Infineon Technologies --- Annual Report 2006

Technologies for Life

Never stop thinking

INFINEON KEY DATA AS OF AND FOR THE FINANCIAL YEAR, ENDED SEPTEMBER 30[1]

	2005		2006	2006	2006:2005
	€ millions	as % of net sales	€ millions	as % of net sales	change in %
Net sales by region	6,759		**7,929**		17
Germany	1,354	20	**1,327**	17	(2)
Other Europe	1,210	18	**1,360**	17	12
North America	1,504	22	**2,126**	27	41
Asia-Pacific	2,223	33	**2,498**	31	12
Japan	332	5	**461**	6	39
Other	136	2	**157**	2	15
Net sales by segment					
Automotive, Industrial & Multimarket	2,516	37	**2,839**	36	13
Communication Solutions	1,391	21	**1,205**	15	(13)
Other Operating Segments	285	4	**310**	4	9
Corporate and Eliminations	(258)	(4)	**(240)**	(3)	7
Infineon without Qimonda	3,934	58	**4,114**	52	5
Qimonda	2,825	42	**3,815**	48	35
Gross margin	1,850	27	**2,075**	26	12
Research and development expenses	1,293	19	**1,249**	16	(3)
Operating income (loss)	(268)		**(56)**		79
Net income (loss)	(312)		**(268)**		14
EBIT EBIT margin	(183)	(3)	**(15)**	–	92
Property, plant and equipment, net	3,751		**3,764**		–
Total assets	10,284		**11,185**		9
Total shareholders' equity	5,629		**5,315**		(6)
Net cash provided by operating activities	1,039		**974**		(6)
Net cash used in investing activities	(238)		**(824)**		– – –
Net cash provided by (used in) financing activities	(261)		**742**		+ + +
Free cash flow[2]	(281)		**(88)**		69
Depreciation and amortization	1,316		**1,405**		7
Impairment charges	134		**57**		(57)
Purchases of property, plant and equipment	1,368		**1,253**		(8)
Gross cash position[3]	2,006		**2,655**		32
Net cash position[4]	341		**650**		91
Earnings (loss) per share – basic and diluted in €	(0,42)		**(0,36)**		14
Dividend per share in €	–		**–**		–
Equity ratio	55 %		**48 %**		(13)
Return on equity[5]	(5 %)		**(5 %)**		–
Return on assets[6]	(3 %)		**(2 %)**		33
Equity-to-fixed-assets ratio[7]	150 %		**141 %**		(6)
Debt-to-equity ratio[8]	30 %		**38 %**		27
Debt-to-total-capital ratio[9]	16 %		**12 %**		(25)
Employees	36,440		**41,651**		14

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

Infineon at a Glance

Infineon Technologies AG, Munich, Germany, offers semiconductor and system solutions for Automotive, Industrial & Multimarket sectors, for applications in communications, as well as memory products through its subsidiary Qimonda. With a global presence, Infineon operates through its subsidiaries in the USA from San Jose, California, in the Asia-Pacific region from Singapore and in Japan from Tokyo. In the 2006 financial year (ending September 30), the company achieved sales of €7.93 billion with about 41,600 employees worldwide. Infineon is listed on the Dax index of the Frankfurt Stock Exchange and on the New York Stock Exchange (ticker symbol: IFX).

SEGMENTS	APPLICATIONS
Automotive, Industrial & Multimarket (AIM)	
Automotive: Engine management, security, safety, body & convenience	**Automotive:** Power train (engine and transmission control), body & convenience, safety (airbag, ABS, EPS), infotainment
Industrial & Multimarket: Chips to control electric drives and industrial facilities, energy transmission and conversion. Broad use in application areas such as household appliances, entertainment electronics, computers and communications equipment	**Industrial & Multimarket:** Powerpacks and power supply units for servers, PCs, notebooks, television sets, DVD players, game consoles; industrial facilities, industrial automation, medical technology, trains and building services; generation of renewable energy, e.g. wind generator; electric motor drives for washing machines, ventilators, air conditioners
Security & ASICs: Security chips with contact-based or contactless interface, with and without crypto coprocessor; customized components for computer peripherals	**Security & ASICs:** Chip-based cards in the fields of communications (SIM cards, telephone cards), payment systems, identification (ID cards, insurance cards), object identification and logistics (RFID tags); platform security for computers and networks (TPM), Hard Disk Drives (HDD), game consoles, hearing aids, computer peripherals
Communication Solutions (COM)	
Wireless communications: Mobile phone platforms Radio-frequency solutions	**Wireless communications:** Mobile communications, cellular base stations Cordless telephones Radio-frequency technology for short, medium and long-range distances Television receivers Navigation
Wireline communications: Access technologies for broadband	**Wireline communications:** Voice communications Broadband data communications Integrated voice and data communications Mobile phone infrastructure Home networks
Qimonda (Memory Products)	
Standard DRAMs: For PC and notebook applications	**Data processing:** PCs, notebooks, workstations, servers
Specialized DRAMs: For applications in the fields of infrastructure, graphics, communications and consumer electronics, optimized for high data rates and low power consumption	**Graphic applications:** Graphic boards, game consoles
Other memories: Embedded memories, for example	**Mobile applications:** PDAs, smart phones, digital cameras, MP3 players
	Consumer electronics: Flat panel TVs, set-top boxes

1 Sources: AIM: IMS, Sept. 2006; Strategy Analytics, June 2006; COM: Gartner Dataquest, 2006; Infineon Technologies; (unless indicated otherwise, all the market data relate to the 2005 calendar year)
2 Alphabetically.

PRODUCTS	MARKET POSITION[1]	KEY CUSTOMERS[2]	COMPETITORS[2]
Automotive: Microcontrollers (8-bit, 16-bit, 32-bit), discrete/highly integrated power semiconductors (MOSFETs, IGBTs, PROFETs), sensors (tire pressure, temperature, inertia, magnetic field sensors), components for bus systems (CAN, LIN, MOST, Flexray) **Industrial & Multimarket:** Microcontrollers (8-bit, 16-bit, 32-bit), power semiconductor ICs, discrete power semiconductors, IGBT and bipolar modules, discrete small-signal semiconductors, thyristors and diodes, sensors, radio-frequency semiconductors **Security & ASICs:** Contact-based and contactless security controllers (8-bit, 16-bit, 32-bit), security memories, RFID chips, Trusted Platform Modules (TPM), HDD controllers, memory controllers, customized chips with security functions	**Automotive:** **No. 2** in automotive semiconductors (**No. 1** in Europe) **Leader** in tire pressure monitoring systems **Industrial & Multimarket:** **No. 1** in power semiconductors **No. 4** for all industrial applications **Security & ASICs:** **No. 1** in chip card ICs	**A**rrow, Asustek, Autoliv, Avnet **B**osch **C**ontinental **D**elphi, Delta, Denso **E**merson **G**emalto, Giesecke & Devrient **H**ella, Hitachi **K**ostal **L**ear **M**icrosoft **O**berthur Card Systems **S**AC, Siemens **T**RW **V**aleo, Visteon	**A**tmel **F**airchild, Freescale **I**nternational Rectifier **M**itsubishi **N**ational Semiconductor, NXP **O**N Semiconductor **R**enesas **S**amsung, STMicroelectronics **T**exas Instruments, Toshiba
Wireless communications: Baseband processors and radio-frequency transceivers for prevalent wireless communication standards (GSM, GPRS, E-GPRS, EDGE, W-CDMA, HSDPA, DECT, WDCT, Bluetooth) One-chip solutions or modules, in which baseband processors and radio-frequency transceivers are combined into a single component System solutions for mobile phones including platform design, operating software, applications; Services for system integration and customized adaptations; Analog and digital TV tuners for stationary and mobile TV receivers; Power transistors for cellular base station amplifiers for 2G through 3G, CDMA/2000 cellular standards; GPS receivers BAW filters **Wireline communications:** Interface components for voice communications in switching centers and terminal units (e.g. CODECs, SLICs, ISDN, T/E); Solutions for integrated voice and data communications; Solutions for VoIP; System solutions for wireline broadband technologies (ADSL, ADSL2, ADSL2+, VDSL, VDSL2) System solutions for DSL modems, routers, home gateways, WLAN access points	**Wireless communications:** **No. 1** in radio-frequency chips **No. 3** in power transistors for cellular base stations **No. 4** in baseband for mobile phones (in the addressed market: digital baseband for GSM/GRPS, EDGE, UMTS) **No. 4** in DECT/WDCT **Wireline communications:** **No. 1** in the addressed market in access networks (DSL, T/E carriers, analog line cards, etc.)	**A**lcatel, Avnet **B**enQ **E**ricsson **H**uawei **L**G Electronics **M**atsushita, Motorola **N**okia **S**amsung, Siemens **Z**TE	**A**gere **B**roadcom **C**onexant **E**ricsson Mobile Platforms **F**reescale **N**XP **Q**ualcomm **R**enesas **S**TMicroelectronics **T**exas Instruments
Standard DRAMs with memory densities from 64 Mbit to 1 Gbit Memory modules for PCs, notebooks, sub-notebooks, workstations and servers with memory densities from 64 MByte to 8 GByte Specialty memories for graphics applications (Graphics RAM) Specialty memories for mobile systems (Mobile-RAM, Cellular RAM)	**No. 2** in DRAMs (first nine months 2006) **Technological leader** in 300-millimeter wafer production **Top position** in highly complex memory modules for workstations and servers **Top position** in high-performance graphics memories **Top position** in power-saving specialty memories	**A**sustek, ATI **C**isco **D**ell **E**MC **F**ujitsu-Siemens **H**P, HTC **I**BM, Intel **K**ingston **L**enovo, LG Electronics **M**icrosoft, Motorola **N**EC, Nintendo, Nvidia **S**ony, Sun Microsystems	**E**lpida **H**ynix **M**icron **N**anya **S**amsung

> Our Company, from page 3

> Reaching Your Destination Safely while Preserving the Environment
We demand much of mobility. We wish to reach our destinations rapidly, safely, comfortably – and in an environmentally friendly manner. Semiconductors bring us a great deal closer to this goal.

> At Home Anywhere in the World
Ultra-modern communication technologies bridge the widest geographical gaps. Fast, stable connections link us together – wherever we are.

> Exhilarating – Like Life Itself
Memory components are integrated in increasing numbers of end-consumer devices. Above all, game consoles and consumer electronics make our daily lives colorful.

> As progress in mechanics decreases, electronics is creating a new world of optimization potential. The interplay of sensors, microcontrollers and power electronics in combustion and electrical engines ensures that these can be controlled precisely, and thus, with significantly more efficiency.

---for more information, please see page 22

> The sheer volume of data transmitted throughout the world – as images, films, Internet pages or business files – is increasing unimaginably. We all wish to send and receive such material as fast as possible. Our chips for DSL transmission technology are designed specifically for such bandwidth demand. We also expect similar developments for 3G mobile telephones.

---for more information, please see page 28

> During the past twelve months, new generations of game consoles have been introduced. Some of these new models require about 10 times more memory than their predecessors. Comparable growth rates are predicted for the memory requirements of flat screen televisions. Qimonda is profiting from these developments with its graphics memories and energy-saving standard memories.

---for more information, please see page 34

Our Company

Letter to the Shareholders

> **Dr. Wolfgang Ziebart**
President and CEO of Infineon Technologies AG

Dear ladies and gentlemen,

Last year we made substantial progress in realigning our company and setting the course to profitable growth, to which a number of facts bear witness. We completed the transition of our Memory Products segment into a legally independent entity as of May 1, 2006; it was listed on the New York Stock Exchange on August 9, 2006. We distinctly improved the consolidated earnings before interest and taxes to negative €15 million from negative €183 million (without charges: positive €181 million from negative €79 million). In the reporting period, our share performed significantly better than the trend registered in the industry, achieving a distinct price increase of 14 percent. The price trend was clearly above that of the SOX Semiconductor Index (negative 4 percent) and Dow Jones US Semiconductor Index (negative 4 percent). In the coming year we will continue to rigorously pursue the path to profitable growth, primarily focusing on processors for mobile phones within the wireless business. We are confident that we will successfully accomplish this task in the current financial year. I would like to go into further detail below on what we have achieved over the last year and what we intend to do in the future to reach our goal of profitable growth.

A significant step in realigning our Group was the carve-out of the Memory Products business to form the independent company Qimonda. This profound step for the company was completed on May 1, 2006, having been performed smoothly two months ahead of schedule. It was immediately followed by preparation and execution of the IPO (Initial Public Offering). Qimonda shares were listed on the New York Stock Exchange for the first time on August 9, 2006. We expect the carve-out and listing of Qimonda to yield a number of strategic advantages. Qimonda and our remaining businesses will benefit from both

companies now being able to make decisions faster and with a view solely to the necessities posed by their own operations. In addition, investors are now offered more differentiation in investing in Qimonda on the one hand and in the remaining Infineon segments on the other. A further aspect for Qimonda is that separate capital market access is not only a competitive factor, but also opens up wider strategic options. We see the share price increase of 45 percent between initial listing and the end of November 2006 as an extremely positive sign. Qimonda's results also make us confident. Qimonda earnings before interest and taxes improved in the course of the 2006 financial year from negative €123 million in the 2005 December quarter to positive €215 million in the 2006 September quarter. In the 2006 September quarter, Qimonda upheld its position as second-largest DRAM supplier in the global market having first reached that position in the 2006 March quarter. By introducing the 75-nanometer technology in the third calendar quarter of 2006, Qimonda has closed the ranks to the technology leader and manifested the company's technological capabilities. In the long term, we continue to aim at holding a minority interest in Qimonda. One use for the proceeds resulting from the reduction of our interest in Qimonda will be a selective strengthening of the remaining Infineon businesses. Furthermore, we will also consider buying back shares and intend to obtain the authorization to do so at our Shareholders' General Meeting.

We made good progress also in our core business excluding Qimonda in the last financial year. Over half of our activities in this segment presently generate considerable growth, with clearly positive earnings before interest and taxes. Besides solid profits before interest and taxes we have continuously gained market share in all these businesses. Today, we are the global market leader for power semiconductors, radio-frequency ICs for mobile phones and wireline access chips. In the area of semiconductors for automotive applications we are the market leader in Europe and number two worldwide. Substantial parts of Infineon's businesses today have already achieved our goal of profitable growth.

A small number of areas still need our special attention, however. In the course of our strategic realignment we decided to continue some of these activities. We believe that we can generate more value through a turnaround of those activities than by closure or sale. Here again, we have a number of positive developments to report. Compared to the previous year's figures, we have distinctly reduced our losses in the chip card ICs sector and achieved a positive result before interest and taxes in the last quarter of the past financial year – one quarter earlier than planned. We are committed to stabilizing this trend in the current year and establishing the basis for improved profitability by introducing a bundle of newly developed products. In the wireline communications sector we returned to the profit zone already at the end of the 2005 financial year and posted a profit before interest and taxes, accompanied by an increase in market share. We again expect to see a positive contribution for the current financial year. The figures for discrete semiconductors, tuners or radio-frequency power semiconductors have also moved out of negative into positive earnings territory before interest and taxes.

In the last financial year we were also highly successful in gaining new customers for processors used in mobile phones. In mid-2006 we secured LG Electronics of Korea as a new customer for our EDGE system solutions. With Panasonic of Japan, we won a leading customer for our 3G solutions. We also received orders and commitments from further significant customers for joint developments in our ultra-low-cost, EDGE and 3G products. The insolvency and loss of our former main customer, BenQ Mobile's German subsidiary, has therefore struck us especially hard. Despite the remarkable success with new customers, we have still not yet achieved the diversification in our customer base necessary to compensate for this loss without putting any countermeasures in place. We have therefore streamlined our internal structures further and reduced the fixed costs. In this way we cut development expenditures without jeopardizing the sales potential created in the last year. This potential flows from a number of contracts already awarded and from further projects with renowned customers. These projects are at an advanced stage and we are confident that they will lead to firm orders. Together with the orders already in hand, the earnings position of the wireless communications business should see constant improvement during the 2007 financial year. We anticipate break-even earnings before interest and taxes in the wireless communications business by the end of the 2007 calendar year.

Beyond individual measures taken in specific areas, we have launched a company-wide program to simplify workflows and thereby reduce costs: ICoRe, the Infineon Complexity Reduction Program. Within this program we systematically analyze the distribution of tasks and the process structures throughout the company. We will simplify processes and resolve overlap. The planning is expected to be concluded in the 2006 calendar year and ensuing action will be taken within this financial year, resulting in annualized savings of at least €50 million starting in the second half of the 2007 financial year.

We expect further positive effects within the framework of our strategic realignment from our new strategy for manufacturing and development. As far as manufacturing is concerned, we will no longer invest in our own production capacities for 65-nanometer components and below. This means a significant drop in investment volume as compared with in-house manufacturing. In addition, we are pursuing a cooperation scheme in the area of process development for these components. It delivers us leading-edge solutions at significantly lower cost than if developed in-house. In the last financial year, for instance, we announced the availability of development facilities for the 45-nanometer process together with our development partners Chartered Semiconductor, IBM and Samsung. In contrast, we will maintain our own process development and production facilities for power semiconductors, because in this case the production technology used and production quality attained is an important factor setting our products apart from competition and supporting their competitiveness. Our new facility for power semiconductors in Kulim, Malaysia, which started production far earlier than planned in September 2006, illustrates our manufacturing and development strategy for power semiconductors. We expect this facility to make a

positive contribution to earnings from the end of the 2007 financial year. Overall, this approach reduces capital expenditure while maintaining the competitiveness of our production environment. It thus creates the potential for improved cash flows in the company.

In the last financial year we gained good ground with our realignment. We are satisfied with the progress made, but not with the level reached. I can assure you, our shareholders, that together with my colleagues in the Management Board I will do my utmost to ensure that 2007 will be a year of further improvements in the Infineon Group.

Finally, I would like to express my thanks and appreciation to our employees, personally and on behalf of the entire Management Board, for the excellent work they have done in the last financial year. In a time in which the company has faced serious changes and exceptionally complex issues, we have been able to build on our employees' competence, commitment and dedication, and by doing so, to achieve remarkable success. This experience reinforces my optimism for the future.

Neubiberg, December 2006

Yours sincerely

Dr. Wolfgang Ziebart
President and CEO

The Management Board of Infineon Technologies AG

> **Peter J. Fischl**

Chief Financial Officer (CFO) and Labor Director
BA equivalent degree in business and finance;
member of the Management Board since April 1999

> **Prof. Dr. Hermann Eul**

Head of Communication Solutions segment
Doctorate in electrical engineering (Dr.-Ing.), Professor;
member of the Management Board since July 2005

> **Dr. Wolfgang Ziebart**

President and Chief Executive Officer (CEO)
Doctorate in mechanical engineering (Dr.-Ing.);
member of the Management Board since September 2004

> **Peter Bauer**

Head of Automotive, Industrial & Multimarket segment
Electrical engineer (Dipl.-Ing.);
member of the Management Board since April 1999

From left to right

The Infineon Share

> Infineon Share Stronger than the Semiconductor Market.

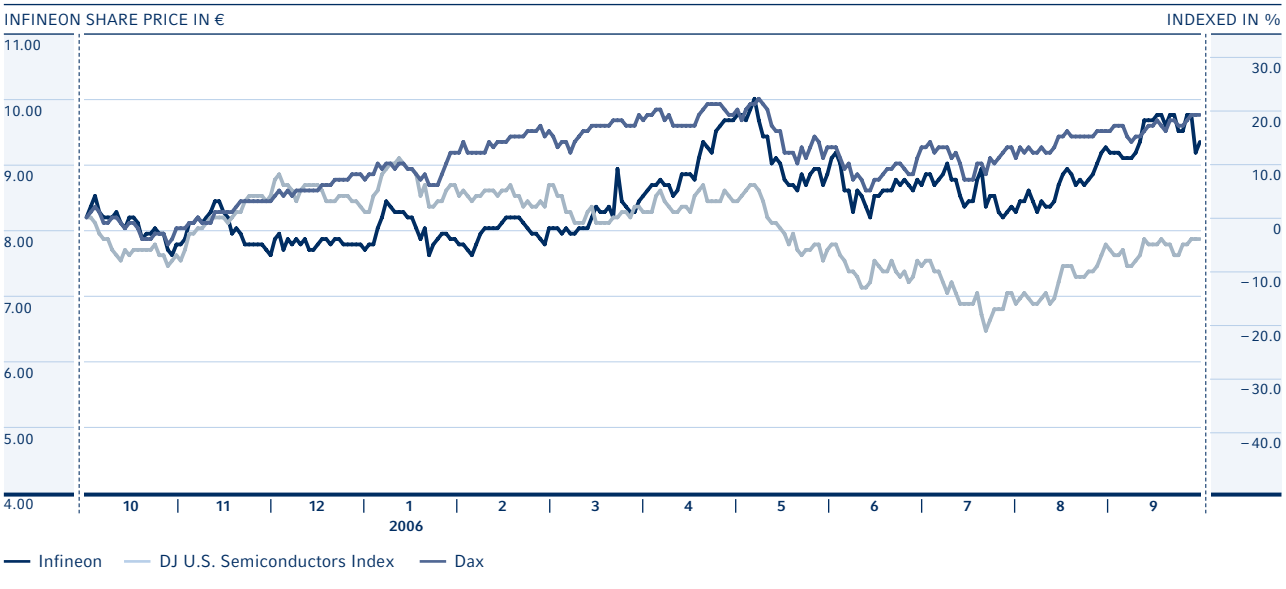
The price of the Infineon share increased by 14 percent during the last financial year. In contrast, the Dow Jones US Semiconductor Index decreased by 5 percent and the Philadelphia Semiconductor Stock Index by 4 percent. The Dow Jones Stoxx 50 European index rose 13 percent and was slightly outperformed. The only stronger performer in the reporting year was the Dax with growth of 19 percent. The main impetus for the Infineon share's price trend was the carve-out and IPO of the Memory Products business under the name Qimonda, which was accompanied by a favorable movement towards stronger prices for DRAM memory chips, a distinctly higher margin in the Automotive, Industrial & Multimarket (AIM) segment and the acquisition of new customers in the Communications Solutions (COM) segment, notably LG and Samsung. Increased takeover activity and consolidation in the semiconductor industry also assisted the price trend of the Infineon share.

The Infineon share started the financial year in a corridor between €7.50 and €8.50 where it remained until February 2006, restrained by factors including a strong decrease in the average selling prices in the Memory Products segment. The Infineon share price recovered when the average selling prices in the Memory Products business took a turn at the beginning of the 2006 calendar year and a double-digit margin before interest and taxes in the AIM segment was reported for the second financial quarter. The acquisition of Samsung as a new major customer for radio-frequency chips in the third financial quarter also had a positive impact. The Infineon share price hit an annual high of €9.95 on May 8, 2006. After peaking, the price stayed at approximately this level assisted by the IPO of Qimonda on August 9, 2006, compounded by the persisting positive trend in memory prices and the acquisition of LG as a customer for baseband processors. News of the insolvency of Infineon's main customer for mobile phone processors, BenQ Mobile's German subsidiary, depressed the share price trend at the end of the financial year, however. It was also the decisive factor for the share price trend being slightly inferior to the Dax. The Infineon share ended the 2006 financial year at €9.35, compared with €8.18 a year earlier.

Following the carve-out of the Memory Products segment, the valuation of Infineon is increasingly focused on the remaining businesses. In order to determine the estimated fair value of the Infineon share, market participants are increasingly adding the market value of Infineon's residual interest in Qimonda to the estimated fair value of these activities. We anticipate that this trend will persist at least as long as the block of Qimonda shares we hold remains significant in size.

The trading volume also reflects the positive share trend, increasing 4 percent in the 2006 financial year over the previous year. On average, 10.1 million Infineon shares a day were traded on Xetra, the Frankfurt trading floor and

RELATIVE PERFORMANCE OF INFINEON SHARES AS COMPARED TO THE DOW JONES U.S. SEMICONDUCTOR AND DAX INDICES SINCE THE BEGINNING OF THE 2006 FINANCIAL YEAR (CLOSING PRICES)



INFINEON SHARE STATISTICS

Financial year (to September 30)	2004	2005	2006
Europe Xetra close in €			
Year high	13.65	9.00	**9.95**
Year low	7.80	6.43	**7.60**
Financial year close	8.22	8.18	**9.35**
Average daily trading volume individual shares	11,743,938	9,666,303	**10,064,022**
of which Xetra trading in %	96	97	**98**
USA NYSE close in U.S.$			
Year high	15.87	11.74	**12.68**
Year low	9.39	8.40	**8.95**
Financial year close	10.22	9.92	**11.83**
Average daily trading volume	896,317	583,101	**818,559**

LONG-TERM PERFORMANCE OF INFINEON SHARES WITH INDICES IN %

Period to September 30, 2006	Since October 2003	Since October 2004	Since October 2005
Europe			
Infineon (Xetra)	(16.67)	13.75	14.30
DJ U.S. Semiconductors Index	n.a.	n.a.	(4.48)
DJ Stoxx 50	62.76	43.02	13.73
Dax	84.36	54.24	19.04
USA			
Infineon (NYSE)	(8.22)	15.75	19.25
Philadelphia Semiconductor Index (SOX)	8.32	18.35	(4.34)

Issue price of €35/$33.92 on March 13, 2000

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

As of September 30	2005	2006	Change
Share capital € in millions	1,495	**1,495**	0 %
Outstanding shares in millions	748	**748**	0 %
Yearly average € in millions	748	**748**	0 %
Market capitalization € in millions	6,115	**6,990**	+14 %
Market capitalization $ in millions	7,416	**8,844**	+19 %

regional stock exchanges in Germany. The trading volume of the Infineon share constituted approximately 1.8 percent of total Dax 30 trading volume during the 2006 financial year, thereby occupying a mid-table position (position 19) among the Dax 30 companies. A point meriting particular mention is the increase in the average daily trading volume at the New York Stock Exchange. Approximately 818,000 American Depositary Shares (ADS) were traded there daily, equivalent to a 40 percent increase over the previous year. This trend is also backed by the increased number of American shareholders.

Since the 2006 financial year, Infineon maintains its worldwide relations with investors and analysts exclusively from Germany and will continue to do this with full commitment in 2007 as well.

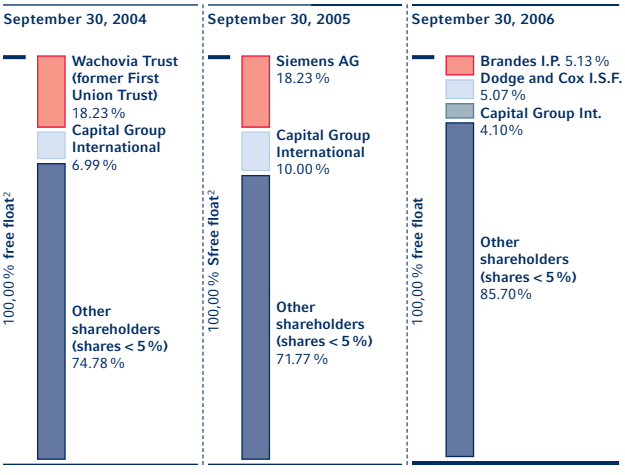
Infineon Pays No Dividend

The Management Board and Supervisory Board will not be able to propose a dividend to the Shareholders' General Meeting, since Infineon Technologies AG, the parent company of the Group, did not achieve an accumulated profit for the year. The accumulated loss for the 2006 financial year came to €2,103 million (previous year: €1,546 million).

Shareholder Structure

There were substantial changes and movements in the shareholder structure in the reporting year. Siemens AG divested its 18.23 percent shareholding in Infineon on March 23, 2006. As of the end of the financial year, the company knows of three investors from the USA holding an approximately 5 percent equity stake in the free float: Brandes Investment Partners with 5.13 percent, Dodge and Cox International Stock Fund with 5.07 percent and Capital Group International with 4.10 percent.

SHAREHOLDER STRUCTURE[1]



1 In accordance with companies' mandatory reporting, as known to Infineon.
2 Free float according to FTSE definition. Deutsche Börse and Stoxx do not include the Wachovia Trust shares in Infineon free float.

Please feel free to direct your questions to the Infineon Investor Relations Team in Munich, Germany.

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A Look Back over the Past Financial Year

> October 2005

The move to the new corporate headquarters at Campeon, Neubiberg, begins. Here, about 6,000 employees from nine different sites in and around Munich will now have their new workplaces. But the site also offers employees a range of amenities including shopping facilities, a children's day-care center, a fitness center and a bank branch office.

Infineon announces its new high-voltage power transistors of the CoolMOS® CP family, which have the lowest on-state resistance in the industry. These transistors are used to provide energy for telecommunications devices, notebooks and consumer applications. They are more efficient and enable compact power packs because they have little heat dissipation and switching loss.

> November 2005

On November 17 – one day before official publication of the annual results and the accompanying press conference – the carve-out of the Memory Products division is announced. The date foreseen for the carve-out is July 2006.

> December 2005

On December 12, ATI technologies selected Infineon's 512 Mbit GDDR3 (Graphics Double Data Rate 3) memory, for use with its Mobility Radeon X1600, ATI's latest notebook graphics processor.

> January 2006

Infineon supplies the first samples of its dual-mode radio-frequency CMOS transceiver, SMARTi® 3GE, for use in cell phones and other mobile devices using WCDMA and EDGE transmission standards. This is the world's first one-chip solution for WCDMA (6-band) and EDGE (4-band).

On January 18, Infineon opens its newest development center in Bucharest, Romania. The center's approximately 60 developers will work primarily on special power semiconductors which will increasingly be used in automotive and industrial applications as well as in security controllers on chip cards.

> February 2006

The move to Campeon is completed in February. Step by step, thousands of the most modern workplaces are completed. There are no longer any telephone cables. The entire voice communication traffic is channeled through the computer network using Internet telephony.

On February 16, the Annual General Meeting is held at ICM – International Congress Center in Munich, Germany. This, the sixth AGM since the firm's IPO, was attended by about 3,500 people. More than 54 percent of the company's share capital were represented.

> March 2006

Our first front-end facility in Asia, at Kulim in Malaysia, is "Ready for Equipment", reaching the most important stage of construction on schedule. The highly sensitive production equipment can now be installed.

> March 2006

Deutsche Telekom is the first network operator in the world to install a VDSL2 network with speeds of up to 50 megabits per second. The network is launched in 10 German cities and uses Infineon's VINAX™ chipsets.

Volume production begins of the world's first one-chip mobile telephone compliant with the GSM/GPRS wireless standard. This is a milestone in the history of mobile telephony. Based on the central component, E-GOLDradio™, a Chinese customer produces entry-level telephones for the Asian market as well as for Africa and South America.

On March 31, the new name of the Memory Products spin-off is announced: Qimonda. Chosen because of its universal character, the name is expected to have worldwide appeal. The initial syllable "Qi" stands for "living and flowing energy". In Western cultures the name is to be interpreted as the "key to the world" (combining "key" with the Latin "mundus").

> April 2006

Infineon is the world's first semiconductor manufacturer to begin with volume production of embedded Flash microcontrollers in 130-nanometer technology for automotive uses. The two 32-bit microcontrollers TC 1766 and TC 1796 were developed for engine and transmission control in automobiles and motorcycles.

> May 2006

Qimonda starts operative business life as an independent company on May 1. Munich is chosen as the headquarters of the company and its legal place of business. Its stock exchange listing will be on the New York Stock Exchange.

> June 2006

On June 5, the most highly integrated one-chip solution for ASDL2+ is presented to the industrial world. This chip, named Danube™, enables Voice-over-IP, video conferences and Internet television with only a few components.

> July 2006

LG Electronics becomes a customer for Infineon's EDGE multimedia platform MP-E. The platform incorporates the baseband chip S-GOLD®2, the radio-frequency transceiver SMARTi® PM, the power-management chip SM-Power, the Bluetooth chip BlueMoon® UniCellular and the accompanying software.

> August 2006

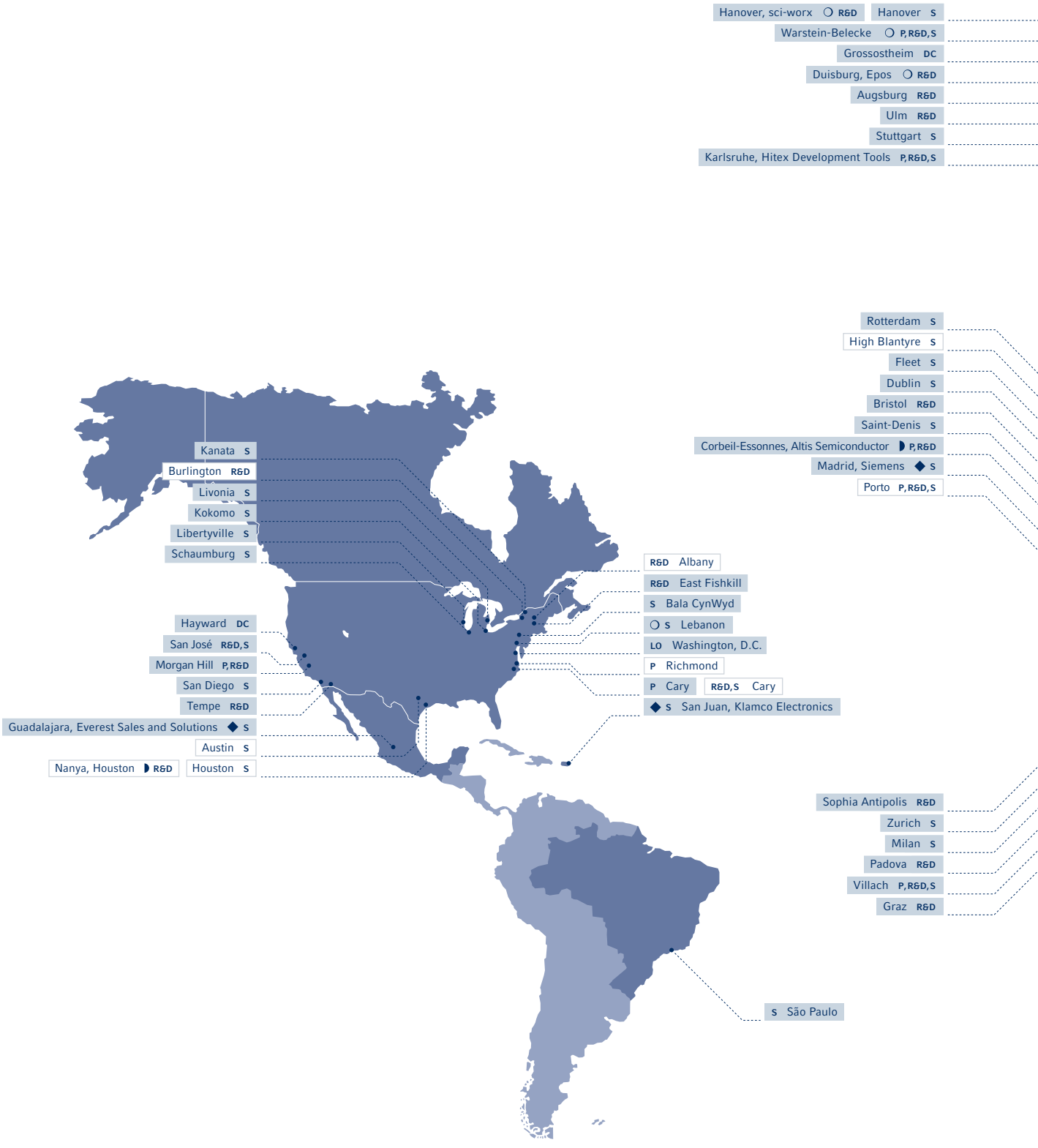
On August 9, Qimonda begins its listing on the New York Stock Exchange under the ticker symbol "QI". The initial share price is fixed at U.S.$13. About 13.6 million shares were traded on the first day and the share price closed at U.S.$13.54. On November 30, 2006, the share price stood at U.S.$18.85.

On August 26, we were awarded the contract to supply high-security chips for the world's largest national passport project, the U.S. electronic passport. The U.S. government intends to start issuing the forgery-proof passports to citizens by the end of the year and to issue some 15 million of them within the first year.

> September 2006

Official opening of our front-end production facility in Asia is attended by the Malaysian Minister of International Trade and Industry. The celebrations held on September 12, mark the formal opening of the facility in Kulim.

Sites Worldwide



Infineon sites
Infineon/Qimonda sites
Qimonda sites

■ Headquarters
◗ Joint venture
○ Majority holding

◆ Representative office
P Production
R&D Research & Development

S Sales
DC Distribution center
LO Liaison office

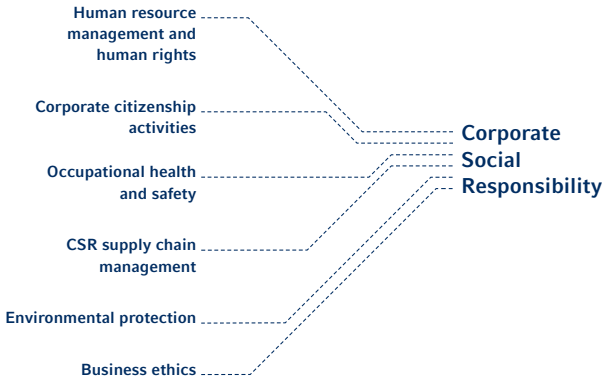

R&D, S Erlangen, SICED
P, R&D, S Nuremberg, Comneon
S Nuremberg
P, R&D Regensburg
R&D Dresden, AMTC
P, R&D Dresden
P, R&D Dresden
P, R&D, S Munich, Infineon Technologies AG
P, R&D, S Munich, Qimonda AG
R&D Aalborg
P, R&D Skoppan
P, R&D Horten, SensoNor
S Copenhagen
R&D, S Stockholm
S Helsinki
R&D Linz, Comneon
R&D Linz, DICE
S Vienna
S Moskow
S Warsaw, Siemens
P Cegléd
R&D Bucharest
S Istanbul, Siemens
R&D Netanya
S Tel Aviv, Nisko
S Tehran, Siemens
S Johannesburg, Siemens
Bayswater S
R&D Xi'an
S Beijing
P Wuxi
R&D, S Shanghai, Holding
S Shanghai
S Seoul
S Tokyo
S Nagoya
S Osaka
P Suzhou
R&D, S Taipei
R&D Hsinchu
P Taoyuan, Inotera
S Hong Kong
S Shenzhen
P Batam
P, R&D, S, DC Singapore
P, R&D Malacca
P Kulim
R&D, S Bangalore

Human Beings and the Environment – Recognizing Responsibility, Taking Uncompromising Action

> Our approach: sustainability.
> Our IMPRES: unity of economy and ecology.
> Our value chain: partnership and dialog.

As a globally operating company and member of the United Nations Global Compact Initiative, we are obliged to hold ourselves accountable to the multinational community. We take the task of protecting society and the environment very seriously, and it therefore forms an integral part of the company's strategic orientation. We see assuming responsibility as the expression of a proactive approach. We have put the necessary structures, processes and policies in place within our company, focusing on six important areas: personnel management and human rights, corporate citizenship, business and social ethics, occupational safety and health, environmental protection and responsibility along the value chain. The daily pursuit and realization of these requirements is for us more than just a duty.

CORPORATE SOCIAL RESPONSIBILITY (CSR)



Infineon's commitment to Corporate Social Responsibility extends over many sectors and covers many business activities. This dedication to socially responsible behavior is self-evident for Infineon.

IMPRES – Our Integrated Approach

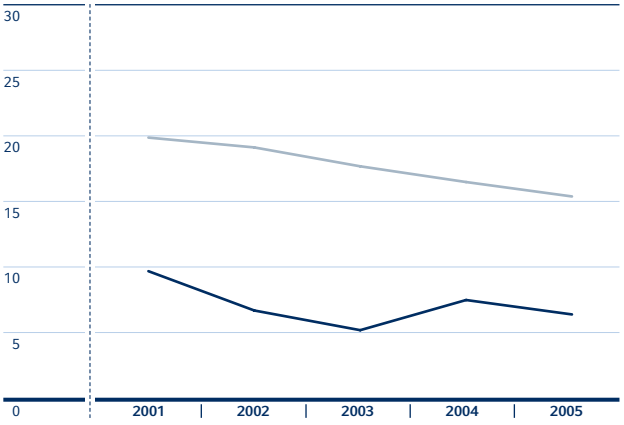
IMPRES, the name we have given to the Infineon Integrated Management Program for Environment, Safety and Health, formulates objectives, standards and policies for our entire company in the fields of occupational safety, environmental protection and health protection. IMPRES was implemented worldwide in 2005 and we received the matrix certification according to the international ISO 14001 and OHSAS 18001 standards the very same year. This short time span not only bears testament to the efficiency of our processes, but demonstrates how seriously we have taken these issues for years. The strict IMPRES guidelines are implemented in equal measure at our locations worldwide. We make no concessions to regional boundaries when it comes to questions of environmental and health protection or occupational safety.

Responsibility for Our Employees: Occupational Safety

Assuming responsibility for our employees primarily means prevention and avoiding potential risk. Systematic prevention necessitates a global evaluation of all workplaces – no matter whether in production or administration – according to uniform principles. Based on this evaluation, risk potential is identified and actions to minimize it are defined and taken.

The statistics on occupational accidents document the success we have achieved in occupational safety, demonstrating that our scheme is actively pursued.

STATISTICS ON OCCUPATIONAL ACCIDENTS PER 1,000 EMPLOYEES



Infineon — German Work Inspection for Precision Mechanics and Electrical Engineering

The number of occupational accidents at Infineon worldwide is far below the average registered by the German Work Inspection for Precision Mechanics and Electrical Engineering (Berufsgenossenschaft für Feinmechanik und Elektrotechnik). A factor reinforcing the significance of this achievement is that we register all occupational accidents leading to at least one workday of absenteeism. In contrast, the comparative values of the German Work Inspection include only those occupational accidents involving at least three workdays of absenteeism. Even in a global environment we thus achieve even better values than the high German standards.

Yet this success does not make us complacent. Our locations report at regular intervals to our corporate department for Environmental Protection, Technical Safety and Occupational Safety, where the data are evaluated together with our company medical officers. Working together with our experts at the locations, improved schemes for protection are developed on an ongoing basis to maintain a healthy working environment for our employees.

Product-related Environmental Protection: a Crucial Aspect of IMPRES

Environmental awareness and safety are today key factors in the successful design and marketing of technology products, a development not only driven by statutory provisions. We have taken this on board with our IMPRES management system and have integrated product-related environmental protection into all our company's global processes as an essential part of our strategy. We attach importance to an integrated approach because at Infineon all standards are met and implemented globally – no matter where the product is manufactured or sold.

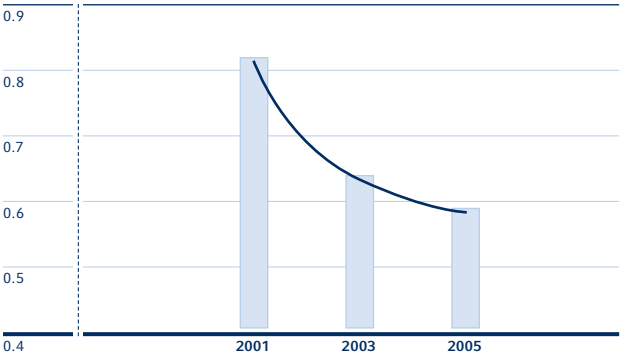
Our Environmental Key Accounting has proven successful in this context. It defines Infineon's strategy of identifying trends at an early stage and tapping potential for optimization. The basis for this is established by open communication with our partners – customers and suppliers alike. This year we held numerous talks with our customers at corporate level, thereby avoiding many customer audits at site level, saving costs for all involved and providing transparency. Worldwide.

Product-related environmental protection also plays an important role in purchasing. In our technical delivery conditions we have defined the standards of the materials we use in our products. All our suppliers must comply with these. The conditions specify statutory regulations and the supporting documents required to show that the statutory provisions and our more stringent standards are complied with. Our IMPRES management system comes into play as early on as in the product development phase: all materials and substances must first be released by our experts before being used in development and production.

Environmental Protection in Manufacturing: Resource Management

The manufacture of semiconductors is not possible without the input of resources and energy. The energy input is particularly high in the front-end production during wafer structuring. The reduction of energy consumption is therefore one of our prime environmental goals, which we pursue with sustainable, innovative concepts. In this way we have been able to achieve substantial savings in energy consumption at our European front-end sites, despite increasing process complexity.

ENERGY CONSUMPTION OF THE MAJOR EUROPEAN FRONT-END SITES IN KWH/SQCM

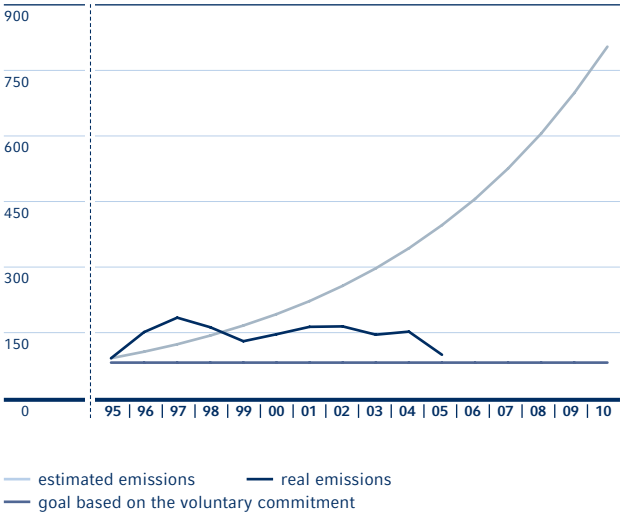


In addition to our company-wide resource and energy management concepts, our individual sites also implement individual economy measures. As an example: semiconductors are manufactured in clean rooms with complex air-conditioning systems. Various heat and cold recovery systems are deployed to reduce the heating and cooling input. These systems use heat from a recirculating cooling system, for instance, to preheat the cold outdoor air in the winter. All the buildings for the front-end production in Regensburg, Germany, have been equipped with these

systems since 2002. In 2005, the energy recovered from the air-conditioning system was approximately 9,000 megawatt-hours, equivalent to around 902,000 cubic meters of natural gas or the heating energy needed for 300 average four-person households. This allowed carbon dioxide emissions to be reduced by 1,782 tons per annum.

Perfluorinated compounds (PFCs) are a technical necessity in the semiconductor industry. Because these compounds contribute to the greenhouse effect, however, we place high value on lowering our PFC emissions. The seriousness of our intentions is underscored in Europe, for example, by our voluntary efforts. By 2010, we want to have decreased our PFC emissions by 10 percent compared to the reference year 2005, calculated in CO_2 equivalents. The common unit "CO_2 equivalent" is used to compare the global warming potential of greenhouse gases. The exponentially rising curve of estimated emissions is shown by potential PFC emissions – if no reduction measures are taken, assuming an annual volume growth in the semiconductor industry of 15 percent. Compared to these values, our voluntary efforts would correspond to a decrease in PFC emissions of approximately 90 percent. Our current real PFC emission figures demonstrate the effectiveness with which we pursue our voluntary goal.

PFC EMISSIONS 1995 TO 2010 CO_2 EQUIVALENTS (%)



Another example from the front-end sites is the reduction in the consumption of photoresist – a highly complex composition of substances used to create our fine silicon structures. The utilization of synergies has allowed 20,000 liters of photoresist to be saved a year, also facilitating the transport, storage, handling and disposal of these substances. The synergy of economy and ecology is clear: reduced consumption of photoresist generated annual savings of over €4 million. This project won our internal ESH Award (ESH: Environment, Safety & Health). This prize is awarded annually in recognition of the best sustainable developments and innovative measures promoting our high internal ESH standards.

Responsibility along the Value Chain: Partnership and Dialog

Infineon starts holding itself accountable to society and the environment even as the development and production process begins. Service providers and suppliers are obliged to meet our standards in occupational safety, health and environmental protection and in working and social conditions. We verify whether our suppliers live up to our social and ethical standards, and how they do so, by putting a catalog of questions to them. An evaluation tool is used to assess the answers and grade the suppliers. To assist our suppliers and service providers in meeting the statutory and ethical standards, we have set up principles of purchasing. They are based on our universally valid Business Conduct Guidelines and are the basis for good cooperation with our suppliers. Successful implementation and realization of the defined standards and policies is fostered by stable partnerships and open communication.

We see environmental and health protection, occupational safety and social responsibility as opportunities, not risks. By engaging in open dialog with our employees, investors, customers and suppliers, we can jointly benefit from these opportunities.

More information on the subject of responsibility towards society and the environment is available from the company: environment@infineon.com

Our Employees – Focusing on Customers and Performance Are Our Success Factors

- Human resources work centered around Infineon's strategic realignment.
- Constant principles are needed, particularly in times of change. Our principles are **customer focus, operational excellence, profitable growth** and **collaborative leadership.**
- We practice various personnel development policies to lay the foundations for our prime objective – sustained profitability.

"New Infineon" – Questioning Identity and Corporate Culture

The 2006 financial year witnessed a sea of change at Infineon, set into motion by the strategic realignment, with the carve-out and IPO of the Memory Products business representing a central milestone in the process. In the course of this realignment we subjected our identity, guidelines and values to close scrutiny and adapted them to the challenges we face as the "New Infineon": We are more focused now. Not size, but economic success counts for us. At the same time we have to sustain and improve our technological leadership.

--- see Letter to the Shareholders, page 4

The four pillars of **customer focus, operational excellence, profitable growth** and **collaborative leadership** continue to be our main principles in all we do. The concentration on our remaining businesses means that added significance is attached particularly to customer focus.

FOUR PILLARS OF INFINEON

Customer focus
We think of our customers first, delivering innovative semiconductor solutions to meet their needs today and in the future.

Operational excellence
We are committed to being best-in-class on cost and quality.
We keep our promises and differentiate ourselves through market-oriented product introduction.

Profitable growth
We focus on profitable growth in the interest of our shareholders and employees.

Collaborative leadership
We foster a cooperative culture and work as a global team for the success of our customers.

Over the last year we have further anchored the four pillars in the company by introducing various measures. For instance, we have rigorously adjusted our personnel development policy to these principles. This applies to the assessment and development of managers as well as to our training schemes.

Furthermore, we have adapted the Infineon code of values to our new challenges. "We commit", "We innovate", "We partner" and "We create value" are the central values that characterize how we work together – both inside and outside the company. These values orient us in times of change and support the new Infineon business model: creating flexible solutions and products for our customers that make both them and us successful, and in which all of Infineon's "power" is bundled. They help strengthen and orient the entrepreneurial focus, commitment, creativity and ability to cooperate of Infineon's management and employees alike. All personnel processes and programs will thus be harmonized with these new corporate values.

Qimonda's Carve-out in the Spotlight of Human Resources

The carve-out and IPO of the Memory Products business played a prominent part in the work done within human resources in the 2006 financial year. Creating the necessary structures for the new Qimonda AG was only one of the major tasks to be mastered. Another central task was arranging the transfer of some 12,000 employees worldwide to the new company. Real-time, constant communication throughout the carve-out process played a crucial role. In view of the global dimensions of this mission, we consider it to be a great achievement that the transition was effected consistently and concurrently worldwide.

Instruments for Promoting the Corporate Change

The successful implementation of our strategic realignment calls for our staff to adopt a new mindset and attitudes, and in some cases it calls for new competencies. Entrepreneurship, a results-driven approach and customer focus throughout all areas and hierarchy levels are the central preconditions for achieving our prime objective – profitable growth. We have defined a number of instruments with which we systematically support our employees in fulfilling these requirements and with which we actively drive the corporate change ahead.

Entrepreneurial Leadership – Our Global Manager Development Program is one example of how we help our managers acquire the expertise necessary to secure the long-term success of "New Infineon". At the center of this practice-oriented program is the application of newly gained management knowledge to current projects.

Technical Leadership – We expect more than just excellent technical knowledge from the leading technical experts in the company. The ability to gear innovations to our customers' requirements and to think in an entrepreneurial way are at least just as important. They also have to be adept at pushing innovations ahead, ensuring the transfer of knowledge and making an active contribution to strategic discussions. We offer our technical experts seminars, forums and communities to support them in fulfilling their changed role.

STEPS – Putting the right employee in the right job is a basic requirement for permanent corporate success. Fostering talented employees and sustainably developing their qualities is vital, particularly in the critical business environment in which Infineon operates. As part of our long-term personnel development scheme, STEPS (Steps to Employees' Personal Success), our staff and management development program, establishes a uniform framework worldwide to identify potential future executives across the globe, to deploy them in keeping with their skills and to develop them.

It is very important to us that our staff accept responsibility for themselves and their professional development and that they set themselves goals. A sense of responsibility is vital for personal performance and hence for promoting the company's success. As part of the STEPS program, the development steps and goals are defined together with the employee in an open dialog.

Performance-related Compensation – The great importance we attach to a results-driven approach is also reflected in our compensation system. We seek to foster entrepreneurial thought and action among our staff by compensation that is related to performance and success. That is why our compensation system consists of fixed and variable components. The variable components depend on individual performance, respectively team performance and the achievement of economically and strategically relevant business targets.

Long-term Incentive Program – Our company recognizes outstanding contributions to its long-term success with our stock option plan. In the 2006 financial year we brought the long-term incentive program into line with changed external parameters. The total volume was reduced from 51.5 million options on shares which could be issued over five years, to 13 million options on shares which can be issued over three years. In addition, the hurdle for exercise of the options was increased from 5 to 20 percent. We have not issued options under this plan in the 2006 financial year.

YIP – Infineon's ideas management program YIP (Your Idea Pays) makes a significant contribution to corporate success. The suggestions implemented in the 2006 financial year generated savings of €125 million, repeating the savings, significantly topping €100 million seen in previous years. Almost 10,000 employees from all the global locations of Infineon and Qimonda took an active part and demonstrated their loyalty to the company.

Apart from its contribution to the corporate goal of profitable growth, the YIP program proves the high commitment of our employees to introduce creative ideas for change that have a positive impact on our corporate culture and performance.

Infineon Awards – In the 2006 financial year the winners of the Infineon Awards again demonstrated what it means to bring their outstanding achievements and pathbreaking ideas to bear in individual improvements, thus strengthening the company as a whole. The precept of customer focus, one of our central guidelines, took center stage at the 2005 Infineon Awards. A number of projects were honored, including one showing how innovative products are born from customer relationships. The NovalithIC

family of high-current half-bridges represents a product tailor-made to meet the customer's requirements. Thanks to its innovative concept, it is currently unique on the market and reinforces our image as a competent partner.

Campeon – Speed, flexibility and communicative structures are of central importance for the realignment of Infineon in our dynamic environment. Campeon, the new corporate location in Neubiberg (near Munich, Germany), and since the beginning of 2006 the workplace for approximately 6,000 employees from formerly nine locations, is a working environment which promotes the exchange of knowledge and thus significantly increases efficiency in our daily operations.

International Training Courses – Our new facility in Kulim, Malaysia, is a fine example of how the thorough training of new staff and the international exchange of experts yields tangible results. Over 400 employees from Kulim spent several months on a training program in Villach, Austria, and Regensburg, Germany, the two other locations of our "power fab cluster", to acquire the respective know-how for our new facility to operate successfully. The first results can already be seen. The first wafer was processed ahead of the original schedule. Production ramp-up already began in August 2006.

Encouraging Diversity

Our corporate culture has a customer and performance focus, as well as being geared to internationality. We are a globally operating company with employees from 107 nations and locations in 26 countries worldwide. As a global company, the diversity of our employees is our lifeblood. We therefore encourage a culture in which everyone can contribute to the success of the company – irrespective of nationality, culture, religion, age, gender or skin color.

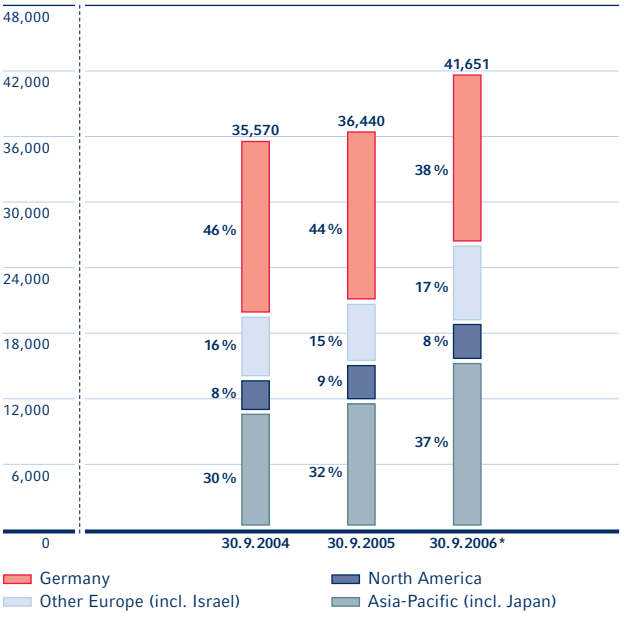
Last year this included implementation of the new General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz) in Germany. Infineon emphatically supports this Act. It has been self-evident for us since day one that discrimination in any form whatsoever will not be tolerated. Our Business Conduct Guidelines, which are binding for all our employees, have long since addressed the forms of discrimination now forbidden by law.

--- see Financial Review, page 49

It is important to us that our employees are able to develop their potential and deploy it without hindrance. Accommodating employees' personal situations, as our flexible working time models show, or with facilities like the children's day care center at Campeon, to name only two examples, are important facets here.

Diversity at Infineon also means showing our employees different ways of developing their talents, whether it be new projects or challenging new tasks. Besides the classical management career, we also offer staff the opportunity to follow an expert career path. One example of this is the technical ladder, a career path dedicated to all employees with special technical knowledge, which promotes and develops this technical know-how in tune with the requirements of our business.

EMPLOYEES BY REGION



*incl. Qimonda

Automotive, Industrial & Multimarket

Reaching Your Destination Safely while Preserving the Environment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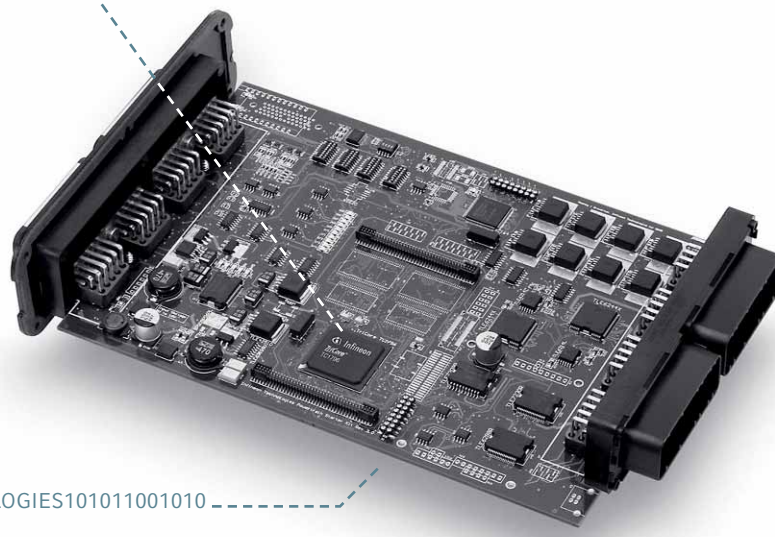
The TC 1796 is our most powerful 32-bit microcontroller, developed for engine and transmission control purposes in automobiles, trucks and motorcycles, where high computing performance is crucial. It will also be instrumental in ensuring that future generations of motor vehicles will have better fuel efficiency, and thus reduced toxic emissions.

Today, an average of every second automobile in Europe and every third automobile in the world contains an Infineon chip that is responsible for management of the diesel or gasoline engine, for example for fuel injection, ignition, catalytic converter control or exhaust gas recirculation.



ECHNOLOGIES101011001010

* Not to scale

We all want to travel comfortably and safely – whether by train or by car. Infineon supplies semiconductor components for road and rail vehicles which provide this comfort and safety as well as ensure that the greatest efficiency is achieved with the energy used.
Whether in New York's subways or the Deutsche Bahn's InterCityExpress (ICE) trains – our power semiconductors control the driving technology of electric locomotives. And because we are the market leader for automotive semiconductors in Europe, hardly any car on Europe's roads is without our advanced technology solutions.
This is just one good reason why you should take a closer look at our TriCore® TC 1796 microcontroller for use in engine and transmission management.
<

Automotive, Industrial & Multimarket

> Greater concern for safety and comfort issues means more chips in automobiles.
> We supply semiconductor components for the entire energy distribution chain.
> More and more customized chip configurations include our security functions.

The operational business of the Automotive, Industrial & Multimarket (AIM) group is divided into three businesses: Automotive, Industrial & Multimarket, and Security & ASICs.

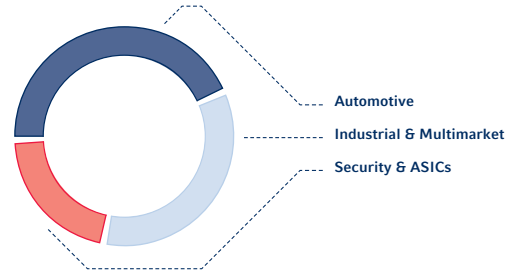
Automotive
With our range of microcontrollers, power semiconductors and sensors, we cover the three most important fields of automotive applications – the power train, safety and body & convenience electronics. Our product portfolio is completed by communication components for on-board power networks and by wireless communication modules.

Industrial & Multimarket
Our power semiconductors and modules help supply electricity throughout the entire power grid – from energy generation through energy transmission to energy consumption. Power MOSFETs, IGBTs (Insulated Gate Bipolar Transistors), thyristors and diodes are the most important components in this field. We supply semiconductor components for control and commutation of motors of all shapes and sizes, as well as for the activation of light sources, energy-saving lamps and light-management systems.

Security & ASICs
Our wealth of experience with chips for security applications has been translated into SIM cards, cards for banking, health insurance and PayTV, into biometric personal identity cards and passports, as well as contactless applications. Furthermore, we are developing and manufacturing chip designs to meet customer specifications for applications such as hard-disk drive controllers, Trusted Platform Modules (TPM), game consoles and hearing aids.

The proportions of AIM sales volume for the 2006 financial year are presented in the diagram "Sales by businesses of the Automotive, Industrial & Multimarket group."

SALES BY BUSINESSES OF THE AUTOMOTIVE, INDUSTRIAL & MULTIMARKET GROUP



Orientation to Global Trends

Regarding AIM applications, two global trends have been identified towards which we will orient our business and which today, as in the future, will drive our growth.

Energy Efficiency – When we refer to saving energy, we are really speaking about making our energy use more efficient. The focus of our attention is on electrical plants and equipment as well as on combustion engines. For electrical plants and equipment we distinguish between three areas: efficiency in energy generation, efficiency in energy transmission and reduction of power consumption by electrical devices, e.g. household appliances or consumer electronics, engines and drives in industrial plants and trains. In the case of combustion engines, legal provisions as well as the self-imposed restrictions of the automotive industry are driving developments towards reducing fuel consumption. All these efforts must be seen against a background of growing worldwide energy demand, dwindling natural resources and the rapid expansion of motorization and consumption in Asian societies.

Safety & Security – Safety drives our growth, because motorists have the right to expect vehicles which offer the highest standards of safety features, and governments demand that the automotive industry comply with increasingly strict safety regulations. Accordingly, programs are running in Europe and in the USA which aim to achieve significant reductions in the number of casualties in traffic accidents. Security guarantees the safeguarding of data and protection of intellectual property. This trend will play a major role in the lives of citizens, firms and governments in the future. Chip-based cryptographic procedures for encoding and decoding transmitted data is one of our particular fields of competence.

Automotive

The total market for semiconductor products for automotive electronics applications achieved a volume of U.S. $16.4 billion in the year 2005. With sales growth of 11.9 percent, Infineon was able to grow much faster than the world market, which grew by 7.5 percent, and to achieve a current market share of 9.3 percent. The company thus reinforced its second-place ranking and closed the gap still separating it from the world leader (see Chart "Development of market shares of semiconductor products for automotive electronics"). In Europe Infineon is, and remains, the unrivalled market leader.

As a result of the efforts it has made with regard to quality and reliability, Infineon attained sixth-place ranking in sales on the most intensely competitive Japanese market, the best position achieved by a non-Japanese company. This achievement is thanks to the Automotive Excellence Program which has been running for three years now with the goal of zero-defect products. Since the automotive sector has the highest quality standards of all, Infineon uses its own production facilities to manufacture chips for the automotive industry which are designed to meet these quality standards. The pursuit of this multi-fab strategy is further advanced with the start-up of a facility for chip production in Kulim, Malaysia.

Europe continues to be the most innovative automotive market in the world. It is not by chance that we have our major customers here: Siemens VDO, Bosch and Continental Automotive Systems. Yet we foster close relations not only with our European customers, but with our customers all over the world – the decisive prerequisite for us to drive innovation.

DEVELOPMENT OF MARKET SHARES OF SEMICONDUCTOR PRODUCTS FOR AUTOMOTIVE ELECTRONICS IN %

Source: Strategy Analytics, May 2006

The Automobile Is Still the Most Popular Means of Transportation

The automobile is a permanent feature of our daily mobile lives and – when compared with other traffic systems – by far the most widely used means of transportation. However, automobiles are also responsible for more than one-tenth of CO_2 emissions in Europe. This is why regulations governing toxic and particle emissions are becoming increasingly stringent and, consequently, there is demand for increasingly sophisticated engine management systems. Infineon's microcontrollers, power semiconductors and sensors ensure that modern vehicles comply with both European and American exhaust emission regulations. Our 32-bit microcontrollers, such as the **> TC 1796**, are incorporated into many high-performance management systems for diesel and gasoline engines and guarantee reduced fuel consumption and low emission levels.

As a consequence of the growing demand by vehicle users for greater safety and comfort, the number of electronic components and semiconductors in motor vehicles has constantly risen over recent years. It is increasingly the case, for example, that middle-class and economy-class cars are equipped with ABS and airbag systems. Comfort – just think about automobile air-conditioning or power windows – is the second factor that is driving growth in automotive electronics.

The Vehicle's Sensory Organs

Sensors act as the vehicle's "sensory organs"; they are alive to any changes in routing/direction, angle, engine speed, vehicle speed, acceleration, vibration, pressure, temperature and other influential parameters. Their signals have become indispensable to a vehicle's control and regulation functions. Infineon is one of the few semiconductor manufacturers which offers all three main sensor groups: pressure, magnetic and inertia sensors.

The safety applications that we contribute to include side-impact protection, for example the **> KP series of pressure sensors**, measurements of wheel rotation (for example for ABS or electronic stability control) and of tire pressure as well as rollover sensors. Semiconductor sensors also play an important role in engine management. Here they ensure the optimal fuel-air mixture for ideal fuel combustion.

Particular attention here is given to the development of suitable packages which protect the chip sensor yet permit access to environmental influences which must be measured, such as barometric pressure. We thus develop solutions which integrate sensors as well as evaluation and control electronics on one chip located in one package. An example of this is the steering-angle sensor for power steering systems.

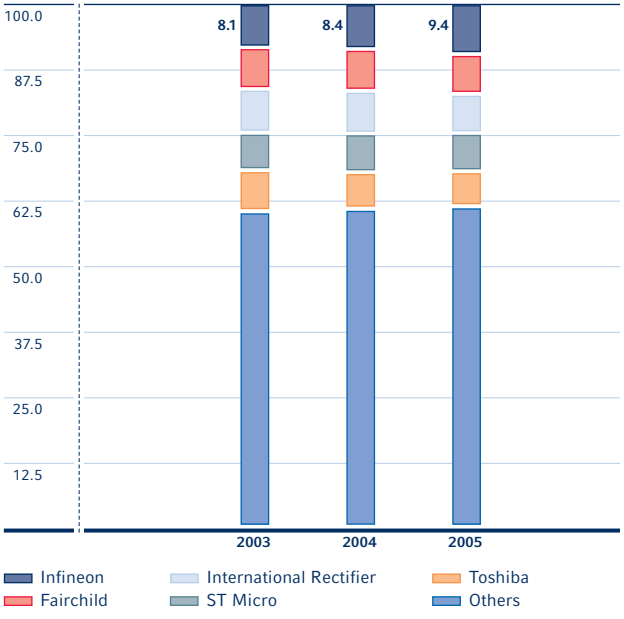
Like all its other components for automotive applications, Infineon's sensors must comply with the provisions of our Automotive Excellence program. Our competence with such systems and our understanding of customers' wishes are our success factors in the automotive field.

Industrial & Multimarket

According to IMS research, in the power semiconductors sector with a market volume of more than U.S. $11 billion in the 2005 calendar year we achieved a market share of 9.4 percent and thus maintained our market leader position for the third successive year (see Chart "Gains in market share for power semiconductors"). And the market continues to grow: According to the same market researchers we can expect annual growth of 6 to 8 percent over the next five years.

Power semiconductors are the prerequisite for efficient energy management, whether in switching power supplies for PCs or in drive controls for electric motors in washing machines, industrial plants and locomotives. In households, which consume the greatest proportion of energy worldwide, our components help significantly reduce the energy requirements in refrigerators, air-conditioning systems, electric stoves and in economical cooking systems such as induction stoves. What is more, our semiconductors have already been used for many purposes in wind generators and solar energy plants as well as in power stations and transformer stations (for example the **> light-triggered thyristor**). In addition, our **> CoolMOS® products** considerably reduce energy consumption in stand-by mode.

GAINS IN MARKET SHARE FOR POWER SEMICONDUCTORS IN %



Source: IMS Research, 2006

Security & ASICs

The requirement for greater security in the private sector, in companies and in government is on the increase, as is privacy protection and the protection of material and intellectual property. As a consequence, we are witnessing particularly high rates of growth in what is known as e-Government. This encompasses such things as passports, personal identity cards, health insurance cards and other official documents. As the market leader for security chips, Infineon supplies more than twenty countries worldwide which are already in the process of introducing electronic identification documents or which have begun trial projects. In line with the constant improvements in its national security measures, the U.S. government has chosen to incorporate Infineon's **> high-security chips** into its next generation of passports.

However, we still achieve our highest sales revenues in the intensely competitive market for SIM cards for mobile telephones. The measures already introduced a year ago to improve profit margins – such as partial withdrawal from unattractive, price-sensitive segments, conversion to more modern manufacturing technologies, focusing on high-quality SIM cards based on 32-bit controllers and with greater functionality – are beginning to pay off. The SIM card market is a market with an attractive volume growth potential. As market and technology leader, for example with our 130-nanometer Flash-based SIM cards, we are confident that we can again achieve a sustainably profitable chip-card business.

Customized Chips with Security Functions

The issue of security also plays an increasingly prominent role in customer-specific projects. This development has been appropriately acknowledged by a reorientation of

this department to facilitate a better approach to certain customer projects. Some examples of customized chips, or so-called ASICs, with security functions are the projects executed for Microsoft: a series of chips and modules for the Xbox 360 game console as well as the FlexGo Project, in which we are working in a cooperation partnership. We are expecting new impetus for the Trusted Platform Module (TPM) as a result of the introduction of Microsoft's new operating system Vista, which provides better support for TPM than operating systems on the market today.

In addition to the security applications, we are also achieving growth above all in our greatest ASIC business activity, hard-disk drive controllers for Hitachi Global Storage Technologies.

Semiconductor Facility Opens in Kulim

Our facility in Kulim, Malaysia, officially opened on September 12, 2006. This plant is a further addition to our existing chain of production facilities. Together with Villach in Austria and Regensburg in Germany it forms a strong association for the future – what we call the Power Logic Cluster. In Regensburg and Villach, we specialize in the development of new technologies and applications. Further growth in our high-volume product manufacture will come from the new facility in Kulim. In this way, the cluster benefits from the cost advantages of an Asian site as well as the many years of expertise and innovative capacity of our two European locations. The opening of the Kulim plant, which currently employs about 800 people, is an important milestone in the preparation of our company for a successful future, and marks the beginning of a further important chapter in our history of success in Asia.

Infineon Applications for Automotive, Industrial & Multimarket

> **TriCore® TC 1796 for engine management**

This is the world's first automotive 32-bit controller in 130-nanometer technology with embedded Flash. With the help of the TC 1796, we are able to control gasoline and diesel engine units. For example, fuel efficiency and toxic emissions depend on the precise injection of the air mixture and the exact moment of spark plug ignition. Both these parameters are optimally governed by the TC 1796.

> **KP series pressure sensors for side airbags**

Modern side airbag systems evaluate both acceleration and pressure. The acceleration sensor is generally embedded in the frame of the vehicle, whereas the pressure sensor is mounted in the door and more quickly detects the increase of pressure during side impact. This triggers the airbag much sooner.

> **CoolMOS® in flat screen televisions**

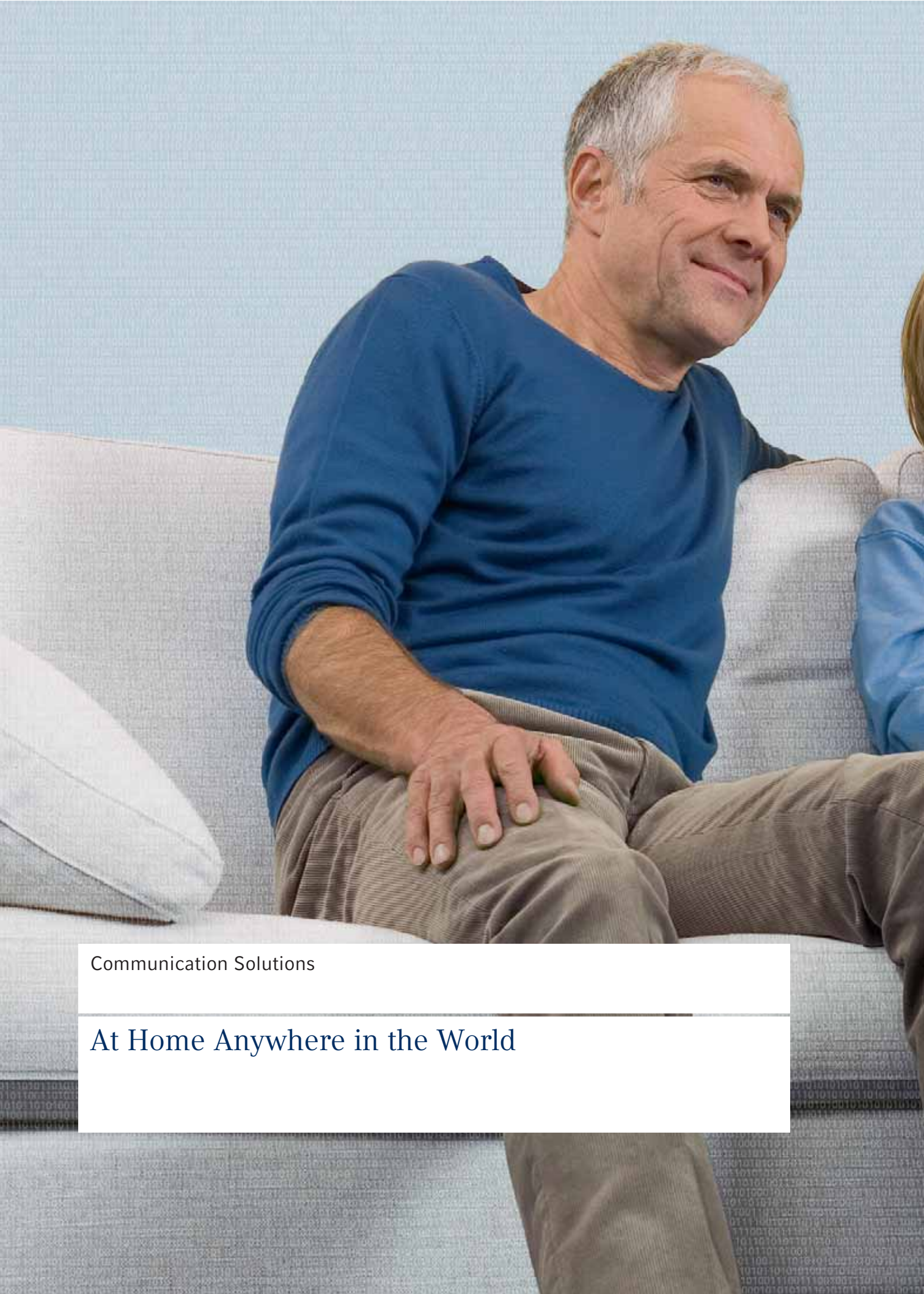
CoolMOS® is the name of our family of power transistors in the range above 300 volts. Their particular advantage is their low power dissipation rate. This means they can control other major power consumers without generating much heat themselves and thus without using energy. As a result, there is no need for a cooling fan which, in a television, would obviously be a disturbance.

> **Light-triggered thyristors in power stations and transformer stations**

The world's longest undersea power cable connection brings renewable energy from the island of Tasmania to Australia. The connection provides a 400-kilovolt HVDC (high-voltage direct current) transmission. At the receiving end, the direct current is converted with the help of light-triggered thyristors into alternating current. These need a great deal less control electronics than electronically triggered thyristors.

> **Contactless chips for U.S. passports**

The new electronic passport will have one of Infineon's chips in its back cover that will store all the information contained in the passport in encoded form. This means that Infineon has a contract to supply the largest national passport project in the world. To achieve this, our chips have successfully passed the world's most stringent security checks.



Communication Solutions

At Home Anywhere in the World

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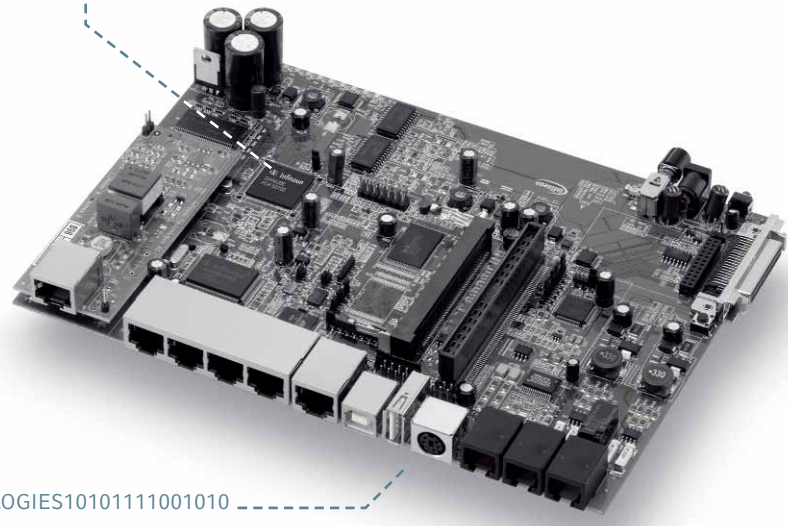
Whether you are surfing the Internet or watching television via your broadband connection, whether you are downloading films or playing online games, whether you are telephoning using a wireless link, a landline or even via the Internet – in all these cases, the data traffic for these different applications travels through “Home Gateways”.

The heart of every home gateway for wireless broadband access based on our reference design is Danube™, our one-chip solution for the ADSL2/2+ standard.



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* Not to scale

At the end of 2005 about 80 percent of households in the European Union had at least one mobile phone but only 78 percent had a landline connection. In some countries the mobile telephone has already gained the dominant role: In Lithuania, for example, almost half the country's households now have a mobile phone but no longer have a landline connection.
The number of Internet connections is also on the increase: Two out of every five EU households already have one. In the Netherlands and Sweden, the number is higher than 70 percent.
The construction of DSL networks, which permit transmission rates of up to 100 megabits per second, has already begun in Germany and worldwide.
It is a good thing that Infineon is involved in all three developments.
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Communication Solutions

> The mobile phone market continues to show strong growth.
> We have gained new premium customers.
> Infineon benefits from the high demand for DSL connections.

The operational business of Communication Solutions (COM) is subdivided into three businesses: Mobile Phone Platforms, RF Solutions (Wireless Communications) and Broadband (Wireline Communications).

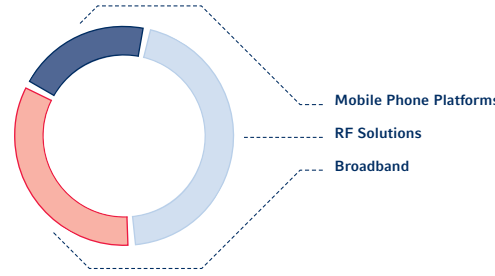
Mobile Phone Platforms
We distinguish here between the market segments of multimedia telephone and the entry-level telephone. In addition to baseband processors, radio-frequency transceivers and power management chips as the classical semiconductor components, the spectrum covers platforms for mobile phones, including software solutions. We offer this comprehensive system know-how for mobile phones of different performance categories and transmission standards.

RF Solutions
The main products are components for radio-frequency (RF) applications, short-range radio technologies and TV tuners. For us, RF components are primarily transceivers for the GSM, GPRS, EDGE and WCDMA standards. Cordless telephones, Bluetooth, WLAN, UWB and A-GPS are subsumed under short-range radio technologies. In addition, we offer RF power transistors for the base stations of mobile infrastructures. For television reception, we develop and manufacture chips for analog and digital TV tuners.

Broadband
In addition to the traditional telecommunications standards – analog telephony and ISDN – and the components for the mobile infrastructure, we offer numerous products for the currently most dynamic sector: broadband access technologies for network providers and end users, for instance SHDSL, ADSL, VDSL and Voice-over-IP.

The proportions of COM sales volume for the 2006 financial year are presented in the diagram "Sales by businesses of the COM Solutions group".

SALES BY BUSINESSES OF THE COM SOLUTIONS GROUP



Applications in the COM field are also subject to global trends, to which we are orienting our future business.

Mobility & Connectivity – State-of-the-art communications technologies link the world ever closer together. The importance of geographic distances fades. Data retrieval and messaging are becoming a matter of course. The aim is to ensure that people and information are on tap any time and any place – be it at home, at the office or on the move. Global investments in infrastructure and terminals for broadband applications are the result. Infineon's expertise lies in the wireless and wireline access technologies for voice and data communication.

Wireless Communications

Disproportionately High Growth of the Mobile Phone Market in the Lower and Upper Price Segments
The number of mobile phone users and mobile phones continues to grow unabatedly. Strategy Analytics, the U.S. market researchers, forecast approximately 2.5 billion mobile phone users by the end of 2006 and even 3.5 billion worldwide by the end of 2010. Market observers expect disproportionately high growth for the upper segment of EDGE and WCDMA mobile phones (see the diagram "Mobile phone market development by transmission standard until 2011").

There are similar forecasts for the lower market segment of low-cost and ultra-low-cost mobile phones.

We have geared our product portfolio closely to the requirements of our target customers so as to be able to participate in the growth of these markets, and we have already gained several major customers. LG Electronics, a leading mobile phone manufacturer from South Korea, for example, has decided in favor of our EDGE platform. The first mobile phones from LG Electronics based on our platform were launched on the market in October 2006. We scored a similar success for our GPRS/3G dual-mode platform. The Japanese mobile phone manufacturer Panasonic brought a mobile phone based on our MP-EU platform onto the Japanese market.

Infineon's trendsetting HSDPA/WCDMA/EDGE solution, MP-EH, was presented at the 3GSM World Congress in Barcelona in February 2006. The transition to 3G increases the demand for semiconductor devices due to the distinct improvement in features and functions of the units. Higher complexity of the radio-frequency components and the need for higher computing and memory capacity are responsible for the fact that while WCDMA mobile phones will account for only 37 percent in terms of units in the year 2010, they will constitute 50 percent in terms of value of all mobile phones sold. The reasons for buying high-end mobile phones are manifold: music downloads, video-clip-on-demand and business applications with fast data transfer for attached files. There is a trend towards EDGE and WCDMA solutions. There is a trend towards Infineon.

In emerging nations like China, India, Russia and Brazil, the requirements are quite different: mobile phones that are as simple and economical as possible. We supply these burgeoning markets with our ULC1 and ULC2 ultra-low-cost (ULC) solutions. The growth rates in these countries have topped out, though. Forecasts see new mobile phone users – but with lower market volume – in Pakistan, Bangladesh and Nigeria. ABI Research reports that more than 270 million ultra-low-cost mobile phones will be sold worldwide in the year 2010, at a wholesale price of less than U.S. $40. They will then represent some 18 percent of the mobile phones sold worldwide, as opposed to 1 percent in the year 2005.

The core of the ULC platforms is our highly integrated one-chip solution, in which Infineon enjoys technological leadership. As a result, also in the lower price segment, new customers have been gained. We have been in volume production of our ULC1 solutions since March 2006.

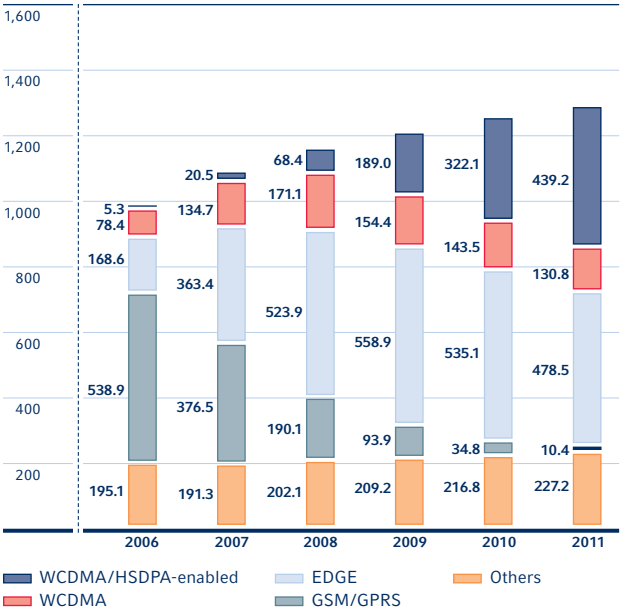
And development never stops. The first telephone call worldwide with a ULC2 platform based on our **> E-GOLD-voice™ chip** was made in May 2006.

Success in the Diversification of the Customer Base

We continue to pursue the strategy of systematically broadening our customer base in the mobile communications business. This is documented by the above-mentioned success scored with LG Electronics and Panasonic for EDGE and 3G telephones on the one hand and with Asian customers for ULC platforms on the other. All the same, the clear loss in market share of our largest customer for mobile telephone platforms, BenQ (formerly Siemens) and the insolvency of BenQ Mobile´s German subsidiary have struck us a blow. To minimize our losses, we have further optimized our internal structures and reduced our fixed costs. Against this background, Infineon will focus its mobile phone activities on business with newly gained and future customers. We intend to continue down this road despite the loss of BenQ, and are already working on a number of promising projects with notable customers.

We anticipate that the projects we are currently implementing with our key customers will ensure that we reach break-even earnings before interest and taxes in the wireless communications business by the end of calendar year 2007.

MOBILE PHONE MARKET DEVELOPMENT BY TRANSMISSION STANDARD UNTIL 2011 IN MILLION UNITS



Source: Strategy Analytics, October 2006

Global Market Leader for Radio-Frequency Transceivers in Sales Volume and Technology

The name Infineon enjoys an excellent reputation in the radio-frequency transceiver market. These components are used for various standards in practically all wireless communication devices. Our radio-frequency chips are found in cordless telephones, mobile phones, base stations and WLAN access points. Overall, Infineon sold over 200 million of these chips in calendar year 2005, making it the market leader.

Arguably the most important evolution seen in recent years has been the transition from the bipolar technology to CMOS production technology. Today Infineon can offer CMOS-based chips for all mobile phone standards.

As already mentioned, the EDGE and WCDMA phone segment is growing fastest – at a rate of over 50 percent a year. Here, we were able to win a new top customer, namely Samsung. Samsung is incorporating our **> SMARTi® PM** in some of its EDGE telephones.

The transition from one mobile phone technology to another is seamless. Mobile phone manufacturers therefore offer dual-mode phones for use in different network standards, a move which substantially increases the complexity of the phones. It was therefore important to develop radio-frequency transceivers capable of supporting multiple standards, so-called dual-mode transceivers. We accomplished this mission with the **> SMARTi® 3GE**. Mobile phones incorporating a SMARTi® 3GE can operate worldwide in all EDGE and UMTS networks. In addition, this chip makes space in the phone due to its high degree of integration, and enables transmission of higher data rates of up to 7.2 megabits per second.

Wireline Communications

Different Communication Technologies Converge

The achievements of the digital age – making phone calls via the Internet, watching television on the computer, downloading music and films, playing online games – sharpen the demand for increasing bandwidth of data networks and bring together communications technologies that were formerly distinct. Network providers are upgrading their wireline and wireless networks, end customers are buying higher-performance access devices, i.e. home gateways and routers, and telephones supporting a wide range of transmission standards are coming onto the market. This trend is the basis for Infineon's growth in the broadband business.

We are again involved – and so far on an exclusive basis – in the world's first VDSL2 network, currently being set up by Deutsche Telekom. In the hybrid structure selected for the network, data are transmitted via fiber-optic cable to the street cabinets, those gray boxes at the roadside that regulate the last mile to the customer. Our chip – dubbed **> VINAX™** – provides data rates of up to 100 megabits per second, permitting Triple Play services, i.e. telephony, Internet access and (timeshift and interactive) TV over one and the same connection. Further expansion of ADSL networks using the new ADSL2+ standard, which permits data rates of about 20 megabits per second, has begun worldwide. Infineon serves this market with special communications processors in both central offices and CPE equipment (customer premises equipment). New DSL customers have been gained in countries including Japan, China and the USA. Deliveries began in the 2006 financial year and will continue over several years.

Voice-over-IP – also referred to as Internet telephony – has become part of our everyday life. Home gateways support analog wireline telephones, cordless telephones and the latest combinations of DECT and Internet mobile phones. Profiting from this VoIP growth are our VINETIC®, Danube™, TwinPass™ and INCA® IP chips. It emerges that our long-standing know-how in voice communications and in networks, combined with systems expertise and the highly integrated architecture of our products, gives us a competitive edge. So it is not surprising that we are in first place in the access technologies market we address (DSL, T/E-Carrier, analog line cards, etc.).

The fiber-optic business was terminated in the 2006 financial year, as planned. All delivery commitments were met. As a result of the successful restructuring and the distinct growth in sales, the Broadband segment was profitable again in the 2006 financial year.

Strengthened Development and Production Partnerships

The COM manufacturing cluster includes Altis, the facility near Paris, for 250- to 130-nanometer technology, and the 200-millimeter facility in Dresden, Germany, for up to 90-nanometer technology. For 65-nanometer technology and below, the move is being made to foundry manufacturing. Accordingly, a production partnership with Chartered Semiconductor for 65-nanometer logic products was signed in November 2005. Infineon will supply 65-nanometer products without a facility of its own.

In addition to the realignment in manufacturing, we have also forged alliances in technology development to lower our costs. We cooperate with IBM, Samsung and Chartered Semiconductor for the development of processes from 65-nanometer feature size and below.

As part of our development and production strategy, we value the capability to produce a product design on several production lines of the alliance, so as to maximize design efficiency and flexibility. In keeping with this policy, the new 45-nanometer low-power process is expected to be installed and qualified at the 300-millimeter facilities of Chartered Semiconductor, IBM and Samsung by the end of 2007.

Infineon Applications for Communication Solutions

> **E-GOLDvoice™ on ULC2 platform**

While many people want to communicate on the move, they have little interest in high-tech functionality. Their main concern is low purchase cost. E-GOLDvoice™ shrinks the electronic component count in a simple mobile phone from over 100 at present to 50. The space required for the electronics is thus reduced to just 4 cm^2.

> **SMARTi® PM for GSM/GPRS/EDGE mobile phones**

Our SMARTi® PM is the world's first EDGE RF transceiver in CMOS technology to be produced in large volume. This chip is used in Samsung mobile phones, among others. With our SMARTi® PM, the RF portion of a GSM/GPRS/Edge mobile phone requires 50 percent less board space than competing solutions and reduces the component count by 30 percent.

> **S-GOLD®3H and SMARTi® 3GE on mobile multimedia platform**

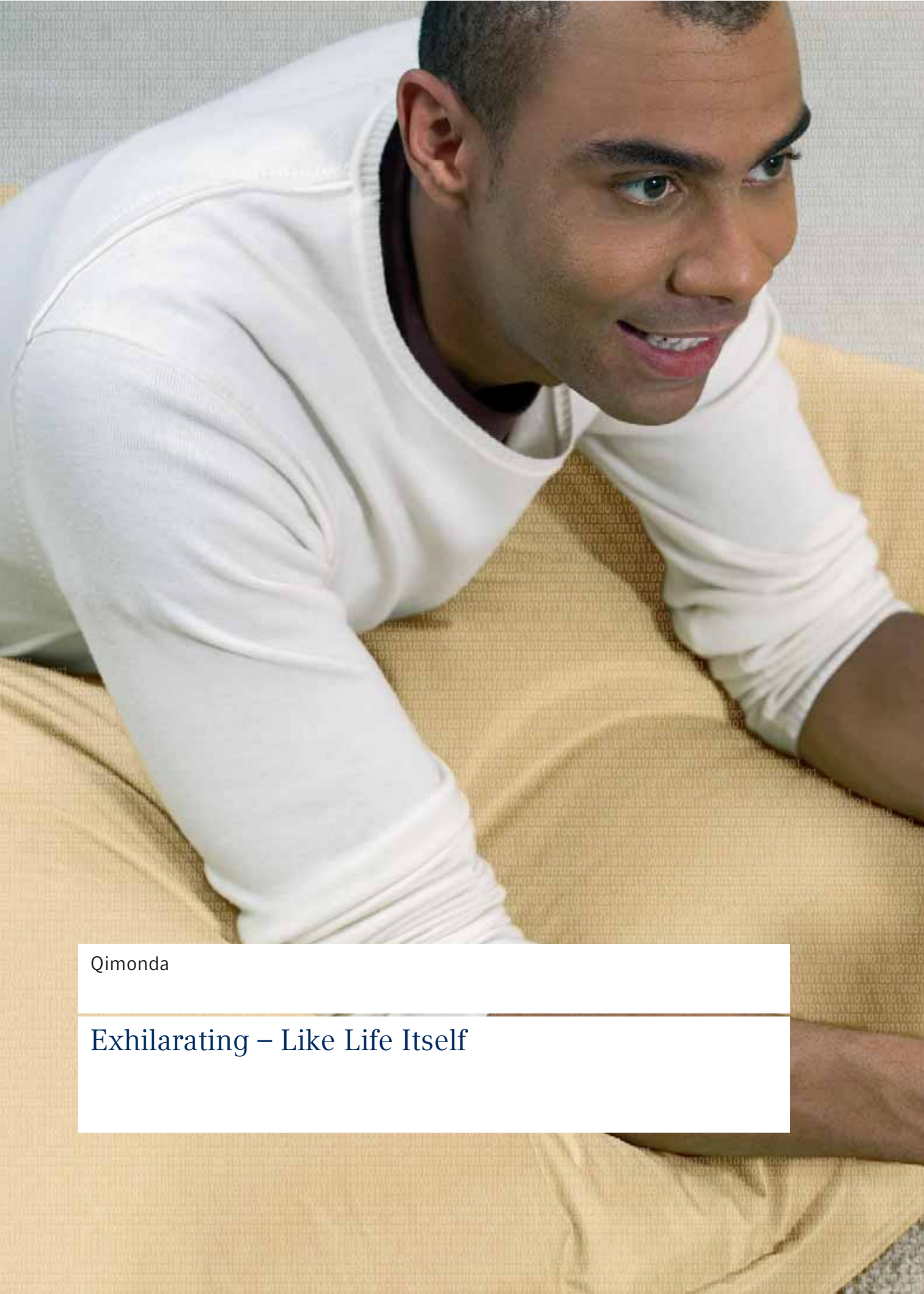
There are also customers who expect their mobile phones to perform functions nobody even dreamed about earlier. We address these customers with our HSDPA/WCDMA/EDGE multimedia platform, the MP-EH, whose core contains our S-GOLD®3H baseband processor and our SMARTi® 3GE RF transceiver. This enables discerning mobile phone customers to surf the Internet, fetch e-mails, listen to MP3s, record and send video sequences, take pictures and make calls in almost all networks of the world.

> **VINAX™ for VDSL2**

Germany is the first country in the world where the VDSL2 infrastructure is currently being set up. This is a hybrid structure comprising a fiber-optic network along the main city roads and the classical copper wire to the subscriber. Infineon chips are in the street cabinets where the optical signals are converted into electrical signals and in the distribution box at the customer end.

> **POF for video home networking**

POF (plastic optical fiber) is HDTV/IPTV transmission technology for the home. An optical fiber transmits data from the home gateway to the set-top box with virtually no bandwidth limitations. Our transceivers have full light-to-logic functionality and, thanks to this plastic fiber coupling technology, provide a secure, very fast and low-cost video transmission medium.



Qimonda

Exhilarating – Like Life Itself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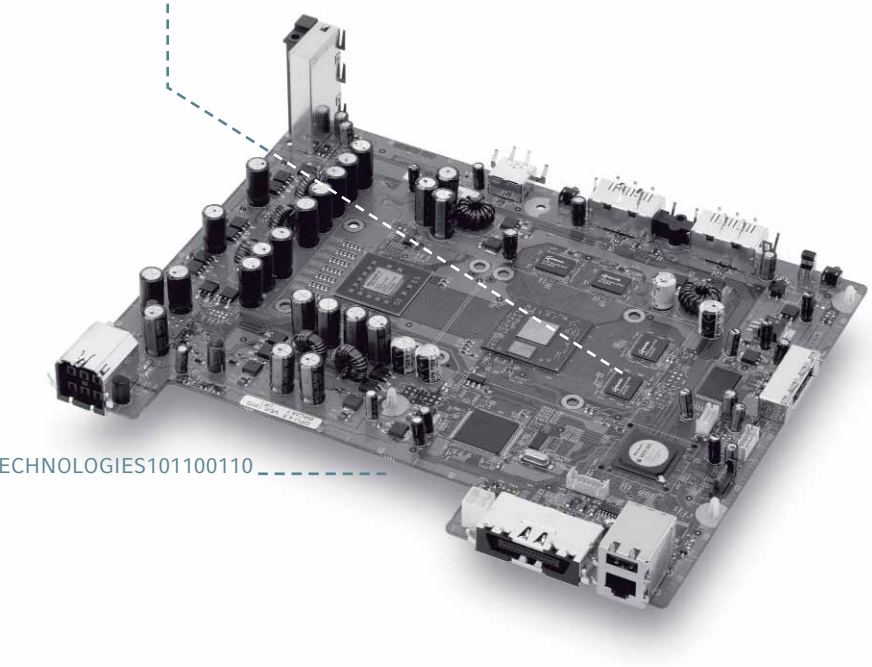
Whether PC graphics card or game console: High-performance graphics processors compute, color and shade millions of polygons a second to render games with crisp, realistic graphics. Graphics memory access needs to run without a hitch. Qimonda develops special graphics memories of this kind for the fastest game consoles in the world.

With 800 megahertz today and up to 1,600 megahertz in the next generation, graphics memories belong to the fastest and thus most demanding DRAM market segment. And it is precisely here that Qimonda enjoyed gratifying growth rates in the last financial year.



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* Not to scale

Some 250 million TV sets are in use in Europe, of which so far less than 10 percent are flat screen TVs. Why mention this fact? Because flat screen TVs need memories – tube TV sets do not. Even today, over 100 megabyte DRAM memories are used in HDTV flat screen televisions. We welcome this new demand for memory chips in the consumer electronics sector.
The popularity of game consoles is also on the increase. This is shown by the 183,000 visitors to the Games Convention in Leipzig, Germany, this past August. And it's also shown by the €372 million that were spent on game consoles in Germany alone in 2005. Many of them housed graphics memory chips from Qimonda.
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Qimonda

> Carve-out of the Memory Products business as an independent company.
> Profitability takes first priority – followed by growth.
> Game consoles and flat screen TVs fuel a boom in specialty memories.

The carve-out of the Memory Products business to form an independent company named Qimonda AG became effective May 1, 2006, two months ahead of schedule. Factors spurring the management's carve-out decision were the disparate business activities and production technologies and the dwindling potential for synergies between the DRAM memory business and the remaining AIM and COM segments. The decision also satisfied capital market requirements because some investors were inclined towards the volatile memory business, others tended to be against it. The carve-out allows the interests of the different groups of investors to be better accommodated. And last but not least, the stock market listing and homogeneous investor base clear the way for the realization of future strategic options.

Qimonda generates its revenues with the following product groups:
> Standard DRAMs for PC and workstation applications
> DRAMs for non-PC markets, including infrastructure, graphics, mobile and consumer applications
> Technology licenses and other memory products

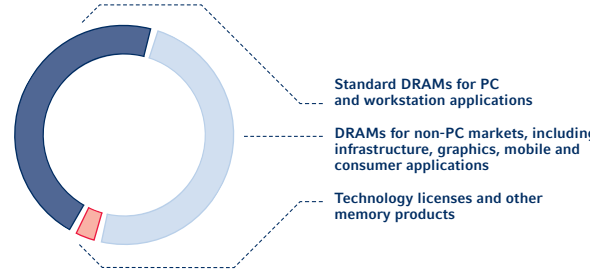
Standard DRAMs comprise components and modules for PCs, notebooks and workstations.

DRAMs for non-PC Markets, including infrastructure, graphics, mobile and consumer applications consist of components and modules for applications posing special demands in terms of performance, reliability and power consumption. Examples of such memory devices are servers, network infrastructures, PC graphics cards, game consoles and consumer electronics such as flat screen TVs, PDAs, MP3 players and smart phones.

Furthermore, we generate part of our revenues by **licensing** our DRAM trench production technology to Winbond and Nanya, as well as with embedded DRAM products. In the 2006 financial year non-volatile memories also contributed to sales.

The proportions of Qimonda sales volume for the 2006 financial year are presented in the diagram "Qimonda sales by product group".

QIMONDA SALES BY PRODUCT GROUP



Realignment

Our approach is: We seek growth, but profitability takes priority. Portfolio diversification is a way of achieving this. Our long-term goal is enlarging our share of higher-margin non-PC markets, including infrastructure, graphics, consumer electronics and mobile applications. In the 2006 financial year, standard DRAM sales stood at only 47 percent (following 56 percent in the 2005 financial year), and DRAMs for non-PC markets, including infrastructure, graphics, mobile and consumer applications already accounted for 50 percent (following 34 percent in the 2005 financial year). We expect this gratifying trend to persist.

Due to this successful product diversification, the average selling price of our memory chips has shown a positive development, outperforming the market average. In addition, we have also cut back our dependence on the volatile DRAM business with PCs and notebooks, which absorb around 60 percent of the DRAM global market. All in all, Qimonda distinctly increased its profitability in the course of the 2006 financial year. We anticipate that our cost position will improve further with the transition to 80-nanometer and 75-nanometer production technology starting in the 2007 financial year.

The ramp-up of the 300-millimeter facility in Richmond, Virginia, USA, and full-volume production in the first facility of Inotera, our Taiwanese joint venture, has further boosted our production capacity. This enabled us to increase our market share and reach the global number two position in terms of sales in the first nine months of 2006.

Best Technology for the Customer

Our trench technology currently has clear advantages over the competing stack technology, particularly in regard to power consumption. Trench technology gives users energy savings of up to 30 percent, thereby prolonging the battery life of their portable devices, or significantly reduces the power consumption of computer centers or server farms. It also ranks among the most widespread DRAM architectures on the market. Together with our partner Nanya, our joint venture Inotera and our production partners Winbond and SMIC, our market share in the first half of calendar year 2006 was 25 percent. This consortium therefore produces more bits with its trench technology than the competitors with their various stack technologies.

In recent years we have made a name for ourselves as a reliable supplier of memory modules in the demanding server, network and storage segment. We intend to strengthen our status in the future with our **> 8-gigabyte DDR2 modules** and **> fully-buffered (FB) DIMM products**.

Growth Fueled by Consumer Electronics

Years ago, who would have thought that TV sets would need memories. The advent of high definition television standards (HDTV) and digital broadcasting triggered a trend to flat screens which, even today, have over 100 megabytes memory capacity and are heading for continued rapid growth. We already supply 512 megabytes of **> DDR2 memory** for one of our Japanese customers' sets.

The generation of heat, and thus power consumption, are important factors for consumer electronics devices, since especially given their use in living rooms, they run without fans. With our power-saving trench technology we are in a position to offer our customers an advantage in this respect.

In addition to flat screens, we see further potential for growth in smart phones, PDAs, MP3 players and other portable consumer electronics that use our **> Mobile-RAMs**.

Mobile communications and consumer applications are bound to see the largest growth rates. Here market researchers expect memory demand to grow by over 100 percent a year in some cases.

Memories for Gaming

Qimonda is a player in the graphics scene. Graphics memories represent the most demanding segment of the DRAM market. We are all the more delighted that the suppliers of leading game consoles decided to use our **> GDDR3 graphics RAM**: Microsoft, Sony and Nintendo. This demonstrates the success of our strategy of exploring creative avenues to capture new markets and increasing the proportion of specialty memories in our sales.

In the PC graphics cards segment, we expanded our collaboration with ATI, the Canadian graphics processor and graphics card manufacturer, whose Mobility Radeon X1600 notebook graphics processors came out with our 512 Mbit GDDR3 graphics memories in December 2005. ATI is again our launch partner for the graphics memories of the coming GDDR5 generation.

In the last two years we have continually expanded our global market share in the graphics segment. In the meantime we have become the world's second-largest graphics memory supplier.

State-of-the-art 300-millimeter Facilities in the Manufacturing Cluster

Qimonda operates its own manufacturing sites in Dresden, Germany, and Richmond,Virginia, USA, runs the Inotera joint venture with Nanya and has production agreements with SMIC (China) and Winbond (Taiwan).

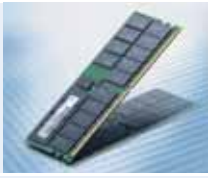
Following the successful ramp-up of the 300-millimeter facility in Richmond, the target capacity of 25,000 wafer starts per month was reached. We have thereby set up one of the most advanced 300-millimeter production facilities in the world.

The ramp-up of the 300-millimeter plant of our Inotera joint venture in Taiwan and the ramp-up of the 300-millimeter plant of our Chinese partner SMIC in Peking likewise went as planned.

The cooperation with Winbond has been in place since 2002, and was expanded in August 2006. The agreement provides for the transfer of Qimonda's 80-nanometer production technology to Winbond's 300-millimeter facility in Taichung, Taiwan. In return, Winbond will manufacture exclusively for Qimonda there.

Qimonda Applications

> **8-gigabyte DDR2 memory modules for servers**



High-performance servers call for memory modules with high capacity. Our 8-gigabyte DDR2 modules offer the highest capacities worldwide. The power consumption of the individual modules is indeed a relevant factor here, and that's exactly what the 1.8-volt DDR2 memory chips manufactured in Qimonda's trench technology target. Users are pleased with the performance; computer center operators with the electricity bill.

> **FB-DIMM with AMB for servers**

The data rate on memory buses cannot be increased at will. In high-end servers the number of memory modules and the clock rate could no longer be increased with the conventional bus system. The answer: Fully-Buffered (FB) DIMM. The special point about these modules is that Qimonda as the memory manufacturer also develops and produces the complex controller. This gives us unique world status.

> **DDR2 for flat screen TVs**

The notion that memories are used only in computers has long since ceased to apply. DDR2 PC memory chips meanwhile find their way into flat screens. Flat screens in the upper price segment need 8 chips each with 512 megabits – i.e. 512 megabytes, which is equivalent to a standard PC. The chips aren't new – the application is.

> **Mobile-RAM for portable entertainment electronics**

You'll soon be carrying these chips around with you everywhere. They're found in PDAs, smart phones, digital cameras and MP3 players. Due to their special architecture, Mobile-RAMs need very little power and come in an extra-small housing. Just the way we need them: compact and handy.

> **GDDR3 graphics memories for PC graphics cards or game consoles**

Photorealistic animation of the interactive scenery with perfect rendition of light and shade – that is the virtual world which is stored, computed and roamed with our GDDR3 graphics chips.

Financial Review

Contents

Report of the Supervisory Board to the Annual General Meeting

> **Max Dietrich Kley**
Chairman of the Supervisory Board of Infineon Technologies AG

Dear Shareholders,

The Supervisory Board hereby reports about the performance of its functions over the past financial year.

At the ordinary meetings of the Supervisory Board, the Management Board reported comprehensively on the company's business development, its economic situation as well as that of the individual operating segments; it also informed the Board about its financial and investment planning, and presented detailed quarterly reports. In the course of its meetings, the Supervisory Board discussed in depth the information submitted by the Management Board. The Management Board also reported verbally or in writing upon events of particular importance. Beyond that, the Chairman of the Supervisory Board has continually been informed in individual talks with the Management Board about significant developments and decisions within the company. The Supervisory Board has regularly monitored the company's management through the Management Board, and has supported the Management Board with its advice.

Main activities of the Supervisory Board

> carve-out of the Memory Products segment and subsequent initial public offering (IPO),
> strategic orientation of the Infineon Group,
> dealing with the events in connection with motor sport sponsorship and legal disputes with the former President and CEO Dr. Ulrich Schumacher,
> Infineon Stock Option Plan 2006.

Carve-out of the Memory Products segment and subsequent IPO. A plan to make the Memory Products segment operationally independent had already been presented to the Supervisory Board by the Management Board in the 2005 financial year. The Supervisory Board had reported on this to the Annual

General Meeting in its last report to the Annual General Meeting. In the meeting of the Supervisory Board on November 17, 2005, the plan was again extensively discussed on the basis of detailed information. The items of discussion between the Supervisory Board and the Management Board included – among others – the reasons for this plan, the impact on the Communication Solutions (COM) and Automotive, Industrial & Multimarket (AIM) segments, questions concerning the capital structure and funding of the new company, its collective bargaining coverage and a potential IPO. In its meeting on November 17, 2005, the Supervisory Board approved the carve-out of the Memory Products segment into a new legal entity and asked the Management Board to elaborate further steps for the implementation of the plan and to inform the Supervisory Board of the specific course established.

The carve-out of the Memory Products segment to form Qimonda AG became effective May 1, 2006. In the meeting on May 10, 2006 the Supervisory Board dealt with the projected IPO of Qimonda AG. The Supervisory Board first discussed the capital structure planned for Qimonda AG and then the question of the most suitable stock exchange. The Supervisory Board deliberated with the Management Board on possible options as to legal, financial and political aspects. The consequences for the employees were also considered. After balancing all the aspects raised, the Supervisory Board decided that Qimonda should be listed on a U.S. stock exchange, if possible within the 2006 calendar year. The Supervisory Board also decided that it was necessary for the IPO to be closely followed by the Supervisory Board and delegated this task to an Ad Hoc Committee formed for this purpose ("Qimonda IPO Committee"). The Supervisory Board made clear that all further decisions to be made by the Supervisory Board with regard to the Qimonda IPO were to be taken by the Qimonda IPO Committee. The following members of the Supervisory Board were appointed as members of the Qimonda IPO Committee: Max Dietrich Kley (Chairman), Dr. Siegfried Luther and Mr. Klaus Luschtinetz.

In the meeting on July 20, 2006 the Supervisory Board deliberated on the results of a meeting of the Qimonda IPO Committee and on the decisions made there with regard to the exact time schedule, volume and issue price concerning the Qimonda IPO. They were taken due note of and approved.

Strategic orientation of the Infineon Group. The Supervisory Board dealt with the strategic orientation of the Infineon Group. Subject matter of the deliberations was, in particular, the further business development of the Communication Solutions (COM) and Automotive, Industrial & Mulimarket (AIM) segments after the carve-out of the Memory Products segment into Qimonda AG. In particular, the Supervisory Board turned its attention to the Management Board's strategy for a profitable growth of the business units pertaining to the COM and AIM segments.

Dealing with the events in the area of motor sport sponsorship and legal disputes with the former chairman of the Management Board Dr. Ulrich Schumacher. In the financial year under review the Supervisory Board again had to deal with the events in the area of the company's motor sport sponsorship and the related allegations leveled against the former members of the Management Board Dr. Ulrich Schumacher and Dr. Andreas von Zitzewitz.

The Investment, Finance and Audit Committee of the Supervisory Board decided on July 22, 2005 to commission an independent, external investigation into the company's internal information and control system in order to ascertain whether there were any weaknesses in Infineon's system of controls which might have prevented the alleged misconduct of Dr. von Zitzewitz from being recognized earlier. The investigation revealed no such weaknesses. The results of the investigation were discussed in the Investment, Finance and Audit Committee on November 16, 2005, and were presented and discussed at the meeting of the Supervisory Board on November 17, 2005. The Supervisory Board already reported on this in its last report to the Annual General Meeting.

When the company learned that the Public Prosecutor's office had also started investigations against Dr. Schumacher in connection with the criminal proceedings against the motor sponsorship agent Udo Schneider, the Executive Committee of the Supervisory Board decided on November 11, 2005 not to pay the second installment of Dr. Schumacher's severance payment in the amount of €2.625 million, until the criminal investigations were completed. Furthermore, the Executive Committee arranged for an internal audit to be carried out, which revealed misconduct of Dr. Schumacher. On the basis of the internal audit report of January 20, 2006, the Executive Committee decided after deliberating at length on January 27, 2006 to withdraw from the severance agreement concluded with Dr. Schumacher and to claim back the first installment paid of the severance payment. Dr. Schumacher thereupon filed a lawsuit against the company. The District Court I (Landgericht I) of Munich adjudicated in favor of Dr. Schumacher. After obtaining a legal opinion, the Executive Committee decided on October 6, 2006 to file an appeal against this judgment and to assert all the company's claims. On the basis of Udo Schneider's testimony in the criminal proceedings with regard to misconduct of former members of the Management Board, the Executive Committee further decided on October 6, 2006 that the company takes measures necessary to protect its rights.

In addition to the Executive Committee, various meetings of the Supervisory Board and the Investment, Finance and Audit Committee dealt with the events in the area of motor sport sponsorship and with the allegations leveled against former members of the Management Board. They were constantly informed by the General Counsel about the findings of the internal audits and – as far as known – about the Public Prosecutor's investigations. Both bodies supported the actions resolved by the Executive Committee.

Stock Option Plan 2006. In its meeting on November 17, 2005, the Supervisory Board dealt in depth with the company's new Stock Option Plan. As the performance target of the former Infineon Stock Option Plan was critizised by the public, the Supervisory Board decided to provide both an absolute and a relative performance target. The absolute performance target was increased from 5 percent in the former Stock Option Plan to 20 percent. The relative performance target requires that the Infineon stock price exceeds the performance of the semiconductor index "Philadelphia Semiconductor Sector" (SOX) of the Philadelphia stock Exchange, USA, for at least three consecutive days on at least one occasion during the life of the Option. The new Infineon Stock Option Plan 2006 has a three-year term.

Corporate Governance. The Supervisory Board firmly believes that good corporate governance is an essential factor in the success of the company, and has therefore regularly studied German and international corporate governance rules and their implementation in the company. In the last financial year the Supervisory Board resolved to amend its rules of procedure to the effect that the transactions included in the catalogue of transactions requiring approval should no longer be subject to the approval of the Investment, Finance and Audit Committee, but to that of the entire Supervisory Board. In the meeting on May 10, 2006 the Supervisory Board discussed the efficiency of its work. The cooperation with the Management Board and within the Supervisory Board was evaluated as good. Some members of the Supervisory Board made suggestions for improvement, which were implemented in the financial year under review. The Declaration of Compliance 2005 pursuant to Section 161 of the German Stock Corporation Act was adopted by the Supervisory Board in November 2005 and the Declaration of Compliance 2006 in November 2006. There were only two notifiable deviations from the recommendations of the code for the 2006 financial year. These and further details of Infineon's Corporate Governance are described separately in the Annual Report.

Meetings of the Supervisory Board and the committees. During the period under review there were four ordinary meetings of the Supervisory Board.

The Investment, Finance and Audit Committee was convened four times in the period under review. The Committee focused its activity primarily on the examination of the interim reports, the preliminary auditing of the annual accounts, discussion of the auditor's report with the auditor, and the examination of finance and investment plans. The carve-out of the Memory Products segment to form Qimonda AG, its subsequent IPO and the events surrounding the company's motor sport sponsorship were also deliberated upon in the Committee and prepared for discussion in the plenary session. The Committee furthermore dealt with the management's assessment of the internal control system, as required under Section 404 of the Sarbanes-Oxley Act. This assessment proved that there are no "material weaknesses".

In its meeting on May 10, 2006, the Supervisory Board resolved on setting up a Strategy and Technology Committee dealing with the company's strategic and technological direction. The members of the Supervisory Board Prof. Dr. Klaus Wucherer (Chairman), Alfred Eibl, Jakob Hauser, Prof. Dr. Doris Schmitt-Landsiedel, Alexander Trüby and Prof. Dr. Martin Winterkorn were appointed as members of this Committee. The Committee held one meeting in the financial year under review, in which it discussed the strategy for the "Automotive" part of the AIM segment.

The Qimonda IPO Committee met for one meeting and also aligned with the Management Board by telephone with regard to individual questions on the Qimonda IPO. Particular items discussed by the Committee were the capital structure of Qimonda, the time schedule, the issuing volume and issuing price for the Qimonda IPO.

The Executive Committee was convened for one meeting. As already set forth above, it dealt in particular with the allegations against the former members of the Management Board Dr. Schumacher, Dr. Mehrgardt and Dr. von Zitzewitz. The Committee also conferred by means of telephone conferences and passed a number of resolutions by way of circulation of written proposals.

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

Individual and consolidated financial statements. In the period under review Infineon's annual financial statements were again audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main. KPMG audited the individual financial statements of Infineon Technologies AG and the consolidated financial statements of the Infineon Group for the financial year ending September 30, 2006, as well as the combined operating and financial reviews ("Lagebericht") of Infineon Technologies AG and of the Infineon Group. KPMG has rendered an unqualified auditor's opinion ("uneingeschränkter Bestätigungsvermerk") for these documents. We have also examined these documents ourselves. Further, KPMG confirmed that the consolidated financial statements were prepared in accordance with the provisions of U.S. GAAP and that the exemption provision under Section 292a of the German Commercial Code (HGB) in conjunction with Article 58 (5) of the Introductory Act to the German Commercial Code (EGHGB) was applicable.

The reports by KPMG on the audit of the annual accounts and the consolidated financial statements as well as the combined operating and financial reviews ("Lagebericht") were presented to all members of the Supervisory Board. They were discussed in detail, first at the meeting of the Investment, Finance and Audit Committee on November 15, 2006 and subsequently in the financial statements meeting of the Supervisory Board on November 23, 2006, in the presence of the auditors. At this meeting the Management Board also reported in detail on the scope, key areas and costs of the audit. The Supervisory Board found no grounds for objections and agreed with the results of the audit, approving the annual and consolidated financial statements and the combined operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The annual report and accounts are thus completed.

Management Board changes. Mr. Kin Wah Loh retired from office as member of the Management Board with effect from April 15, 2006 and assumed the position of Chairman of the Management Board of Qimonda AG. The Supervisory Board accepted his declaration of resignation.

Composition of the Supervisory Board. Dr. Joachim Faber resigned from office effective February 16, 2006. Dr. Siegfried Luther was elected as a new member of the Supervisory Board by the Annual General Meeting on February 16, 2006. Mr. Dieter Scheitor resigned from office effective February 28, 2006 and Mr. Wiegand Cramer was appointed by the court as his successor effective April 20, 2006. We would like to express our thanks to the departing members of the Supervisory Board for their dedicated work in this forum.

The Supervisory Board would like to express its thanks to the Management Board and all the employees for their efforts and their performance in the past financial year. The Supervisory Board would also like to thank all the members of the Works Council for their constructive participation.

Munich, November 2006

On behalf of the Supervisory Board

Max Dietrich Kley

Chairman of the Supervisory Board

Corporate Governance: Report of the Management Board and Supervisory Board

Corporate Governance means setting standards for good and responsible corporate leadership.

Infineon's Management Board and Supervisory Board view Corporate Governance as a comprehensive concept, which includes all corporate values, processes and goals that underlie our corporate mission. Corporate Governance at Infineon encompasses internal controlling standards, the Business Conduct Guidelines, the regulation of the company's organizational and supervisory tasks, and Infineon's Corporate Governance Code. In addition, Infineon has appointed a Corporate Governance Officer who reports directly to the Management and Supervisory Boards.

Infineon maintains high German and international standards

German regulations

Infineon has adopted almost all of the regulations that have been recommended or suggested by the Government Commission "German Corporate Governance Code", and is fully compliant with the standards set down in U.S. capital markets law. It is our goal to continue to report fully and comprehensively about the company to our shareholders and the public. We intend to support shareholders as far as possible in the exercise of their rights. Via the Internet, shareholders can, for example, register for our Annual General Meeting, participate in voting by instructing Infineon's voting proxies online, or follow the general debate online. We shall further strengthen cooperation between the Management Board and the Supervisory Board. In order to achieve our goals, we will continue to promote a positive climate of mutual respect and open dialog.

American capital market rules

Infineon Technologies AG is listed on the New York Stock Exchange (NYSE). The company is therefore subject to American securities regulation, to rules of the American Securities and Exchange Commission (SEC) and to the corporate governance regulations of the NYSE. Since July 2002, the U.S. legislator, the SEC and the NYSE have issued various rules for improvement of investor protection and Corporate Governance for U.S. companies. Most of these rules also apply to non-U.S. companies listed on U.S. stock exchanges.

To implement the U.S. regulations, we have set up a Disclosure Committee with the task of examining and releasing financial information and other material information for publication. A procedure has been introduced to enable employees to anonymously disclose information about violations of internal guidelines and statutory accounting rules. We have also put into place an internal certification procedure that requires senior executives bearing managerial responsibility to confirm certain data. This procedure is used for the CEO and CFO certifications of SEC filings under U.S. law.

The structure of corporate management and supervision

German Stock Corporation Law, to which Infineon Technologies AG is subject as a German stock corporation, stipulates a two-tier corporate management and supervision system, namely, corporate management by the Management Board and corporate oversight by the Supervisory Board. We are convinced that this separation of the two functions is an integral part of good Corporate Governance.

Management Board

The Management Board of Infineon Technologies AG – currently four members – is the company's executive body. It is bound to solely serve the company's interests and thereby geared to a sustainable increase of shareholder value. In compliance with the mandatory German Stock Corporation Law, it bears overall responsibility for a value-creating management of the company. In accordance with its rules of procedure, all members are jointly responsible for the management of the company.

Supervisory Board

The Supervisory Board advises and monitors the Management Board in the performance of its executive duties. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all material aspects of business development, planning and risk issues, and agrees with the Supervisory Board on corporate strategy and its implementation. The Supervisory Board discusses the quarterly reports, audits and approves the annual financial statements and the consolidated financial statements of Infineon Technologies AG. Basic decisions of the Management Board, such as major acquisitions, divestitures, and financial measures are subject to the Supervisory Board's approval. The Supervisory Board also decides about the appointment and dismissal of the members of the Management Board. The Supervisory Board comprises 16 members who, in accordance with German Codetermination Law, represent in equal numbers the shareholders and the employees. The shareholder representatives are elected by the Annual General Meeting, most recently in the 2005 financial year. The employee representatives are elected by delegates of the workforce at Infineon's German sites in accordance with the regulations of German Codetermination Law. Six of these employee representatives are employees of the company, two are representatives of German labor unions.

The term of office of the Supervisory Board generally lasts five years. The duties of the Supervisory Board and its committees are laid down in the rules of procedure of the Supervisory Board.

Committees of the Supervisory Board

The rules of procedure of the Supervisory Board make provision for the formation of three committees: The Mediation Committee, the Executive Committee and the Investment, Finance and Audit Committee. In addition, the Supervisory Board has set up a Strategy and Technology Committee. In the last fiscal year an additional Ad Hoc Committee was set up with regard to the initial public offering of Qimonda AG.

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

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

The Audit Committee monitors the company's financial reporting, discusses and examines the quarterly and the annual financial statements presented by the Management Board. Based on the independent auditor's report about its audit of the financial statements, it makes suggestions with respect to the approval of the annual financial statements by the Supervisory Board. It also deals with the company's system of internal controls and the procedure for risk assessment, risk control and risk management. To this end, it is able to refer directly to all employees and to call in external support. Internal audit reports regularly to the Committee, which can also determine the audit plan and its key areas of auditing. In addition, the Committee commissions the independent auditor with regard to the individual financial statements and the consolidated financial statements, determines specific areas of the audit which are of relevance to the Supervisory Board and is responsible for determining the independent auditor's compensation. In addition, we have determined that the auditor may be entrusted with consulting work only to the extent approved by the Audit Committee.

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

Shareholders and Annual General Meeting

Shareholders of the company take their decisions at the Annual General Meeting, which is held at least once a year. Every share carries one vote. Every shareholder who is registered in the share register and timely enrolls is entitled to attend the Annual General Meeting. The Annual General Meeting of shareholders decides on all the issues assigned to it, in particular on the discharge of the Management Board and the Supervisory Board, the election of the auditor, amendments to the Articles of Incorporation and any capital reorganization. In the interest of best Corporate Governance, the German legislator has always prescribed that any form of capital reorganization is subject to shareholders' approval. That includes stock option plans served with company stock. Shareholders are entitled to make counter-proposals to the motions introduced by management and, under certain circumstances, are entitled to challenge resolutions of the Annual General Meeting and to demand special judicial reviews when they suspect misconduct or severe deficiencies in the company's management or supervision.

We quarterly report to our shareholders, in accordance with our financial calendar, on business development, and the company's financial situation and financial results. The members of the Management Board regularly inform shareholders, analysts and the public about the quarterly and annual results. Our extensive investor relations activity includes regular meetings with analysts and institutional investors as well as annual analysts' conferences and telephone conferences. We strive to further intensify the dialog with shareholders and analysts.

Infineon Stock Option Plan 2006

The Annual General Meeting has adopted the Infineon 2006 Stock Option Plan on February 16, 2006. As the performance target was criticized by some shareholders, the Management Board and the Supervisory Board decided to present to the Annual General Meeting a new plan providing both an absolute and a relative performance target. The absolute performance target was increased from 5 percent in the former Stock Option Plan to 20 percent. The relative performance target requires that the Infineon stock price exceeds the performance of a comparative index for at least three consecutive days on at least one occasion during the life of the Option. The comparative index used is the "PHLX Semiconductor Sector" (SOX).

The Infineon Stock Option Plan 2006 has a three-year term (instead of the former six-year term).

Business Conduct Guidelines and Code of Ethics in Financial Matters

We conduct our business responsibly and in compliance with the legal requirements and administrative regulations – and we have established several guidelines for this purpose. Our Business Conduct Guidelines are binding for the Management Board and employees. They particularly include regulations regarding the treatment of complaints and suggestions in case of violations of these guidelines. A Compliance Officer, who reports directly to the Audit Committee, accepts complaints and suggestions, also those filed anonymously. The Business Conduct Guidelines also contain our Code of Ethics in Financial Matters, and are published on our website.

Ongoing evaluation and improvement of the Infineon Corporate Governance Code

Management Board, Supervisory Board and senior executives are responsible for ensuring that our Infineon Corporate Governance Code is actively "lived" in the company. We regularly review, further develop and adapt our Corporate Governance Code to potential changes of any amendments in the "German Corporate Governance Code". Thus for the 2006 financial year we decided to individually disclose the Management Board members' compensation (see Compensation Report, page 50). In addition, we have further improved our Corporate Governance Code, in particular by adopting all the new recommendations and suggestions of the "German Corporate Governance Code" issued in June 2006. In November 2006, the Management Board and the Supervisory Board have issued the Declaration of Compliance 2006 pursuant to Section 161 of the German Stock Corporation Act.

Information according to section 6.6 of the "German Corporate Governance Code"

In the past fiscal year the company has received a notification about the following transaction:

Date of the transaction:	2006-14-08
Surname, name:	Dr. Ziebart, Wolfgang
Position held:	President and CEO
Title:	Shares of Infineon Technologies AG
Purchase/Sale:	Purchase
Price (each):	€8.39
No. of units:	20,000
Volume of transaction:	€167,800
Location:	Frankfurt Stock Exchange (Xetra)

Declaration of Compliance 2006 pursuant to Section 161 of the German Stock Corporation Act

In the 2006 fiscal year Infineon Technologies AG has complied with all the recommendations of the Government Commission "German Corporate Governance Code" (in the version of June 2, 2005) pursuant to Section 161 of the German Stock Corporation Act, with the following exceptions:

> The structure of the Management Board remuneration system was deliberated and agreed by the Executive Committee of the Supervisory Board (section 4.2.2).

> We individually disclosed the remuneration of our President and CEO, but otherwise waived individual disclosure of the remuneration of the other members of the Management Board (section 4.2.4).

Infineon Technologies AG will comply with all the recommendations of the Government Commission on the "German Corporate Governance Code" (in the version of June 12, 2006), with the following exceptions:

> The structure of the Management Board remuneration system will be deliberated and agreed by the Executive Committee of the Supervisory Board (section 4.2.2).

Further information on Corporate Governance at Infineon is available on the Internet at www.infineon.com, "Investor-Information". The latest version of the "German Corporate Governance Code" of the Government Commission is published at www.corporate-governance-code.de. A concrete account of the activities of the Supervisory Board and its committees is given in the report of the Supervisory Board that is included in our annual report. Information on our risk management is given under "Risk Report". A detailed description of our significant accounting policies is included in the notes to the consolidated financial statements.

---Report of the Supervisory Board, page 41;
---Risk Report, page 75;
---Notes to the Consolidated Financial Statements, page 90

Compensation Report of Infineon Technologies AG

This Compensation Report outlines principles for determining the compensation of the Management Board and Supervisory Board of Infineon Technologies AG, and the amount of compensation paid to the individual members of the Management Board and Supervisory Board. The Compensation report is based on the recommendations of the German Corporate Governance Code as amended on June 12, 2006.

Compensation of the Management Board in the 2006 financial year

The Execution Committee of the Supervisory Board is responsible for determining the compensation of the Management Board. Members of the Execution Committee are the Chairman of the Supervisory Board Max Dietrich Kley, the Vice-Chairman of the Supervisory Board Klaus Luschtinetz, and the member of the Supervisory Board Prof. Dr. Martin Winterkorn. The compensation of the members of the Management Board of Infineon Technologies AG is intended to reflect the company's size and global presence, its economic standing and the level and structure of the compensation paid to Management Boards of comparable companies at home and abroad. Additional factors taken into account are the duties and responsibilities, and the contribution made by the respective member of the Management Board. The compensation of the Management Board comprises the following elements:

- A fixed basic annual salary which – net of statutory deductions – is payable partly in monthly installments and partly at the beginning of the following financial year.
- An annual bonus as a variable, performance-related element. In the 2006 financial year, the annual bonus depended on the return on assets, which we define as net operating profit after taxes, minus exceptional effects, in proportion to capital employed. This ensures that a bonus is only earned if business develops positively. The annual bonus is paid after the end of the financial year. In addition to the bonus tied to the return on assets, the contracts concluded with the Management Board provide for a special bonus option awarded in recognition of special business achievements. In the 2006 financial year Dr. Wolfgang Ziebart and Mr. Kin Wah Loh each received a special bonus of €100,000 for special business achievement in the 2005 financial year.
- Options on Infineon Technologies AG stock deriving from the 2001 Stock Option Plan, as a variable compensation element with long-term incentive ef-fect and risk character. The stock options can be exercised by December 12, 2012 following a waiting period of two years for 50 % of the options, three years for 25 % of the options and four years for a further 25 % of the options, at a price of €8.20, on the terms provided for in the 2001 Stock Option Plan. The monetary value of the stock options is €3.19 per option, determined according to the Black-Scholes option-pricing model. Basic principles of our 2001 Stock Option Plan are available in full text on the Internet at www.infineon.com.

In the 2006 financial year, the members of the Management Board received the following monetary compensation (gross, without statutory deductions):

	Non-performance-related compensation in €			Performance related compensation in €	Total compensation in €
	Salary				
Management Board	Payment in 12 monthly installments	Payment after financial year end	Others[1]	Bonus	Total
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[2]	9,058	–	**417,391**
Peter J. Fischl	400,000	600,000	30,379	–	**1,030,379**
Kin Wah Loh	243,750[3]	450,000[4]	111,769[5]	100,000	**905,519**
Total	2,153,750	2,448,333	203,207	200,000	**5,005,290**

1 Compensation elements in the "Others" column basically comprise monetary advantages resulting from the provision of a company car and insurance contributions.
2 This sum comprises the one-off payment paid in the last financial year for the preceding 2005 financial year pro-rated as of 1 August 2005, the day on which Prof. Dr. Eul was appointed to the Management Board.
3 This sum comprises the pro rata temporis monthly compensation up to April 15, 2006, because Mr. Loh retired from the Management Board with effect from this date.
4 This sum comprises the one-off payment paid in the last financial year for the preceding 2005 financial year, and the pro rata temporis one-off payment for the last financial year.
5 This sum is a one-off compensatory payment to Mr. Loh in view of his higher tax burden in Germany due to his longer presence in Germany (as compared with Singapore where Mr. Loh resides).

The members of the Management Board received the following number of stock options from the Infineon 2001 Stock Option Plan in the 2006 financial year:

Management Board	Number of stock options
Dr. W. Ziebart (CEO)	160,000
P. Bauer	80,000
Prof. Dr. H. Eul	80,000
P. Fischl	80,000
Kin Wah Loh	80,000
Total	**480,000**

Pension awards and retirement pay (in the 2006 financial year)

The retirement pay agreement with the President and CEO fixes the retirement pay at a certain percentage of the last basic monthly salary. A contractual commitment to the other members of the Management Board has been made in the form of a fixed sum. Accrued pension liabilities allocated to the Management Board increased by €4,354,831 in the 2006 financial year. Former members of the Management Board received retirement pay of €100,000 in the 2006 financial year.

Fringe benefits and other awards (in the 2006 financial year)

> The members of the Management Board received no fringe benefits besides the elements identified in the "Others" column.

> The contracts of employment of some members of the Management Board provide for the payment of a one-off transitional allowance in the event of termination of employment. The transitional allowance is equivalent to an annual income composed of the last 12 basic monthly salaries, and a sum amounting to the average of the bonus sums paid for the last three financial years prior to termination. There is no right to the payment of a transitional allowance in the event of termination not prompted by the company by the member of the Management Board, and if the company has good cause for termination.

> Members of the Management Board do not receive any loans from the company.

> The company maintains a directors' and officers' group liability insurance (D&O insurance). The insurance policy is taken out/renewed annually. The insurance covers the personal liability risk in the event of claims raised against members of the Management Board for indemnification of losses incurred in the exercise of their duty, if the claimed loss exceeds 25 % of the non-performance-related compensation of the respective Management Board member. (Deductible as defined by the German Corporate Governance Code, clause 3.8, para. 2).

Compensation of the Supervisory Board for the 2006 financial year

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

> A fixed compensation of €25,000

> A variable element which takes the form of 1500 share appreciation rights per annum. They are issued and may be exercised on the same terms as provided for by the Stock Option Plan which is applicable to the company in the financial year of issue of the share appreciation rights and is approved by the Shareholders' Annual General Meeting. These share appreciation rights, however, do not entitle to a share purchase but only to settlement in cash. The share appreciation rights can be exercised following a waiting period of two years for 50 % of the share appreciation rights, three years for 25 % of the share appreciation rights and four years for a further 25 % of the share appreciation rights, at a price of €8.20. The monetary value of the share appreciation rights is €3.19 per share appreciation right, determined according to the Black-Scholes option-pricing model.

Additional compensation is paid for certain positions within the Supervisory Board. The Chairman of the Supervisory Board additionally receives 100 % of the fixed compensation, each Vice-Chairman and each other member of a committee of the Supervisory Board, with the exception of the committees formed by operation of law, additionally receive 50 % of the fixed compensation.

Members of the Supervisory Board additionally receive compensation for all expenses incurred in connection with performing the assignment, as well as the VAT apportioned to their compensation, insofar as they can charge for it separately and do so.

The individual members of the Supervisory Board received the following cash compensation, including 19 % VAT, in the 2006 financial year.

Supervisory Board member	Fixed compensation in €
Max Dietrich Kley	59,500
Wigand Cramer[1]	12,396
Alfred Eibl	35,948
Dr. Joachim Faber[2]	18,594
Johannes Feldmayer	29,750
Jakob Hauser	35,948
Dr. Stefan Jentzsch	29,750
Prof. Dr. Renate Köcher	29,750
Klaus Luschtinetz	44,625
Dr. Siegfried Luther[3]	29,750
Michael Ruth	29,750
Dieter Scheitor[4]	12,396
Gerd Schmidt	29,750
Prof. Dr. Doris Schmitt-Landsiedel	35,948
Kerstin Schulzendorf	29,750
Alexander Trüby	35,948
Prof. Dr. Martin Winterkorn	44,625
Prof. Dr.-Ing. Klaus Wucherer	35,948
Total	**580,126**

1 From April 20, 2006
2 Up to February 16, 2006 (retirement from office)
3 Up to February 16, 2006
4 Up to February 28, 2006 (retirement from office)

Others (2006 financial year)

> Members of the Supervisory Board do not receive any loans from the company.

> The company maintains a directors' and officers' group liability insurance. The insurance policy is taken out/renewed annually. The insurance covers the personal liability risk in the event of claims raised against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duty, if the claimed loss exceeds 100 % of the fixed compensation of the respective Supervisory Board member. (Deductible as defined by the German Corporate Governance Code, clause 3.8, para. 2).

Operating and Financial Review

Important note

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

This report combines the operating and financial review of Infineon Technologies AG as a part of the global development, manufacturing, sales and marketing network of the Infineon group, with the operating and financial review of the Infineon group as a whole.

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

Graphs and charts, including their annotations, serve as illustrations and are not part of the operating and financial review.

Overview of the 2006 Financial Year

In our 2006 financial year, which ended September 30, both the global economy and the semiconductor market were slightly stronger than in the prior year. As a global player in the semiconductor market, we were influenced by these more favorable macroeconomic and market conditions. In spite of these improved market conditions, we were also impacted by ongoing strong pricing pressure in all of our operating segments. The following were the key developments in our business during the 2006 financial year:

- Our net sales increased by 17 %, from €6,759 million in the 2005 financial year to €7,929 million in the 2006 financial year. Our earnings before interest and taxes (EBIT) increased from negative €183 million in the 2005 financial year to negative €15 million in the 2006 financial year. Our cash flow from operations decreased from €1,039 million in the 2005 financial year to €974 million in the 2006 financial year.
- In August 2006, Qimonda, our memory business, successfully completed an initial public offering on the New York Stock Exchange of 42 million new ordinary shares, together with 6.3 million existing shares from Infineon in an over-allotment option, at a price of $13 per share. We incurred aggregate charges of approximately €80 million primarily in connection with the formation of Qimonda, the dilution of our interest in Qimonda following its initial public offering, as well as our sale of Qimonda shares upon exercise of the underwriters' over-allotment option.
- In March and May 2006, our joint venture Inotera Memories, Inc. ("Inotera") successfully completed an initial public offering on the Taiwanese Stock Exchange of 200 million ordinary shares and a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400 million ordinary shares), each at an issuance price of NT$33 per ordinary share. As a result of these transactions, we recognized non-operating gains of €72 million.
- In June 2006, we and MOSAID Technologies Inc. ("MOSAID") reached agreements settling all claims between us and licensing to us the MOSAID patent portfolio for use in our current and future products. Under the terms of the settlement agreements, MOSAID purchased fifty patents from us. We retain royalty-free "lives of the patents" licenses to use these patents in the manufacturing and sale of any products. In addition, MOSAID granted us a six year license to use any MOSAID patents in the manufacturing and sale of semiconductor products, as well as a "lives of patents" license to those MOSAID patent families that had been in dispute.
- In August 2006, Infineon and Qimonda entered into settlement agreements with Tessera Inc. ("Tessera") with respect to all of Tessera's patent-infringement and anti-trust-related claims. Pursuant to the settlement, Infineon and Qimonda entered into six-year license agreements with Tessera that provide Infineon

and Qimonda a world-wide, non-exclusive, non-transferable and non-sub licensable license to use a portfolio of Tessera patents.

- We recognized charges of €91 million in the 2006 financial year within the Communication Solutions segment, primarily in connection with the insolvency of BenQ's German subsidiary.
- We continued to invest heavily in research and development and achieved a number of significant milestones during the year, including the introduction of:
  - highly-secure identification chips for the new United States government electronic passport, designed to facilitate international travel by allowing automatic identity verification, faster immigration inspections and greater border protection and security;
  - the most advanced 32-bit embedded flash microcontrollers for automotive applications in series production, making us the first semiconductor manufacturer worldwide to achieve high-volume output of embedded flash products using 130-nanometer technology;
  - a family of 100V MOSFET devices that can reduce the parts count in switched mode power supplies (SMPSs) by 30 %, and reduces losses of up to 20 %, compared to solutions based on standard technologies. OptiMOS® 2 offers optimum performance in AC/DC and DC/DC power conversion applications in computer servers, and telecommunications and networking systems;
  - SMARTi® 3GE, the world's first one-chip, six-band WCDMA (Wideband Code Division Multiple Access) and quad-band EDGE radio frequency transceiver for mobile phones manufactured in RF CMOS technology;
  - S-GOLD®3H, a baseband processor for mobile phones supporting next-generation HSDPA (High-Speed Downlink Packet Access) data rates of up to 7.2 megabits per second (Mbit/s);
  - E-GOLDvoice™, a GSM single-chip for mobile phones which integrates a baseband processor, radio frequency transceiver, power management unit and RAM, achieving a new record level of silicon integration for mobile communications; and
  - Danube™, a single-chip solution for ADSL2+ broadband IAD (integrated access device) and home gateway applications enabling services such as VoIP, video-conferencing and IPTV.
- Qimonda likewise achieved a number of significant milestones during the year, including:
  - the introduction of DDR2 Fully-Buffered DIMMs in high volume as a new technology for Intel's Bensley server platforms;
  - the introduction of the industry's first DDR3 SO-DIMM samples to ATI for future notebook designs; and
  - becoming the preferred supplier of GDDR3 Graphics RAM for Microsoft's game console XBox 360.
- As part of our ongoing project to improve our production processes and expand our production capabilities, we:
  - opened our first Asia-based front-end power fab located in Kulim Hi-Tech Park, Malaysia. We plan to invest approximately $1 billion in this production facility. Maximum capacity will be approximately 100,000 wafer starts per month using 200-millimeter wafers. The new facility will produce power and logic chips used in industrial and automotive power applications;
  - developed additional 130-nanometer process options to fulfill the needs of specialty applications;
  - achieved significant progress in our advanced 65-nanometer logic technology, with the successful manufacture of our first cell-phone chips;
  - are developing a 45-nanometer logic technology, with the first working circuits in 45-nanometer logic technology already proven in silicon;
  - signed an agreement with Chartered Semiconductor Manufacturing Ltd. ("Chartered Semiconductor") regarding the manufacturing of 65-nanometer logic products;
  - finalized the first phase of the ramp-up of the new 300-millimeter manufacturing module at Richmond with a capacity of 25,000 wafer starts per month;
  - announced with Nanya Technology Corporation ("Nanya") that we have successfully qualified the next generation 75-nanometer DRAM trench technology and the first 512M DDR2 product that has been jointly developed at Qimonda's R&D centers in Dresden and Munich, Germany; and
  - expanded our foundry relationship with Winbond Electronics Corp., Hsinchu, Taiwan ("Winbond") to include the transfer of next generation 80-nanometer DRAM trench technology.

Our Business

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

Our business is organized into three principal operating segments serving various markets in the semiconductor industry:

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

- Our Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.
- Our majority-owned subsidiary Qimonda designs memory technologies and develops, manufactures, markets and sells a large variety of memory products on a module, component and chip level.

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

The Semiconductor Industry and Factors that Impact Our Business

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

Cyclicality

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

We and Qimonda attempt to mitigate the impact of cyclicality by investing in manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle. We believe that Qimonda, in particular, can improve its gross margin by focusing on two key areas: the continuous improvement of cost structure and productivity through the introduction of advanced memory process technologies and the development and marketing of a broader range of memory products, focusing particularly on higher margin and less volatile applications such as infrastructure, high-end graphics, consumer and mobile applications.

Substantial Capital and R&D Expenditures

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large investments in manufacturing assets. The top 10 capital spenders in the industry, of which we rank number 8 according to IC Insights, account for nearly 50 % of the industry's projected 2006 capital spending budgets. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

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

To reduce our total costs, we also aim to share the costs of research and development and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D and manufacturing and foundry partnerships provide us with a number of important benefits, including the sharing of risks and costs, reducing our own capital requirements, allowing us to develop a broader range of products, acquiring technical know-how, and gaining access to additional production capacities. Qimonda, for example, is developing future DRAM technologies with feature sizes of 58-nanometer together with Nanya. In addition, Qimonda has established foundry relationships with partners in Asia, including Semiconductor Manufacturing International Corporation, Shanghai, China ("SMIC"), and Winbond Electronics Corp., Hsinchu,

Taiwan ("Winbond"), to increase its manufacturing capacities, and therefore its potential revenues, without investing in additional manufacturing assets. In our logic area, our principal alliances are with International Business Machines Corporation ("IBM"), New York, United States of America, Chartered Semiconductor Manufacturing Ltd., Singapore ("Chartered Semiconductor") and Samsung Electronics Co. Ltd., Seoul, Korea ("Samsung") for CMOS development and manufacturing at 65-nanometer and 45-nanometer process technologies, with United Microelectronics Corporation, Taipei, Taiwan ("UMC") for 90-nanometer manufacturing, and with IBM through our manufacturing joint venture ALTIS Semiconductor S.N.C. ("ALTIS") in Essonnes, France.

We expect to increase unit production output through improvements in manufacturing, which is achieved by producing chips with smaller structure sizes (more bits per chip) and by producing more chips per silicon wafer (by using larger wafers). For DRAM process technology, the majority of Qimonda's capacity is based on 110-nanometer structure sizes. In addition, 90-nanometer technology is currently in ramp-up and Qimonda has already started commercial production based on 75-nanometer structure sizes, jointly developed with Nanya. Qimonda has extended its 300-millimeter capacity share during the 2006 financial year with the continuous ramp up of the facilities of Inotera, its joint venture with Nanya, and the ramp-up of foundry capacities at SMIC in Beijing, Winbond in Taichung and Qimonda's own facility in Richmond. Qimonda plans to further extend the share of its memory production on 300-millimeter wafers with the continuous ramp-up of the 300-millimeter line in Richmond and at the joint venture Inotera. In our logic area, the majority of our capacity is based on 130-nanometer structure sizes. Our 130-nanometer logic process technology, with up to eight layers of copper metallization, is in full production at several manufacturing sites, including our Dresden facility and our manufacturing joint venture with IBM in Essonnes, France. Additional 130-nanometer process options have been developed to fulfill the needs of specialty applications. Our 90-nanometer logic technology is in production and our first cell-phone chips in our advanced 65-nanometer logic technology have been successfully manufactured. In addition, we are in the process of developing a 45-nanometer logic technology. The first working circuits in 45-nanometer logic technology were proven in silicon in financial year 2006.

With our planned investment of approximately $1 billion in the Kulim power manufacturing facility, we will increase our manufacturing capacity mainly for automotive and industrial power products by up to 100,000 wafer starts per month using 200-millimeter wafers. At full capacity, this manufacturing facility is expected to employ about 1,700 people.

Technological Development and Competition

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. Memories in particular are commodity-type products. Since most specifications are standardized, customers can switch between suppliers on short notice. This leads to strong competition within the market, and causes manufacturers to pass cost savings on to their customers in an effort to gain market share. Logic products are generally not commodities, but rather have a certain degree of application specification. Although generally less volatile than those for commodity memory products, unit sales prices for logic products typically decline over time as technological developments occur.

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

Seasonality

Our business is affected by seasonality, with sales historically strongest in our fourth financial quarter and weakest in our first financial quarter. The seasonality of our sales reflects the seasonal demand fluctuations for the products that incorporate our semiconductors. If anticipated sales or shipments do not occur when expected, expenses and inventory levels in that quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

Product Development Cycles

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

Acquisition and Divestiture Strategy

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

Intellectual Property

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

Challenges that lie Ahead

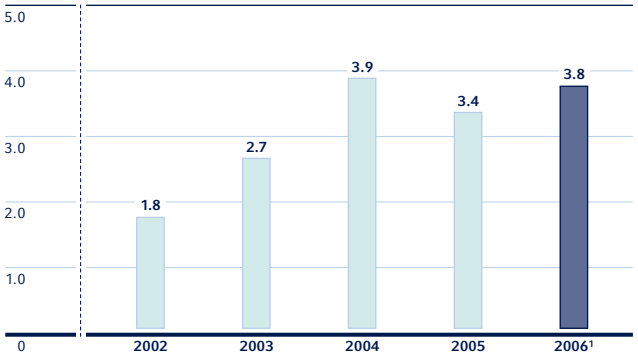
Going forward, our success will remain highly dependent on our ability to stay at the leading edge of technology development, and to continue to optimize our product portfolio. We must achieve both objectives to ensure that we have the flexibility to react to fluctuations in market demand for different types of semiconductor products. We believe that the ability to offer and the flexibility to manufacture a broad portfolio of products will be increasingly important to our long-term success in many markets within the semiconductor industry. Establishing and maintaining advantageous technology, development and manufacturing alliances, including the use of third-party foundries, and continuing our efforts to broaden our product portfolio will make it easier for us to respond to changes in market conditions and to improve our financial performance.

Semiconductor Market Conditions in the 2006 Financial Year

The growth of the semiconductor market accelerated only slightly through the first three quarters of the 2006 calendar year following growth of 7 % in the 2005 calendar year, according to WSTS (World Semiconductor Trade Statistics). In October 2006, WSTS predicted a growth rate of 8 % for the full 2006 calendar year. According to WSTS, sales in North America are expected to increase by 11 % in the 2006 calendar year. The semiconductor market in Asia-Pacific is expected to increase by 11 %; the Japanese market is expected to grow by 7 %; the European market is expected to increase slightly by 1 %. Sales of non-memory products (logic chips, analog, discrete and optical components), which accounted for 78 % of the entire market in the first half of the 2006 calendar year, are predicted to grow by 6 % compared with the 2005 calendar year. Sales of memory products are predicted to grow by 17 % compared with the 2005 calendar year.

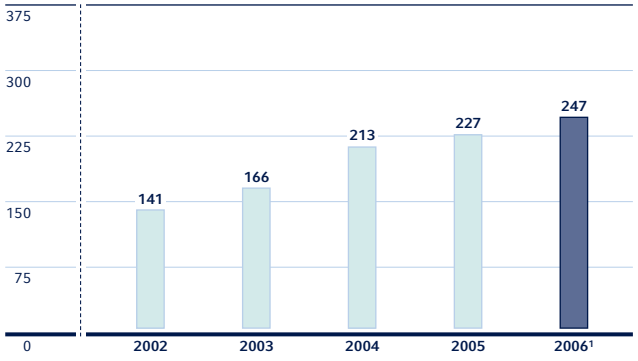
Gartner Dataquest predicts worldwide growth in the 2006 calendar year of 12 % for semiconductors in the communications business (wireless and wireline). Sales of semiconductors for industrial electronics are predicted to grow by 15 %, for automotive electronics by 6 %, for data processing by 8 % and for consumer electronics by 17 %.

WORLD ECONOMIC GROWTH IN %



The growth acceleration of the world economy in the 2006 calendar year did have a slight positive influence on semiconductor market growth.
Source: International Monetary Fund; status: September 2006.
1 Estimated.

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



The slightly higher growth of the semiconductor market in the 2006 calendar year positively impacted Infineon.
Source: WSTS; status: October 2006.
1 Estimated.

Results of Operations

Reorganization

Our new organizational structure became effective on May 1, 2006, following the legal separation of our memory products business into the stand-alone legal company Qimonda. 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.

We operate 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 our 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 FASB Statement of Financial Accounting Standards ("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.

Effective May 1, 2006, with the completion of the Qimonda carve-out, the Other Operating Segments also include revenues and earnings 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 revenues and earnings.

Net Sales

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. In addition, on average we generated more than 1 % of the last three years of our sales from activities such as foundry services for divested businesses and the licensing of our intellectual property. Our semiconductor products include two main categories of semiconductors:

- Our logic products, which include a wide array of chips and components used in electronic applications ranging from wireless and wireline communication systems, chip cards, automotive electronics and industrial applications.
- Our memory products, such as dynamic random access memory (DRAM) products, which are used in computers and other electronic devices. We also offer a limited range of non-volatile flash memory products, which are used in consumer applications such as digital still cameras or cellular handsets.

We made the vast majority of our product sales in the 2006 financial year through our direct sales force, with approximately 24 % of net sales from our logic segments and approximately 13 % of Qimonda's net sales derived from sales made through distributors.

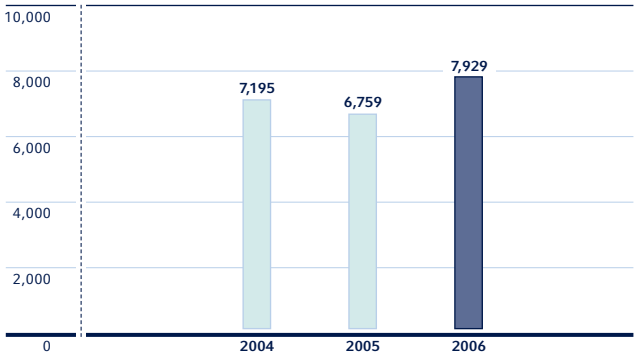
We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing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

RESULTS OF OPERATIONS AS A PERCENTAGE OF NET SALES

For the years ended September 30[1]	2004	2005	2006
Net sales	100.0	100.0	**100.0**
Cost of goods sold	(64.9)	(72.6)	**(73.8)**
Gross profit	35.1	27.4	**26.2**
Research and development expenses	(16.9)	(19.1)	**(15.8)**
Selling, general and administrative expenses	(10.0)	(9.7)	**(9.5)**
Restructuring charges	(0.2)	(1.2)	**(0.3)**
Other operating expense, net	(3.6)	(1.4)	**(1.4)**
Operating income (loss)	4.4	(4.0)	**(0.8)**
Interest expense, net	(0.6)	(0.1)	**(1.2)**
Equity in earnings (losses) of associated companies, net	(0.2)	0.9	**1.0**
Gain on subsidiaries and associated company share issuance, net	0.0	0.0	**0.2**
Other non-operating income (expense), net	(0.9)	0.4	**(0.4)**
Minority interests	0.3	0.0	**(0.3)**
Income (loss) before income taxes	3.0	(2.8)	**(1.5)**
Income tax expense	(2.1)	(1.8)	**(2.0)**
Net income (loss)	0.9	(4.6)	**(3.5)**

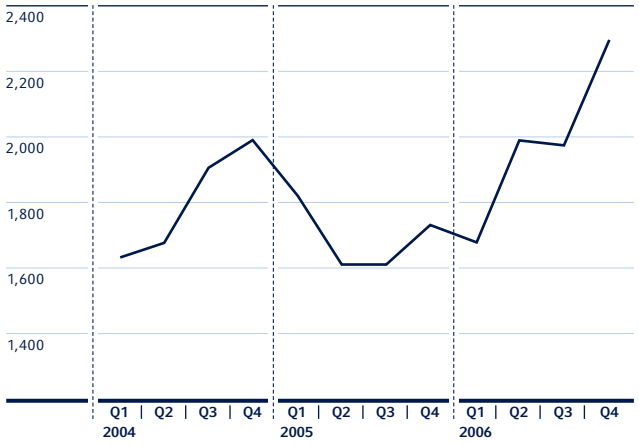
1 Columns may not add due to rounding.

NET SALES € IN MILLION



The increase in net sales reflects the higher demand in Qimonda and the Automotive, Industrial & Multimarket segment.

QUARTERLY NET SALES € IN MILLION



Increase in quarterly net sales reflects the improved business.

to our current and former alliance partners, such as Winbond, Nanya and ProMOS.

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

> The market prices for our products, particularly our memory products;
> Our overall product mix and sales volumes;
> The stage of our products in their respective life cycles; and
> The effects of competition and competitive pricing strategies.

In the 2005 financial year, net sales decreased primarily due to lower demand for products of the wireless business and declining prices for DRAM products. The increase in net sales in the 2006 financial year was mainly driven by higher demand for memory products, especially for graphics, mobile and consumer DRAMs, as well as healthy growth in the Automotive, Industrial & Multimarket segment, particularly in the automotive and industrial power applications businesses. In the 2005 financial year, license income increased primarily due to the settlement reached with ProMOS, whereby €118 million in license income was recognized. The decrease in license income in the 2006 financial year was mainly driven by the non-recurring license fees from ProMOS recognized in the prior financial year. The strength of major foreign currencies (primarily the U.S. dollar) relative to the euro during the 2006 financial year positively impacted reported net sales, whereas the net sales of the 2004 and 2005 financial year were negatively impacted by the effect of foreign exchange rates. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year is applied as a constant rate in the current year. The increase in net sales from entities we acquired since the beginning of the prior year reflects primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition. The main effect in the 2006 financial year resulted from the initial consolidation of ALTIS as of December 31, 2005.

For the years ended September 30	2004	2005	2006
Net sales	7,195	6,759	**7,929**
Changes year-on-year		(6 %)	**17 %**
Of which:			
License income € in million	76	175	**29**
% of net sales	1 %	3 %	**0 %**
Effect of foreign exchange over prior year € in million	(445)	(177)	**142**
% of net sales	(6 %)	(3 %)	**2 %**
Impact of acquisitions over prior year € in million	29	2	**40**
% of net sales	0 %	0 %	**0 %**

Net Sales by Segment

Automotive, Industrial & Multimarket

In the 2005 financial year, net sales in this segment decreased slightly compared to the 2004 financial year, despite a continued volume increase in the automotive business. The decline was primarily due to strong pricing pressure combined with decreased market volumes in the security and chipcard business. The segment experienced healthy growth in the 2006 financial year as volume grew, particularly for automotive and industrial power applications, more than offsetting ongoing pricing pressure caused by technological developments and competition. We experienced continued strong pricing pressure in the market for chipcard ICs throughout the 2006 financial year.

Communication Solutions

In the 2005 financial year, net sales in the Communication Solutions segment declined year-on-year due to a revenue decrease in the wireless business primarily caused by lower demand for baseband products beginning in the second quarter of the 2005 financial year, as well as continued pricing pressure. This decline could not be offset by the stable net sales trend in the wireline business. The decline in net sales in the 2006 financial year was also caused by a revenue decrease in the wireless business mainly due to a continued decline in demand for baseband products, as well as ongoing pricing pressure. This decline was partly compensated by a strong revenue increase in the wireline business.

Qimonda

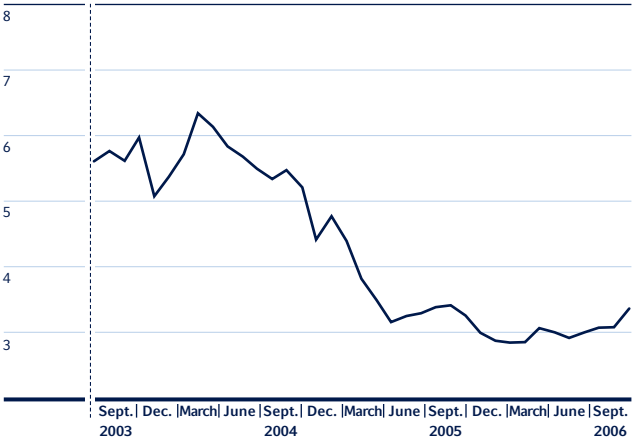
Net sales in the 2005 financial year declined compared to the previous year mainly due to pricing pressure, particularly in the first half of the financial year, which could not be compensated by increasing bit shipments and increased revenues from licenses and Flash memory products. In addition, the continued unfavorable U.S. dollar/Euro exchange rate further contributed to the revenue decline. Production volumes increased during the 2005 financial year primarily as a result of the ramp-up of our manufacturing joint venture Inotera and the access to additional capacity through our co-operation with Winbond and SMIC. Overall, megabit sales volume increased during the 2005 financial year as a consequence of increasing market demand, particularly for personal computers and system memory. The majority of our memory products sales were based on 256-Mbit DRAMs in the first half of the 2005 financial year and of 512-Mbit DRAMs in the second half of the 2005 financial year, as the market shifted to the next higher-density product generation. Net sales in the 2006 financial year increased compared to the previous year mainly due to increased bit shipments and a favorable U.S. dollar/Euro exchange rate. The higher bit shipments resulted from the ramp-up of our 300-millimeter manufacturing facility in Richmond, the conversion of an increasing share of our capacities to our 90-nanometer technology, our access to additional capacities of our joint venture partners and our foundries as well as the overall demand growth in the DRAM market and our successful diversification in new market segments, particularly with our graphic DRAM products. These positive effects were partly offset by price declines in the DRAM market. The majority of our memory products sales were based in 512-Mbit DRAMs in the 2006 financial year.

DRAM prices were under substantial pressure during the first quarter of our 2006 financial year after which they recovered over the remaining three quarters. Our average per-megabit selling prices for DRAM products (expressed in U.S. dollars) were approximately 20 % less in 2006 financial year compared with the 2005 financial year. The per-megabit selling prices in U.S. dollars at the spot market of our major products with DDR2 interfaces declined sharply at the start of our financial year, declining around 26 % over the first three months. During this quarter, we produced an excess of DDR2 chips because the corresponding DDR2 logic chipsets, which are produced by logic semiconductor manufacturers, were not available in quantities sufficient for PC manufacturers to absorb the supply of DDR2s in

For the years ended September 30	2004 € in million	%	2005 € in million	%	2006 € in million	%
Automotive, Industrial & Multimarket	2,540	35	2,516	37	**2,839**	**36**
Communication Solutions	1,689	23	1,391	21	**1,205**	**15**
Other Operating Segments[1]	16	–	285	4	**310**	**4**
Corporate and Eliminations[2]	(58)	–	(258)	(4)	**(240)**	**(3)**
Subtotal	4,187	58	3,934	58	**4,114**	**52**
Qimonda	3,008	42	2,825	42	**3,815**	**48**
Total	7,195	100	6,759	100	**7,929**	**100**

1 Includes inter-segment sales of €273 million and €256 million 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 million and €256 million 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.

DRAM PRICE DEVELOPMENT PER 256-MBIT-EQUIVALENT IN U.S. $



Source: WSTS

the market. A portion of the DDR2 chips that we produced remained unsold and in our inventory until supply of appropriate logic chipsets caught up. Starting January 2006 prices recovered quickly for DDR2 chips, gaining around 26 % in the next three months. After a period of strong and stable pricing until May 2006, DDR2 pricing experienced some modest short-lived price erosion until July 2006 before again rising through to financial year end due to tight market supply. DDR recovered steadily, albeit more slowly from the December 2005 low points, continuing to increase through to the end of our financial year.

Other Operating Segments

The increase of net sales in the 2005 and 2006 financial years resulted mainly from the inter-segment sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements. Prior to the 2005 financial year the 200-millimeter facility in Dresden was part of the Qimonda segment and related sales were reported within Qimonda.

Net Sales by Region and Customer

Our net sales decreased in the 2005 financial year in all major regions, primarily due to pricing pressure and lower demand for semiconductor products, especially for baseband components in the wireless business in Germany. In the 2006 financial year, our net sales increased in nearly every region, primarily due to higher demand for semiconductor products, in particular for specialty memory products in the consumer electronics and game-console businesses in North America.

The number of customers of our Automotive, Industrial & Multimarket segment remained stable. In the 2006 financial year, the top 20 customers of this segment accounted for approximately 65 % of the segment's sales. The net sales of this segment increased in all regions, with a particularly strong increase in Asia.

In the Communication Solutions segment, we have seen a further shift of net sales to the Asia-Pacific region. Our top 20 customers in this segment accounted for over 80 % of its net sales. The four largest customers of that segment in the 2006 financial year were BenQ, Ericsson, Nokia and Siemens. In the financial years 2005 and 2006, the wireless business saw net sales drop significantly as a result of the loss in market share experienced by BenQ. The Communication Solutions segment responded to these developments by putting in place much leaner internal structures to reduce fixed costs, and by systematically broadening its customer base. This strategy has made good progress. During financial year 2006, in the face of strong competition, our company won two new major customers, LG Electronics Inc., Seoul, Korea ("LG"), and Samsung.

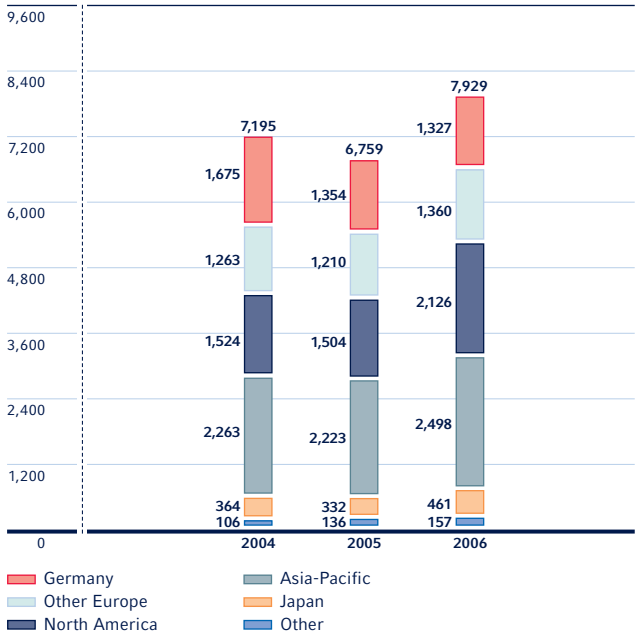
In the 2006 financial year Qimonda's top 20 customers accounted for nearly 80 % of its net sales. The net sales of Qimonda improved in all regions, with a particularly strong increase in North America and Japan due to increased net sales of specialty memory products to consumer electronics and game-console manufacturers.

The Siemens group accounted for 13 %, 13 % and 7 % of our net sales in the 2004, 2005 and 2006 financial years, respectively. Sales to the Siemens group are made primarily by our

NET SALES BY REGION AND CUSTOMER

For the years ended September 30	2004 € in million	%	2005 € in million	%	2006 € in million	%
Germany	1,675	23	1,354	20	**1,327**	**17**
Other Europe	1,263	18	1,210	18	**1,360**	**17**
North America	1,524	21	1,504	22	**2,126**	**27**
Asia-Pacific	2,263	32	2,223	33	**2,498**	**31**
Japan	364	5	332	5	**461**	**6**
Other	106	1	136	2	**157**	**2**
Total	7,195	100	6,759	100	**7,929**	**100**

NET SALES BY REGION € IN MILLION



Increased importance of Asia and North America regions.

logic segments. No other single customer accounted for 10 % or more of our net sales in the 2004, 2005 or 2006 financial years. On April 3, 2006, Siemens disposed of its remaining shareholding in our company. Transactions between us and Siemens subsequent to this date are no longer reflected as related party transactions.

Cost of Goods Sold and Gross Margin

Our cost of goods sold consists principally of:

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

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

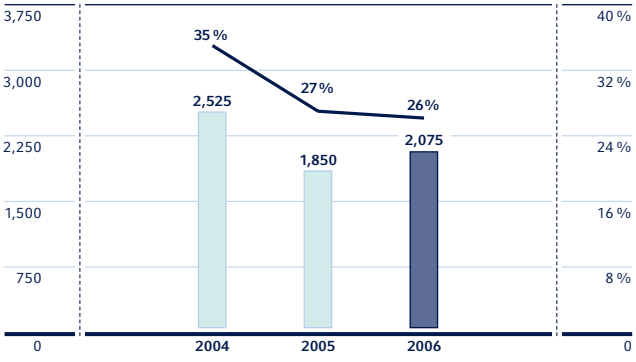
> Factory utilization and related idle capacity costs;
> Amortization of purchased intangible assets;
> Product warranty costs;
> Provisions for excess or obsolete inventories; and
> Government grants, which are recognized over the remaining useful life of the related manufacturing assets.

We report as cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies such as ALTIS (consolidated since December 31, 2005) and Inotera. Our purchases from these associated and related companies amounted to €575 million in the 2006 financial year, €615 million in the 2005 financial year and €357 million in the 2004 financial year.

Our gross margin deteriorated in the 2005 financial year, primarily as a result of higher idle capacity costs and strong pricing pressure in most of our operating segments, as well as the unfavorable U.S. dollar/Euro exchange rate, which could not be entirely offset by productivity measures. In the 2006 financial year our gross margin decreased slightly compared to the 2005 financial year due to decreased gross margin of Qimonda, primarily as

For the years ended September 30	2004	2005	2006
Cost of goods sold € in million	4,670	4,909	**5,854**
Changes year-on-year		5 %	**19 %**
% of net sales	65 %	73 %	**74 %**
Gross margin	35 %	27 %	**26 %**

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



Reduced gross margin at Qimonda almost compensated by other segments.

a result of lower level of license income and strong pricing pressure for DDR2 memories in the first quarter of the 2006 financial year. This effect was almost entirely offset by the improved gross margin in the Automotive, Industrial & Multimarket and the Communication Solutions segments, particularly due to lower idle costs.

Automotive, Industrial & Multimarket

In the 2005 financial year, gross margin deteriorated as a result of higher idle capacity costs in the first half of the financial year and strong pricing pressure, which could not be fully offset by productivity measures. In the 2006 financial year, our gross margin recovered mainly due to a reduction of idle capacity costs.

Communication Solutions

Gross margin deteriorated in the 2005 financial year mainly due to increased idle capacity costs. In the 2006 financial year, gross margin improved mainly as a result of lower idle capacity costs and the successful implementation of productivity measures, which more than offset the inventory write-downs resulting from the insolvency of BenQ's German subsidiary.

Qimonda

Gross margin decreased in the 2005 financial year, as the improvements of productivity and reduced manufacturing costs resulting from the conversion to 110-nanometer process technology and our increasing share of 300-millimeter manufacturing could not compensate for the effect of lower average selling prices and the unfavorable U.S. dollar/Euro exchange rate. The gross margin decreased slightly during the 2006 financial year, falling to 20 % from 23 % in the 2005 financial year, primarily as a result of the lower level of license income. Excluding the changes in license income, Qimonda's gross margin would have remained nearly unchanged. The Qimonda gross margin was under particular pressure early in the 2006 financial year when price pressures were higher, and improved later in the financial year.

Research and Development (R&D) Expenses

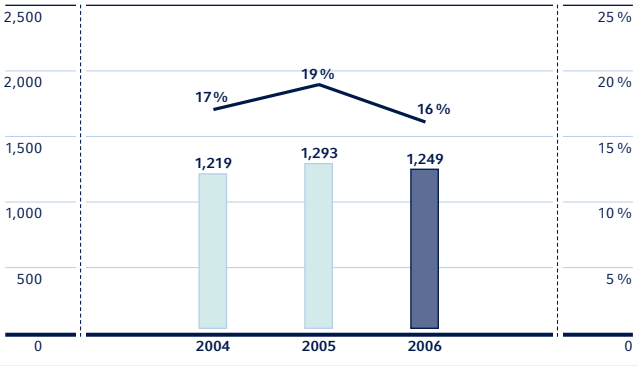
Research and development expenses consist primarily of salaries and fringe benefits for research and development personnel, materials costs, depreciation and maintenance of equipment used in our research and development efforts, and contracted technology development costs. Materials costs include expenses for development wafers and costs relating to pilot production activities prior to the commencement of commercial production. R&D expenses also include our joint technology development arrangements with partners such as Nanya and IBM.

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

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

For the years ended September 30	2004	2005	2006
Research and development expenses € in million	1,219	1,293	**1,249**
Changes year-on-year		6 %	**(3 %)**
% of net sales	17 %	19 %	**16 %**
Government subsidies € in million	74	50	**67**
% of net sales	1 %	1 %	**1 %**

R&D EXPENSES € IN MILLION
AND AS PERCENTAGE OF NET SALES IN %



Improved efficiency reduces R&D expenses.

Automotive, Industrial & Multimarket

R&D expenses increased slightly both in absolute terms and as a percentage of sales in the 2005 financial year. The increase took place mainly in the automotive and power businesses. During the 2006 financial year, R&D expenses remained approximately on the same level as in 2005 financial year in absolute terms and slightly decreased as a percentage of sales.

Communication Solutions

R&D expenses in the 2005 financial year remained relatively stable in absolute terms and increased relative to sales compared to the 2004 financial year. The high level of R&D expenses was maintained in the first half of the 2005 financial year, with a focus on software and solution activities for third-generation mobile phone semiconductors as well as for broadband semiconductor solutions. In the second half of the 2005 financial year, R&D expenses were reduced in absolute terms, reflecting the successful implementation of efficiency programs initiated in the second quarter of the 2005 financial year. In the 2006 financial year, R&D expenses further declined in absolute terms and remained stable as a percentage of net sales compared to the 2005 financial year as the effect of previously implemented efficiency programs was realized during the 2006 financial year.

Qimonda

In the 2005 financial year, R&D expenses increased in absolute terms due to increased spending on the acceleration of the development of next-generation memory technologies and the broadening of the overall memory portfolio. In the 2006 financial year, R&D expenses increased again in absolute terms due to our effort to strengthen our development capabilities with respect to next-generation memory technologies and the further diversification of our portfolio of memory products. They decreased as a percentage of net sales due to increased net sales.

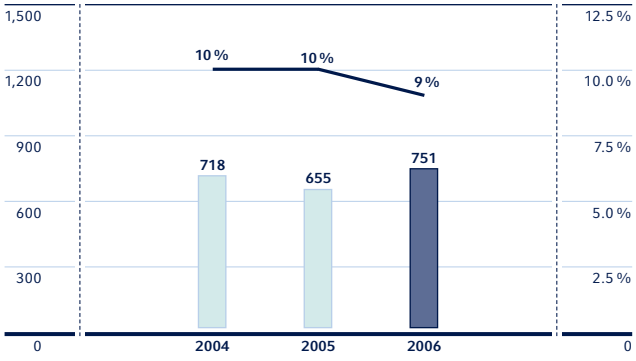
Selling, General and Administrative (SG&A) Expenses

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

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

For the years ended September 30	2004	2005	2006
Selling, general and administrative expenses € in million	718	655	**751**
Changes year-on-year		(9 %)	**15 %**
% of net sales	10 %	10 %	**9 %**

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



Increased SG&A expenses mainly caused by the insolvency of BenQ's German subsidiary, Qimonda carve-out and stock-based compensation.

Selling and administrative expenses increased primarily due to charges of €28 million incurred in connection with the insolvency of BenQ's German subsidiary, expenses of €16 million related to the Qimonda formation, as well as stock-based compensation costs of €12 million.

Other Items Affecting Earnings

For the years ended September 30	2004	2005	2006
Restructuring charges € in million	17	78	**23**
% of net sales	0 %	1 %	**0 %**
Other operating expense, net € in million	257	92	**108**
% of net sales	4 %	1 %	**1 %**
Equity in (losses) earnings of associated companies, net € in million	(14)	57	**78**
% of net sales	(0 %)	1 %	**1 %**
Gain on subsidiaries and associated companies share issuance, net € in million	2	–	19
% of net sales	0 %	0 %	**0 %**
Other non-operating (expense) income, net € in million	(64)	26	**(33)**
% of net sales	(1 %)	0 %	**(0 %)**

Restructuring Charges

In connection with our decision to close down various development centers in the 2004 financial year, we recorded restructuring charges, mainly for severance payments. In the 2005 financial year, we continued our restructuring and cost-saving efforts aimed at reducing costs, including downsizing our workforce and consolidating certain functions and operations. We agreed upon plans to terminate employees, primarily in connection with the close down of fiber optics operations in Germany and the United States, as well as measures taken to restructure our chip manufacturing in the front-end area within the manufacturing cluster Perlach, Regensburg and Villach. Production activities at Munich-Perlach will be transferred principally to Regensburg and, to a lesser extent, to Villach. In the 2006 financial year, we continued our restructuring measures to downsize the workforce at ALTIS and our chip card back-end activities in order to maintain competitiveness and reduce cost. As part of the restructurings, it is expected that a total of 450 employees will be terminated.

Other Operating Expense, net

Other operating expense, net in the 2004 financial year related principally to charges from our settlement of an antitrust investigation by the U.S. Department of Justice, related settlements with customers and a similar ongoing investigation in Europe, as well as a goodwill impairment charge of €71 million related to our 2001 acquisition of Catamaran. In the 2005 financial year, other operating expense included a net charge of €96 million resulting primarily from the reorganization of certain communication businesses and goodwill and other intangible assets impairment charges. In the 2006 financial year, other operating expenses consisted mainly of goodwill and intangible assets impairment charges of €38 million, antitrust related charges of €23 million, the settlement of Tessera litigation of €37 million, and a loss of €12 million from our sale of Qimonda shares due to the exercise of the underwriters' over-allotment option in connection with the initial public offering of Qimonda.

Equity in (Losses) Earnings of Associated Companies

Our principal associated company is currently Inotera, as ALTIS has been fully consolidated as of December 31, 2005. Inotera is a DRAM manufacturer and is reflected in the results of Qimonda; our equity in its earnings has been sensitive to fluctuations in the price of DRAM and is reflected in the results of Qimonda.

Start-up losses at Inotera during the ramp-up phase of production contributed to the losses incurred in the 2004 financial year. In the 2005 and 2006 financial years, Inotera contributed the majority of our equity in earnings from associated companies, reflecting the start of volume production by that joint venture in the 2005 financial year.

Gain on Subsidiaries and Associated Company Share Issuance, net

In August 2006, Qimonda successfully completed an initial public offering on the New York Stock Exchange of 42 million new ordinary shares, together with 6.3 million ordinary shares from Infineon in an over-allotment option, at a price of $13 per share. We realized a non-operating loss of €53 million from the dilution of our interest in Qimonda following its initial public offering.

In March and May 2006, our joint venture Inotera successfully completed an initial public offering on the Taiwanese Stock Exchange of 200 million ordinary shares and a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400 million common shares), each at an issuance price of NT$33 per ordinary share. As a result of these transaction s, we recognized a non-operating gain of €72 million.

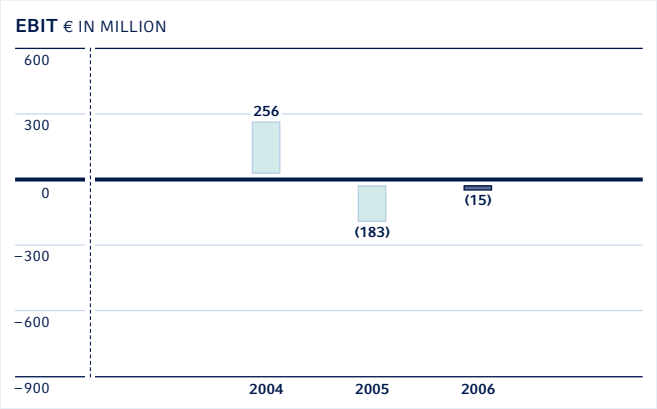
Other Non-Operating (Expense) Income, net

Other non-operating income and expense consists of various items in different periods not directly related to our principal operations, including gains and losses on sales of marketable securities. Other non-operating expense, net in the 2004 financial year mainly consisted of €65 million of investment-related impairment charges. In the 2005 financial year, non-operating income, net included €40 million related to net gains from foreign currency derivatives and foreign currency transactions and a gain of €13 million realized on the sale of our venture capital activities, partially offset by investment-related impairment charges of €29 million. In the 2006 financial year, the non-operating expenses consisted mainly of €31 million related to net losses from foreign currency derivatives and foreign currency transactions and investment-related impairment charges of €13 million.

Earnings Before Interest and Taxes (EBIT)

We define EBIT as earnings (loss) before interest and taxes. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business and to evaluate its performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance and especially about the performance of our separate operating segments. EBIT is determined from the consolidated statements of operations as follows:

For the years ended Sep. 30 € in million	2004	2005	2006
Net income (loss)	61	(312)	**(268)**
Add: Income tax expense	154	120	**161**
Interest expense, net	41	9	**92**
EBIT	256	(183)	**(15)**



Special effects reduce positive development of operating result.

The EBIT results reflect the combined effects of the following EBIT movements of our reporting segments:

Automotive, Industrial & Multimarket

The EBIT decline in the 2005 financial year resulted primarily from the deterioration of the gross margin. The EBIT improvement in the 2006 financial year was mainly due to higher sales volumes and improved gross margin, partially offset by continued strong price pressure especially in the automotive and chip-card businesses. In the 2005 and 2006 financial years, EBIT was negatively impacted by costs related to product transfers in connection with the planned phase-out of production at Munich-Perlach and costs incurred in connection with our new production site in Kulim, Malaysia.

The EBIT amounts of our separate reporting segments were as follows:

For the years ended Sep. 30 € in million	2004	2005	2006
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**
Total	256	(183)	**(15)**

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

Communication Solutions

The EBIT decrease in the 2005 financial year resulted mainly from charges in connection with the reorganization of certain communication businesses and impairment charges aggregating €96 million, as well as a decline in gross margin. In the 2006 financial year, EBIT was negatively impacted by charges aggregating €91 million, primarily in connection with the insolvency of BenQ's German subsidiary. Despite these charges, EBIT improved in the 2006 financial year mainly due to lower idle capacity costs and the implementation of cost reduction measures.

Qimonda

The EBIT decline in the 2005 financial year resulted primarily from a decline of average selling prices for DRAM products and the weak U.S. dollar/Euro exchange rate, as well as the increase in R&D expenses resulting from the acceleration of our technology development and the broadening of our product portfolio, which was not entirely offset by productivity improvements and increasing license revenue. In the 2006 financial year, EBIT increased primarily due to sales volume growth, higher bit shipments and a favorable U.S dollar/Euro exchange rate compared to the 2005 financial year.

Other Operating Segments

EBIT in the 2005 financial year was positively impacted by a gain of €13 million realized on the sale of our venture capital activities, which were impaired in the 2004 financial year. The EBIT in the 2006 financial year remained unchanged compared to the 2005 financial year.

Corporate and Elimination

EBIT deterioration in the 2005 financial year resulted primarily from restructuring charges of €78 million in connection with the planned phase-out of production at our Munich-Perlach facility and the restructuring of our fiber optics business. The EBIT decline in the 2006 financial year was mainly due to aggregate charges of approximately €80 million incurred in connection with the formation of Qimonda, the dilution of our interest in Qimonda following its IPO, as well as our sale of Qimonda shares upon exercise of the underwriters' over-allotment option.

Interest Expense, net

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

For the years ended September 30	2004	2005	2006
Interest expense, net € in million	(41)	(9)	**(92)**
% of net sales	(1%)	0%	**(1%)**

Interest expense in the 2004, 2005 and 2006 financial years relates principally to the convertible bonds that we issued in February 2002 and in June 2003. In addition, interest expense in the 2004 financial year included €21 million, paid upon redemption of the other investors' ownership interests in the Infineon Technologies SC300 GmbH & Co. OHG ("SC300") venture in Dresden. These effects were partially reduced in the 2004 and 2005 financial years as a result of the redemption of a portion of our convertible bonds in 2004 and increased interest capitalization related to facilities under construction, as well as interest income from financial derivatives. The increase of the interest expense, net in the 2006 financial year is mainly due to the drawdown of $345 million under our $400/€400 million syndicated credit facility to finance the expansion of our Richmond manufacturing facility and a reduction in income from interest rate swaps resulting from increased variable interest rates, and to a lesser extent, interest on outstanding tax obligations and a reduction in capitalized interest.

Income Taxes

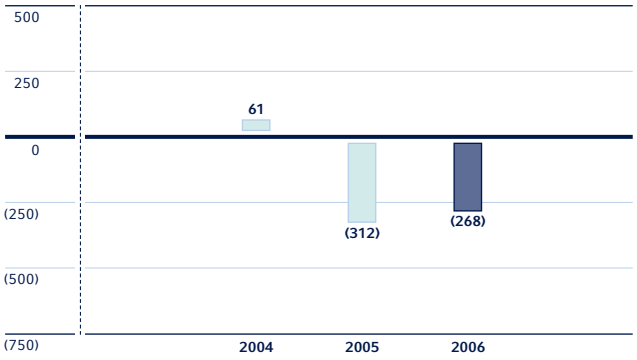
For the years ended September 30	2004	2005	2006
Income tax expense € in million	(154)	(120)	**(161)**
% of net sales	(2%)	(2%)	**(2%)**
Effective tax rate	(72%)	(63%)	**(150%)**

Pursuant to U.S. GAAP, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2004 financial year, our effective tax rate increased because we recorded additional valuation allowances of €54 million related to tax jurisdictions that continue to have a three-year cumulative loss, and also had more non-deductible expenditures. In the 2005 and 2006 financial years we continued to have a three-year cumulative loss in certain tax jurisdictions and we recorded increases to the valuation allowance of €192 million and €292 million, respectively. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carryforwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

Net Income (Loss)

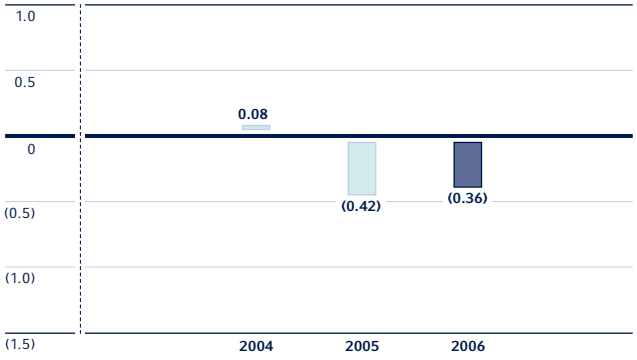
In the 2004 financial year, we were profitable due to sales volume growth, manufacturing efficiencies and cost reduction efforts, although the impact was reduced through increased charges for impairments, antitrust-related matters and tax expense. In the 2005 financial year, the net loss incurred resulted primarily from the combination of lower revenues and gross margin, long-term asset impairments, restructuring measures and tax expense. In the 2006 financial year, the net loss incurred was primarily due to charges resulting from the insolvency of BenQ's German subsidiary, the initial public offering of Qimonda, as well as the settlement of litigation. In addition, in the 2006 financial year our company began to recognize the fair value of employee stock options in earnings, which further contributed to the net loss incurred.

NET INCOME (LOSS) € IN MILLION



Special effects combined with higher tax expenses lead to an only slight improvement of the net loss.

EARNINGS (LOSS) PER SHARE IN €



Financial Condition

For the years ended Sep. 30 € in million	2005	2006	% Change year-on-year
Current assets	4,574	**5,681**	24
Non-current assets	5,710	**5,504**	(4)
Total assets	10,284	**11,185**	9
Current liabilities	2,382	**3,305**	39
Non-current liabilities	2,192	**1,725**	(21)
Total liabilities	4,574	**5,030**	10
Minority Interests	81	**840**	+++
Shareholders' equity	5,629	**5,315**	(6)

As of September 30, 2006, our total assets and current assets increased in comparison to the prior year due to increased cash and cash equivalents. The increase of cash and cash equivalents resulted from the net proceeds of €464 million from the initial public offering of Qimonda and the sale of Qimonda shares upon exercise of the underwriters' over-allotment option, as well as proceeds from a drawdown under our $400/€400 million syndicated credit facility in the amount of $345 million to finance the expansion of our Richmond manufacturing facility.

Non-current assets decreased slightly at the end of the 2006 financial year as capital expenditures mostly offset depreciation, amortization and impairment charges during the year.

Total liabilities increased as of the end of the 2006 financial year, mainly due to the drawdown under the $400/€400 million syndicated credit facility in the amount of $345 million to finance the expansion of our Richmond manufacturing facility. The increase in current liabilities resulted primarily from the reclassification of €638 million related to subordinated convertible notes due 2007 from non current liabilities into current liabilities. The decrease of non-current liabilities due to that reclassification was partly offset by the $345 million drawdown under the syndicated credit facility. The increase of the minority interests resulted primarily from the initial public offering of Qimonda and the initial consolidation of ALTIS as of December 31, 2005.

Financial Ratios

In the 2006 financial year our equity ratio decreased principally due to the net loss during the year. At September 30, 2006, our equity ratio was 48 %, a 7 % decrease from September 30, 2005.

The return on equity amounted to negative 5 % and the return on assets amounted to negative 3 % due to the net loss in the 2005 financial year, compared to positive 1 % for both financial ratios in the 2004 financial year. In the 2006 financial year, the return on equity remained unchanged at negative 5 % and the return on assets improved to negative 2 % due to a smaller net loss and increased total assets compared to the 2005 financial year.

The equity-to-fixed-assets ratio decreased to 150 % in the 2005 financial year from 167 % in the prior year as a result of the net loss and capital expenditures which exceeded depreciation expense during the year. In the 2006 financial year, the equity-to-fixed-assets ratio further decreased to 141 % mainly as a result of the net loss and nearly unchanged fixed assets.

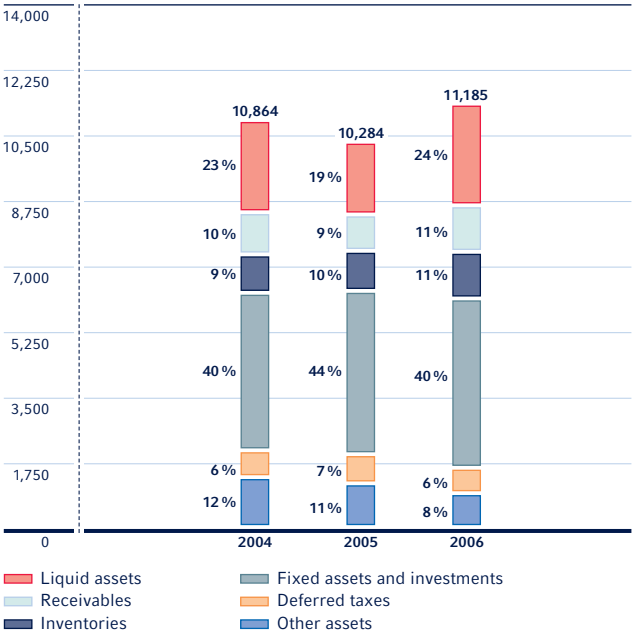
The decrease of the debt-to-equity ratio to 30 %, compared to 33 % in the 2004 financial year, was mainly attributable to the repayment of the €450 million loan entered into in connection with the build-out of our plant in Dresden during the 2005 financial year. In the 2006 financial year, the debt-to-equity ratio increased to 38 % primarily due to the drawdown under the $400/€400 million syndicated credit facility in the amount of $345 million to finance the expansion of our Richmond manufacturing facility.

FINANCIAL RATIOS

For the years ended September 30 in %	2004	2005	2006
Non-current asset intensity[1]	51	56	**49**
Current asset intensity[2]	49	44	**51**
Degree of wear of fixed assets[3]	67	67	**72**
Depreciation rate of fixed assets[4]	11	11	**10**
Inventory intensity[5]	9	10	**11**
Inventory turnover[6]	7.5	6.8	**7.1**
Inventory turnover in days[7]	48	53	**50**
Days sales outstanding[8]	48	53	**50**
Equity ratio[9]	55	55	**48**
Return on equity[10]	1	(5)	**(5)**
Return on assets[11]	1	(3)	**(2)**
Equity-to-fixed-assets ratio[12]	167	150	**141**
Debt-to-equity ratio[13]	33	30	**38**

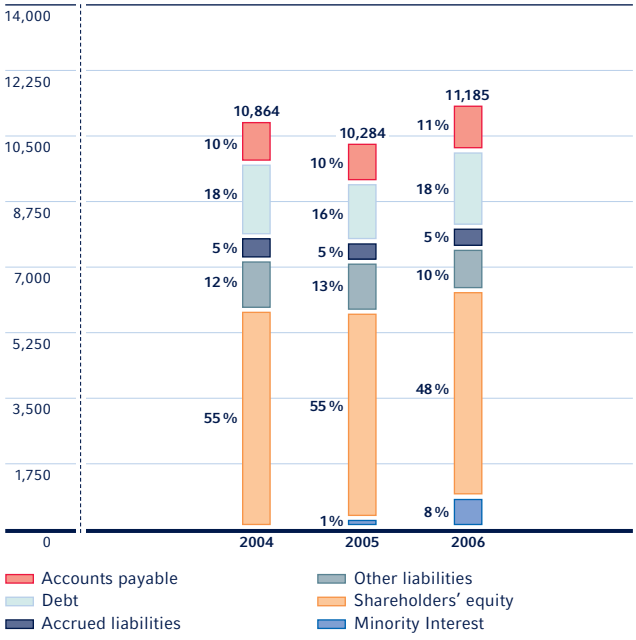
The aforementioned ratios of the financial condition are calculated as follows:
1 Non-current asset intensity = non-current assets/total assets
2 Current asset intensity = current assets/total assets
3 Degree of wear of fixed assets = accumulated depreciation on fixed assets/historical costs of fixed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

ASSETS € IN MILLION



Liquid assets increased due to net proceeds from Qimonda IPO.

LIABILITIES AND EQUITY € IN MILLION



Issuance of long-term debt mainly for expansion of Richmond facility leads to an increase of financial debt.

Liquidity

Cash Flow

For the years ended September 30 € in million	2004	2005	2006
Net cash provided by operating activities	1,857	1,039	**974**
Net cash used in investing activities	(1,809)	(238)	**(824)**
Net cash provided by (used in) financing activities	(402)	(266)	**762**
Cash and cash equivalents at year end	608	1,148	**2,040**

Our consolidated statement of cash flows shows the sources and uses of cash during the reported periods. It is of key importance for the evaluation of our financial position.

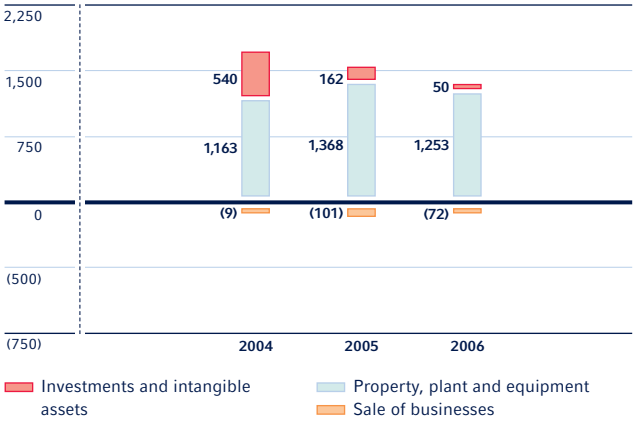
Cash flows from investing and financing activities are both indirectly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net income (loss). The changes in balance sheet items have been adjusted for the effects of foreign currency exchange fluctuations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

Cash provided by operating activities in the 2006 financial year resulted mainly from the net loss of €268 million, which is net of non cash charges for depreciation of €1,405 million, impairment charges of €57 million and equity in earnings of associated companies of €78 million. Cash provided by operating activities was positively impacted by an increase of trade accounts payable, accrued liabilities and other current liabilities of €359 million, and negatively impacted by an increase in inventories and trade accounts receivable of €479 million.

Cash used in investing activities in the 2006 financial year mainly reflects capital expenditures of €1,253 million, principally to equip our manufacturing facilities in Richmond and Kulim, as well as net proceeds from net sales of marketable securities of €238 million and cash used for purchases of intangible assets of €44 million.

Cash provided by financing activities in the 2006 financial year principally relates to the net proceeds of €406 million from the initial public offering of Qimonda and proceeds from the issuance of long-term debt of €400 million, in particular from a drawdown of $345 million under our $400/€400 million syndicated credit facility to finance the expansion of our Richmond manufacturing facility.

INVESTMENTS/DISPOSITIONS[1] € IN MILLION



Increase in manufacturing capacity of Richmond and Kulim leads to capital spending for property, plant and equipment.
1 Without marketable securities.

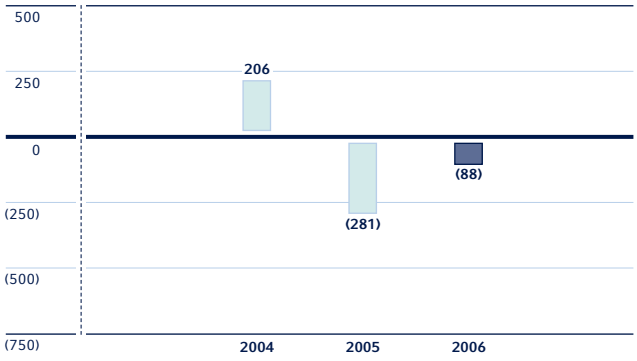
Free Cash Flow

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

For the years ended Sep. 30 € in million	2004	2005	2006
Net cash provided by operating activities	1,857	1,039	**974**
Net cash used in investing activities[1]	(1,809)	(238)	**(824)**
Purchases (sales) of marketable securities, net	158	(1,082)	**(238)**
Free cash flow	206	(281)	**(88)**

1 In the 2006 financial year the amount is net of €119 million cash increase from the initial consolidation of ALTIS.

FREE CASH FLOW € IN MILLION



The net balance of purchases and sales of securities leads to negative free cash flow.

Net Cash Position

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

Our gross cash position – representing cash and cash equivalents, plus marketable securities – increased to €2,655 million at September 30, 2006, compared with €2,006 million at the prior year end. The increase was mainly due to the net proceeds of €464 million from the initial public offering of Qimonda and the sale of Qimonda shares upon exercise of the underwriters' over-allotment option.

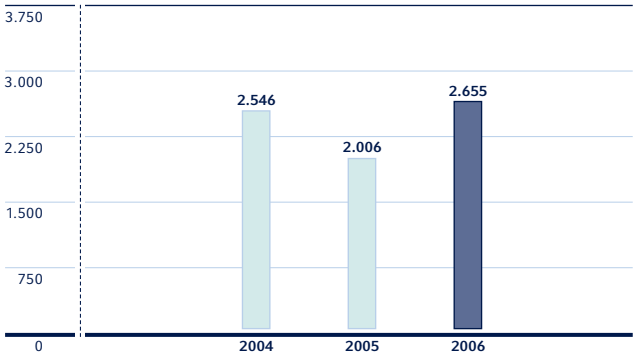
Long-term debt principally consists of convertible notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our business operations. The total outstanding convertible notes as of September 30, 2006 amounted to €1,340 million.

On June 5, 2003, we issued €700 million 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 our company, at a conversion price of €10.23 per share through maturity.

On February 6, 2002, we issued €1,000 million 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 our company's ordinary shares at a conversion price of

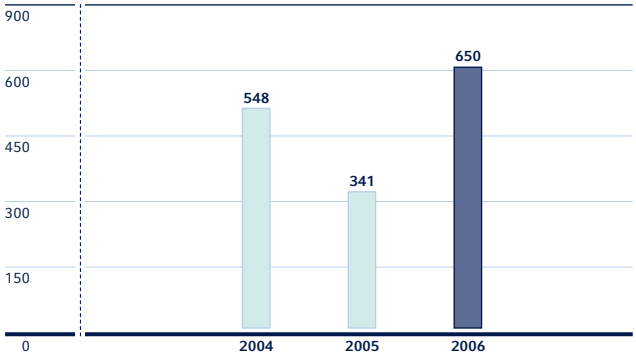
As of September 30, 2006 € in million, **Payments due by period:**	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Cash and cash equivalents	**2.040**	2.040	–	–	–	–	–
Marketable securities	**615**	615	–	–	–	–	–
Gross cash position	**2.655**	2.655	–	–	–	–	–
Less:							
Long-term debt	**1.208**	–	157	181	744	55	71
Short-term debt and current maturities	**797**	797	–	–	–	–	–
Total financial debt	**2.005**	797	157	181	744	55	71
Net cash position	**650**	1.858	–157	–181	–744	–55	–71

GROSS CASH POSITION € IN MILLION



Gross cash position increased due to net proceeds from Qimonda IPO.

NET CASH POSITION € IN MILLION



Net cash position reflects additional cash inflow from Qimonda IPO.

€35.43 per share through maturity. During the 2004 financial year we redeemed €360 million of our convertible notes due 2007. As of September 30, 2006 the outstanding amount was €640 million. These convertible notes are due on February 6, 2007 and we expect 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.

Our net cash position – meaning cash and cash equivalents, plus marketable securities, less total financial debt – increased by €309 million to €650 million at September 30, 2006, compared with €341 million at September 30, 2005, principally due to the net proceeds of €464 million from the initial public offering of Qimonda and the sale of Qimonda shares upon exercise of the underwriters' over-allotment option.

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

Capital Requirements

We require capital in our 2007 financial year to:
> Finance our operations;
> Make scheduled debt payments;
> Settle contingencies if they occur; and
> Make planned capital expenditures.

We can meet these requirements through:
> Cash flows generated from operations;
> Cash on hand and securities we can sell; and
> Available credit facilities.

As of September 30, 2006, we require funds for the 2007 financial year aggregating €2,138 million, consisting of €797 million for short-term debt payments and €1,341 million for commitments. In addition, we may need up to €162 million for currently known contingencies. We also plan to invest up to an additional €900 million in capital expenditures that have not been otherwise committed. We have a gross cash position of €2,655 million as of September 30, 2006, and also the ability to draw funds from available credit facilities of €903 million.

As of September 30, 2006, we had debt of €797 million scheduled to become due within one year.

Commitments and Contingencies

As of September 30, 2006[1,2] € in million, 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 commitments	**132**	66	66	–	–	–	–
Total commitments	**2,487**	1,341	310	110	81	75	570
Other contingencies:							
Guarantees[3]	**198**	6	20	12	–	14	146
Contingent government grants[4]	**548**	156	129	36	55	27	145
Total contingencies	**746**	162	149	48	55	41	291

The above table should be read together with Note 33 to our consolidated financial statements for the year ended September 30, 2006.
1 Certain payments of obligations or expiration of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table, based on our estimate of the reasonably likely timing of payments or expirations in each particular case. Actual outcomes could differ from those estimates.
2 Product purchase commitments associated with 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 quantifiable at September 30, 2006. Purchases under these agreements aggregated €1,204 million for the year ended September 30, 2006.
3 Guarantees are mainly issued for the payment of import duties, rentals of buildings and contingent obligations related to government grants received.
4 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met.

Off-Balance Sheet Arrangements

We issue guarantees in the normal course of business, mainly for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2006, the undiscounted amount of potential future payments for guarantees was €198 million.

Capital Expenditures

For the years ended September 30, € in million	2004	2005	2006
Non-memory businesses[1]	393	442	**567**
Qimonda	770	926	**686**
Total	1,163	1,368	**1,253**

1 Includes elimination of inter-segment transfers of €23 million, €149 million and €37 million for financial years ended September 30, 2004, 2005 and 2006, respectively.

Depending on our business situation we expect to invest between €1,200 million and €1,400 million in capital expenditures in the 2007 financial year, largely for our manufacturing facilities in Richmond, Virginia, and Kulim, Malaysia. We also constantly improve productivity and upgrade technology at existing facilities, especially in Dresden, Germany. As of September 30, 2006, €514 million of this amount was committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 50 % to 60 % of these expected capital expenditures will be made in the front-end and back-end facilities of Qimonda.

Credit Facilities

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities, which aggregate €1,578 million, of which €903 million remained available at September 30, 2006, comprise the following:

CREDIT FACILITIES € IN MILLION

			As of September 30, 2006		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	working capital, guarantees	95	51	44
Short-term	no firm commitment	cash management, working capital	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.

In September 2004 we executed a $400/€400 million syndicated credit facility with a five-year term. The facility consisted of two tranches: Tranche A is a $400 million term loan intended to finance the expansion of our Richmond, Virginia, manufacturing facility. In January 2006 we drew $345 million under this Tranche A, the amount being equal to the maximum outstanding amount permitted at September 30, 2006. The loan will decrease on the basis of a repayment schedule that foresees equal installments, falling due in March and September of each year. Tranche B is a €400 million multicurrency revolving facility to be used for general corporate purposes. In connection with the arrangement of the Qimonda credit facility described below we voluntarily cancelled an amount of €100 million in August 2006 so that €300 million remains available to us. At September 30, 2006, no amounts were outstanding under this 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 our future financial indebtedness with certain permitted encumbrances.

In August 2006, Qimonda executed a €250 million syndicated multicurrency revolving loan facility with a three-year term, which may be extended for one additional year at the option of the lenders at the end of the facility's first year of operation. At September 30, 2006, no amounts were outstanding under this facility.

At September 30, 2006, we were in compliance with our debt covenants under the relevant facilities.

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

Taking into consideration the financial resources available to us, including our internally generated funds and currently available banking facilities, we believe that we will be in a position to fund our capital requirements in the 2007 financial year.

Pension Plan Funding

Our projected benefit obligation, which considers future compensation increases, amounted to €518 million at September 30, 2006, compared to €477 million at September 30, 2005. The fair value of plan assets as of September 30, 2006 was €320 million, compared to €243 million as of September 30, 2005.

The actual return on plan assets between the last measurement dates amounted to 6.7 % or €14 million for domestic (German) plans and 5.7 % or €2 million for foreign plans, compared to the expected return on plan assets for that period of 6.5 % for domestic plans and 6.9 % for foreign plans. We have estimated the return on plan assets for the next financial year to be 6.1 % or €18 million for domestic plans and 6.9 % or €3 million for foreign plans.

At September 30, 2005 and 2006, the combined funding status of our pension plans reflected an underfunding of €234 million and €198 million, respectively. We intend to make contributions to our pension plans during the year ending September 30, 2007, in a similar range of those made during the year ended September 30, 2006.

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

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

Financial Instruments

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

Employees and Campeon

Employees

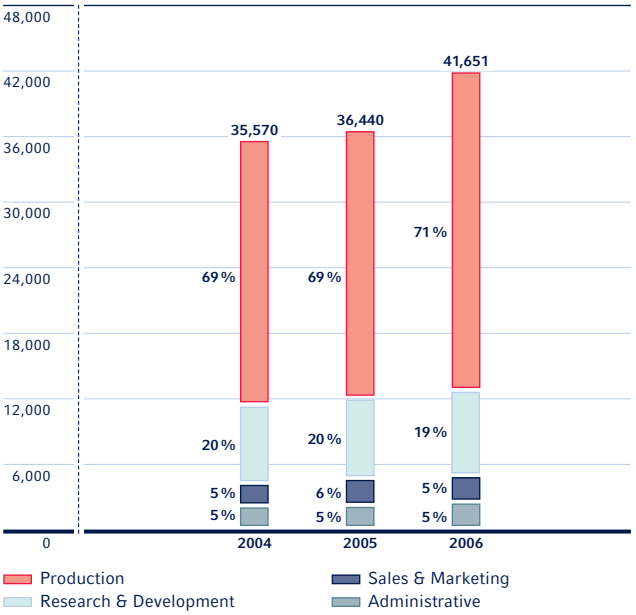
The following table indicates the composition of our workforce by function and region at the end of the financial years indicated.

As of September 30	2004	2005	2006
Function:			
Production	24,540	25,114	**29,641**
Research & Development	7,160	7,401	**7,745**
Sales & Marketing	1,948	2,016	**2,101**
Administrative	1,922	1,909	**2,164**
Total	35,570	36,440	**41,651**
Region:			
Germany	16,387	16,119	**15,736**
Europe	5,631	5,482	**7,244**
North America	2,982	3,193	**3,295**
Asia-Pacific	10,340	11,451	**15,148**
Japan	133	158	**187**
Other	97	37	**41**
Total	35,570	36,440	**41,651**

Of the total workforce, 11,058, 9,606 and 11,802 as of September 30, 2004, 2005 and 2006, respectively, were employees of Qimonda.

In the 2005 and 2006 financial years, our headcount increased principally due to the expansion of manufacturing capacities in Malaysia and China. The increase of our headcount in Europe during the 2006 financial year resulted mainly from the first-time consolidation of ALTIS as of December 31, 2005.

EMPLOYEES BY FUNCTION[1]



Increase in production capacity leads to an increase in headcount.
1 Columns may not add up due to rounding.

Campeon

We have 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, has enabled us to centralize most of our Munich-area employees in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. We have no obligations with respect to financing MoTo, and have provided no guarantees related to the construction. We occupied Campeon in October 2005 and completed the gradual move of our employees to this new location in the 2006 financial year.

Risk Report

Introduction

Like no other business, the semiconductor industry is characterized by periods of growth which are historically followed by periods of market contraction. Such periods of market contraction are characterized by surplus capacity, order cancellations as well as price erosion and sales volume reductions. The risks associated with the cyclical nature of this business are compounded by the need for large scale capital investments in order

to achieve and sustain market leadership as well as the sector's rapid pace of technological change. These risks are, however, often accompanied by substantially greater opportunities.

Infineon Risk and Opportunity Management System

Given the volatility of the business cycle in the semiconductor industry it is very important that the risk and opportunity management policies are geared towards the goal of resilient profitable growth. The ability to quickly react to changing market developments is therefore crucial. To this end we have established a risk and opportunity management system which allows us to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associating or arising from them. An enterprise-wide system of risk and opportunity reporting is a central element of our risk and opportunity management system. The scope and depth of reporting helps to enable corporate management to take quick and effective actions whenever situations so require. Within every organizational unit of the company, risk officers or risk reporters have been designated to implement and execute the risk management process and the risk and opportunity reporting process respectively. According to the guidelines for this process, risks and opportunities are identified within the framework of a risk and opportunity categorization model, accompanied by an evaluation of each risk and opportunity based on its respective probability and effect upon EBIT.

The risk management system is extensively documented in our intranet and thus accessible by our employees worldwide.

We consider risk and opportunity management to be a foundation of our business activities and an integral part of related processes. It commences at the level of strategic planning and continues through the development, the manufacturing and sales operations, including the processing of receivables. As an extension of the forecasting processes, the risk and opportunity system is used to identify and evaluate possible deviations from expected developments. Beyond the identification and evaluation of major developments that may impact the business, the system is also used to prioritize and implement activities to mitigate or reduce our risk and to enhance opportunities.

Risk and opportunity reports are issued on a regular basis by all of our business units. These reports form the core of the risk management system. The reports are examined and evaluated by the management board and business group management as part of their reviewing process.

Alongside the enterprise-wide reporting system, we have established a quantitative risk analysis process for our investing and research and development activities in order to provide greater transparency of risks and prioritize measures designed to enhance the probabilities of success of these activities. Furthermore, this quantitative risk analysis methodology is being applied to financial decision-making processes, in particular to investment decisions and forecasting processes. The goal of employing this methodology is to ensure that appropriate risk mitigation and opportunity enhancement strategies are chosen and implemented.

The systematic development of existing systems of risk analysis and the creation of new early warning systems substantially contribute to the enhancement and sustainability of a risk and opportunity culture within the company. This is supported by regular Risk & Opportunity Forum meetings. These meetings provide a communication platform for exchanging ideas and information on risk analysis and risk management; they furthermore provide a basis for the creation of awareness throughout the company.

In the course of an annual Risk Management System Analysis ("RMSA") our Business Groups and Central Functions are called upon to review the effectiveness and efficiency of the key elements of the Infineon Risk and Opportunity Management System. This is executed via self-assessment using a questionnaire which is crafted to facilitate improvements and support the audit process, both by our internal and external auditors.

Our risk and opportunity reporting system is evaluated by the external auditors as part of the annual audit process. The external auditors confirm that the Management Board has fulfilled its obligation according to paragraph 91 section 2 of the German Law on Stock Companies ("Aktiengesetz"), which calls for the creation of a reporting system which enables management to receive early warning of developments which may endanger the existence of the company as a whole.

Global Business and Environmental Risks

As a global operating Company our business could suffer from periodic downturns. Furthermore, substantial changes in regional business environments around the globe may also have adverse effects on our business and results of operations.

Our global business strategy implies that we maintain research and development locations as well as manufacturing sites in many countries around the world. This may be the result of strategic decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. Substantially more than half of our sales volume is generated outside of Europe. With the expected growth rates of Asian countries in the near future we expect our investments to increase in this region. Therefore risks could develop based upon:

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war or civil unrest;
- changes in laws and policies affecting trade and investment; and
- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

Substantial changes in any of these conditions could have an adverse effect on our business and results of operations. It cannot be excluded that regional crises like the bird flu or the SARS epidemic will not have any negative effect on our business or profitability. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world provide an effective approach to mitigate the overall risk of such regional crises as the dependencies are generally reduced.

Risks related to our operations

Effective May 1, 2006, Qimonda the former 100% owned subsidiary of Infineon Technologies AG, took over the activities of the memory products segment (MP).The initial public offering of Qimonda was completed on August 9, 2006. Infineon still owns the majority of this company.

The volatility of DRAM-Memory prices remains the most important risk in the Qimonda segment. In the past financial year the market price of our main product, the 512 Mbit DDR2 SDRAM varied between $6.57 and $3.71 (source: DRAM eXchange, 512 Mbit DDR2 533 Mhz Spot average). The continuous expansion of Qimonda's product portfolio through the introduction of new memory products and graphic memories could also pose substantial future risks.

Within the Logic segments of our business, Automotive, Industrial & Multimarket as well as Communication Solutions, we see comparatively less volatility than in the Qimonda segment but nonetheless substantial volume risks. The quick pace of technological change coupled with the possibility of delays in the introduction of new products in the market can have a significant effect on our production volumes which may in turn influence the relationships with our major customers. Price pressure for individual products within the competitive market environment may further influence our margins in these business segments. As a substantial volume of our products may be purchased by a select number of customers, our operational results may also be dependant upon their success in the marketplace. We react to such developments by constantly widening our customer base, which has proven to be a successful strategy leading to new customer wins.

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

In order to address the risks relating to the quality of our products we have established continuous quality improvement initiatives, such as Zero Defects and Six Sigma, within the product development, manufacturing and logistic processes. Our quality management system (which includes the deliveries of our suppliers) has been certified on a worldwide basis according to ISO 9001/TS 16949 for a number of years.

We have procured insurance coverage to limit the impact of losses, incidents or certain other events posing possible perils and threats to our assets, finances or earnings.

In the area of intellectual property, the company has signed a number of cross-license agreements with other companies. The company is working intensively to increase the number and scope of such cross-license agreements with other companies in order to reduce the risk of claims for patent infringement. The formation of Qimonda had no effect on intellectual property protection of Infineon. Infineon strives to transfer this protection to Qimonda, in order to be prepared should the company reduce its ownership interest in Qimonda below the majority level.

Tax, fair trade and stock exchange regulations can all supply a basis for additional risks. To mitigate the cause and effect of these risks we rely upon the counsel of professionals, including both the advice of our own employees as well as the advice of independent service providers.

Market Risks

Exchange rate risks

Our involvement and participation in various regional markets around the world creates cash-flows in a number of different currencies – primarily in U.S. dollars. Since we are exposed to fluctuating currencies and substantial volatility relating to exchange rates, the management of these risks becomes an important issue.

A major portion of our sales volumes as well as the costs relating to the design, production and manufacturing of products are based in US-dollars, not in Euros. Exchange rate fluctuations may have substantial effects on our sales, our costs and our overall results of operations.

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75% of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Parts of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash-flow basis considering actual orders received or made and all other planned revenues and expenses.

Interest rate risk management

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2002 and 2003 financial years, we issued two convertible bonds. Due to the high volatility of our core business and to maintain high operational flexibility, our current assets are kept at a high level. These assets are mainly deposited in instruments with short term interest rates. To reduce the risk caused by changes in the market interest rates, the duration of the interest rates of our debts and current assets are aligned by the use of interest rate derivatives.

Commodity Price Risk

We are exposed to commodity price risks with respect to raw materials used in the manufacture of our products. We seek to minimize the risks through our sourcing policies and operating procedures.

Financing Risks

Semiconductor companies that operate their own manufacturing facilities require significant amounts of capital to build, expand, modernize and maintain them. Semiconductor companies also require significant amounts of capital to fund research and development. These capital requirements should generally be financed by incoming cash-flow, the use of available credit lines, available public funding for projects and – depending upon market conditions – capital market offerings. Although we have applied for financial support from public authorities on a number of projects, we may not be able to guarantee that we will be able to raise the amount of capital required for our business from these sources in a timely and successful fashion. We intend to continue the policy of cooperation with other semiconductor companies to share the costs of research and development as well as to create joint production facilities.

Legal Risks

Just like many companies within the semiconductor industry, Infineon has been exposed to patent claims, claims relating to alleged defective or faulty products, claims relating to the alleged transgression of environmental rules or regulations and other general liability claims. Regardless of the outcome of these claims, the company may sustain substantial costs in defending itself against these claims. Infineon intends to exert substantial efforts in defending itself against unfounded claims including the support of internal and external experts.

Reorganization

The reorganization of our memory products segment and the carve-out followed by the initial public offering of Qimonda, as well as any other reorganizations could have an adverse effect on our operations and not fulfill our expectations.

We intend to continuously examine and evaluate the financial and business developments, and to consider further steps of reorganization, if deemed necessary.

Overall Risks

At no time during the past financial year have we been aware of any substantial risks which would have threatened the existence of the company. Risks which may endanger the existence of the company are currently not visible.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report as well as in the "Annual Report on Form 20-F".

Infineon Technologies AG

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

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

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

STATEMENTS OF OPERATIONS[1] (CONDENSED) € IN MILLION

For the years ended September 30	2004	2005	2006
Net sales	8,852	9,038	**7,914**
Cost of goods sold	(7,325)	(8,045)	**(7,228)**
Gross profit	1,527	993	**686**
Operating expenses	(1,533)	(1,483)	**(1,289)**
Equity in losses/earnings of associated companies, net	105	76	**149**
Other operating expense/ income, net	31	79	**(107)**
Income (loss) before tax	130	(335)	**(561)**
Income tax	–	(2)	**4**
Net (loss) income	130	(337)	**(557)**
Accumulated loss brought forward	(1,339)	(1,209)	**(1,546)**
Accumulated loss at end of year	(1,209)	(1,546)	**(2,103)**

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's net sales and cost of sales decreased primarily as a result of the carve-out of the memory products business into Qimonda AG. In the 2006 financial year, the net loss resulted primarily from a decrease in gross margin caused by strong pricing pressure, and from a one-time increase of €154

million in pension liabilities. The one-time adjustment to pension liabilities was the result of the adoption of the projected unit credit method pursuant to Statement of Financial Accounting Standards No. 87 for Infineon Technologies AG in the 2006 financial year. In addition, the financial results were negatively impacted in the 2006 financial year by charges resulting from the insolvency of BenQ's German subsidiary, the carve-out of the memory products business into Qimonda AG, and the relocation of employees to Campeon, as well as by stock based compensation expenses. On the other hand, the financial results of Infineon Technologies AG were positively impacted by improved equity in earnings of associated companies, which were positively impacted by lower impairments of investments, as well as increased results from profit-transfer agreements.

BALANCE SHEETS[1] (CONDENSED) € IN MILLION

For the years ended September 30	2005	2006
Fixed and intangible assets	718	**779**
Investments	6.182	**7.339**
Non-current assets	6.900	**8.118**
Inventories	463	**314**
Receivables and other assets	1.908	**1.197**
Cash and marketable securities	1.886	**1.057**
Current assets	4.257	**2.568**
Total assets	11.157	**10.686**
Total assets	6.845	**6.315**
Accrued liabilities	846	**750**
Payables and other liabilities	3.466	**3.621**
Total liabilities	11.157	**10.686**

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's financial position showed an increase in investments, and a decrease in cash and marketable securities which was principally caused by the carve-out of the memory products business into Qimonda AG, a capital increase at Infineon Technologies Holding B.V., Rotterdam, Netherlands in the amount of €1.1 billion, as well as the merger of Eupec Europäische Gesellschaft für Lesitungshalbleiter mbH, Warstein-Belecke, with Infineon Technologies AG. The reduction in shareholders' equity resulted from the net loss incurred in the 2006 financial year. Infineon Technologies AG's shareholders' equity ratio was 59% (2005: 61%).

Dividends

Since the stand-alone financial statements of Infineon Technologies AG for the 2005 financial year reported a net loss, no dividend was distributed. A net loss was also incurred in the 2006 financial year and therefore a dividend cannot be distributed.

Merger/Carve-out

Effective October 1, 2005, EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke has been merged with Infineon Technologies AG, Munich.
Effective May 1, 2006, Infineon Technologies AG carved out its memory products business into Qimonda AG. As a result, prior period results are not entirely comparable to current period results.

Subsequent Events

During October 2006, following the insolvency of one of our 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. We anticipate that the planned restructuring will result in charges of approximately €30 million 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 of Qimonda, 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. On October 14, 2006, exemption from the lock-up was received from the Taiwanese Stock Exchange. Accordingly, we are in the process of finalizing the administrative steps necessary to complete the transfer of the Inotera shares to Qimonda.

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. Our company's claim against one D&O insurance carrier was dismissed on November 13, 2006. We intend to file an appeal against this decision.

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 multi district litigation proceeding pending in the Northern District of California.

The settlement agreement with counsel to a class of direct purchasers of DRAM in the United States was approved by the U.S. District Court for the Northern District of California in the hearing held on November 1, 2006.

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.

Outlook

World Economy

Economists generally expect a slight slowdown in economic growth in 2007 compared with 2006. The International Monetary Fund forecasts in its current world economy outlook report gross domestic product growth of 3.5 % in 2007, compared with 3.8 % in 2006. For 2008, economists anticipate a slight improvement in world economic growth. The slight weakening in the coming year is expected to be cyclical, as the interest rate increases of the last several quarters had a slowdown effect, and primarily reflects activity in developed economies. The high-growth economies – in particular China – are expected to continue to experience dynamic growth in 2007. The aggregate risk potential has not been reduced but rather increased; the list of risks include oil and natural gas shortages, inflation fears, and a cooling-off in the property market, particularly in the U.S. Nevertheless, there are currently no signs of a global recession. In fact, solid world-wide economic growth is expected next year and in the year thereafter.

Semiconductor Industry

The market development in 2007 and 2008 will not only be strongly dependent on the overall economic situation, but will also be impacted by the degree of market saturation in certain industry segments as a result of the extraordinarily strong growth rates experienced in previous years. Most experts expect moderate growth acceleration in 2007. In 2008, further acceleration of market growth is expected. WSTS forecasts market growth of 9 % for 2007 (2006: 8 %) followed by market growth of 12 % in 2008 (WSTS forecast, October 2006). In the automotive electronics business, the increase in comfort and safety applications, as well as to a smaller extent infotainment applications, are expected to be among the growth drivers during the next two years. Within the wireless communication business, market growth is expected to be driven by mobile telephones despite predictions of a slowdown in unit sales growth. A positive contribution to market growth is also expected from the wireline communication business driven by broadband services that need high data rates (IPTV, video on demand). Likewise, above average growth is expected in the industrial business. The data processing technology business should also benefit from the strong demand for portable PCs in the coming two years. In the consumer electronics business, growth is expected to significantly decelerate from the high growth rates experienced in previous years, but will continue to contribute to overall growth.

Significant Planning Assumptions

In order to estimate our expected earnings development we have made certain important planning assumptions. In particular, we have assumed a U.S. dollar to euro exchange rate of 1.30 in our business without Qimonda. Furthermore, our projections exclude the effect of any non-ordinary gains or losses that may be incurred, since the amount of such non-ordinary gains or losses cannot be reliably estimated. Non-ordinary gains and losses in the 2007 financial year may arise, for example, from potential sales of Qimonda shares, as well as gains or losses resulting from general restructuring measures. Specifically, we have already defined a cost reduction program following the insolvency of one of our largest mobile phones customers, BenQ Mobile GmbH & Co OHG, which is expected to result in restructuring costs of approximately €30 million to be recognized in the Corporate & Eliminations segment in the first quarter of the 2007 financial year. We cannot give any assurance that additional restructuring costs will not be incurred. Finally, it should be noted that subsequent to the initial public offering of our majority-owned subsidiary Qimonda we are no longer in a position to make forecasts for this subsidiary. Such forecasts are now prepared by Qimonda, and are separately presented in this report. We believe that the individual analysis of our memory business is also meaningful with respect to the price development of our shares. We believe that subsequent to Qimonda's initial public offering, Infineon's market capitalization reflects the sum of the market capitalization of our subsidiary Qimonda plus the value of our remaining business activities. We believe that will continue to be the case for at least as long as we maintain a significant equity interest in Qimonda.

Net Sales of Infineon Excluding Qimonda

Based on our current plans, we expect net sales for Infineon excluding Qimonda, consisting of the Automotive, Industrial & Multimarket, Communication Solutions, Other Operating Segments and the Corporate and Eliminations segments, to remain unchanged or slightly increase compared with the 2006 financial year. This takes into account the negative effect on net sales resulting from the insolvency of our main customer in the area of processors for mobile telephones, which is expected to be reflected in the first quarter of the 2007 financial year. Therefore, we expect a sales decline in our Communication Solutions segment compared with the 2006 financial year. The Automotive, Industrial & Multimarket segment should positively contribute to net sales growth, driven primarily by sales of power semiconductors.

Beyond the current financial year we anticipate increasing sales volumes in a positive industry environment. Our fabrication plant for power semiconductors in Kulim, Malaysia, will make a positive contribution through further production ramp-up and generation of sales within the Automotive, Industrial & Multimarket segment during the full financial year. The expected ramp-ups at new customers in the wireless division of the Communication Solutions segment in the 2007 financial year may also positively contribute to sales growth in the subsequent year.

EBIT of Infineon Excluding Qimonda

We expect EBIT before non-ordinary gains and losses for Infineon excluding Qimonda to improve in the current financial year compared with the 2006 financial year.

In the Automotive, Industrial & Multimarket segment we expect EBIT results to remain unchanged or slightly improve in the 2007 financial year compared with the 2006 financial year. The unusually strong demand experienced in the first half of the 2006 financial year will probably not repeat itself in the current financial year. In the current financial year, the Automotive, Industrial & Multimarket's EBIT results will continue to be negatively impacted by costs in the mid double-digit million range incurred in connection with the ramp-up of production at our production facility in Kulim, Malaysia, as well charges related to the ramp-down of our production facility in Munich, Germany. Furthermore, following the separation of Qimonda into a standalone legal entity, the Automotive, Industrial & Multimarket segment is expected to bear additional costs allocated from central activities during the first half of the financial year. This effect should be compensated in the second half of the financial year by cost cutting measures introduced by the Infineon Complexity Reduction program ("ICoRe"), as further described below. The anticipated savings resulting from the ICoRe program have not been considered in the outlook of the Automotive, Industrial & Multimarket segment described above. Production ramp-ups at new customers in the Communication Solutions segment will have a positive effect on EBIT before non-ordinary gains and losses. In addition, we anticipate a positive effect in the current financial year from the implementation of cost reduction measures which are expected to have a €40 million annual cost-saving impact. We expect EBIT before non-ordinary gains and losses in the wireless communication business to break-even by the end of the 2007 calendar year. On the other hand, we expect a negative impact from the insolvency of our main customer for baseband processors. In addition, EBIT results of the Communication Solutions segment include expenditures in connection with the fabrication facilities referred to above. On a net basis, EBIT before non-ordinary gains and losses is expected to remain negative for the 2007 financial year. The execution of all customer projects within the wireless communication business as currently planned and the timing of completion of ongoing cost reduction programs will determine whether the segment's EBIT remains at approximately prior year levels or improves. As with the Automotive, Industrial & Multimarket segment, cost cutting measures introduced by the ICoRe program, as further described below, are expected to contribute to the improvement of EBIT before non-ordinary gains and losses in the current financial year compared with the 2006 financial year. The anticipated savings resulting from the ICoRe program have not been considered in the outlook of the Communication Solutions segment described above. In the 2007 financial year, the non-recurrence of expenditures incurred during the 2006 financial year in connection with the separation of the memory products segment into a standalone legal entity and costs related to the move to our new corporate headquarters, Campeon, are expected to positively impact EBIT results prior to inclusion of potential restructuring charges in the Corporate and Eliminations segment.

The implementation of the ICoRe program, which is currently in its planning phase, is expected to positively impact EBIT results in all segments. We expect to finalize the planning phase of the program in the 2006 calendar year and to implement it in the 2007 financial year. As a result of the ICoRe program, annual savings of at least €50 million are anticipated, which will impact results partially in the current financial year and fully in the next financial year.

Beyond the 2007 financial year, we expect EBIT before non-ordinary gains and losses to improve as a result of a positive industry environment and further sales growth in the logic business. In the Automotive, Industrial & Multimarket and Communication Solutions segments, the non-recurrence of expenditures incurred in connection with the ramp-down of the production facility in Munich/Perlach and the ramp-up of the production facility in Kulim, Malaysia will be a driver of the improvement. In addition, both segments will fully benefit from the cost-saving measures of the ICoRe program. Furthermore, the cost reduction measures to be implemented in the 2007 financial year in the Communication Solutions segment should positively impact results.

Fixed Assets Investment and Depreciation for Infineon Excluding Qimonda

We are pursuing a differentiated manufacturing strategy for our Automotive, Industrial & Multimarket and Communication Solutions segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, in particular in the power semiconductor arena. In contrast, we do not plan to invest in our own manufacturing capacities for the standard semiconductor manufacturing process, so called CMOS technology, for structure sizes below 65-nanometers, but will

outsource this capacity to foundry partners. In the context of this manufacturing strategy we anticipate that our annual fixed assets capital investment will be approximately €500 million. Compared with the 2006 financial year, depreciation expense is expected to be reduced to approximately €600 million in the 2007 financial year and to continue to decrease in line with capital investment in the years thereafter. In the subsequent financial years we expect annual depreciation expense to be approximately €500 million.

Expenditures for Research and Development for Infineon Excluding Qimonda

We expect expenditures for research and development for Infineon excluding Qimonda to slightly decrease in the current financial year compared with the 2006 financial year. This is primarily due to the cost reduction measures already initiated within the Communication Solutions segment. By streamlining internal organization structures and reducing fixed costs, we believe that we will be able to reduce development expenditures while retaining our sales potential. In Automotive, Industrial & Multimarket, the introduction of new products and the broadening of the existing product portfolio in automotive power, microcontrollers and power management are examples of areas of emphasis in research and development. In Communication Solutions, we are working, for example, on new system-on-a-chip products for wireless and wireline communication. Beyond the 2007 financial year, a slight increase in expenditures for research and development is possible.

Qimonda Segment

Qimonda's revenues are a function of the bit volume it ships and the selling price it achieves for its products. While Qimonda has an influence over its production growth, through capacity additions and productivity improvements, its sales volume depends on the extent to which its product offerings match market demand. Qimonda's selling prices are a function of the supply and demand relationship in the DRAM market. These market forces are beyond Qimonda's control and, accordingly, it cannot reliably estimate what these future sales prices, and the resulting revenues and the contribution to its earnings, will be.

For the 2007 financial year, Qimonda expects bit demand to be driven in part by the introduction of the Windows Vista operating system and the continued strong growth for DRAM in consumer and communication applications. More specifically, Qimonda expects the overall DRAM market, measured in bits, to grow between 55 % and 65 %. Qimonda intends to increase its bit production in line with overall market growth based on its investment in additional capacities in the Richmond 300-millimeter manufacturing facility and the ramp-up of the second 300-millimeter module at the Inotera joint venture. In addition, during the 2007 financial year, Qimonda aims to realize productivity improvements in manufacturing as it converts further production to 90-nanometer technology and begins the transition to next generation 80-nanometer and 75-nanometer technologies. Qimonda is continuously taking steps to reduce its cost-per-bit in manufacturing, such as the introduction of advanced process technologies featuring smaller die-sizes, the ramp-up of more productive 300-millimeter capacities and other cost savings and productivity improvement measures.

Qimonda expects to make capital expenditures in the 2007 financial year ranging between €750 million and €850 million. In the years thereafter, its aim is to have capital expenditures of approximately 15 % to 25 % of revenues on average over the DRAM cycle.

Depreciation and amortization during the 2007 financial year is estimated to range between €650 million and €750 million, and for the years thereafter to be in line with capital expenditures.

Research and development expenses are anticipated to be between €430 million and €460 million for the 2007 financial year, and approximate 10 % of sales on average for the years thereafter.

Historically, Qimonda has received financing from us. Depending on market conditions and Qimonda's financial performance in the coming year, it may redeem a portion or all of this debt through repayment and/or external refinancing.

Opportunities

The Automotive, Industrial & Multimarket as well as the Communication Solutions segments provide particularly volume opportunities in connection with a better than expected development in demand in our target markets. In the Communication Solutions segment, we focus particularly on the continuous broadening of our customer base, especially in the area of mobile phone platforms. The primary risk being that certain customer projects do not lead to orders, or that customer projects do not match our planned time table or anticipated order volume.

For Qimonda's memory products business, we see the greatest opportunities within a positive development of DRAM prices, particularly due to higher than expected demand in connection with temporary shortages caused by delivery bottlenecks in the market. In manufacturing, efficiencies could be further increased and our cost position improved. In addition, we consider the continuing optimization of our product portfolio to be a significant opportunity for the sustainable improvement of our operating results. The primary risk lies on a significant weakening of the average selling prices of memory chips.

Report of Independent Registered Public Accounting Firm

The Supervisory Board of Infineon Technologies

We have audited the consolidated financial statements prepared by Infineon Technologies AG, Munich, comprising the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of shareholders' equity, the consolidated statement of cash flows, and the related notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US-GAAP) and the group management report in accordance with the requirements of German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with accounting principles generally accepted in the United States of America and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

In addition, we confirm that the consolidated financial statements and the group management report for the business year from October 1, 2005 to September 30, 2006 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements in accordance with German law and the group management report.

Munich, Germany, November 15, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hoyos	**Feege**
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2004, 2005 AND 2006 € IN MILLIONS

	Notes	2004	2005	2006
Net sales:				
Third parties	6	6,169	5,843	**7,546**
Related parties	29	1,026	916	**383**
Total net sales		7,195	6,759	**7,929**
Cost of goods sold	8	4,670	4,909	**5,854**
Gross profit		2,525	1,850	**2,075**
Research and development expenses		1,219	1,293	**1,249**
Selling, general and administrative expenses		718	655	**751**
Restructuring charges	9	17	78	**23**
Other operating expense, net	8	257	92	**108**
Operating income (loss)		314	(268)	**(56)**
Interest expense, net		(41)	(9)	**(92)**
Equity in earnings (losses) of associated companies, net	17	(14)	57	**78**
Gain on subsidiaries and associated company share issuance, net	17	2	–	**19**
Other non-operating (expense) income, net		(64)	26	**(33)**
Minority interests	24	18	2	**(23)**
Income (loss) before income taxes		215	(192)	**(107)**
Income tax expense	10	(154)	(120)	**(161)**
Net income (loss)		61	(312)	**(268)**
Basic and diluted income (loss) per share in €	11	0.08	(0.42)	**(0.36)**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2005 AND 2006 € IN MILLIONS

	Notes	2005	2006
Assets			
Current assets:			
Cash and cash equivalents		1,148	**2,040**
Marketable securities	12	858	**615**
Trade accounts receivable, net	13	952	**1,245**
Inventories	14	1,022	**1,202**
Deferred income taxes	10	125	**97**
Other current assets	15	469	**482**
Total current assets		4,574	**5,681**
Property, plant and equipment, net	16	3,751	**3,764**
Long-term investments	17	779	**659**
Restricted cash		88	**78**
Deferred income taxes	10	550	**627**
Other assets	18	542	**376**
Total assets		10,284	**11,185**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term debt and current maturities	22	99	**797**
Trade accounts payable	19	1,069	**1,245**
Accrued liabilities	20	497	**562**
Deferred income taxes	10	17	**26**
Other current liabilities	21	700	**675**
Total current liabilities		2,382	**3,305**
Long-term debt	22	1,566	**1,208**
Deferred income taxes	10	65	**60**
Other liabilities	23	561	**457**
Total liabilities		4,574	**5,030**
Minority interests	24	81	**840**
Shareholders' equity:			
Ordinary share capital	25	1,495	**1,495**
Additional paid-in capital		5,800	**5,828**
Accumulated deficit		(1,512)	**(1,780)**
Accumulated other comprehensive loss	27	(154)	**(228)**
Total shareholders' equity		5,629	**5,315**
Total liabilities and shareholders' equity		10,284	**11,185**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2004, 2005 AND 2006 € IN MILLIONS, EXCEPT FOR SHARE DATA

	Notes	Issued Ordinary shares in shares	Issued Ordinary shares amount
Balance as of October 1, 2003		720,880,604	1,442
Net income		–	–
Other comprehensive income (loss)	27	–	–
Total comprehensive income			
Issuance of ordinary shares:			
Settlement of redeemable interest		26,679,255	53
Deferred compensation, net		–	–
Balance as of September 30, 2004		747,559,859	1,495
Net loss		–	–
Other comprehensive income (loss)	27	–	–
Total comprehensive loss			
Issuance of ordinary shares:			
Exercise of stock options	26	9,500	–
Balance as of September 30, 2005		747,569,359	1,495
Net loss		–	–
Other comprehensive income (loss)	27	–	–
Total comprehensive loss			
Issuance of ordinary shares:			
Exercise of stock options	26	39,935	–
Stock-based compensation	26	–	–
Balance as of September 30, 2006		747,609,294	1,495

See accompanying notes to the consolidated financial statements.

Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability	Unrealized gain (loss) on securities	Unrealized gain (loss) on cash flow hedge	Total
5,573	(1,261)	(81)	(18)	11	–	**5,666**
–	61	–	–	–	–	**61**
–	–	(41)	18	(7)	1	**(29)**
						32
225	–	–	–	–	–	**278**
2	–	–	–	–	–	**2**
5,800	(1,200)	(122)	–	4	1	**5,978**
–	(312)	–	–	–	–	**(312)**
–	–	64	(84)	8	(25)	**(37)**
						(349)
–	–	–	–	–	–	**–**
5,800	(1,512)	(58)	(84)	12	(24)	**5,629**
–	(268)	–	–	–	–	**(268)**
–	–	(69)	(3)	(7)	5	**(74)**
						(342)
–	–	–	–	–	–	**–**
28	–	–	–	–	–	**28**
5,828	(1,780)	(127)	(87)	5	(19)	**5,315**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2004, 2005 AND 2006 € IN MILLIONS

	Notes	2004	2005	2006
Net income (loss)		61	(312)	**(268)**
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation and amortization	16/18	1,320	1,316	**1,405**
Acquired in-process research and development	4	9	–	**–**
Deferred compensation		2	–	**–**
Provision for doubtful accounts	13	15	3	**23**
Gain on sale of marketable securities	12	(9)	(8)	**(3)**
Loss (gain) on sale of businesses and interests in subsidiaries	5	2	(39)	**10**
Gain on disposal of property, plant, and equipment		(5)	(8)	**(9)**
Equity in losses (earnings) of associated companies, net	17	14	(57)	**(78)**
Gain on subsidiaries and associated company share issuance, net	17	(2)	–	**(19)**
Minority interests	24	(18)	(2)	**23**
Impairment charges	16/17/18	136	134	**57**
Stock-based compensation	26	–	–	**28**
Deferred income taxes	10	96	88	**(6)**
Changes in operating assets and liabilities:				
Trade accounts receivable	13	(219)	119	**(334)**
Inventories	14	(40)	(25)	**(145)**
Other current assets	15	154	(2)	**31**
Trade accounts payable	19	228	(52)	**222**
Accrued liabilities	20	92	(114)	**89**
Other current liabilities	21	(22)	–	**48**
Other assets and liabilities	18/23	43	(2)	**(100)**
Net cash provided by operating activities		1,857	1,039	**974**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2004, 2005 AND 2006 € IN MILLIONS

	Notes	2004	2005	2006
Cash flows from investing activities:				
Purchases of marketable securities available for sale		(2,678)	(2,228)	**(492)**
Proceeds from sale of marketable securities available for sale		2,520	3,310	**730**
Proceeds from sale of businesses and interests in subsidiaries		9	101	**72**
Business interests, net of cash acquired		(29)	–	**–**
Investment in associated and related companies	17	(386)	(135)	**(6)**
Cash increase from initial consolidation of ALTIS	17	–	–	**119**
Dividends received from equity investments		–	51	**29**
Purchases of intangible assets	18	(125)	(27)	**(44)**
Purchases of property, plant and equipment	16	(1,163)	(1,368)	**(1,253)**
Proceeds from sales of property, plant and equipment	16	43	58	**21**
Net cash used in investing activities		(1,809)	(238)	**(824)**
Cash flows from financing activities:				
Net change in short-term debt	22	62	(20)	**–**
Net change in related party financial receivables and payables	29	75	18	**7**
Proceeds from issuance of long-term debt	22	–	192	**400**
Principal repayments of long-term debt	22	(549)	(500)	**(56)**
Change in restricted cash		(43)	21	**10**
Proceeds from issuance of shares to minority interest		53	23	**–**
Proceeds from issuance of shares of Qimonda	3	–	–	**406**
Capital distributions to minority interests		–	–	**(5)**
Net cash (used in) provided by financing activities		(402)	(266)	**762**
Effect of foreign exchange rate changes on cash and cash equivalents		(7)	5	**(20)**
Net increase (decrease) in cash and cash equivalents		(361)	540	**892**
Cash and cash equivalents at beginning of year		969	608	**1,148**
Cash and cash equivalents at end of year		608	1,148	**2,040**

See accompanying notes to the consolidated financial statements.

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

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

(euro in millions, except where otherwise stated)

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 proprietory 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	April 2004	January 2005
Segment	Communication Solutions	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.

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

(euro in millions, except where otherwise stated)

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).

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 in-

(euro in millions, except where otherwise stated)

vestment 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.

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

(euro in millions, except where otherwise stated)

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 interbank 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.

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

(euro in millions, except where otherwise stated)

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 preestablished limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

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.

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

(euro in millions, except where otherwise stated)

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.

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

(euro in millions, except where otherwise stated)

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**

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

(euro in millions, except where otherwise stated)

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

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

(euro in millions, except where otherwise stated)

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 Compensation[1]	Bonus[2]	Total compensation
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	Compensation[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	Compensation[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**

Financial and Technology Glossary

Financial glossary

Accumulated Benefit Obligation (ABO): An approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed.

ADS: American Depositary Shares – ADS are U.S.-traded stock certificates for non-U.S. stocks. These certificates simplify access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S.-based companies. Infineon's ADS are listed on the New York Stock Exchange (NYSE) at a 1:1 ratio.

Carve-out: Legal separation of business operations (e.g. business units).

Cash flow: The cash-effective balance arising from inflows and outflows of funds over the financial year. The cash flow statement is part of the consolidated financial statements and shows how the Company generated cash during the period and where it spent cash, in terms of operating activities (cash the Company made by purchasing/selling goods and services), investing activities (cash the Company spent for investment, or cash it raised from divestitures), and financing activities (cash the Company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

Dax: Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

Deferred taxes: Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

Derivative: A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

EBIT: Infineon defines EBIT as "Earnings Before Interest and Taxes". This is the measure that Infineon uses to evaluate the operating performance of its segments.

EBIT margin: An indicator of operating performance, calculated as the percentage of EBIT in relation to net sales.

EPS: Earnings (loss) Per Share – basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

Equity method: Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

Free cash flow: Inflow and outflow of cash from operating and investing activities excluding purchases or sales of marketable securities.

Goodwill: An intangible asset of the Company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under U.S. GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year.

Gross cash position: Total of cash and cash equivalents and marketable securities.

Gross profit or margin: Net sales less cost of goods sold.

Joint venture: A form of business partnership between companies to engage in a commercial enterprise.

Minority interest: Proportional share in net income not ascribed to the consolidated group but to outside shareholders that hold a minority share in the equity of the Company's subsidiaries.

Net cash position: Gross cash position less long and short-term debt.

Projected Benefit Obligation (PBO): A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

Registered shares: Shares registered in the name of a certain person. This person's details and number of shares are registered in the Company's share ledger in accordance with securities regulations. Only individuals registered in the Company's stock ledger are considered shareholders of the Company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

SEC: Short for „Securities and Exchange Commission". The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.

U.S. GAAP: Accounting principles generally accepted in the United States of America. Infineon prepares its consolidated financial statements according to U.S. GAAP.

Technology Glossary

2G: Second generation, i.e. digital mobile telephony. Subsequent to the first generation (analog), 2G digital signals offer good overall sound quality and numerous data services. Second generation mobile communications standard in Europe: GSM.

2.5G: Currently most commonly used mobile communications infrastructure. 2.5-generation mobile communications standard in Europe: GPRS.

3G: Third generation of mobile communications. Provides broadband transmission of voice and data with considerably higher capacity compared to second generation. Third generation mobile communications standard in Europe: UMTS.

300-millimeter technology: Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters. At Infineon, the term is used as a synonym for the manufacture of memory chips on a 300-millimeter wafer.

300-millimeter production site: A semiconductor production site which can process wafers with a diameter of 300 millimeters.

Access line: The subscriber line, also called exchange line or last mile, is the part of the telephone network that connects the telephone exchange of the service provider with the telephone connection inside the user's/subscriber's house.

Advanced Memory Buffer: The Advanced Memory Buffer (AMB) is a chip on an FB-DIMM memory module which buffers data and coordinates communication between the memory module and the memory controller.

ADSL2, ADSL2+: ADSL2 and ADSL2+ are further developments of the ADSL (Asymmetric Digital Subscriber Line) standard, which above all improve the data rates and range of ADSL connections. The increased range allows network providers to offer ADSL to a higher number of potential customers, while the increased data rates allow for new services like high-definition television (HDTV) over the Internet. ADSL2+ increases the maximum data rate to 25 megabits per second downstream compared to the 16 megabits per second with ADSL2. These data rates easily allow the transmission of multiple TV or single HDTV channels.

ASIC: Application-Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

ASSP: Application-Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

Back-end manufacturing: The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

Baseband IC: A baseband IC processes the digital signals received and those to be sent. This complex component usually contains a digital signal processor, microcontroller, memory and analog circuits. Essentially, it is the core of a wireless communications system.

Bit: Information unit; can take one of two values: "true" / "false" or "0" / "1".

Bluetooth: Technology for wireless voice and data transmission over short distances.

Broadband applications: Any network technology to provide high-bandwidth data transmission with bandwidths of several hundreds of kilobits per second or more.

Byte: Unit of information in data processing components. One byte is equivalent to 8 bits.

CDMA: Code Division Multiple Access. Process used in mobile communications systems, allowing several users simultaneous access to a transmission channel. Advantage: optimal utilization of available transmission bandwidth.

Chip card: Plastic card with built-in memory chip or microprocessor, which can be combined with a Personal Identification Number (PIN).

CMOS: Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to produce microchips with low power usage and a high level of integration.

CPE: Customer Premises Equipment are user end devices in a computer network, telephone network or in telephone systems. Such end devices are normally the property of the end consumer or customer and are connected to a telephone or data network (Internet or LAN). Telephones, fax machines and modems are the most frequently found CPE devices. In the context of DSL, the term "CPE" designates DSL modems.

DDR: Double Data Rate. A technique that increases data transmission rates of semiconductor RAMs by reading and writing data on both the rising and falling edges of the timer signal, leading to a doubled data transmission rate compared to the use of only one timer signal edge.

DDR2: A further development of DDR technology. This is currently the commonly used memory technology for PCs and notebooks.

DECT: Digital Enhanced Cordless Telecommunications. Uniform European standard for digital wireless communications systems.

DRAM: Dynamic Random Access Memory. Widely used, low-cost memory chip technology based on high-level integration. Examples of DRAM chips: SDR SDRAM, DDR SDRAM, DDR2 SDRAM, Graphics RAM.

DSL: Digital Subscriber Line. A broadband digital connection over telephone networks.

EDGE: Enhanced Data Rates for GSM Evolution. Describes a technology for an increased data rate in GSM mobile communications networks which, to date, is only very rarely applied. Like GPRS, EDGE is a further evolutionary development of the GSM technology, and can be introduced in mobile communications networks with moderate effort.

Fab: See back-end (manufacturing) or front-end (manufacturing)

FB-DIMM: Fully Buffered Dual-Inline Memory Module. Represents a novel memory module technology for the server environment. It ensures that despite higher memory clock rates, the maximum memory system capacity need not be decreased, but can even be increased.

Front-end: Front-end process is the designation for all process steps that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the front-end process, the wafer may have been through as many as 500 individual process steps.

Giga: 2^{30}, in information technology, e.g. Gigabit (Gbit), Gigabyte (GByte).

GPRS: General Packet Radio Service. New generation of mobile communications (2.5 group) for higher data transmission rates (up to 115 kbits per second) in GSM networks.

GPS: Global Positioning System. Satellite-based location identification and positioning system based on the transit-time differences of received signals.

Graphics RAM: A special, advanced variant of the SDRAM components, optimized for graphics applications and used on high-end graphics cards. By using an internal command pipeline, access sequences can be buffered on the chip, leading to increased access bandwidths.

GSM: Global System for Mobile Communications. Currently the most widely used digital mobile communications standard in the world.

HDTV: High Definition Television is a generic term for a number of television standards characterized by an increased vertical, horizontal and/or temporal resolution compared to conventional television. This is accompanied by the transition from the 4:3 to the 16:9 aspect ratio.

Home gateway: This allows high-speed data transmissions from and to private homes. It can be considered as the next evolutionary step following the set-top box (decoder).

HSDPA: High-Speed Downlink Packet Access is a transmission procedure of the UMTS mobile communication standard. It is designed to enable downlink data speeds of 14.4 megabits per second, i.e. fast transmission of large amounts of data (games, images, movies, etc.) between a base station and a mobile device.

IPTV: Internet Protocol Television. Describes the digital transmission of TV programs and movies over a digital data network, and uses the Internet Protocol (IP) on which the Internet is based. The transmission of digital video signals demands a high data rate (about six to eight megabits per second for HDTV). Therefore, IPTV was not possible before the wide spread of broadband Internet connections to customers (e.g. ADSL2, cable modem or VDSL) and introduction of new compression methods.

IC: Integrated Circuit. Electronic component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

ISDN: Integrated Services Digital Network. Type of on-line connection, integrating telecommunications services such as telephone, fax or data transmissions into one single network.

Kilo: 2^{10}, in information technology, e.g. Kilobit (Kbit), Kilobyte (Kbyte).

LTT: Light-Triggered Thyristor. A thyristor that is triggered by a light source. Used in high-voltage applications, such as power plants, where very high electrical current needs to be switched.

Mega: 2^{20}, in information technology, e.g. Megabit (Mbit), Megabyte (Mbyte).

Megahertz: Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz. The Hertz determines the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

Microcontroller: A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of the highest complexity can be designed in a microcontroller and controlled by software.

Micron (micrometer): Metric linear measure, corresponding to the millionth part of a meter (10^{-6} m). Symbol: µm. As an example, the diameter of a single human hair is 0.1 millimeters, or 100 µm.

Mobile-RAM: Low-power DRAM designed for mobile applications like PDAs and smart phones.

MP3 player: A battery-powered device which plays digital audio data stored in MP3 format.

PDA: Personal Digital Assistant. An electronic address book, appointment calendar and notebook; usually synchronized with the user's PC.

POF: Plastic optical fiber. Used to transmit data. The advantage of POF is its light weight, high flexibility and insensitivity to electromagnetic influences. Due to the low cost of POF as compared to glass fiber, it is used more and more frequently in end-consumer devices.

Power semiconductor: Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the "open" and the "closed" state. With the fast sequences of on/off pulses, almost any form of energy flow can be created, e.g. a sinus wave.

Radio-frequency (RF) transceiver: The term "transceiver", created from the words "transmitter" and "receiver", is used to describe a combination of transmitter and receiver in a single component that is used in wireline and wireless communications. Radio-frequency transceivers are used in wireless communications, for example in mobile phones and cordless telephones.

RAM: Random Access Memory. Semiconductor memory that can be accessed in any order. The name is derived from, and is in contrast to, the sequential access memory of a tape storage medium. Data memory, known as main memory, contains programs and data. Examples: SRAM and SDRAM. (See "DRAM").

ROM: Read-Only Memory. Digital, non-volatile data memory in which data can be permanently stored regardless of the power supply. The most recent developments are in the form of flash memories (NAND and NOR).

Semiconductor: Crystalline material; its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

Server: General term used to describe powerful computers within computer networks which fulfill various tasks. Examples are print servers, web servers, mail servers, database servers, etc.

Silicon: A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

Smart phone: A smart phone combines the performance of a PDA with a mobile phone. Depending on the manufacturer, the device will be more PDA or more mobile phone. This means that smart phones can log on to a mobile phone network or, as small computers, also run applications like a PDA.

SMS: Short Message Service. A telecommunications service for transmitting text messages. It was originally developed for GSM mobile communications and is now also available via landline connections.

Tire Pressure Monitoring System (TPMS): A system that monitors the pressure inside a tire and alerts the driver when the pressure is insufficient.

Triple Play: Describes the communications package of the future, consisting of high-speed Internet connection, telephone service (Voice over IP) and online video services. Triple play can be provided using copper wires (DSL connection), cable connections or radio connections.

Trusted Platform Module: The Trusted Platform Module (TPM) is a chip designed to make computers more secure. It is equivalent to a permanently embedded smart card, the main difference being that it is associated with a system, not a particular user. In addition to its use in PCs, it will be integrated into PDAs, mobile phones and consumer electronics. The chip is passive and cannot directly influence the boot process or the operation of the device. It contains a unique identifier and allows for the identification of the computer.

UMTS: Universal Mobile Telecommunications System. Designed to be the future global digital standard for mobile communications. UMTS enables data transmission of up to two Mbit per second.

VDSL, VDSL2: Very High Data Rate Digital Subscriber Line. VDSL, like ADSL, is a digital transmission technology for the connection of customers using copper wires. It offers significantly higher data rates of up to 52 megabits per second. This decreases the maximum range of the bridgeable copper wire to a maximum of 1.5 kilometers. The use of VDSL is therefore restricted to hybrid networks as an extension to an already existing fiber-optics connection. The successor VDSL2 will offer bandwidths of up to 100 megabits per second. The targeted range for this speed is about 200 meters.

Voice-over-IP (VoIP): IP telephony is the ability to telephone via a computer network using the Internet Protocol. IP telephony used to conduct conversations over the Internet is referred to as Internet telephony. The essential difference to conventional telephony is that voice data is not transmitted via a switched connection through a telephone network, but split up into IP packages which travel through the network to their destination along an unspecified route. IP telephony can share the infrastructure, i.e. the network, with other communications services.

Wafer: Disc made of semiconductor material, such as silicon, with a diameter of up to 300 millimeters.

WLAN: Wireless Local Area Network. A local computer network which connects computers with each other or the Internet via a radio connection.

Workstation: Very capable PC.

xDSL: xDigital Subscriber Line. Generic term for various technical concepts for broadband digital data transmission via existing twisted copper wires. Depending on the configuration, the “x” stands for Asymmetric (A), High bit-rate (H), Single line (S), Symmetric high bit-rate (SH) or Very high bit-rate (V).

Financial Calendar
Important Financial Dates 2007*

> Monday, January 29
Publication of first quarter 2007 results

> Thursday, February 15, 10:00 a.m. CET
2007 Shareholders' Annual General Meeting in Munich, Germany at the ICM (Internationales Congress Center München)

> Friday, April 27
Publication of second quarter 2007 results

> Friday, July 27
Publication of third quarter 2007 results

> Wednesday, November 14
Publication of fourth quarter and financial year 2007 results

*preliminary

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BASIC SHARE INFORMATION

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of €2.00 each (relation ADS: share = 1:1)
Share capital	€1,495 million (as of Sept. 30, 2006)
Shares outstanding	748 million (as of Sept. 30, 2006)
Listings	Shares: Frankfurt Stock Exchange (FSE)
	ADS: New York Stock Exchange (NYSE)
Option trading	Options on shares: Eurex
	Options on ADS: CBOE
IPO	March 13, 2000 on FSE and NYSE
IPO issue price	€35.00 per share
	U.S.$33.92 per ADS
Ticker symbol	IFX
ISIN code	DE0006231004
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system)
	IFX.US
Reuters	IFXGn.DE
Index member (selection)	Dax 30 Dow Jones German Titans 30 Dow Jones Stoxx Technology FTSEurofirst 300 Index MSCI Germany SOX S&P Europe 350

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

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

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