vienna, Austria > Exxon Mobil Central Europe Holding GmbH, Hamburg

SUPERVISORY BOARD

Name	Age	Term expires	Compen-sation[2]	External positions during the year ended September 30, 2006
Jakob Hauser[1]	54	2009	€35,948	Chairman of the Works Council Qimonda AG
Dr. Stefan Jentzsch	45	2009	€29,750	Member of the Management Board > Bayerische Hypo- und Vereinsbank AG, Munich (until November 18, 2005) > Dresdner Bank AG, Frankfurt (since November 24, 2005) Member of the Supervisory Board > Premiere AG, Munich
Prof. Dr. Renate Köcher	54	2009	€29,750	Managing Director > Institut für Demoskopie Allensbach Member of the Supervisory Board > Allianz AG, Munich > BASF AG, Ludwigshafen > MAN AG, Munich
Dr. Siegfried Luther (since February 16, 2006)	62	2010	€29,750	Managing Director > Reinhard Mohn Verwaltungs GmbH, Guetersloh Member of the Supervisory Board > Druck- und Verlagshaus Gruner & Jahr AG, Hamburg > WestLB AG, Duesseldorf/Muenster Chairman of the Board > RTL Group S.A., Luxembourg
Michael Ruth[1]	46	2009	€29,750	Corporate Vice President Planning and Controlling > Infineon Technologies AG Representative of Senior Management
Gerd Schmidt[1]	52	2009	€29,750	Chairman of the Infineon Works Council (since June 30, 2006) Chairman of the Infineon Works Council, Regensburg
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	53	2009	€35,948	Professor at the Technical University Munich
Kerstin Schulzendorf[1]	44	2009	€29,750	Member of the Infineon Works Council, Dresden
Alexander Trüby[1]	36	2009	€35,948	Member of the Infineon Works Council, Dresden

SUPERVISORY BOARD

Name	Age	Term expires	Compensation[2]	External positions during the year ended September 30, 2006
Prof. Dr. rer. nat. Martin Winterkorn	59	2009	€44,625	Chairman of the Management Board > Audi AG, Ingolstadt Member of the Management Board > Volkswagen AG, Wolfsburg Member of the Supervisory Boards > Salzgitter AG, Salzgitter > FC Bayern München AG, Munich > TÜV Süddeutschland Holding AG, Munich Member of the Board of Administration > SEAT S.A., Barcelona, Spain > Automobili Lamborghini Holding S.p.A., Sant'Agata Bolognese, Bologna, Italy
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	62	2009	€35,948	Member of the Corporate Executive Committee > Siemens AG, Munich Member of the Supervisory Board > Deutsche Messe AG, Hanover > BSH Bosch und Siemens Hausgeräte GmbH, Munich Chairman of the Board of Administration > Siemens Ltd., Beijing, People's Republic of China > Siemens K.K., Tokyo, Japan > Siemens S.A., Lisbon, Portugal > Siemens Ltd., Mumbai, India

SUPERVISORY BOARD

Name	Age	Term expires	Compen-sation[2]	External positions during the year ended September 30, 2006
Resigned members of the Supervisory Board				
Dr. Joachim Faber (resigned February 16, 2006)			€18,594	Member of the Management Board > Allianz AG, Munich Chairman of Supervisory Board > Allianz Dresdner Global Investor Deutschland GmbH, Munich > DIT Deutscher Investment Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt Member of Supervisory Board > Bayerische Börse AG, Munich > AGF Assecurances Generales de France, Paris, France > ART Allianz Risk Transfer, Zurich, Switzerland > RAS Riunione Adriatica Sicurta S.p.A., Milan, Italy
Diplom-Physiker Dieter Scheitor[1] (resigned February 28, 2006)			€12,396	Head of the Electrical and Electronics Group of IG Metall, Frankfurt

1 Employee representative 2 Includes VAT

THE SUPERVISORY BOARD MAINTAINS THE FOLLOWING PRINCIPAL COMMITTEES

Executive Committee

Max Dietrich Kley
Klaus Luschtinetz
Prof. Dr. rer. nat. Martin Winterkorn

Investment, Finance and Audit Committee

Max Dietrich Kley
Dr. Joachim Faber (resigned February 16, 2006)
Dr. Siegfried Luther (since February 16, 2006)
Klaus Luschtinetz

Mediation Committee

Max Dietrich Kley
Klaus Luschtinetz
Alexander Trüby
Prof. Dr. rer. nat. Martin Winterkorn (since November 17, 2005)

Strategy and Technology Committee

Alfred Eibl
Jakob Hauser
Alexander Trüby
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel
Prof. Dr. rer. nat. Martin Winterkorn
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

Significant Subsidiaries and Associated Companies

Name and location of company	Share in Capital
Infineon Group	
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100 %
Infineon Technologies Austria AG, Villach, Austria	100 %
Infineon Technologies China Co. Ltd., Shanghai, People's Republic of China	100 %
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany	100 %
Infineon Technologies Finance GmbH, Munich, Germany	100 %
Infineon Technologies France S.A.S., Saint Denis, France	100 %
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	100 %
Infineon Technologies Holding North America Inc., Wilmington, Delaware, USA	100 %
Infineon Technologies Investment B.V., Rotterdam, The Netherlands	100 %
Infineon Technologies Japan K.K., Tokyo, Japan	100 %
Infineon Technologies North America Corp., Wilmington, Delaware, USA	100 %
Infineon Technologies SensoNor AS, Horten, Norway	100 %
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia	100 %
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100 %
ALTIS Semiconductor S.N.C., Essones, France	50 %
Qimonda Group[1]	
Qimonda AG, Munich, Germany	86 %
Qimonda (Melaka) Sdn. Bhd., Malacca, Malaysia	86 %
Qimonda Asia Pacific Pte. Ltd., Singapore	86 %
Qimonda Dresden GmbH & Co. OHG, Dresden, Germany	86 %
Qimonda Flash GmbH, Dresden, Germany	86 %
Qimonda Holding B.V., Rotterdam, The Netherlands	86 %
Qimonda North America Corp., Wilmington, Delaware, USA	86 %
Qimonda Portugal S.A., Vila do Conde, Portugal	86 %
Qimonda Richmond, LLC, Wilmington, Delaware, USA	86 %
Qimonda Technologies (Suzhou) Co., Ltd., Suzhou, People's Republic of China	39 %
Inotera Memories Inc., Taoyan, Taiwan	31 %

1 Ownership percentages are net of Qimonda's minority interest.

Consolidated Financial Data 2002–2006

CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG € IN MILLIONS[1]

As of and for the financial year ended September 30	2002	2003	2004	2005	2006
Summary consolidated statements of operations data					
Net sales	4,890	6,152	7,195	6,759	**7,929**
By region:					
Germany	1,266	1,535	1,675	1,354	**1,327**
Other Europe	943	1,112	1,263	1,210	**1,360**
North America	1,158	1,393	1,524	1,504	**2,126**
Asia-Pacific	1,287	1,821	2,263	2,223	**2,498**
Japan	159	256	364	332	**461**
Others	77	35	106	136	**157**
By Segment[2]:					
Automotive, Industrial & Multimarket	1,945	2,186	2,540	2,516	**2,839**
Communication Solutions	1,019	1,428	1,689	1,391	**1,205**
Other Operating Segments	30	28	16	285	**310**
Corporate and Eliminations	(75)	(34)	(58)	(258)	**(240)**
Subtotal	2,919	3,608	4,187	3,934	**4,114**
Qimonda	1,971	2,544	3,008	2,825	**3,815**
Cost of goods sold	4,289	4,614	4,670	4,909	**5,854**
Gross profit	601	1,538	2,525	1,850	**2,075**
Research and development expenses	1,060	1,089	1,219	1,293	**1,249**
Selling, general and administrative expenses	643	679	718	655	**751**
Restructuring charges	16	29	17	78	**23**
Other operating expense (income), net	(46)	85	257	92	**108**
Operating (loss) income	(1,072)	(344)	314	(268)	**(56)**
Interest expense, net	(25)	(52)	(41)	(9)	**(92)**
Equity in earnings (losses) of associated companies, net	(47)	18	(14)	57	**78**
Gain (loss) on subsidiaries and associated company share issuance, net	18	(2)	2	–	**19**
Other non-operating (expense) income, net	(41)	21	(64)	26	**(33)**
Minority interests	7	8	18	2	**(23)**
Income (loss) before income taxes	(1,160)	(351)	215	(192)	**(107)**
Income tax benefit (expense)	143	(84)	(154)	(120)	**(161)**
Net income (loss) from continuing operations	(1,017)	(435)	61	(312)	**(268)**
Income (loss) from discontinued operation	(4)	–	–	–	**–**
Net income (loss)	(1,021)	(435)	61	(312)	**(268)**
Basic and diluted income (loss) per share (in euro)	(1,47)	(0,60)	0,08	(0,42)	**(0,36)**
EBIT	(1,135)	(299)	256	(183)	**(15)**
By Segment[2]:					
Automotive, Industrial & Multimarket	169	148	252	134	**246**
Communication Solutions	(353)	(213)	(44)	(295)	**(231)**
Other Operating Segments	(56)	(50)	(75)	4	**4**
Corporate and Eliminations	(229)	(199)	(39)	(137)	**(236)**
Subtotal	(469)	(314)	94	(294)	**(217)**
Qimonda	(666)	15	162	111	**202**

1 Colums may not add due to rounding.
2 The Company's new organizational structure became effective on May 1, 2006, following the legal separation of its memory products business into a stand-alone legal company called Qimonda AG. The results of prior periods have been reclassified to conform to the current period presentation, as well as to facilitate analysis of current and future operating segment information.
3 Cash and cash equivalents plus marketable securities minus short and long-term debt.

CONTINUATION CONSOLIDATED FINANCIAL DATA INFINEON TECHNOLOGIES AG € IN MILLIONS[1]

As of and for the financial year ended September 30	2002	2003	2004	2005	2006
Summary consolidated balance sheet data					
Cash and cash equivalents	1,199	969	608	1,148	**2,040**
Marketable securities	738	1,784	1,938	858	**615**
Trade accounts receivable, net	758	876	1,056	952	**1,245**
Inventories	891	959	960	1,022	**1,202**
Deferred income taxes	82	113	140	125	**97**
Other current assets	523	675	590	469	**482**
Total current assets	4,191	5,376	5,292	4,574	**5,681**
Property, plant and equipment, net	4,491	3,817	3,587	3,751	**3,764**
Long-term investments	708	425	708	779	**659**
Restricted cash	70	67	109	88	**78**
Total assets	10,918	10,875	10,864	10,284	**11,185**
Short-term debt and current maturities	120	149	571	99	**797**
Long-term debt, excluding current portion	1,710	2,343	1,427	1,566	**1,208**
Shareholders' equity	6,158	5,666	5,978	5,629	**5,315**
Summary consolidated statements of cash flows data					
Net cash provided by operating activities	226	731	1,857	1,039	**974**
Net cash used in investing activities	(1,244)	(1,522)	(1,809)	(238)	**(824)**
Depreciation and amortization	1,370	1,437	1,320	1,316	**1,405**
Purchases of property, plant and equipment	(643)	(872)	(1,163)	(1,368)	**(1,253)**
The IFX Share (as of September 30)					
Dividend per share (euro)	0	0	0	0	**0**
Closing price Xetra Trading System (euro)	5.61	11.22	8.22	8.18	**9.35**
Closing price New York Stock Exchange (NYSE) (US Dollar)	5.70	12.89	10.22	9.92	**11.83**
Shares outstanding (million)	720.8	720.9	747.6	747.6	**747.6**
Market capitalization (euro bn)	4,044	8,088	6,145	6,115	**6,990**
Market capitalization (US Dollar bn)	4,109	9,292	7,640	7,416	**8,844**
Key Figures					
Equity-assets ratio	56 %	52 %	55 %	55 %	**48 %**
Debt-equity ratio	30 %	44 %	33 %	30 %	**38 %**
Net cash position (as of September 30)[3]	107	261	548	341	**650**
Employees (period end)	30,423	32,308	35,570	36,440	**41,651**
By region:					
Germany	15,716	16,166	16,387	16,119	**15,736**
Other Europe	4,590	5,034	5,631	5,482	**7,244**
North America	2,889	2,757	2,982	3,193	**3,295**
Asia-Pacific	7,093	8,116	10,340	11,451	**15,148**
Japan	107	118	133	158	**187**
Others	28	117	97	37	**41**
By function:					
Production	20,822	22,405	24,540	25,114	**29,641**
Research and Development	5,374	5,935	7,160	7,401	**7,745**
Sales and Marketing	2,010	2,048	1,948	2,016	**2,101**
Administrative	2,217	1,920	1,922	1,909	**2,164**