INFINEON TECHNOLOGIES AG
Form 20-F
December 08, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934 o
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 x
For the fiscal year ended September 30, 2009
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from – –to – –. o
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 o
Date of event requiring this shell company report – –.

Commission file number: 1-15000

Infineon Technologies AG
(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

Am Campeon 1-12,
D-85579 Neubiberg
Federal Republic of Germany
(Address of principal executive offices)

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class

American Depositary Shares, each representing one ordinary share, notional value 2.00 per share

Ordinary shares, notional value 2.00 per share*

* Registered, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report. 1,086,742,085 ordinary shares, notional value 2.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes **x** No **o**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes **o** No **x**

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No **o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes **x** No **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **x** Accelerated filer **o** Non-accelerated filer **o**

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP **o** International Financial Reporting Standards as issued by the International Accounting Standards Board **x** Other **o**

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 **o** Item 18 **x**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **o** No **x**

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes **o** No **o**

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INFINEON TECHNOLOGIES AG

ANNUAL REPORT ON FORM 20-F
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009

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CROSS REFERENCES TO FORM 20-F

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Our consolidated financial statements are expressed in Euro. In this annual report, references to Euro or are to Euro and references to U.S. dollars or $ are t United States dollars. For convenience, this annual report contains translations of Euro amounts into U.S. dollars at the rate of 1.00 = $1.4630, the noon buying rate of the Federal Reserve Board for Euro on September 30, 2009. The noon buying rate for Euro on November 30, 2009 was 1.00 = $1.5022. Our fiscal year ends on September 30 of each year. References to any fiscal year refer to the year ended September 30 of the calendar year specified. In this annual report, references to:

our company are to Infineon Technologies AG and its subsidiaries; and

we , us or Infineon are to Infineon Technologies AG and its subsidiaries, other than Qimonda, unless the context otherwise indicates; and

Qimonda are to Qimonda AG and its subsidiaries.

This annual report contains market data that has been prepared or reported by Gartner Inc. and its unit Dataquest, Inc. (together Gartner Dataquest), Frost & Sullivan, iSuppli Corporation (iSuppli), IMS Research, Strategy Analytics, Inc. (Strategy Analytics), and World Semiconductor Trade Statistics (WSTS).

Amounts presented in tabular format may not add up due to rounding.

Special terms used in the semiconductor industry are defined in the glossary.

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. 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 Factors and elsewhere in this annual report.

Use of Non-GAAP Financial Measures

This document contains non-GAAP financial measures. Non-GAAP financial measures are measures of our historical or future performance, financial position or cash flows that contain adjustments that exclude or include amounts that are included or excluded, as the case may be, from the most directly comparable measure calculated and presented in accordance with IFRS in our consolidated financial statements. For descriptions of these non-GAAP financial measures and the adjustments made to the most directly comparable IFRS financial measures, please refer to Operating and Financial Review .

Principal Business Address

Our principal business address is Am Campeon 1-12, D-85579 Neubiberg, Federal Republic of Germany.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with our consolidated financial statements, the related notes and Operating and Financial Review , all of which appear elsewhere in this annual report.

We have derived the selected consolidated statements of operations and cash flow data for the 2007 through 2009 fiscal years and the selected consolidated balance sheet data at September 30, 2007 through 2009 from our consolidated financial statements, which have been prepared in accordance with IFRS and audited by KPMG AG Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm.

	For the years ended September 30,[1]			
	2007	2008	2009	2009[2]
Selected Consolidated Statement of Operations Data				
Revenue	3,660	3,903	3,027	$ 4,428
Income (loss) from continuing operations before income taxes	(33)	(165)	(268)	(392)
Income (loss) from continuing operations	(31)	(204)	(273)	(399)
Income (loss) from discontinued operations, net of income taxes	(339)	(3,543)	(398)	(583)
Net income (loss)	(370)	(3,747)	(671)	(982)
Net income (loss) attributable to:				
Minority interests	(23)	(812)	(48)	(70)
Shareholders of Infineon Technologies AG	(347)	(2,935)	(623)	(912)
Basic and diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):				
Basic and diluted earnings (losses) per share from continuing operations	(0.06)	(0.23)	(0.32)	$ (0.47)
Basic and diluted earnings (losses) per share from discontinued operations	(0.37)	(3.38)	(0.41)	$ (0.60)
Basic and diluted earnings (losses) per share	(0.43)	(3.61)	(0.73)	$ (1.07)
Selected Consolidated Balance Sheet Data				
Cash and cash equivalents	1,809	749	1,414	$ 2,069
Available-for-sale financial assets	417	134	93	136
Working capital (deficit)[3]	293	293	(3)	(4)
Assets classified as held for disposal	303	2,129	112	163
Total assets	10,599	6,982	4,606	6,739
Short-term debt and current maturities of long-term debt	336	207	521	762
Liabilities associated with assets held for disposal	129	2,123	9	14
Long-term debt	1,227	963	329	481
Total equity	6,004	2,161	2,333	3,413
Selected Consolidated Statements of Cash Flow Data				
Net cash provided by operating activities from continuing operations	241	540	268	392
Net cash provided by (used in) operating activities	1,251	(84)	(112)	(164)

Net cash provided by (used in) investing activities from continuing operations	8	(652)	(14)	(20)
Net cash provided by (used in) investing activities	(917)	(662)	13	19
Net cash provided by (used in) financing activities from continuing operations	(214)	(230)	391	572
Net cash provided by (used in) financing activities	(525)	113	351	514
Net increase (decrease) in cash and cash equivalents from discontinued operations	(226)	(291)	(393)	(575)
Net increase (decrease) in cash and cash equivalents	(191)	(633)	252	369

Notes

(1) During the 2008 fiscal year, we committed to a plan to dispose of Qimonda. As a consequence, the results of Qimonda are reported as discontinued operations in the Selected Consolidated Statements of Operations data for the fiscal years ended September 30, 2007, 2008 and 2009. The assets and liabilities of Qimonda have been classified as held for disposal in the Selected Consolidated Balance Sheet as of September 30, 2008. On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, we deconsolidated Qimonda during the second quarter of the 2009 fiscal year. On April 1, 2009, the insolvency proceedings formally opened. In July 2009, we committed to a plan to sell our Wireline Communications business. As a consequence, the results of the Wireline Communications business are reported as discontinued operations in the Selected Consolidated Statements of Operations data for the fiscal years ended September 30, 2007, 2008 and 2009. Assets and liabilities of the Wireline Communications business have been classified as held for disposal in the Selected Consolidated Balance Sheet as of September 30, 2009. The sale of the Wireline Communications business closed on November 6, 2009.

(2) Converted from Euro into U.S. dollars at an exchange rate of 1 = $1.4630, which was the noon buying rate on September 30, 2009.

(3) Working capital consists of current assets less cash and cash equivalents, available-for-sale financial assets and assets held for disposal less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities associated with assets classified as held for disposal.

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OPERATING AND FINANCIAL REVIEW FOR THE 2009 FISCAL YEAR

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 policies and assumptions more fully explained in Note 1 (Description of Business and Basis of Presentation) and Note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.

Effective October 1, 2008, to better align our business with its target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications. Furthermore, our Management Board changed the measure it uses to assess the operating performance of our operating segments to Segment Result[(1)] . In July 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. As a result of the planned sale, the Management Board determined that Wireline Communications ceased to be an operating segment in September 2009. All periods presented have been recast to reflect the new segment presentation (see note 39 to our consolidated financial statements). All assets and liabilities of the Wireline Communications business to be sold are presented as Assets classified as held for disposal and Liabilities associated with assets classified as held for disposal in our consolidated balance sheet as of September 30, 2009, and the results of the Wireline Communications business to be sold are presented as Discontinued operations, net of income taxes in our consolidated statements of operations for all periods presented.

Overview of the 2009 Fiscal Year

During our 2009 fiscal year, which ended September 30, the world economy entered into its deepest recession of the last 60 years. The global semiconductor market contracted 20 percent (in U.S. dollar terms) in the 2009 fiscal year compared to the prior fiscal year, according to WSTS (September 2009).

The following were the key developments in our business during the 2009 fiscal year:

Financial Results

Our 2009 fiscal year was significantly impacted by the overall economic slowdown, resulting in an overall 22 percent decrease in our revenues from 3,903 million in the 2008 fiscal year to 3,027 million in the 2009 fiscal year. In particular, during the first half of the 2009 fiscal year we experienced a sharp decline in revenues, while in the second half and particularly in the fourth quarter, we experienced a partial recovery of our revenues. All our operating segments faced revenue decreases in the 2009 fiscal year compared to the 2008 fiscal year. Revenues of our operating segments in the 2009 fiscal year were as follows: Automotive revenues were 839 million (2008 fiscal year: 1,257 million), Industrial & Multimarket revenues were 905 million (2008 fiscal year: 1,171 million), Chip Card & Security revenues were 341 million (2008 fiscal year: 465 million), and Wireless Solutions revenues were 917 million (2008 fiscal year: 941 million). With a revenue decline of 33 percent, our Automotive segment was affected most by the worldwide recession, while the revenue decline in our Wireless Solutions segment was only 3 percent, which, among others, reflects the successful ramp-up of our 3G-mobilephone-platform.

The Segment Result of our operating segments in the 2009 fiscal year was as follows: Automotive was negative 117 million (2008 fiscal year: 105 million), Industrial & Multimarket was 35 million (2008 fiscal

year: 134 million), Chip Card & Security was negative 4 million (2008 fiscal year: 52 million), and Wireless Solutions was negative 36 million (2008 fiscal year: negative 18 million). Thus, the Segment Results for all our operating segments decreased in the 2009 fiscal year

(1) We define Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net,share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs.

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compared to the 2008 fiscal year, primarily reflecting the decrease in revenues and resulting increased idle capacity cost, which could only be partially offset by cost savings realized through the 2009 fiscal year. With a decrease in Segment Result of 222 million, our Automotive segment was impacted the most by the economic slowdown compared to our other segments. We experienced a partial recovery in the Segment Results during the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year as a result of higher revenues, which also led to lower idle capacity cost, and the positive impact of cost savings realized under our IFX10+ cost-reduction program and from short-time work and unpaid leave. In particular, our Wireless Solutions segment improved its Segment Result during the second half of the 2009 fiscal year compared to the first half of the fiscal year and the second half of the 2008 fiscal year. For all other operating segments, their respective Segment Results in the second half of the 2009 fiscal year were lower than their respective Segment Results in the second half of the 2008 fiscal year. Segment Result of Other Operating Segments was negative 13 million (2008 fiscal year: negative 12 million) and Corporate and Elimination Segment Result was negative 32 million (2008 fiscal year: negative 24 million).

Our loss from continuing operations before income taxes increased by 103 million from negative 165 million in the 2008 fiscal year to negative 268 million in the 2009 fiscal year. This increase primarily reflected decreased gross profit due to decreased revenues and corresponding higher idle capacity cost, which was only partly offset by decreases in research and development expenses as well as selling, general and administrative expenses and other operating expenses. Furthermore, the increase of financial income by 43 million and the decrease of financial expense by 25 million in the 2009 fiscal year compared to the 2008 fiscal year positively impacted our results from continuing operations before income taxes for the 2009 fiscal year.

Loss from discontinued operations, net of income taxes, in the 2009 fiscal year was 398 million compared to 3,543 million for the prior fiscal year. Loss from discontinued operations, net of income taxes, attributable to Qimonda was 420 million. This amount primarily reflected the realization of accumulated currency translation losses totaling 188 million and charges for provisions and allowances of 227 million, in connection with Qimonda s insolvency proceedings. The results attributable to the Wireline Communications business in the 2009 fiscal year which are presented in loss from discontinued operations, net of income taxes, of positive 22 million only partially offset the negative impact of Qimonda. In the 2008 fiscal year, loss from discontinued operations, net of income taxes, was 3,543 million, including Qimonda s negative results of 2,084 million and an after tax write-down of 1,475 million in order to remeasure Qimonda to its estimated fair value less costs to sell as of September 30, 2008. Also included in loss from discontinued operations, net of income taxes, for the 2008 fiscal year is positive 16 million from the Wireline Communications business.

As a result of the developments described above, our net loss decreased from 3,747 million in the 2008 fiscal year to 671 million in the 2009 fiscal year. In particular, we incurred significant net losses during the first half of the 2009 fiscal year resulting from the deconsolidation of Qimonda and the impact of Qimonda s insolvency and the effects of the economic slowdown on our business. As a result of the partial recovery of our revenues during the second half of the 2009 fiscal year together with our cost savings efforts and lower charges in connection with Qimonda s insolvency, our net loss in the second half of the 2009 fiscal year significantly decreased and we reached break even for the fourth quarter of the 2009 fiscal year.

Our cash flow provided by operating activities from continuing operations decreased from 540 million in the 2008 fiscal year to 268 million in our 2009 fiscal year. Cash flow used in operating activities from discontinued operations was 380 million in the 2009 fiscal year, compared to 624 million in the prior year. The operating cash flow used in discontinued operations primarily reflects the losses incurred by Qimonda in the 2008 and 2009 fiscal years. The sum of our cash flows used in operating activities (continuing and discontinued operations combined) increased from 84 million during the 2008 fiscal year to 112 million during the 2009 fiscal year.

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Corporate Activities

In addition to dealing with the impact of the economic slowdown, our 2009 fiscal year was characterized by several measures to improve our financial condition:

During the 2009 fiscal year, we repurchased and redeemed notional amounts of 215 million of our exchangeable subordinated notes due 2010 and 152 million of our convertible subordinated notes due 2010. The repurchases were made out of available cash. We realized pre tax-gains of 61 million net of transaction costs, which were recognized in financial income for the 2009 fiscal year for repurchases totaling 167 million of our exchangeable subordinated notes due 2010 and 78 million of our convertible subordinated notes due 2010. For repurchases and redemptions totaling 48 million of our exchangeable subordinated notes due 2010 and 74 million of our convertible subordinated notes due 2010, we realized pre-tax losses of 6 million, which were recognized in financial expense during the 2009 fiscal year. As of September 30, 2009, the outstanding notional amount of our convertible subordinated notes due 2010 was 448 million. Our exchangeable subordinated notes due 2010 were fully redeemed as of September 30, 2009.

On May 26, 2009, through our subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, we issued new convertible subordinated notes due 2014 in the notional amount of 196 million at a discount of 7.2 percent. The subordinated notes due 2014 bear interest of 7.5 percent and were originally convertible, at the option of the holders, into a maximum of 74.9 million ordinary shares of Infineon, at a conversion price of 2.61 per share through maturity. As a result of our share capital increase described below, the conversion price has been adjusted to 2.33 in accordance with an antidilution provision contained in the notes. The subordinated notes due 2014 are listed on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange.

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business to Lantiq, affiliates of Golden Gate Private Equity Inc. (Lantiq). The majority of the purchase price was paid at closing on November 6, 2009, in the amount of 223 million, with up to an additional 20 million of the purchase price being payable nine months after the closing date. The sale of the Wireline Communications business allows us to concentrate on our four remaining operating segments, while at the same time further improving our balance sheet and strengthening our liquidity position.

On July 16, 2009, we announced the launch of a rights issue for up to 337 million shares, with a subscription price of 2.15 per share and a subscription period from July 20, 2009 through August 3, 2009. The new shares were offered to our existing shareholders for subscription at a ratio of four new shares for every nine outstanding shares held. Settlement for the new shares subscribed for under the rights offering occurred August 5, 2009, resulting in the issuance of 323 million new shares. In connection with the rights issue, we entered into a backstop arrangement with a financial investor to purchase any unsubscribed shares, subject to certain conditions. In the second step of the rights issue, on August 11, 2009, 14 million shares were issued to Admiral Participations (Luxembourg) S.a.r.l., a subsidiary of a fund managed by Apollo Global Management LLC. After the execution of the capital increase, our share capital consisted of 2,173 million. The capital increase resulted in gross proceeds to us of 725 million. Costs incurred in connection with the capital increase amounted to 45 million.

To address rising risks in the market environment, adverse currency trends and partially below benchmark margins, we implemented our cost-reduction program IFX10+ in the third quarter of the 2008 fiscal year. Subsequent to the end of the 2008 fiscal year, and in light of continuing adverse developments in general economic conditions and in particular in our industry, we identified significant further costs savings in addition

to those originally anticipated. In response to the continued and increasingly severe deterioration in the general market environment, additional substantial cost reductions and cash savings were achieved. Among others, we implemented reduced working hours and unpaid leave during the 2009 fiscal year. In addition, we changed our bonus schemes for the 2009 fiscal year, issued a tightened travel policy, and terminated a service

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anniversary bonus payment scheme. Our operating expenses (including research and development cost as well as selling, general and administrative expense) for the 2009 fiscal year decreased by 263 million compared to the 2008 fiscal year. Our management believes that these savings are primarily due to our IFX 10+ cost-reduction program. This figure includes cost savings resulting from reduced working hours and unpaid leave, but excludes the cost savings realized in our Wireline Communications business, which are included in results from discontinued operations, net of income taxes.

We also made significant progress in reducing the number of employees. As of September 30, 2009, our workforce was 26,464 compared to 29,119 as of September 30, 2008, a reduction of 9 percent. Compared to June 30, 2008, (before we implemented the IFX10+ cost-reduction program), we reduced our workforce by 10 percent.

On March 4, 2009, we sold the business of our wholly-owned subsidiary Infineon Technologies SensoNor AS (SensoNor), including property, plant and equipment, inventories, and pension liabilities, and transferred employees of this subsidiary to a newly formed company called SensoNor Technologies AS, for cash consideration of 4 million and one share in the capital of the new company. In addition, we granted licenses for intellectual property and entered into a supply agreement through December 2011 with the new company. As a result of this transaction, we realized pre-tax losses of 17 million, which were recorded in other operating expense in the 2009 fiscal year. We have entered into business agreements with the new company to ensure a continued supply of the components for our tire pressure monitoring systems until we ramp up production at our Villach site.

On June 9, 2009, we signed an agreement with LS Industrial Systems Co., Ltd., South Korea, to establish the joint venture LS Power Semitech Co., Ltd., to jointly develop, produce and market molded power modules for low power applications. We intend to license to the joint venture intellectual property (IP), technology and process know-how for our power module family CIPOS™ (Control Integrated Power System), and intend to transfer existing CIPOS backend manufacturing equipment from Regensburg, Germany to the joint venture. We will hold 46 percent of the joint venture, which will be headquartered in South Korea.

As part of our ongoing efforts to improve our production processes and improve our cost position, we:

- are currently ramping up production of products using 65-nanometer technology at several manufacturing partners and have begun to develop products based on 40-nanometer technology, which we currently plan to have manufactured by one of our manufacturing partners; and

- are proceeding with our development agreements with International Business Machines Corporation (IBM) and its development and manufacturing partners to develop 32-nanometer technology. This agreement builds on the success of earlier joint development and manufacturing agreements.

Product and Technology Developments

We continue to invest in research and development and achieved a number of significant milestones and product developments during the 2009 fiscal year:

Energy Efficiency

Further expanding our leading role in fluorescent, high-intensity discharge (HID) and solid-state lighting applications, we launched our next-generation smart ballast controller for use in compact fluorescent lamps, linear fluorescent T5 and T8 lamps, dimmable fluorescent lamps and emergency lighting. Today, around one third of all energy consumption is electrical energy of which around 15 percent is consumed by lighting,

creating a growing demand for efficient lighting systems. The new lamp ballast controller has been selected by a number of the world s leading lighting manufacturers.

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We and Robert Bosch GmbH (Bosch) are widening our cooperation to include power semiconductors. The collaboration between the companies has two key aspects. First, Bosch licenses from us certain manufacturing processes for power semiconductors specifically, for low-voltage power MOSFETs (metal oxide semiconductor field-effect transistors) along with the requisite manufacturing technologies. Second, the collaboration includes a second-source agreement. Parallel to Bosch s own semiconductor manufacturing in Reutlingen, Germany, we will produce components developed on the basis of these processes and will supply Bosch with these components. We and Bosch are also working jointly on the development of enabling technologies for the production of power semiconductors.

With the 600V CoolMOS™ C6 series, our latest high-performance power MOSFETs, we enable energy conversion applications such as PFC (Power Factor Correction) or PWM (Pulse Width Modulation) stages to be made significantly more energy efficient. CoolMOS™ C6 devices target various energy efficient applications such as power supplies or adapters for PCs, notebooks or mobile phones, lighting (HID) products, as well as displays (LCD or Plasma TV) and consumer applications like gaming consoles. Our latest power semiconductor generation allows for highly reliable end products compliant with today s high efficiency requirements and government regulations.

Security

We have maintained our strong position in the chip card and security IC market. U.S. market research company Frost & Sullivan named us, for the twelfth consecutive year, as the top supplier of chip card semiconductors. In 2008, our market share was 26 percent of the overall chip card IC (integrated circuit) market, which totals about 2.4 billion U.S. dollar according to Frost & Sullivan. Our strong market position is particularly driven by our leadership in the Government Identification (ID) and payment market segments.

In government ID applications, roughly half of all government ID documents (excluding the China national ID project) issued in 2008 incorporated one of our security chips. Government ID applications include electronic documents, such as passports, national ID cards, health cards, drivers licenses and social security cards. Today, our products are used in the public domain of about one third of the 192 UN member states. A key success factor in this sensitive market is the ability to provide long-term security and robust, high-quality products with excellent contactless performance. In the payment market we are also a key partner of the secure chip card industry. We are a major supplier for many of the world s largest financial card applications, including credit and debit card programs in France, Germany, the UK and Korea.

Our position as key innovator in the chip card industry was again recognized when we were awarded the 2008 Sesame Award in the category of Best Hardware for our latest 16-bit security microcontroller family, SLE 78. We received the award because the new chips integrate a highly innovative self-checking security mechanism called Integrity Guard which we specifically developed for chip card and security applications. This is the fifth time we have received this prestigious award.

Communications

In January 2009, we won the Innovation Award of German Industry for the best technological innovation in the category of large-scale enterprises for our X-GOLD™ 101 mobile phone chip. This chip enables the production of a simple mobile phone from a single-chip, cutting the manufacturing cost of mobile phones by over 30 percent. It is the second time we have received this prestigious award.

We announced our third-generation ultra-low-cost (ULC) mobile phone chips. The X-GOLD 110 is the industry s most integrated and cost-effective one-chip solution for GSM/GPRS ultra low-cost phones. The bill of material for mobile phone manufacturers is approximately 20 percent

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lower compared to existing GSM/GPRS solutions. The new platform supports color display, MP3 playback, FM radio, and USB charging, and can be used in Dual-SIM and camera solutions.

In our RF business, we announced the sampling of the second generation of our Long-Term-Evolution (LTE) RF transceiver. The SMARTi^{tm} LU is a single-chip-65-nanometer CMOS RF transceiver providing LTE/3G/2G functionality with digital baseband interface in LTE networks for data rates up to 150 megabit per second. The latest revision of SMARTi^{tm} LU adds LTE FDD/TDD mode and new frequency bands supporting leading operators in North America and China. SMARTi^{tm} LU will ship in volume in the second half of the 2010 calendar year. In addition, we announced the third generation of our 3G RF transceiver family SMARTi^{tm} UE. The SMARTi^{tm} UEmicro is optimized for lowest cost 3G designs and enables a 40 percent lower bill of material than available solutions on the market. SMARTi^{tm} UEmicro meets the feature requirements and cost targets of emerging 3G mass markets in China and India. Volume shipments are expected to start in the first half of the 2010 calendar year.

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 analog, digital, and mixed-signal applications. We have operations, investments, and customers located primarily in Europe, Asia and North America.

Our core business is currently organized in four operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions:

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, we offer corresponding system know-how and support to our customers.

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

The Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications.

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

Our current segment structure reflects a reorganization of our operations effective October 1, 2008. To better align our business with our target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications. In July 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. As a result of the planned sale, our Management Board determined that the Wireline Communications business ceased to be an operating segment in September 2009, and the results of the Wireline Communications business are reported as discontinued operations in our consolidated statements of operations for all periods presented. Segment results for all periods presented have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information. Assets and

liabilities of the Wireline Communications business in the consolidated balance sheet as of September 30, 2009 are classified as held for disposal .

We have two additional segments for reporting purposes, our Other Operating Segments, which includes remaining activities for certain product lines that have been disposed of, and other business activities, and our Corporate and Eliminations segment, which contains items not allocated to our

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operating segments, such as certain corporate headquarters costs, strategic investments, unabsorbed excess capacity and restructuring costs.

In addition, we currently hold a 77.5 percent interest in Qimonda, which was carved-out in 2006. On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG (Qimonda Dresden) filed an application to commence insolvency proceedings, and formal insolvency proceedings were opened on April 1, 2009. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The final resolution of the insolvency proceedings, including the final disposition of the remaining assets and liabilities of Qimonda, cannot be predicted at this time. As a result of the application, we deconsolidated Qimonda during the second quarter of the 2009 fiscal year. During the second quarter of the 2008 fiscal year, we committed to a plan to dispose of Qimonda. As a result, the assets and liabilities of Qimonda in the consolidated balance sheet as of September 30, 2008, were classified as held for disposal , and the results of Qimonda are reported in our consolidated statements of operations as discontinued operations through deconsolidation for all periods presented.

The Semiconductor Industry and Factors that Impact Our Business

Our business and the semiconductor industry generally are highly cyclical and characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and wide fluctuations in product supply and demand.

Cyclicality

The market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins. According to WSTS (November 2009), the overall market growth (in U.S. dollar terms) compared to the previous year was 8.9 percent in 2006 and 3.2 percent in 2007, before decreasing by 2.8 percent in 2008. WSTS predicts that the overall market will contract by approximately 11 percent in the 2009 calendar year.

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

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

Substantial Capital and Research & Development Expenditures

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The top 10 capital spenders in the industry, according to IC Insights, account for approximately 60 percent of the industry s projected 2009 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

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cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

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

To reduce total costs, we intend to continue to seek to share the costs of our research and development (R&D) and manufacturing with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D, as well as manufacturing and foundry partnerships, provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how, and access to additional production capacities. Our principal alliances are with the International Semiconductor Development Alliance (ISDA), a technology alliance among IBM, GlobalFoundries Inc., Chartered Semiconductor Manufacturing Ltd. (Chartered Semiconductor), Freescale Seminconductor, Inc., NEC Corporation, Samsung Electronics Ltd., STMicroelectronics NV, Toshiba Corporation and Infineon for CMOS development and manufacturing at 45-nanometer and 32-nanometer process technologies. We have established foundry relationships with United Microelectronics Corporation (UMC) for 130-nanometer, 90-nanometer and 65-nanometer manufacturing as well as with Chartered Semiconductor and Taiwan Semiconductor Manufacturing Company (TSMC) for 65-nanometer manufacturing. Further, we announced in November 2009 the signing of a joint development agreement for 65-nanometer embedded Flash technology with TSMC.

In the backend field, STMicroelectronics NV, STATS ChipPAC Ltd. and Infineon are jointly developing the next-generation of embedded Wafer-Level Ball Grid Array (eWLB) technology, based on our first-generation technology, for use in manufacturing future-generation semiconductor packages. This builds on our existing eWLB packaging technology, which we have licensed to our development partners. The new R&D effort, for which the resulting IP will be jointly owned by the three companies, will focus on using both sides of a reconstituted wafer to provide solutions for semiconductor devices with a higher integration level and a greater number of contact elements.

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

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

Technological Development and Competition

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. Although logic products generally have a certain degree of application specification, unit sales prices for logic products typically decline over time as technology develops.

We aim to offset the effects of declining unit sales prices on total revenue by optimizing product mix, by increasing unit sales volume and by continually reducing per-unit production costs. The growth in volume

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depends in part on productivity improvements in manufacturing, for example by moving to ever-smaller structure sizes.

Seasonality

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

Product Development Cycles

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

Acquisition and Divestiture Strategy

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

Intellectual Property

Due to the high-technology nature of the semiconductor industry, Intellectual Property (IP), meaning intangible assets relating to proprietary technology, is of significant importance. We also derive modest revenues from the licensing of our IP, generally pursuant to cross licensing agreements. Our IP rights include patents, copyrights, trade secrets, trademarks, utility models and designs. The subjects of our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset not only to protect our investment in technology but also a vital prerequisite for cross licensing agreements with third parties.

As of September 30, 2009, we owned more than 20,800 patent applications and patents (both referred to as patents below) in over 40 countries throughout the world. These patents belong to approximately 8,150 patent families (each patent family containing all patents originating from the same invention). 1,900 of those patent applications and patents (approximately 820 patent families) were transferred to Lantiq upon the closing of the sale of our Wireline Communications business on November 6, 2009.

We record assets on our balance sheet for self-developed IP. Costs for development activities may be capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditures that serve to prepare the asset for use. Costs of research activities which do not fulfill the criteria for capitalization are expensed as incurred. IP licensed from others or acquired through a business combination is also 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.

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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 in 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 2009 Fiscal Year

According to WSTS (September 2009), the global semiconductor market contracted (in U.S. dollar terms) by 20 percent through the first nine months of the 2009 calendar year compared to the same period in the prior year, following a market contraction of 2.8 percent in the 2008 calendar year. In November 2009, WSTS predicted the global semiconductor market would shrink by approximately 11 percent in the full 2009 calendar year. Sales in North America are expected to decrease by 1 percent and in Europe by 24 percent in the 2009 calendar year, according to WSTS. The semiconductor market in Asia/Pacific (excluding Japan) is expected to contract by 7 percent; the Japanese market is expected to contract by 21 percent compared to the 2008 calendar year. Sales of non-memory products (logic chips, analog, and discretes), which accounted for 81 percent of the entire market in the first nine months of the 2009 calendar year, are predicted to decrease by 12 percent compared with the 2008 calendar year. Sales of memory products are predicted to decline by 8 percent compared with the 2008 calendar year. In the 2008 calendar year, the memory market contracted by 20 percent (WSTS, November 2009).

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Results of Operations

Results of Operations as a Percentage of Revenue

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

	For the years ended September 30,[1]		
	2007	2008	2009
Revenue	100.0 %	100.0 %	100.0 %
Cost of goods sold	(67.5)	(66.1)	(78.2)
Gross profit	32.5	33.9	21.8
Research and development expenses	(17.0)	(15.5)	(15.5)
Selling, general and administrative expenses	(12.3)	(13.3)	(13.0)
Other operating income	1.0	3.1	1.0
Other operating expenses	(1.5)	(9.4)	(1.6)
Operating income (loss)	2.7	(1.2)	(7.3)
Financial income	3.0	1.5	3.3
Financial expense	(6.6)	(4.6)	(5.1)
Income from investments accounted for using the equity method		0.1	0.2
Loss from continuing operations before income taxes	(0.9)	(4.2)	(8.9)
Income tax benefit (expense)	0.1	(1.0)	(0.1)
Loss from continuing operations	(0.8)	(5.2)	(9.0)
Loss from discontinued operations, net of income taxes	(9.3)	(90.8)	(13.2)
Net loss	(10.1) %	(96.0) %	(22.2) %
Attributable to:			
Minority interests	(0.6) %	(20.8) %	(1.6) %
Shareholders of Infineon Technologies AG	(9.5) %	(75.2) %	(20.6) %

[1] Columns may not add up due to rounding.

Reorganization

Our organizational structure for the period through March 31, 2008, became effective on May 1, 2006, following the legal separation of our memory products business into the stand-alone legal company Qimonda. Effective March 31,

2008, the results of Qimonda until deconsolidation are reported as discontinued operations in our consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been classified as held for disposal in the consolidated balance sheet as of September 30, 2008.

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

Effective October 1, 2008, to better align our business with our target markets, we reorganized our core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security,

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Wireless Solutions and Wireline Communications. On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business which closed on November 6, 2009. As a result of the planned sale, our Management Board determined that the Wireline Communications business ceased to be an operating segment in September 2009, and the results of the Wireline Communications business are reported as discontinued operations in our consolidated statements of operations for all periods presented, and the assets and liabilities of the Wireline Communications Business in the consolidated balance sheet as of September 30, 2009 are classified as held for disposal .

Segment results for all periods presented have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information.

Revenue

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

We generated the majority of our product revenues in the 2009 fiscal year through our direct sales force, with approximately 20 percent of revenues derived from sales made through distributors.

We derive our modest 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.

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

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

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Revenue	3,660	3,903	3,027
Changes year-on-year		7 %	(22) %
Of which:			
License income	19	53	18
Percentage of revenue	1 %	1 %	1 %
Effect of foreign exchange over prior year	(154)	(239)	169

Percentage of revenue	(4) %	(6) %	6 %
Impact of acquisitions over prior year		133	
Percentage of revenue	%	3 %	%

In the 2008 fiscal year, revenues increased primarily as a result of the revenue increase in the Wireless Solutions segment, partially offset by the revenue decline in other operating segments due to the sale of our HDD business to LSI in April 2008. The slight revenue decreases in our Automotive and our Industrial & Multimarket segments were offset by revenue increases in our Chip Card & Security segment.

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In the 2009 fiscal year, revenues decreased by 22 percent compared to the 2008 fiscal year, primarily due to the economic slowdown. Revenues decreased across all of our segments.

The strength of the Euro (primarily against the U.S. dollar) during the 2007 and 2008 fiscal years negatively impacted revenue, while the partial recovery of the U.S. dollar against the Euro in the 2009 fiscal year positively impacted our revenues. The effect of foreign exchange over the prior year is calculated as the estimated change in current year revenues if the average exchange rate for the preceding year were applied as a constant rate in the current year.

Revenues for the 2008 fiscal year include the effect of the acquisition of the mobility products business from LSI from October 25, 2007 and Primarion Inc. from April 28, 2008. The impact of acquisitions over the prior fiscal year reflects the increase in revenue resulting from business acquisitions since the beginning of the prior fiscal year, and in particular the inclusion of a full-year consolidation of revenue from such acquisition in the year after the initial acquisition.

Actual Revenues in the 2009 Fiscal Year Compared to Previously Reported Outlook

When we initially presented our outlook for the 2009 fiscal year, in December 2008, our visibility with respect to economic developments in the 2009 fiscal year was very limited. Based on forecasts at that time, we forecast that total revenues in the 2009 fiscal year would decrease by at least 15 percent compared to the 2008 fiscal year. In April 2009, we revised our outlook for the 2009 fiscal year; however, considerable uncertainties regarding the economic situation remained. Based on the results for the first six months of the 2009 fiscal year, as of April we forecasted revenues for the 2009 fiscal year to decrease by more than 20 percent compared to the 2008 fiscal year.

As expected, the economic slowdown during the 2009 fiscal year resulted in revenue decreases in all our segments. As we forecasted in April 2009 in our revised outlook for the 2009 fiscal year, our overall revenue decreased by 22 percent in the 2009 fiscal year compared to the 2008 fiscal year. Revenues of each of our operating segments, other than Wireless Solutions, decreased by more than 20 percent each in the 2009 fiscal year compared to the 2008 fiscal year. As we forecasted, the economic slowdown had the least impact on our Wireless Solutions segment, which experienced a decrease of revenues of only 3 percent in the 2009 fiscal year compared to the 2008 fiscal year.

Revenue by Segment

	For the years ended September 30,					
	2007		2008		2009	
	(in millions, except percentages)					
Automotive	1,267	35 %	1,257	32 %	839	28 %
Industrial & Multimarket	1,188	33 %	1,171	30 %	905	30 %
Chip Card & Security	438	12 %	465	12 %	341	11 %
Wireless Solutions[1]	637	17 %	941	24 %	917	30 %
Other Operating Segments[2]	343	9 %	171	4 %	17	1 %
Corporate and Eliminations[3]	(213)	(6) %	(102)	(2) %	8	0 %
Total	3,660	100 %	3,903	100 %	3,027	100 %

[1] Includes revenues of 30 million, 10 million and 1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, from sales of wireless communication applications to Qimonda.

(2) Includes revenues of 189 million and 79 million for fiscal years ended September 30, 2007, and 2008, respectively, from sales of wafers from Infineon s 200-millimeter facility in Dresden to Qimonda under a foundry agreement.

(3) Includes the elimination of revenues of 219 million, 89 million and 1 million for the fiscal years ended September 30, 2007, 2008 and 2009, respectively, since these sales were not part of the Qimonda disposal plan.

Automotive In the 2008 fiscal year, revenues were 1,257 million, and remained broadly unchanged compared to 1,267 million in the 2007 fiscal year. Higher sales volumes partially offset the continued pricing pressures caused by technological developments and competition. In the 2009 fiscal year, revenues were 839 million, a decrease of 33 percent compared to the 2008

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fiscal year. The revenue decline was in line with the volume reduction in the automobile market driven by the economic downturn. In addition, we saw a market shift to smaller-sized cars with lower semiconductor content triggered by national car-scrap bonus programs and an economic stimulus program in China. During the second half of the 2009 fiscal year, revenues of the Automotive segment partially recovered compared to the first half of the 2009 fiscal year, however revenues in the second half of the 2009 fiscal year were still significantly lower compared to revenues in the second half of the 2008 fiscal year.

Industrial & Multimarket In the 2008 fiscal year, revenues slightly decreased due to the sale of an interest in Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) to Siemens AG, which is being consolidated under the equity method of accounting effective October 1, 2007. Revenues of the remaining businesses increased as higher sales volumes more than offset the continued pricing pressures caused by technological developments and competition. Growth in revenues was driven primarily by continued strong demand for industrial high power applications, and increases in sales of multimarket applications. In the 2009 fiscal year, revenues amounted to 905 million and were 23 percent below revenues for the 2008 fiscal year. Against the background of the global economic crisis, particularly in consumer oriented markets like computing, communication and automotive, sales declined. The primary causes for the decline were a significant slump in demand by end-consumers as well as stock clearance within the value chain. The industrial business showed a comparatively slight decline in sales compared to the 2008 fiscal year. Economic stimulus plans throughout the world helped to partially counterbalance the impact of the economic crisis in the industrial segment. Revenues increased in the second half of the 2009 fiscal year compared to the first half. In the fourth quarter of our 2009 fiscal year, revenues increased significantly compared to the third quarter of the 2009 fiscal year. This increase primarily reflected the seasonality typical in consumer oriented markets and was comparable to the growth rate in the fourth quarter of the 2008 fiscal year compared to the third quarter of the 2008 fiscal year.

Chip Card & Security In the 2008 fiscal year, revenues were 465 million, an increase of 6 percent compared to 438 million in the 2007 fiscal year. This increase primarily reflected growing demand for government ID applications, especially the introduction of electronic passports, as well as market share gains in Pay-TV and payment applications. In the 2009 fiscal year, revenues were 341 million, a decrease of 27 percent compared to the 2008 fiscal year. This decrease was driven by weaker demand for government ID as well as for platform security, Pay-TV, mobile communication and payment applications, caused primarily by the economic and financial crisis. Investments in infrastructure improvements were particularly delayed due to the crisis, which resulted in a slow down, for example, in the migration towards high-end products in payment applications. Additionally, the economic crisis negatively impacted worldwide travel activities, leading to significantly lower end-customer demand for electronic passports. In the fourth quarter of the 2009 fiscal year, revenue increased compared to the third quarter of the 2009 fiscal year. This increase was significantly higher than the increase in the fourth quarter of the 2008 fiscal year compared to the third quarter of the 2008 fiscal year. This was mainly driven by stronger demand for communication chips as well as a recovery of market demand for platform security chips in laptops and PCs.

Wireless Solutions In the 2008 fiscal year, revenues were 941 million, an increase of 48 percent compared to 637 million in the 2007 fiscal year, primarily resulting from a strong increase in mobile phone platform shipments and the consolidation of the mobility products business acquired from LSI. In the 2009 fiscal year, revenues were 917 million, a slight decrease of 3 percent compared to the 2008 fiscal year. Despite the turbulent market environment, particularly in the first half of the 2009 fiscal year, the segment succeeded in stabilizing revenues at the previous fiscal year s level. Our innovative ULC-, Entry Phone-, UMTS- and HSPA solutions were positively received and had strong market momentum.

Other Operating Segments In the 2007 and 2008 fiscal years, revenues comprised mainly inter-segment revenues of wafers from our 200-millimeter facility in Dresden to Qimonda under a foundry agreement, which

are eliminated in the Corporate and Eliminations segment. Effective

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November 30, 2007, Qimonda canceled the foundry agreement with us, resulting in a significant decline in revenue during the 2008 and 2009 fiscal years. The last wafers were delivered to Qimonda in May 2008. The majority of the revenues in the 2009 fiscal year were derived from our HDD business which we sold to LSI in April 2008, and which were also included in the revenues of other operating segments in the 2007 and 2008 fiscal years.

Revenue by Region and Customer

	For the years ended September 30,					
	2007		2008		2009	
	(in millions, except percentages)					
Germany	794	22 %	820	21 %	545	18 %
Other Europe	807	22 %	754	19 %	543	18 %
North America	530	14 %	483	12 %	409	13 %
Asia/Pacific	1,289	35 %	1,597	41 %	1,358	45 %
Japan	203	6 %	191	5 %	143	5 %
Other	37	1 %	58	2 %	29	1 %
Total	3,660	100 %	3,903	100 %	3,027	100 %

The absolute and relative increase in the share of revenues in Asia/Pacific in the 2008 fiscal year was primarily due to the acquisition of the mobility products business from LSI and higher shipments of mobile phone platforms solutions to customers in Asia/Pacific in our Wireless Solutions segment.

The regional distribution of revenues in the 2009 fiscal year changed slightly compared to the 2008 fiscal year, primarily reflecting changes in the revenues of the segments. The shift in the regional distribution from Germany, Other Europe, and North America to Asia/Pacific resulted primarily from the significant revenue decreases of our Automotive segment, whose customers are based largely in Germany, Other Europe and North America. Furthermore, increased revenues of our Wireless Solutions segment in Asia/Pacific during the 2009 fiscal year compared to the 2008 fiscal year contributed to the changes in the regional distribution of revenues.

No single customer accounted for more than 10 percent of our revenues in the 2009 fiscal year, while our top 25 customers accounted for 72 percent of our revenues.

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, including amortization of capitalized development cost;

subcontracted expenses for assembly and test services;

production support, including facilities, utilities, quality control, automated systems and management functions; and

foundry production costs.

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

factory utilization rates and related idle capacity costs;

amortization of purchased intangible assets and capitalized development costs;

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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.

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Cost of goods sold	2,469	2,581	2,368
Changes year-on-year		5 %	(8) %
Percentage of revenue	68 %	66 %	78 %
Gross profit	1,191	1,322	659
Percentage of revenue (gross margin)	32 %	34 %	22 %

We include in cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies. Our purchases from these associated and related companies amounted to 47 million, 148 million and 138 million in the 2007, 2008 and 2009 fiscal years, respectively.

During the 2008 fiscal year our gross margin slightly increased primarily as a result of productivity measures. In the 2009 fiscal year our gross margin decreased significantly from 34 percent to 22 percent. In particular during the first half of the 2009 fiscal year, lower sales volumes and significantly higher idle capacity costs, reflecting fixed cost in production that could not be reduced proportionately to the reduced sales volume, resulted in a significant decline of our gross margin. The increased sales volumes during the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year resulted in a partial recovery of our gross margin in the second half of the 2009 fiscal year.

Automotive In the 2008 fiscal year, gross profit of the segment remained broadly unchanged compared to the 2007 fiscal year due to measures to increase productivity and despite an increase in idle capacity cost. Compared to the 2008 fiscal year, gross profit in the 2009 fiscal year decreased due to volume decline and further increasing costs for idle capacity.

Industrial & Multimarket In the 2008 fiscal year, gross profit of the segment remained broadly unchanged compared to the 2007 fiscal year due to measures to increase productivity and despite an increase in idle capacity cost. Due to significantly lower revenues and higher idle capacity cost in the 2009 fiscal year, gross profit declined in the 2009 fiscal year compared to the 2008 fiscal year. The decrease in gross profit was limited by structural improvements in our product portfolio and cost and process enhancements as well as by our significant savings measures. Price erosion affecting our products in the 2009 fiscal year remained on the same level as in the 2008 fiscal year.

Chip Card & Security In the 2008 fiscal year, gross profit of the segment increased significantly primarily due to the increase in revenue as well as changes in product mix, driven by our differentiation strategy in the product portfolio. In the 2009 fiscal year, gross profit decreased in line with revenues and due to higher idle capacity cost, reflecting reduced loading of the manufacturing facilities.

Wireless Solutions In the 2008 fiscal year, gross profit of the segment increased compared to that of the 2007 fiscal year, primarily due to the revenue increases, cost savings and productivity measures, despite the negative

impact of currency fluctuations between the U.S. dollar and the Euro. In the 2009 fiscal year gross profit of the segment decreased compared to the 2008 fiscal year, reflecting higher idle capacity cost resulting from lower factory loading.

Research and Development Expenses

R&D expenses consist primarily of salaries and benefits for R&D personnel, material costs, depreciation and maintenance of equipment used in our R&D efforts, and contracted technology development

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costs. R&D expenses also include our joint technology development arrangements with partners. Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serves to prepare the asset for use.

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

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Research and development expenses	621	606	468
Changes year-on-year		(2) %	(23) %
Percentage of revenue	17 %	16 %	15 %
Government subsidies	87	59	50
Percentage of revenue	2 %	2 %	2 %
Capitalized development costs	22	38	43
Percentage of research and development expenses	4 %	6 %	9 %

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.

In the 2008 fiscal year R&D expenses decreased by 15 million or 2 percent compared to the 2007 fiscal year, and further decreased in the 2009 fiscal year by 138 million or 23 percent compared to the 2008 fiscal year. The absolute decline during our 2009 fiscal year resulted from our IFX10+ cost-reduction program, savings from short-time work and unpaid leave, and deferred R&D activities. Furthermore, reduced expenses reflecting lower profit-related bonuses contributed to cost reduction in the 2009 fiscal year. Continued increases in our R&D efficiency also contributed to the decline of R&D expenses in the 2009 fiscal year compared to the 2008 fiscal year. We believe that the cost savings achieved have not harmed our technological competitive position.

We capitalized development costs of 22 million, 38 million and 43 million in the 2007, 2008 and 2009 fiscal year, respectively.

Automotive In the 2008 fiscal year, R&D expenses remained stable as a percentage of revenues and decreased in absolute terms. In the 2009 fiscal year, R&D cost was reduced in absolute terms; however R&D expense slightly increased as a percentage of revenue due to the significant reduction in revenue.

Industrial & Multimarket In the 2008 fiscal year, R&D expenses remained stable as a percentage of revenues and decreased in absolute terms. R&D expenses in the 2009 fiscal year declined in absolute terms, but increased as a percentage of revenues due to the significant reduction in revenue.

Chip Card & Security In the 2008 fiscal year, R&D expenses increased both as a percentage of revenues and in absolute terms. In the 2009 fiscal year, R&D expenses decreased strongly. As a percentage of revenues, R&D expenses of the segment increased slightly due to the reduction in revenues.

Wireless Solutions In the 2008 fiscal year, despite the acquisition of the mobility products business from LSI, R&D expenses decreased as efficiency gains and cost reduction measures initiated during the 2007 fiscal year for the first time were taking effect for a full fiscal year. As a

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percentage of revenue, R&D expenses declined sharply, mainly driven by the revenue increase. In the 2009 fiscal year, R&D expenses significantly decreased in both relative and absolute terms.

Selling, General and Administrative Expenses

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

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

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Selling, general and administrative expenses	449	517	392
Changes year-on-year		15 %	(24) %
Percentage of revenue	12 %	13 %	13 %

The year-on-year increase in absolute terms in the 2008 fiscal year primarily reflects increased selling expenses following the acquisition of the mobility products business from LSI. In the 2009 fiscal year selling, general and administrative expenses decreased by 125 million or 24 percent compared to the 2008 fiscal year. This decrease reflects cost savings as a result of our IFX10+ cost-reduction program, short-time work, and unpaid leave. Additionally, the reversal of bonus provisions and lower bonus and incentive expenses due to our 2009 fiscal year results contributed to the decrease in selling, general and administrative expenses in the 2009 fiscal year. As a percentage of revenues, selling, general and administrative expenses remained broadly unchanged for the 2009 fiscal year compared to the 2008 fiscal year.

Other Operating Income and Other Operating Expense

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Other operating income	37	120	29
Percentage of revenue	1 %	3 %	1 %
Other operating expense	(57)	(365)	(48)
Percentage of revenue	(2) %	(9) %	(2) %

Other Operating Income. In the 2007 fiscal year, other operating income consisted primarily of gains of 17 million from the sale of the Polymer Optical fiber (POF) business to Avago Technologies Ltd. (Avago), and gains of 3 million from the sale of the Sci-Worx business to Silicon Image Inc. Other operating income increased by 83 million from 37 million in the 2007 fiscal year to 120 million in the 2008 fiscal year, and decreased to 29 million in the 2009 fiscal year. Other operating income in the 2008 fiscal year related primarily to the gains of 80 million from the sale of 40 percent of our interest in Bipolar to Siemens, the sale of our HDD business to LSI, and the sale of our bulk acoustic wave filter business (BAW) to Avago. Additionally, we realized gains from disposals of long-term assets of 4 million in the 2008 fiscal year. Included in other operating income for the 2009 fiscal year were 10 million of payments from

the insolvency administrator of BenQ, a former customer.

Other Operating Expense. Other operating expense increased by 308 million from 57 million in the 2007 fiscal year to 365 million in the 2008 fiscal year, and decreased to 48 million in the 2009 fiscal year by 317 million compared to the 2008 fiscal year. Other operating expense in the 2008 fiscal year related primarily to higher restructuring and impairment charges in the 2008 fiscal year compared to the 2007 fiscal year. To address rising risks in the market environment, adverse currency trends and partially below benchmark margins, we implemented the IFX10+ cost-reduction program in the third quarter of the

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2008 fiscal year. The IFX10+ cost-reduction program targeted certain areas to reduce costs including product portfolio management, manufacturing costs reduction, value chain optimization, processes efficiency, reorganization of our structure along our target markets, and reductions in workforce. Approximately 10 percent of our workforce worldwide was impacted by IFX10+. In the 2008 fiscal year, we recorded restructuring charges totaling 188 million, of which 172 million was attributable to the IFX10+ cost-reduction program. We recorded impairment charges of 130 million on property, plant and equipment and intangible assets during the 2008 fiscal year, primarily relating to the write-down of ALTIS Semiconductor S.N.C, Essonnes, France (ALTIS), to its estimated fair value. In August 2007, we and IBM signed an agreement in principle to divest our shares in ALTIS via a sale to Advanced Electronic Systems AG (AES). As of September 30, 2008, negotiations with AES had not progressed as previously anticipated and could not be completed. Despite the fact that negotiations were ongoing with additional parties, the outcome of these negotiations was uncertain. As a result, we reclassified related assets and liabilities previously classified as held for sale into held and used in the consolidated balance sheet as of September 30, 2008, and recognized an impairment of ALTIS to its estimated fair value, which contributed to the increase in other operating expense in the 2008 fiscal year. Additionally, we recorded a write-down of in-process R&D acquired from LSI of 14 million as no future economic benefit from its use or disposal was expected in the 2008 fiscal year. In the 2009 fiscal year, impairment charges of only 3 million were recognized in other operating expense. Furthermore, in the 2009 fiscal year as most significant effects, we recognized a partial reversal of 25 million of provisions for expected termination benefits attributable to the IFX10+ cost-reduction program and 5 million of additional restructuring charges in other operating expense. Also included in other operating expense is a loss before tax of 17 million from the sale of the business of SensoNor. Other miscellaneous operating expenses in the 2009 fiscal year remained unchanged compared to the 2008 fiscal year.

Operating Income (Loss)

In the 2007 fiscal year, our operating income was 101 million, compared to an operating loss of 46 million and 220 million in the 2008 and 2009 fiscal years, respectively.

Segment Result

Segment Result for our separate reporting segments was as follows:

	For the years ended September 30,		
	2007	**2008**	**2009**
	(in millions)		
Automotive	122	105	(117)
Industrial & Multimarket	127	134	35
Chip Card & Security	20	52	(4)
Wireless Solutions	(126)	(18)	(36)
Other Operating Segments	(6)	(12)	(13)
Corporate and Eliminations	7	(24)	(32)
Total	144	237	(167)

Segment Result development for our reporting segments was as follows:

Automotive In the 2008 fiscal year, Segment Result was 105 million, a decline of 14 percent compared to 122 million in the 2007 fiscal year, primarily as a result of ongoing pricing pressure and higher idle capacity costs. In the 2009 fiscal year, Segment Result was negative 117 million compared to positive 105 million in the previous fiscal year. Despite ongoing price pressure, the negative result was primarily caused by the steep volume decline and higher cost for idle capacity, particularly in the first half of the 2009 fiscal year. Cost saving measures under our IFX10+ cost-reduction program partly compensated for the negative impact from the economic downturn. Higher sales volume and lower idle capacity cost in the second half of the 2009 fiscal year compared to the first half of the fiscal year, together with cost savings achieved under our IFX10+ cost-reduction

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program as well as short-time work and unpaid leave in all areas, resulted in a partial recovery of Segment Result in the second half of the 2009 fiscal year. For the fourth quarter of the 2009 fiscal year, Segment Result of the Automotive segment was positive.

Industrial & Multimarket In the 2008 fiscal year, Segment Result was 134 million, an increase of 6 percent compared to 127 million in the 2007 fiscal year, primarily reflecting the increase in gross profit as a result of changes in the product mix, despite ongoing pricing pressure. In the 2009 fiscal year, Segment Result was 35 million, a decrease of 74 percent compared to the 2008 fiscal year. This decline reflects significantly lower revenues and higher idle capacity cost, and therefore lower gross profit, which was partially offset by cost reductions in R&D and in selling, general and administrative expenses. These savings primarily resulted from short-time work and from our IFX10+ cost-reduction program. During the second half of the 2009 fiscal year, Segment Result significantly improved compared to the first half of the fiscal year but was still below the Segment Result for the second half of the 2008 fiscal year.

Chip Card & Security In the 2008 fiscal year, Segment Result was 52 million, which was an increase of 32 million from Segment Result of 20 million in the 2007 fiscal year. This increase primarily reflected the increase in revenues and productivity as well as effects from changes in product mix. Segment Result in the 2009 fiscal year was negative 4 million, a decrease of 56 million compared to the 2008 fiscal year. This decrease was primarily caused by reduced gross profit in line with the revenue decline and accompanied by increased idle capacity costs, in particular in the first half of the 2009 fiscal year. Substantial savings under the IFX 10+ cost reduction program, short time work and unpaid leave measures only partially offset these effects. During the second half of the 2009 fiscal year, Segment Result significantly improved compared to the first half of the 2009 fiscal year and was positive, as idle capacity cost decreased significantly in the second half of the 2009 fiscal year due to increasing production volumes. Segment Result for the second half of the 2009 fiscal year was still below the Segment Result for the second half of the 2008 fiscal year, however.

Wireless Solutions In the 2008 fiscal year, Segment Result was negative 18 million, which was an improvement of 86 percent from Segment Result of negative 126 million in the 2007 fiscal year. Despite the negative impact of currency fluctuations between the U.S. dollar and the Euro, this increase was primarily driven by a strong increase in revenues and efficiency gains and cost reduction measures initiated during the 2007 fiscal year that were taking effect for a full fiscal year. In the 2009 fiscal year, Segment Result was negative 36 million, compared to negative 18 million in the 2008 fiscal year. This decrease was primarily due to the sales decline and high idle capacity costs in the first half of the 2009 fiscal year. These effects could be partially offset by the positive development of Segment Result in the second half of the 2009 fiscal year, primarily resulting from increasing revenues and lower idle capacity cost. Cost saving measures implemented under the IFX10+ cost-reduction program and savings from short-time work and unpaid leave also contributed to the increase in Segment Result in the second half of the 2009 fiscal year.

Other Operating Segments In the 2008 fiscal year, Segment Result was negative 12 million, which reflected a decline of 6 million compared with Segment Result of negative 6 million in the 2007 fiscal year. This decline resulted primarily from a decrease in revenues. In the 2009 fiscal year, Segment Result decreased further by 1 million to negative 13 million. Included in the Segment Result of Other Operating Segments for the 2007, 2008 and 2009 fiscal years are overhead costs of 9 million, 10 million and 7 million, respectively, which remain with us after the sale of the Wireline Communications business and which were previously allocated to the Wireline Communications business.

Corporate and Eliminations In the 2008 fiscal year, Segment Result was negative 24 million, which reflected a decline of 31 million against Segment Result of positive 7 million in the 2007 fiscal year. This decline resulted primarily from increased unabsorbed excess capacity cost. In the 2009 fiscal year, Segment Result

further decreased by 8 million to negative 32 million, primarily

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due to a further increase in unabsorbed idle capacity cost of 20 million to 41 million, compared with 21 million in the 2008 fiscal year. This increase in unabsorbed idle capacity cost was partly offset by a reduction of provisions for staff anniversary bonus payments as we terminated the anniversary bonus payment scheme in the 2009 fiscal year.

The following table provides the reconciliation of Segment Result to our operating income (loss):

	For the years ended September 30,		
	2007	2008	2009
	(in millions)		
Total Segment Result	144	237	(167)
Adjusted:			
Asset impairments, net	(5)	(132)	
Restructuring charges and other related closure costs, net	(45)	(188)	20
Share-based compensation expense	(12)	(5)	(2)
Acquisition-related amortization and losses	(3)	(25)	(23)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries	28	70	(18)
Other expense, net	(6)	(3)	(30)
Operating income (loss)	101	(46)	(220)

Financial Income and Expense

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Financial Income	107	58	101
Percentage of revenue	3 %	2 %	3 %
Financial Expense	(242)	(181)	(156)
Percentage of revenue	(7) %	(5) %	(5) %

Financial Income. In the 2008 fiscal year, financial income decreased by 49 million compared to the 2007 fiscal year, primarily as a result of the negative impact of the worldwide financial crisis in the 2008 fiscal year. This resulted in lower income derived from the valuation of available-for-sale financial assets and gains realized on the sale of available-for-sale financial assets. This lower income was only partly offset by higher interest income in the 2008 fiscal year compared to the 2007 fiscal year, which we derive primarily from cash and cash equivalents and available-for-sale financial assets. In the 2009 fiscal year, financial income increased by 43 million to 101 million. This increase primarily resulted from the 61 million gain realized from the repurchase of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, which was partially offset by lower other interest income we realized during the 2009 fiscal year compared to the 2008 fiscal year. In addition, gains from the valuation of interest rate swaps contributed to the increase of financial income during the 2009 fiscal year.

Financial Expense. In the 2007 fiscal year, financial expense was 242 million compared to 181 million in the 2008 fiscal year and 156 million in the 2009 fiscal year. During the quarter ended March 31, 2007, we entered into

agreements with Molstanda Vermietungsgesellschaft mbH (Molstanda) and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of our headquarters south of Munich. Pursuant to SIC 12 *Consolidation Special Purpose Entities* , we determined that Molstanda meets the criteria of a Special Purpose Entity (SPE) and, as a result of the agreements, we control it. Accordingly, we consolidated Molstanda s assets with a fair value of 41 million and liabilities with a fair value of 76 million beginning in the second quarter of the 2007 fiscal year. The 35 million excess in fair value of liabilities over the fair value of identifiable assets was recorded as other financial expense during the second quarter of the 2007 fiscal year. Due to our loss situation, no tax benefit was provided on this loss. We subsequently acquired the majority of the outstanding capital of

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Molstanda during the fourth quarter of the 2007 fiscal year. Furthermore, we incurred lower valuation charges and losses on sales of available-for-sale financial assets in the 2008 fiscal year compared to the 2007 fiscal year. This decrease was partially offset by the 8 million loss we incurred in connection with the repurchase during the 2008 fiscal year of notional amounts of 100 million of our convertible subordinated notes due 2010. In the 2009 fiscal year, financial expense further decreased by 25 million compared to the 2008 fiscal year to 156 million. This was due primarily to reduced interest expense of 24 million in the 2009 fiscal year compared to the 2008 fiscal year, which resulted from lower interest rates and lower indebtedness as well as lower losses incurred in connection with repurchases of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010.

Income from Investments Accounted for Using the Equity Method

In the 2007, 2008 and 2009 fiscal years, income from investments accounted for using the equity method was 1 million, 4 million and 7 million, respectively, and primarily reflected our share in the net income of Bipolar.

Income Tax Benefit (Expense)

	For the years ended September 30,		
	2007	2008	2009
	(in millions, except percentages)		
Income tax benefit (expense)	2	(39)	(5)
Percentage of revenue	0 %	(1) %	0 %
Effective tax rate	6 %	(24) %	(2) %

Generally, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2007, 2008 and 2009 fiscal years we continued to have a three-year cumulative loss in certain tax jurisdictions and, accordingly, we recorded increases in the valuation allowance of 25 million, 183 million and 88 million in those periods, respectively. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

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Loss from Discontinued Operations, Net of Income Taxes

The results of Qimonda and the Wireline Communications business, which are presented in the consolidated statements of operations as discontinued operations for the 2007, 2008 and 2009 fiscal years, consist of the following components:

	For the years ended September 30,		
	2007	2008	2009
	(in millions)		
Qimonda[1]			
Revenue	3,608	1,785	314
Costs and expenses	(3,956)	(3,773)	(779)
Reversal (write-down) of measurement to fair value less costs to sell		(1,475)	460
Expenses resulting from Qimonda s application to open insolvency proceedings			(227)
Losses resulting from the realization from accumulated losses related to unrecognized currency translation effects primarily upon deconsolidation and from Qimonda s sale of Inotera			(188)
Loss before tax	(348)	(3,463)	(420)
Income tax benefits (expense)	21	(96)	
Qimonda s share of discontinued operations, net of income taxes	(327)	(3,559)	(420)
Wireline Communications Business			
Revenue	414	418	333
Costs and expenses	(424)	(400)	(309)
Profit (loss) before tax	(10)	18	24
Income tax expense	(2)	(2)	(2)
Wireline Communication s share of discontinued operations, net of tax	(12)	16	22
Loss from discontinued operations, net of income taxes	(339)	(3,543)	(398)

(1) No further information concerning Qimonda s condensed consolidated statements of operations is available for the period from January 1, 2009, to January 23, 2009, the date of the application by Qimonda to commence insolvency proceedings. As disclosed below, due to the write-down of Qimonda s net assets to zero as of September 30, 2008, the operating losses of Qimonda for the period from October 1, 2008 to January 23, 2009 did not affect our consolidated net income, but instead were eliminated via an offsetting partial reversal of previously recorded impairments. Therefore, while the amount of revenue and costs and expenses in the table above exclude amounts for the period from January 1, 2009 to January 23, 2009, Qimonda s share of loss from discontinued operations, net of income taxes of 420 million is unaffected.

Qimonda

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

Cost and expenses of Qimonda decreased by 183 million from 3,956 million in the 2007 fiscal year to 3,773 million in the 2008 fiscal year, primarily as a result of a decrease in cost of goods sold. This decrease was partly offset by restructuring charges, impairment charges and higher R&D expenses primarily related to Qimonda s efforts in the new Buried Wordline technology for 65-nanometers and 46-nanometers. Restructuring expenses of Qimonda during the 2008 fiscal year related primarily to the relocation of the back-end production in Malaysia, the combination of the research centers in

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North America, a comprehensive cost reduction program, the shutdown of Qimonda s Flash activities in Italy and a global repositioning program. During the 2008 fiscal year, Qimonda recognized impairment charges for goodwill and for long-lived assets of the Richmond 200-millimeter facility. Additionally, as a result of Qimonda s agreement to sell its 35.6 percent interest in Inotera Memories Inc. (Inotera) to Micron Technology, Inc. (Micron) for U.S. dollar 400 million, Qimonda recognized impairment charges to reduce the carrying value of its investment in Inotera to the sales price less costs to sell. Furthermore, we recognized a write-down of 1,475 million to reduce Qimonda to its estimated fair value less cost to sell.

On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, we deconsolidated Qimonda in accordance with IAS 27 Consolidated and Separate Financial Statements during the second quarter of the 2009 fiscal year. On April 1, 2009, the insolvency proceedings formally opened. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The final resolution of the insolvency proceedings, including the final disposition of the remaining assets and liabilities of Qimonda, cannot be predicted at this time.

The results presented for Qimonda from October 1, 2008 through January 23, 2009 (the date of deconsolidation) are based on preliminary results provided by Qimonda prior to its insolvency filing, and were prepared on a going concern basis. Financial statements on a liquidation basis, which would be required when the going concern assumption is not assured, are not available from Qimonda. There can be no assurance that recorded book values of individual assets and liabilities held for disposal by us would not be materially different if presented on a liquidation basis; however, as the net assets of Qimonda held for disposal by us through deconsolidation are already valued at the fair value less costs to sell of zero as of September 30, 2008, the net value presented in the consolidated financial statements would not be impacted.

The operating losses of Qimonda from October 1, 2008 through the date of deconsolidation, exclusive of depreciation, amortization and impairment of long-lived assets, were offset by a partial reversal of 460 million of the write-downs recorded in the 2008 fiscal year to reduce the net assets of Qimonda to fair value less costs to sell of zero.

During the fiscal year 2009, Qimonda-related amounts included in loss from discontinued operations, net of income taxes consisted principally of:

- the realization of accumulated foreign currency translation losses of 88 million which were directly recorded in equity, and not included in assets and liabilities held for disposal as of September 30, 2008, mainly from Qimonda s sale of its interest in Inotera to Micron,

- the realization of accumulated foreign currency translation losses which were directly recorded in equity related to the deconsolidation of Qimonda totaling 100 million, and

- charges for provisions and allowances of 227 million in connection with Qimonda s insolvency (see below).

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to further potential liabilities arising in connection with the Qimonda business, which include, among others, the following:

- We are a named defendant in certain pending antitrust and securities law claims. Qimonda is required to indemnify us, in whole or in part, for such claims, including any related expenses. As a result of Qimonda s insolvency, however, we expect that Qimonda will not be able to indemnify us for these claims. For more information on these pending antitrust and securities law claims and their potential impact on us, see note 38 to our consolidated financial statements (*Commitments and Contingencies Litigation and Government Inquiries*

Antitrust Litigation , Other Government Inquiries , and Securities Litigation).

We are the named defendant in a lawsuit in Delaware in which the plaintiffs are seeking to hold us liable for the payment of severance and other benefits allegedly due by Qimonda s North American

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subsidiaries in connection with the termination of employment related to Qimonda s insolvency. For more information on this suit, see note 38 to our consolidated financial statements (*Commitments and Contingencies Litigation and Government Inquiries Employment Litigation*).

We face potential liabilities arising from our former interest in Qimonda Dresden. Before the carve-out of the Qimonda business, we were a general partner of Qimonda Dresden, and as such may in certain circumstances, as a matter of law, be held liable for certain liabilities of Qimonda Dresden that originated prior to the carve-out. These include, among others, the potential repayment of governmental subsidies as well as employee-related claims, including salaries and social security contributions. We are in negotiations with the Free State of Saxony and the Qimonda insolvency administrator regarding these matters. We recorded provisions in connection with these matters, but disclosure of the amount of the provision could seriously prejudice our negotiations regarding these matters.

We and our subsidiary Infineon Technologies Dresden GmbH (Infineon Dresden) are subject to lawsuits by approximately 70 former employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and who seek to be re-employed by us. No reasonable estimated amount can be attributed at this time to the potential outcome of any such claims.

In addition to the matters described above, we may be subject to claims by the insolvency administrator under German insolvency laws for repayment of certain amounts received by us from Qimonda, such as payments for intra-group services and supplies during defined periods prior to the commencement of insolvency proceedings. Depending on future developments in Qimonda s operations in Portugal, there is a possibility that claims could be made against us in connection with governmental subsidies received by Qimonda Portugal, S.A. prior to the carve-out. No such claims have been made to date, and no reasonable estimated amount can be attributed at this time to the size or potential outcome of any such claims. The insolvency of Qimonda may also subject us to other claims arising in connection with the contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as we expect that Qimonda will not be able to fulfill its obligation to indemnify us against any such liabilities. Moreover, we may lose rights and licenses to Qimonda s intellectual property rights to which we are entitled under the contribution agreement in connection with the carve-out of the Qimonda business, due to fact that the administrator has declared non-performance of this agreement. We are evaluating the scope of any potentially affected intellectual property, and are unable to provide reasonable estimates at this time of any potential costs in this regard.

As of September 30, 2009, we recorded aggregate liabilities of 21 million and provisions of 163 million in connection with these matters. The recorded provisions are primarily reflected within Current provisions , and the remainder are recorded within Long-term provisions . The recorded provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters. Disclosure of individual amounts with respect to these matters could seriously prejudice our legal or negotiating position, and therefore have been omitted. No reasonable estimate can be made at this time related to those potential liabilities that may be incurred, but that are currently not viewed to be probable.

Wireline Communications Business

In the 2008 fiscal year, revenues of the Wireline Communications business were 418 million, a slight increase compared to 414 million in the 2007 fiscal year, primarily due to growth in broadband solutions, mainly driven by the consolidation of the Customer Premises Equipment (CPE) business acquired from Texas Instruments, Inc. The increase was partially offset by declining legacy revenues and negative currency effects. In the 2009 fiscal year, revenues decreased by 20 percent to 333 million. This decrease was primarily driven by the economic slowdown that

affected both the CPE and the infrastructure businesses.

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In the 2008 fiscal year, profit before tax of the Wireline Communications business was 18 million, an increase of 28 million compared to a loss before tax of 10 million in the 2007 fiscal year. This increase primarily resulted from efficiency gains and cost reduction measures initiated during the 2007 fiscal year.

In 2009 fiscal year, profit before tax of the Wireline Communications business was 24 million, an increase of 6 million compared to the 2008 fiscal year despite a 20 percent revenue decline compared to the 2008 fiscal year. This positive development was a result of the measures implemented under the IFX10+ cost-reduction program as well as cost reductions realized from short-time work and unpaid leave.

Net Loss

In the 2007 fiscal year, net loss was significantly impacted by the results from discontinued operations, net of income tax, primarily due to Qimonda s net loss, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and consequently a significant decrease in Qimonda s gross margin. Net loss from discontinued operations in the 2007 fiscal year also included an 84 million loss from the sale of 28.75 million Qimonda ADSs. Restructuring charges of 45 million and the expenses of 35 million resulting from the consolidation of Molstanda also contributed to the net loss in the 2007 fiscal year.

In the 2008 fiscal year, the increase in net loss to 3,747 million was primarily due to the increase in losses from discontinued operations, resulting from Qimonda s net loss and the write-downs of 1,475 million to reduce Qimonda to its estimated current fair value less costs to sell. Furthermore, restructuring charges of 188 million primarily related to the IFX10+ program, and impairment charges of 130 million on property, plant and equipment and intangible assets, contributed to the net loss in the 2008 fiscal year.

In the 2009 fiscal year, our net loss significantly decreased, to 671 million. Our operating segments were deeply impacted by the economic slowdown, in particular during the first half of the 2009 fiscal year. Additionally, the results of discontinued operations, net of income taxes, significantly impacted our net loss in the first half of the 2009 fiscal year, which primarily resulted from the deconsolidation of Qimonda and the charges for provisions and allowances in connection with Qimonda s insolvency. We experienced a significant reduction in our net loss in the second half of the 2009 fiscal year and reached break even for the fourth quarter of the 2009 fiscal year. This improvement resulted from the partial recovery of the economy during the second half of the 2009 fiscal year, together with the positive impact of our cost saving measures and significantly lower charges in connection with Qimonda s insolvency in the second half of the 2009 fiscal year compared to the first half of the 2009 fiscal year.

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Financial Condition

	As of September 30,		
	2008	2009	Change year-on-year (in %)
	(in millions)		
Current assets	4,648	2,744	(41) %
thereof: assets classified as held for disposal	2,129	112	(95) %
Non-current assets	2,334	1,862	(20) %
Total assets	6,982	4,606	(34) %
Current liabilities	3,673	1,658	(55) %
thereof: liabilities associated with assets classified as held for disposal	2,123	9	(99) %
Non-current liabilities	1,148	615	(46) %
Total liabilities	4,821	2,273	(53) %
Minority Interests	70	60	(14) %
Total equity attributable to shareholders of Infineon Technologies AG	2,091	2,273	9 %
Total equity	2,161	2,333	8 %

As of September 30, 2009, our total assets decreased by 34 percent to 4,606 million from 6,982 million as of September 30, 2008. This decrease was primarily due to the deconsolidation of Qimonda, which led to a reduction in total assets of 2,129 million that were presented as assets classified as held for disposal in the prior year. In connection with the sale of the Wireline Communications business, assets and liabilities to be transferred to Lantiq were presented as assets and liabilities classified as held for disposal in the consolidated balance sheet as of September 30, 2009, thus decreasing non-current assets by 67 million and non-current liabilities by 1 million and increasing current assets and liabilities, accordingly.

Within current assets, cash and cash equivalents increased significantly, by 665 million from 749 million as of September 30, 2008 to 1,414 million as of September 30, 2009, primarily as a result of our share capital increase and the issuance of new convertible subordinated notes due 2014, which were partly offset by repurchases and redemptions of convertible subordinated notes and exchangeable subordinated notes due 2010. The receipt of 120 million from the German banks deposit protection fund throughout the 2009 fiscal year also contributed positively to cash and cash equivalents. This increase in current assets was partly offset by a reduction of trade and other receivables by 285 million to 514 million and of inventory by 205 million to 460 million as of September 30, 2009, primarily due to lower revenues followed by improved working capital management. The change in inventory also relates to a reclassification of 43 million to assets held for disposal in connection with the sale of the Wireline Communications business. Furthermore, the receipt of 120 million from the German banks deposit protection fund in the 2009 fiscal year and allowances for doubtful accounts recorded on receivables against Qimonda following

Qimonda s insolvency proceedings contributed to the decrease in trade and other receivables.

Within non-current assets, property, plant and equipment decreased by 382 million from 1,310 million to 928 million, primarily as capital expenditures were more than offset by depreciation and amortization during the 2009 fiscal year. Furthermore, the sale of the SensoNor business contributed to the decrease in property, plant and equipment and 9 million were reclassified as assets held for disposal, mainly in connection with the sale of the Wireline Communications business. Out of goodwill and other intangible assets, 58 million in connection with our Wireline Communications business were classified as assets held for disposal, which also includes the goodwill relating to the acquisition of the CPE business from Texas Instruments Inc. (see note 4 of our consolidated financial statements).

Total liabilities decreased by 2,548 million, or 53 percent, from 4,821 million as of September 30, 2008, to 2,273 million as of September 30, 2009. This decrease was primarily caused by the

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deconsolidation of Qimonda, which led to a reduction in total liabilities of 2,123 million, which were classified as liabilities associated with assets held for disposal as of September 30, 2008.

Furthermore, in June 2009, we reclassified 487 million of our convertible subordinated notes due 2010 with notional amounts of 522 million from long-term debt into short-term debt and current maturities of long-term debt, as they mature in June 2010. Subsequently, we repurchased notional amounts of 74 million of our convertible subordinated notes due 2010. As of September 30, 2009, notional amounts of our convertible subordinated notes due 2010 of 448 million and a book value of 425 million were included in our short term debt. Other changes in current liabilities related to a decrease in trade and other payables as of September 30, 2009, by 113 million compared to September 30, 2008, primarily resulting from lower trade accounts payables due to lower purchased services and lower capital expenditures. Also, other current liabilities decreased by 116 million, resulting from the decrease of employee-related liabilities, primarily due to payments of termination benefits in connection with our IFX 10+ cost-reduction program, which were recorded in the 2008 financial statements, and the reduction of liabilities for bonus payments.

Non-current liabilities decreased as of September 30, 2009, by 533 million compared to September 30, 2008. This was primarily due to the reclassification of convertible subordinated notes due 2010 from long-term debt into short-term debt and current maturities of long-term debt and due to repurchases and redemptions of notional amounts of our exchangeable subordinated notes due 2010 of 215 million and of our convertible subordinated notes due 2010 of 152 million including the repurchase of 74 million as described above. This decrease was partly offset by the issuance of new convertible subordinated notes due 2014 with a notional amount of 196 million, resulting in an increase of long-term debt by 145 million as September 30, 2009, net of debt issuance cost, discount and the conversion component recognized in equity. Long-term provisions increased by 62 million, primarily for potential liabilities resulting from Qimonda s insolvency.

Total equity increased by 172 million as of September 30, 2009, as a result of our share capital increase of 680 million, which was partly offset by the net loss incurred in the 2009 fiscal year.

Financial Ratios

	As of September 30,		
	2007	**2008**	**2009**
Non-current asset intensity[1]	51 %	33 %	40 %
Current asset intensity[2]	49 %	67 %	60 %
Degree of wear of fixed assets[3]	72 %	81 %	86 %
Depreciation rate of fixed assets[4]	10 %	7 %	7 %
Inventory intensity[5]	11 %	10 %	10 %
Inventory turnover[6]	2.0	2.8	4.2
Inventory reach in days[7]	119	86	67
Days sales outstanding[8]	117	89	78
Equity ratio[9]	57 %	31 %	51 %
Return on equity[10]	(6) %	(92) %	(30) %
Return on assets[11]	(3) %	(43) %	(12) %
Equity-to-fixed-assets ratio[12]	165 %	165 %	251 %
Debt-to-equity ratio[13]	26 %	54 %	36 %

The aforementioned financial condition ratios are calculated as follows:

(1) Non-current asset intensity = non-current assets/total assets

(2) Current asset intensity = current assets/total assets

(3) Degree of wear of property, plant and equipment = accumulated depreciation on property, plant and equipment /historical costs of property, plant and equipment at the end of the fiscal year

(4) Depreciation rate of property, plant and equipment = annual depreciation of property, plant and equipment /historical costs of property, plant and equipment at the end of the fiscal year

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(5) Inventory intensity = inventory/total assets

(6) Inventory turnover = Cost of goods sold/average inventory

(7) Inventory reach in days = average inventory x 360 days/annual revenues

(8) Days sales outstanding = average trade and other receivables x 360 days/annual revenues

(9) Equity ratio = equity/total assets

(10) Return on equity = net income (loss) for the year/average equity

(11) Return on assets = net income (loss) for the year/average total assets

(12) Equity-to-fixed-assets ratio = equity/property, plant and equipment

(13) Debt-to-equity ratio = (short-term debt + long-term debt)/equity

The average of a balance sheet position is calculated as the arithmetic average of the amount as of the balance sheet dates of the current and the prior years.

In the 2008 fiscal year, the net loss incurred was primarily the result of Qimonda s operating losses and the recorded write-down in order to remeasure Qimonda to its current fair value less cost to sell. Accordingly, our equity and total assets decreased significantly compared to 2007. This resulted in significant decreases in non-current asset intensity, equity ratio, return on equity, and return on assets, while current asset intensity and debt to equity ratios increased. In the 2009 fiscal year, we deconsolidated Qimonda, which led to a further reduction in total assets, and thus led to an increase in non-current asset intensity and equity ratio.

In the 2008 fiscal year, lower net capital expenditures in property, plant and equipment resulted in an increase in our degree of wear of fixed assets and a decrease in our depreciation rate of fixed assets. This development continued in the 2009 fiscal year as a result of the ongoing decrease of our investing activities year-over-year.

While the debt-to-equity ratio significantly increased in the 2008 fiscal year compared to the 2007 fiscal year due to the equity decrease as a result of the Qimonda losses, in the 2009 fiscal year the debt-to-equity, equity and return on equity ratios improved considerably and decreased as a result of the share capital increase and repurchases and redemptions of exchangeable subordinated notes and convertible subordinated notes due 2010. This was partially offset by the issuance of new convertible subordinated notes due 2014.

The development of the ratios inventory turnover, inventory reach in days, and days sales outstanding was strongly impacted by the change in business environment, which occurred primarily in the first and second quarters of the 2009 fiscal year, followed by strict working capital management. This resulted in significantly lower accounts receivable and strong decreases in inventory throughout the 2009 fiscal year.

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Liquidity

Cash Flow

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

Cash flows from investing and financing activities are both directly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net 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.

	For the years ended September 30,	
	2008	2009
	(in millions)	
Net cash provided by operating activities from continuing operations	540	268
Net cash used in investing activities from continuing operations	(652)	(14)
Net cash (used in)/provided by financing activities from continuing operations	(230)	391
Net decrease in cash and cash equivalents from discontinued operations	(291)	(393)
Net (decrease)/increase in cash and cash equivalents	(633)	252

Cash flow from operating activities

Net cash provided by operating activities from continuing operations was 268 million in the 2009 fiscal year, and reflected primarily the loss from continuing operations of 273 million, excluding non-cash charges for depreciation and amortization of 513 million, and 17 million resulting from the sale of the SensoNor business. Net cash provided by operating activities from continuing operations included 19 million received from the German banks deposit protection fund as well as 10 million received from the BenQ insolvency administrator, and was also positively impacted by income tax refunds received of 16 million and interest received of 21 million. Interest paid of 49 million reduced net cash provided by operating activities.

Cash flow from investing activities

Net cash used in investing activities from continuing operations of 14 million in the 2009 fiscal year mainly reflects capital expenditures of 51 million for the capitalization of internally developed intangible assets and the purchase of intangible assets and of 103 million for the purchase of property, plant and equipment. This was offset by 101 million principal amount received from the German banks deposit protection fund in the second and third quarters of the 2009 fiscal year for cash deposits. Furthermore, net proceeds (sales less purchases) of 33 million from available-for-sale financial assets and the consideration of 4 million received from the sale of the SensoNor business contributed positively to cash used in investing activities from continuing operations.

Cash flow from financing activities

Net cash provided by financing activities from continuing operations was 391 million for the year ended September 30, 2009, compared to net cash used in financing activities from continuing operations of 230 million for the year ended September 30, 2008. In the 2009 fiscal year, we increased our ordinary share capital by 674 million, with the net excess issuance proceeds reflected in additional paid-in-capital. This increased our net cash provided by financing activities from continuing operations by 680 million. Further increases resulted from proceeds of 182 million, net of debt issuance cost and discount, from the issuance of convertible subordinated notes due 2014 with a notional amount of 196 million. This was partly offset by principal repayments of long-term debt of 455 million, of which the majority related to the

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repurchase and redemption of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010 for an aggregate of 285 million in cash including transaction costs of 3 million. Additional debt repayments related primarily to the repayment of our syndicated loan.

Change in cash and cash equivalents from discontinued operations

The net decrease in cash and cash equivalents from discontinued operations was 393 million in the 2009 fiscal year, compared to 291 million in the prior year. The net decrease in cash and cash equivalents from discontinued operations primarily reflected Qimonda s net cash used in operating activities of 416 million as well as cash used in financing activities of 40 million, which was partly offset by Qimonda s net cash provided by investing activities of 21 million. Qimonda s cash used in operating activities primarily reflected Qimonda s net loss in the first quarter, before Qimonda was deconsolidated. The net cash provided by investing activities of 21 million consisted primarily of cash received by Qimonda in connection with the sale of Inotera to Micron in November 2008 for 400 million U.S. dollars (approximately 296 million), partially offset, due to the deconsolidation of Qimonda, by the cash and cash equivalents totaling 286 million of Qimonda as of January 23, 2009, the date Qimonda filed an application to commence insolvency proceedings.

In the 2009 fiscal year our Wireline Communications business contributed 36 million to the operating cash flow from discontinued operations, primarily reflecting net income excluding depreciation and amortization, and contributed 6 million to net cash provided by investing activities from discontinued operations, reflecting 13 million received as a refund of contingent consideration from Texas Instruments Inc. due to the failure to achieve agreed revenue targets of the CPE business and 7 million paid for investments in intangible assets and property, plant and equipment.

Free Cash Flow

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

	For the years ended September 30,	
	2008	**2009**
	(in millions)	
Net cash provided by operating activities from continuing operations	540	268
Net cash used in investing activities from continuing operations	(652)	(14)
Sales of securities available-for-sale, net	(27)	(33)
Free cash flow	(139)	221

Free cash flow was positive 221 million in the 2009 fiscal year, compared to negative 139 million in the 2008 fiscal year, a significant improvement of 360 million. Free cash flow in the 2008 fiscal year, compared to the 2009 fiscal year, included higher cash used in investing activities from continuing operations, due to the acquisitions of the mobility products business of LSI and Primarion Inc. for 353 million, and higher capital expenditures of 308 million for property, plant and equipment, which were only partly offset by higher cash provided by operating activities from continuing operations. Free cash flow in the 2009 fiscal year included cash inflow of 120 million from the German banks deposit protection fund and cash outflows for our IFX10+ cost-reduction program.

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Net Cash/(Debt) Position

The following table presents our gross and net cash/(debt) positions and the maturity of debt. It is not intended to be a forecast of cash available in future periods. Since we hold a portion of our available monetary resources in the form of readily available-for-sale financial assets, which for IFRS purposes are not considered to be cash , we report our gross and net cash/(debt) positions to provide investors with an understanding of our overall liquidity. The gross and net cash/(debt) position is determined as follows from the consolidated balance sheets, without adjustment to the IFRS amounts presented:

		Payments due by period					
As of September 30, 2009	**Total**	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**
			(in millions)				
Cash and cash equivalents	1,414	1,414					
Available-for-sale financial assets	93	93					
Gross cash position	1,507	1,507					
Less:							
Long-term debt	329		78	66	40	145	
Short-term debt and current maturities of long-term debt	521	521					
Total financial debt	850	521	78	66	40	145	
Net cash/(debt) position	657	986	(78)	(66)	(40)	(145)	

Our gross cash position, representing cash and cash equivalents plus available-for-sale financial assets, was 1,507 million at September 30, 2009, compared to 883 million at the prior year end. The increase resulted from our share capital increase of 680 million, positive free cash flow of 221 million, and the issuance of new convertible subordinated notes due 2014. The increase was partly offset by the repurchase and redemption of exchangeable subordinated notes due 2010 and convertible subordinated notes due 2010.

Our net cash/(debt) position as of September 30, 2009, defined as gross cash position less short and long-term debt, was 657 million, an improvement of 944 million from negative 287 million as of September 30, 2008, primarily reflecting the increase in gross cash position described above and a reduction in total financial debt of 320 million. The reduction in debt relates to repurchases and redemptions of exchangeable subordinated notes due 2010 and convertible subordinated notes due 2010, net of accretion, as well as repayments of other debt, partly offset by the issuance of new convertible subordinated notes due 2014.

Long-term debt and short-term debt principally consist of convertible subordinated notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our business operations. The total notional amount of outstanding convertible notes as of September 30, 2009, amounted to 644 million, of which 196 million are long-term for subordinated convertible notes due 2014 and 448 million are short-term for convertible subordinated notes due 2010.

On June 5, 2003, we issued at par 700 million in convertible subordinated notes due 2010. The notes are unsecured and accrue interest at 5 percent per year. The notes were originally convertible, at the option of the noteholders, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of 10.23 per share through maturity. As a result of our share capital increase in August 2009 the conversion price has been adjusted to 9.14 in accordance with an antidilution provision contained in the notes. During the 2008 and 2009 fiscal years, we repurchased notional amounts of 100 million and 152 million, respectively, of convertible subordinated notes due 2010. The repurchases were made out of available cash. These notes were subsequently cancelled.

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On September 26, 2007, we issued 215 million in exchangeable subordinated notes due 2010 at par. The notes were unsecured and accrued interest at 1.375 percent per year. In the 2009 fiscal year we repurchased and redeemed all of our notional amounts of 215 million of our exchangeable subordinated notes due 2010. The repurchases and redemptions were made out of available cash.

On May 26, 2009, we issued 196 million in new subordinated convertible notes due 2014 at a discount of 7.2 percent. The notes were originally convertible, at the option of the holders of the notes, into a maximum of 74.9 million of our ordinary shares at a conversion price of 2.61 per share through maturity. As a result of our share capital increase in August 2009, the conversion price has been adjusted to 2.33 in accordance with an antidilution provision contained in the notes. The notes accrue interest at 7.5 percent per year. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer.

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 2010 fiscal year to:

- finance our operations;
- make scheduled debt payments;
- settle contingencies if they occur; and
- make planned capital expenditures.

We expect to meet these requirements through:

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

As of September 30, 2009, we require funds for the 2010 fiscal year aggregating 1,073 million, consisting of 521 million for short-term debt payments and 552 million for commitments. In addition, we may need up to 18 million for currently known and estimable contingencies. We also plan to invest approximately 220 million to 250 million in capital expenditures. As of September 30, 2009, we had a gross cash position of 1,507 million, and the ability to draw funds from available credit facilities of 211 million.

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Contractual Obligations, Commitments and Contingencies

	Payments Due/Expirations by Period						
As of September 30, 2009[1]	**Total**	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**
			(in millions)				
Contractual obligations and commitments:							
Long-term debt and short-term debt obligations	850	521	78	66	40	145	
Operating lease payments	740	69	65	60	57	56	433
Unconditional purchase commitments	567	440	85	28	12	2	
Future interest payments	110	43	19	17	15	15	1
Other long-term liabilities	31		31				
Total commitments	2,298	1,073	278	171	124	218	434
Other contingencies:							
Guarantees[2]	81	10	8		5	2	56
Contingent government grants[3]	37	8	14	4	5	6	
Total contingencies	118	18	22	4	10	8	56

(1) Certain payments of obligations or expiration of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table, based on our estimate of the reasonably likely timing of payments or expirations in each particular case. Actual outcomes could differ from those estimates.

(2) Guarantees are primarily issued for the payment of import duties, rentals of buildings and contingent obligations related to government grants received.

(3) Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met. They do not include any potentially contingent government grants in relation to Qimonda.

The above table should be read together with note 38 to our consolidated financial statements for the year ended September 30, 2009.

Off-Balance Sheet Arrangements

We issue guarantees in the normal course of business, primarily for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2009, the undiscounted amount

of potential future payments for guarantees was 81 million.

Capital Expenditures

	For the years ended September 30,	
	2008	2009
	(in millions)	
Property, plant and equipment	308	103
Intangible assets internally developed	38	43
Intangible assets purchased	11	8
Total	357	154

In our 2009 fiscal year budget prepared in the prior year, we expected to invest approximately 200 million, primarily for our manufacturing facilities in Malacca, Malaysia, and in Kulim, Malaysia. As a result of the economic downturn, we reconsidered our investment decisions and considerably reduced actual investments in property, plant and equipment to 103 million in the 2009 fiscal year. As research and development activities are important for our business, we only reduced research and development activities to a limited extent as a result of the economic situation. The level of capitalized development

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cost remained substantially unchanged, and approximately the same absolute amount of development cost qualified for capitalization under IFRS compared to our 2008 fiscal year.

Depending on market developments and our business situation, we currently expect to invest approximately 220 million to 250 million in capital expenditures in the 2010 fiscal year. We also continuously seek to improve productivity and upgrade technology at existing facilities. As of September 30, 2009, 35 million of this amount was committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance.

Credit Facilities

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities aggregate 491 million, of which 211 million remained available at September 30, 2009, and comprise the following:

Term	Nature of financial institution commitment	Purpose/intended use	As of September 30, 2009		
			Aggregate facility	Drawn (in millions)	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	108	51	57
Short-term	no firm commitment	working capital, cash management	114		114
Long-term[1]	firm commitment	project finance	269	229	40
Total			491	280	211

[1] Including current maturities.

In September 2004, we executed a $400/ 400 million syndicated credit facility with a five-year term, which was subsequently reduced to $345/ 300 million in August 2006. In January 2006, we drew $345 million under Tranche A, on the basis of a repayment schedule that consisted of equal installments falling due in March and September each year. On September 23, 2009, Tranche A was fully repaid at its final maturity. Tranche B, which was a multicurrency revolving facility to be used for general corporate purposes, expired undrawn at its final maturity on September 23, 2009.

In June 2009, local financial institutions granted working capital and project loan facilities to our subsidiary, Infineon Technologies (Wuxi) Co. Ltd., amounting to a total of $141 million (97 million). These multi-year facilities are available for general corporate purposes and the expansion of manufacturing facilities in Wuxi, China, including intragroup asset transfers. As of September 30, 2009, there were no drawings outstanding under these facilities. Any amounts drawn under these facilities will be partially secured by an asset pledge and a corporate guarantee.

Furthermore, we have established various independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities, which are available for various funding purposes.

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.

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 2010 fiscal year.

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Pension Plan Funding

Our defined benefit obligation, which takes into account future compensation increases, amounted to 413 million at September 30, 2009, compared to 376 million at September 30, 2008. The fair value of plan assets as of September 30, 2009, was 319 million, compared to 333 million as of September 30, 2008.

The actual return on plan assets between the last measurement dates amounted to 2.4 percent, or 7 million, for domestic (German) plans and negative 6.0 percent, or negative 2 million, for foreign plans, compared to the expected return on plan assets for that period of 7.1 percent for domestic plans and 7.2 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 6.3 percent, or 18 million, for domestic plans and 7.2 percent, or 2 million, for foreign plans.

At September 30, 2008 and 2009, the combined funding status of our pension plans reflected an under-funding of 43 million and 94 million, respectively.

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

Our asset allocation targets for pension plan assets are based on our assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analyses and other relevant factors. The overall allocation is expected to help protect the plans level of funding while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits. As a matter of policy, our pension plans do not invest in our 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. For further details regarding our financial risk management and risks arising in connection with financial instruments, see notes 36 and 37 to our consolidated financial statements.

Overall statement of the Management Board with respect to Our Financial Condition as of the Date of this Report

Our 2009 fiscal year was significantly impacted by the overall slowdown of the economy. Our cost saving efforts, which we started to implement with our IFX10+ cost-reduction program during the fourth quarter of the 2008 fiscal year, helped us to reduce the negative impact of the economic slowdown. However, we must continue to improve our cost structure and product margin to adjust them to reduced revenues in order to reach our overall margin goal of a minimum of 10 percent while maintaining our technological leadership.

The successful financing measures we executed during the 2009 fiscal year resulted in a significant improvement in our financial condition. As of September 30, 2009, our debt to equity ratio is 36 percent and our net cash position amounts to 657 million compared to a debt-to-equity-ratio of 54 percent and a net debt position of 287 million as of September 30, 2008. This should give us a strong foundation to meet future obligations and our strategic objectives.

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Employees

The following table indicates the composition of our workforce by function and region at the end of the fiscal years indicated[(1)]:

	As of September 30,		
	2007	**2008**	**2009**
Function:			
Production	20,376	19,358	17,338
Research & Development	5,833	6,273	5,971
Sales & Marketing	1,832	1,905	1,681
Administrative	1,557	1,583	1,474
Infineon	29,598	29,119	26,464
Qimonda	13,481	12,224	
Total	43,079	41,343	26,464
Region:			
Germany	10,151	10,053	9,160
Europe	5,564	5,192	4,676
North America	581	821	687
Asia/Pacific	13,145	12,897	11,803
Japan	157	156	138
Infineon	29,598	29,119	26,464
Qimonda	13,481	12,224	
Total	43,079	41,343	26,464

(1) Approximately 860 employees are to be transferred to Lantiq upon closing of the sale of the Wireline Communications business.

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

In the 2009 fiscal year, our workforce decreased throughout all functions and regions by 9 percent, primarily as a result of our IFX 10+ cost-reduction program as well as the sale of the SensoNor business. Furthermore, Qimonda was deconsolidated upon filing for insolvency.

In addition to our own employees, we hire temporary staff in our different business areas; the number of hired temporary staff is adjusted flexibly based on our capacity needs.

Critical Accounting Policies

Our results of operations and financial condition are dependent upon accounting methods, assumptions and estimates that we use as a basis for the preparation of our consolidated financial statements. We have identified the following critical accounting policies and related assumptions, estimates and uncertainties, which we believe are essential to understanding the underlying financial reporting risks and the impact that these accounting methods, assumptions, estimates and uncertainties have on our reported financial results.

Revenue Recognition

We generally market our products to a wide variety of customers and a network of distributors. Our policy is to record revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer,

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the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. We recognize revenue on sales to distributors using the sell in method (i.e. when product is sold to the distributor) rather than the sell through method (i.e. when the product is sold by the distributor to the end user). In accordance with established business practice in the semiconductor industry, distributors can apply for price protection. Under price protection a credit may be provided to the distributor if we lower our price on products held in the distributor s inventory. In addition, a distributor can apply for a ship & debit credit, when the distributor wishes to reduce the sales price to an end customer on a specific sales transaction. The authorization of the distributor s refund remains fully within our control. We calculate the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend is determined based on the difference between the invoiced price and the standard list price to the distributor. The outstanding inventory period, the visibility into the standard inventory pricing for standard products, and the long distributor pricing history enable us to reliably estimate price protection provisions. We monitor potential price adjustments on an ongoing basis.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Historically, actual returns under such return provisions have been insignificant. We monitor such product returns on an ongoing basis.

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.

The determination of these provisions and allowances requires the exercise of substantial judgment in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions.

In future periods, we may be required to accrue additional provisions due to (1) deterioration in the semiconductor pricing environment, (2) reductions in anticipated demand for semiconductor products or (3) lack of market acceptance for new products. If these or other factors result in a significant adjustment to sales discount and price protection allowances, they could significantly impact our future operating results.

We have entered into licensing agreements for our technology in the past, and anticipate that we will increase our efforts to monetize the value of our technology in the future. As with certain of our existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of our continuing involvement.

Recoverability of Non-Financial Assets

Our business is extremely capital-intensive, and requires a significant investment in property, plant and equipment. Due to rapid technological change in the semiconductor industry, we anticipate the level of capital expenditures to be significant in future periods. During the 2009 fiscal year, we spent 103 million on purchases of property, plant and equipment. At September 30, 2009, the carrying value of our property, plant and equipment was 928 million. We have acquired other businesses, which resulted in the generation of significant amounts of long-lived intangible assets, including goodwill. At September 30, 2009, we had long-lived intangible assets of 369 million.

In accordance with the provisions of International Accounting Standard (IAS) 36, Impairment of Assets , we test goodwill and indefinite life intangible assets for impairment at least once a year.

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We also review long-lived assets, including intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to the recoverable amount, which is the higher of the asset s value in use and its fair value less costs to sell. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds their recoverable amount. The recoverable amount is generally based on discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. During the 2008 and 2009 fiscal years, impairment charges of 130 million and 3 million, respectively, were recognized on long-lived assets, including intangible assets.

Goodwill is not amortized, but instead tested for impairment annually in the fourth quarter of the fiscal year as well as whenever there are events or changes in circumstances (triggering events) that suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less any accumulated impairment losses. The recoverable amount is the higher of fair value less costs to sell and of value in use. We do not determine fair value less costs to sell or value in use using estimates, averages or computational short-cuts, but apply the cash-generating unit concept (CGU). Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. Our CGUs represent the lowest level at which the goodwill is monitored for internal management purposes. This level is beneath the segment level and the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. If the carrying amount of the allocated goodwill exceeds its recoverable amount, the allocated goodwill must be reduced accordingly. An impairment loss recognized for goodwill is not reversed in a subsequent period. The determination of fair value of the CGUs requires considerable judgment by management.

We determine the recoverable amount of a CGU based on discounted cash flow calculations. We believe that this is the most meaningful method, in order to reflect the cyclicality of the industry and to determine the recoverable amount of the CGUs. This approach was applied consistently in fiscal years 2008 and 2009. The material assumptions underlying our discounted cash flow model for all of our CGUs include the weighted average cost of capital (WACC) as well as the terminal growth rate of the CGUs. The calculation of the discount rate is based on a market participant s view of the asset or CGU. In accordance with IAS 36, we determine the appropriate WACC for the CGUs based on market information, including our peer group s beta factors and leverage, and other market borrowing rates. The terminal value growth rate has been taken from available market studies from market research institutes. For specific assumptions used see note 2 to our consolidated financial statements.

The assumptions used in fiscal years 2008 and 2009 reflected market-driven changes but did not differ significantly.

In addition, the individual impairment tests include sensitivity analyses taking into account the above-mentioned material assumptions. As part of the sensitivity analysis for each impairment test for a CGU, these parameters were also subsequently reviewed until the approval of the consolidated financial statements by the management board.

We did not recognize any goodwill impairment charges in the 2007, 2008, and 2009 fiscal years.

Valuation of Inventory

Historically, the semiconductor industry has experienced periods of extreme volatility in product demand and in industry capacity, resulting in significant price fluctuations. Since semiconductor demand is concentrated in such highly-volatile industries as wireless communications and the computer industry, this volatility can be extreme. This volatility has also resulted in significant fluctuations in price within relatively short time-frames.

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As a matter of policy, we value inventory at the lower of acquisition or production cost or net realizable value. We review the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both forecasted product demand and pricing environment, both of which may be susceptible to significant change. At September 30, 2008 and 2009, total inventory was 665 million and 460 million, respectively.

In future periods, write-downs of inventory may be necessary due to (1) reduced semiconductor demand in the industries we serve, including the computer and wireless communications industries, (2) technological obsolescence due to rapid developments of new products and technological improvements, or (3) changes in economic or other events and conditions that impact the market price for our products. These factors could result in adjustments to the valuation of inventory in future periods, and significantly impact our future operating results.

Pension Plan Accounting

We operate various pension plans. The plans are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. We have both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which we pay fixed contributions into a separate entity (a fund). We therefore have no legal or constructive obligations to pay further contributions if one of its defined contribution plans does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized outside profit or loss in the Consolidated Statement of Income and Expense Recognized in Equity in the period in which they occur (SoRIE approach).

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

We pay contributions to publicly or privately administered pension insurance plans. We have no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. We record a liability for amounts payable under the provisions of our various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A significant variation in one or more of the underlying assumptions could have a material effect on the measurement of our long-term obligation.

Consolidated Balance Sheets. Defined benefit plans determine the entitlements of their beneficiaries. The net present value of the ultimate future benefit entitlement for service already rendered is represented by the defined benefit

obligation (DBO), which is actuarially calculated with consideration for future compensation increases.

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The pension liabilities are equal to the DBO when the assumptions used to calculate the DBO such as discount rate, compensation increase rate and projected future pension increases are achieved. In the case of funded plans, the market value of the external assets is offset against the benefit obligations. The net liability or asset recorded on the consolidated balance sheets is in general equal to the under- or over-funding of the DBO in this case, when the expected return on plan assets is subsequently realized.

The actuarial gains or losses from differences between actual experience and the assumptions made for the compensation increase rate and projected future pension increases, as well as the differences between actual and expected returns on plan assets, are recognized directly in the equity in the statement of recognized income and expense.

Consolidated Statements of Operations. The recognized expense related to pension plans and similar commitments in the consolidated statements of operations is referred to as net periodic pension cost (NPPC) and consists of several separately calculated and presented components, including service cost, which is the actuarial net present value of the part of the DBO for the service rendered in the respective fiscal year; the interest cost for the expense derived from the addition of accrued interest on the DBO at the end of the preceding fiscal year on the basis of the identified discount rate; and the expected return on plan assets in the case of funded benefit plans.

In the consolidated statements of operations, NPPC is allocated among functional costs (cost of sales, research and development expenses, selling and general administrative expenses), according to the function of the employee groups accruing benefits.

In the consolidated statements of operations, NPPC expenses before income taxes for our pension plans for the fiscal years ended September 30, 2007, 2008 and 2009, were 29 million, 15 million, and 5 million, respectively.

The consolidated balance sheets include the following significant components related to pension plans and similar commitments:

	As of September 30,	
	2008	2009
	(in millions)	
Non-current pension assets	1	
Current pension liabilities	(1)	
Non-current pension liabilities	(43)	(94)

Consolidated Statements of Cash Flows. We make payments directly to the participants in the case of unfunded benefit plans and the payments are included in net cash used in operating activities. For funded pension plans, the participants are paid by the external pension fund and accordingly these payments are cash neutral to us. In this case, our regular funding (service cost) and supplemental cash contributions result in net cash used in operating activities.

In the consolidated statements of cash flows, our principal pension and other postretirement benefits resulted in net cash used in operating activities from continuing operations of 6 million and 11 million in the fiscal years ended September 30, 2008 and 2009, respectively.

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Pension benefits Sensitivity Analysis. A one percentage point change in the established assumptions used for the calculation of the NPPC for the 2010 fiscal year would result in the following impact on the NPPC for the 2010 fiscal year:

	Effect on net periodic pension costs	
	One percentage increase	One percentage decrease
	(in millions)	
Discount rate	(1)	1
Rate of compensation increase	1	(1)
Rate of projected future pension increases	1	(1)
Expected return on plan assets	(1)	5

Increases and decreases in the discount rate, rate of compensation increase and rate of projected future pension increases which are used in determining the DBO do not have a symmetrical effect on NPPC primarily due to the compound interest effect created when determining the present value of the future pension benefit. If more than one of the assumptions were changed simultaneously, the impact would not necessarily be the same as would be the case if only one assumption were changed in isolation.

For a discussion of our current funding status and the impact of these critical assumptions, see note 35 to our consolidated financial statements for the year ended September 30, 2009.

Realization of Deferred Tax Assets

At September 30, 2009, total net deferred tax assets were 383 million. Included in this amount are the tax benefits of net operating loss and credit carry-forwards of approximately 361 million, net of the valuation allowance. These tax loss and credit carry-forwards generally do not expire under current law.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The assessment requires the exercise of judgment on the part of our management with respect to, among other things, 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 our ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since we have incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2009, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore based only 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, we increased the deferred tax asset valuation allowance in the 2008 and 2009 fiscal years by 183 million and 88 million, respectively, in order to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in the future. We expect to continue to recognize low levels of deferred tax benefits in the 2010 fiscal year, until such time as taxable income is generated in tax jurisdictions that would enable us to utilize our tax loss carry-forwards in those jurisdictions.

The recorded amount of total deferred tax assets could be reduced if our estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize tax loss and credit carry-forwards in the future.

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Provisions

We are subject to various legal actions and claims, including intellectual property matters, which arise in and outside the normal course of business. Current proceedings are described in detail in note 38 to our consolidated financial statements.

We regularly assess the likelihood of any adverse outcome or judgments related to these matters, as well as estimating the range of possible losses and recoveries. Liabilities, including provisions for significant litigation costs, related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount of the loss can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the mid-point in the range is accrued. Accordingly, we have recorded a provision and charged operating income in the accompanying consolidated financial statements related to certain asserted and unasserted claims existing as of each balance sheet date. As additional information becomes available, any potential liability related to these matters is reassessed and the estimates are revised, if necessary. These provisions would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on our results of operations, financial position and cash flows.

Quantitative and Qualitative Disclosures about Market Risks

The following discussion should be read in conjunction with notes 2, 36 and 37 to our consolidated financial statements for the fiscal year ended September 30, 2009.

Market risk is the risk of loss related to adverse changes in market prices of financial instruments, including those related to commodity prices, foreign exchange rates and interest rates. We are exposed to various financial market risks in the ordinary course of business transactions, primarily resulting from changes in commodity prices, foreign exchange rates and interest rates. We enter into diverse financial transactions with multiple counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

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 these risks through our sourcing policies (including the use of multiple sources, where possible) and our operating procedures. We do not use derivative financial instruments to manage any exposure to fluctuations in commodity prices remaining after these operating measures.

Foreign Exchange and Interest Risk

Although we prepare our consolidated financial statements in Euro, major portions of our sales volumes as well as costs relating to the design, production and manufacturing of products are denominated in U.S. dollars. As a multinational company, our activities in markets around the world create cash flows in a number of different currencies. Exchange rate fluctuations may have substantial effects on our sales, our costs and our overall results of operations.

Management has established a policy to require our individual legal entities to manage their respective foreign exchange risk against their respective functional currencies. The legal entities are required to internally hedge their respective foreign exchange risk exposure with our Finance and Treasury department. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the individual entities use forward contracts transacted with our Finance and Treasury department.

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Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of our estimated net exposure for the initial two-month period, at least 50 percent of our estimated net exposure for the third month and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Part of the 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 balance sheet items, actual orders received or made and all other planned revenues and expenses.

The table below provides information about our derivative financial instruments that are sensitive to changes in foreign currency exchange and interest rates as of the end of our 2009 fiscal year. For foreign currency exchange forward contracts related to certain sale and purchase transactions and debt service payments denominated in foreign currencies, the table presents the notional amounts and the weighted average contractual foreign exchange rates. At September 30, 2009, our foreign currency forward contracts mainly had terms up to one year. Our interest rate swaps expire in 2010. We do not enter into derivatives for trading or speculative purposes.

Derivative Financial Instruments

	Contract amount buy/(sell)	Average contractual forward exchange rate	Fair value September 30, 2009
Foreign currency forward contracts:			
U.S. dollar	78	1.36090	(5)
U.S. dollar	(390)	1.42415	8
Japanese yen	5	133.07333	
Japanese yen	(4)	134.06714	
Singapore dollar	16	2.05716	
Singapore dollar	(2)	2.05438	
Great Britain pound	4	0.87702	
Malaysian ringgit	41	4.85275	(2)
Interest rate swaps	500	n/a	16
Other	13	n/a	(6)
Fair value, net			11

We record our derivative instruments according to the provisions of IAS 32, *Financial Instruments: Presentation* and IAS 39, *Financial Instruments: Recognition and Measurement* . IAS 32 and IAS 39 require all derivative instruments to be recorded on the balance sheet at their fair value. Gains and losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative instrument and whether it qualifies for hedge accounting. During the 2009 fiscal year, we designated as cash flow hedges certain foreign exchange forward contracts related to highly probable forecasted sales denominated in U.S. dollars. We did not record any ineffectiveness for these hedges in the 2009 fiscal year. However, we excluded differences between spot and forward rates and the time value from the assessment of hedge effectiveness and included this component of the financial instruments gain or loss as a part of cost of goods sold. We estimate that 0 million of the net result recognized directly in other components of equity as of September 30, 2009, will be reclassified into earnings during the 2010 fiscal year. All foreign exchange derivatives designated as cash flow hedges held as of September 30, 2009 have maturities of five

months or less. Foreign exchange derivatives entered into to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period, with unrealized gains and losses recognized in earnings. For the 2009 fiscal year, no gains or losses were reclassified from other components of equity as a result of the discontinuance of foreign exchanges cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

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In the 2009 fiscal year, foreign exchange transaction gains were 5 million and were offset by losses from our economic hedge transactions of 16 million, resulting in net foreign exchange losses of 11 million. This compared to foreign exchange transaction result of 0 million, which were offset by gains from our economic hedge transactions of 15 million, resulting in net foreign exchange gains of 15 million in the 2008 fiscal year. A large portion of our manufacturing, selling and marketing, general and administrative, and R&D expenses are incurred in currencies other than the Euro, primarily the U.S. dollar, Japanese yen, Singapore dollar, and Malaysian ringgit. Fluctuations in the exchange rates of these currencies to the Euro had an effect on profitability in the 2007, 2008 and 2009 fiscal years.

Interest Rate Risk

We are exposed to interest rate risk through our financial assets and debt instruments resulting from issuance of bonds and credit facilities. Due to the high volatility of our core business and the need to maintain high operational flexibility, our liquid financial assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the risk caused by changes in market interest rates, we attempt to align the duration of the interest rates of our debts and current assets by the use of interest rate derivatives.

We entered into interest rate swap agreements that primarily convert the fixed interest rate on our 2003 convertible bond to a floating interest rate based on the relevant European Interbank Offering Rate (EURIBOR).

Outlook

Industry Environment and Outlook

In the fall of 2008, the world economy entered the deepest recession of the last 60 years, which significantly affected the global semiconductor market. Strong monetary and fiscal policy measures across advanced and emerging economies, however, supported demand and mitigated an imminent global financial collapse. In the summer of 2009, several Asian economies began growing again and economies elsewhere stabilized or began modest recoveries. Nevertheless, the pace of recovery is expected to be slow (International Monetary Fund, October 2009).

A return to growth in the world economy should positively affect the global semiconductor market. After a low double-digit contraction of the market in the 2009 calendar year, analysts expect the global semiconductor market to grow in the 2010 calendar year. WSTS, for example, forecasts in November 2009 that the overall market will increase by 12.2 percent (in U.S. dollar terms) in the 2010 calendar year (compared with its spring 2009 forecast of 7.3 percent growth). In November 2009, WSTS forecasts for the 2009 calendar year a decline of world semiconductor revenues of 11.5 percent, compared to a decline of 21.6 percent predicted in its spring 2009 forecast. For the 2011 calendar year, WSTS currently forecasts world semiconductor revenue-growth of 9.3 percent.

Outlook

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

Due to the fast pace of developments in the semiconductor market and the cyclical nature of our industry, we can only give an outlook for our 2010 fiscal year. Beyond the 2010 fiscal year, we can only comment on general trends in the semiconductor market.

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business to Lantiq. This transaction closed on November 6, 2009. We and Lantiq have entered into product

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supply agreements as well as into various transitional service agreements. Since closing, our business with Lantiq is reported in the Other Operating Segments.

All statements below reflect our operations without the former Wireline Communications business. In the future, we will focus on our four segments Automotive, Industrial & Multimarket, Chip Card & Security and Wireless Solutions, and will concentrate our resources more closely on growth and leadership in these four market segments.

Our Management Board uses Segment Result to assess the operating performance of the reportable segments and as a basis for allocating resources among our segments. We define Segment Result as operating income (loss), excluding asset impairments, net, restructuring and other related closure costs, net, stock-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. The gain from the sale of the Wireline Communications business will be included in results from discontinued operations, net of income taxes, for the first quarter of the 2010 fiscal year and therefore will have no impact on Segment Result.

The outlook for the 2010 fiscal year assumes that we will complete the sale of ALTIS, our manufacturing joint venture with IBM in France, in the first half of the 2010 fiscal year. Should this not be feasible, we have to re-assess all options. In all conceivable scenarios, we anticipate non-recurring charges as part of our non-segment result. Although the exact amount of such charges cannot be reliably assessed currently, such expenses could have a material adverse effect on our results and financial position.

For the purpose of forecasting our total Segment Result from continuing operations in the 2010 fiscal year, we assumed a U.S. dollar/Euro exchange rate of 1.50. About 50 percent of our revenues and 35 percent of our costs are exposed to the U.S. dollar or to currencies strongly correlated to the U.S. dollar. Any strengthening (weakening) of the U.S. dollar against the Euro would have a positive (negative) impact on revenues and earnings, primarily in the segments with the largest exposure to the U.S. dollar and currencies strongly correlated to the U.S. dollar, namely Industrial & Multimarket and Wireless Solutions. A fluctuation of the U.S. dollar/Euro exchange rate would not, however, have any material impact on earnings for the first half of the 2010 fiscal year, as we have already hedged a significant portion of the expected cash flow for this period. For the remainder of the 2010 fiscal year, however, fluctuations in the U.S. dollar/Euro exchange rate would have a material impact on revenues and earnings. If the exchange rate for the U.S. dollar against the Euro deviates from our forecast by one cent, we estimate that such deviation would lead to a corresponding deviation in combined Segment Result versus our planning assumption of approximately 1.5 million per quarter.

Revenues

Orders have started to recover early in the 2009 calendar year and so far have continued to increase. General demand trends therefore appear positive. That said, the speed of the bookings recovery in the final months of our 2009 fiscal year leaves an element of uncertainty with regards to the sustainability of the pace of recovery. As such, the industry recovery as well as our outlook is subject to risks. Nonetheless, based on the current order backlog and outlook, we expect total revenues in the 2010 fiscal year, consisting of the operating segments Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions, as well as Other Operating Segments and Corporate & Eliminations, to increase by ten percent or more compared to the 2009 fiscal year. The year-over-year increase is expected to be driven by increases in revenues in all operating segments, particularly in our Automotive segment, with lower revenue increases in the Wireless Solutions and Industrial & Multimarket segments, and the lowest growth rate in the Chip Card & Security segment. Our product supply agreements with Lantiq are expected to positively impact revenues in the Other Operating Segments by a mid- to high double-digit million Euro amount.

Beyond the 2010 fiscal year, we believe that the three current global trends towards improved energy efficiency, security, and communications will continue to gain in importance, positively impacting revenue

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growth in our four operating segments. In particular, the need for energy efficient semiconductors predominantly drives demand for products in our Automotive and Industrial & Multimarket businesses. Data protection and secure authentication issues are mostly addressed by our Chip Card & Security segment, while our Wireless Solutions segment benefits from the continued growth in mobile communications and data access. In terms of regions, we expect the most important growth driver to be demand from Asia. In the 2009 fiscal year, we generated 45 percent of our total revenues in this region. Semiconductor demand growth in Asia is driven by general economic growth in the region and by country-specific trends. China, for example, is investing heavily in the build-out of its railway network along with its fleet of trains. Furthermore, Asian countries generally are building-out their electricity generation and distribution infrastructure and are focusing on high silicon content wind and solar power plants for energy generation. We expect that projects such as these will have a favorable impact on demand for the power semiconductors offered by our Industrial & Multimarket segment.

With regards to our individual operating segments, the Automotive segment is benefiting from end market demand for vehicles generally stabilizing and in some regions returning to growth. In addition to improving end demand trends, as a component supplier we anticipate benefiting from inventory replenishment throughout the supply chain. Finally, the shift from mid-range and high-end vehicles with comparatively higher semiconductor content towards small cars with comparatively lower silicon content appears to be coming to a halt and may potentially reverse. As one of the two leading automotive semiconductor companies worldwide, with a 9.5 percent market share in 2008 (Strategy Analytics, May 2009), we are well-positioned to benefit from these trends. Longer-term, our products will continue to support the electrification of the drive train and the increased market penetration of hybrid cars, which we serve with our HybridPACK™ modules and other automotive power components such as discrete IGBTs and Power MOSFETs.

We were the number one supplier of power semiconductors and power modules with a 10.2 percent market share in 2008 (IMS Research, July 2009). We expect revenues to increase in the Industrial & Multimarket segment in the 2010 fiscal year, driven by a recovery in end demand for computing, communications and industrial products and inventory replenishment throughout the supply chain. The expansion of infrastructure projects and building of power lines, mostly in China, should add to the 2010 revenue increase. Beyond 2010, the segment will, among others, benefit from growth in demand for power semiconductors for renewable energy applications. In terms of regions, Asia is expected to be a major contributor to such growth as local economic dynamics, including increased wealth and per capita income, support middle class demand for home appliances and electronic goods.

In the Wireless Solutions segment, where we were number four in the wireless ASSP business in the 2008 calendar year in terms of global market share (iSuppli, June 2009), we anticipate revenues will increase in the 2010 fiscal year. This is expected to be driven primarily by the ramp-up of single-chip mobile phone platforms at Nokia and other major customers as well as generally increased demand of major mobile phone platform customers for both HSDPA and Ultra Low Cost solutions. In the 2010 fiscal year, we also expect additional growth from the launch of our mobile phone platform for HSUPA solutions based on 65-nanometer structure size.

Finally, revenues in the Chip Card & Security segment are also anticipated to increase in the 2010 fiscal year compared to the 2009 fiscal year, mostly due to sales growth in the ID card (government ID, health cards, driver licenses, etc.), Pay-TV, and SIM card businesses. As the number one supplier of chip card and security solutions, with a 26 percent market share in 2008 (Frost & Sullivan, October 2009), we will focus on further developing our core competencies, tailored security, contactless applications and embedded control.

Combined Segment Result

In the 2010 fiscal year, we expect combined Segment Result to improve considerably from the 2009 fiscal year and to be significantly positive, with a combined Segment Result margin of a mid single-digit

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percentage. This outlook is given under the assumption that our manufacturing capacity utilization will not experience any significant decline over the course of the 2010 fiscal year, which could occur, for example, as a result of lower customer orders due to renewed inventory correction in the supply chain. We expect an improvement in combined Segment Result despite the termination of temporary cost reduction measures initiated under our cost reduction program IFX10+ in the 2009 fiscal year. Most notably, our temporary labor cost reduction measures (short-time work and unpaid leave) ended on a world-wide basis effective October 1, 2009, which we anticipate will lead to an increase in quarterly expenses of around 25 million in the 2010 fiscal year, compared to the third and fourth quarters of the 2009 fiscal year. Despite such cost increases, we expect positive combined Segment Result for the 2010 fiscal year. This will be driven by generally higher revenues, significantly higher utilization rates in our manufacturing facilities and continued strict cost discipline. Regarding the latter, we will continue to streamline and reduce the number of processes and interfaces in the company. Beyond the 2010 fiscal year, and assuming continued revenue growth, we expect to realize earnings growth in excess of our revenue growth also driven by an effort to improve the gross margin of our product portfolio.

Research and Development Expenses

We expect expenses for R&D in the 2010 fiscal year to increase broadly in line with revenues, compared to the 2009 fiscal year when excluding the effects of the termination of temporary cost reduction measures initiated under our cost reduction program IFX10+. The increase of our R&D expenses, aside from the end of our temporary labor cost reduction measures, will be driven by expenditures for new products and technologies. Beyond the 2010 fiscal year, we expect that expenditures for R&D will rise in order to support the maintenance and broadening of our product base, which will be required to address the numerous growth opportunities in our markets. The longer term growth rate of our R&D expenses, however, is expected to remain below the rate of revenue growth.

In the Automotive segment, our R&D efforts in the 2010 fiscal year are mainly focused on development of power, microcontroller, and sensor products based on CMOS, bipolar, embedded flash and smart power technologies.

Energy efficiency and system miniaturization are key drivers for R&D in the Industrial & Multimarket segment in the 2010 fiscal year. The development of next-generation power technologies for industrial drives, power supply applications and new package concepts are examples of areas of emphasis in our R&D efforts.

In the Chip Card & Security segment, we have intensified our R&D efforts in developing next-generation, highly secure technologies and platforms for use in many fields of application.

In the Wireless Solutions segment, our R&D spending is focused, for example, on developing next-generation system-on-a-chip products and system solutions for mobile phones. In addition, we develop process technologies in alliances with several partners and consortia in order to maintain a competitive technology roadmap at an affordable cost level.

Fixed assets investment and depreciation

We continue to pursue a differentiated manufacturing strategy for our four operating segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, particularly in the power semiconductor arena. In contrast, we do not plan to invest in our own manufacturing capacities starting with 65-nanometer structure sizes for the standard semiconductor manufacturing process (so called CMOS technology).

Given the demand trends described above, we anticipate that our annual investment in property, plant and equipment and intangible assets, including capitalized development costs, will increase to approximately 220 million to 250 million in the 2010 fiscal year. This compares to an investment in property, plant and equipment and intangible

assets including capitalized development costs of 154 million in the

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2009 fiscal year. In subsequent fiscal years, we will tailor our capital investment to the demand development, but expect to limit such investments to less than 10 percent of our revenues.

In the 2010 fiscal year, we expect depreciation expense for tangible assets to decrease compared to the 2009 fiscal year and to total around 340 million. Additional amortization of intangible assets, including capitalized development costs, should be around 60 million. Total depreciation and amortization is therefore expected to be approximately 400 million in the 2010 fiscal year. In the 2009 fiscal year, depreciation was 466 million and amortization was 47 million, for total depreciation & amortization of 513 million. Beyond the 2010 fiscal year, we expect annual depreciation and amortization expense, including amortization charges for capitalized development costs, to decrease further and to approach our capital investment.

Major financing measures

Having placed subordinated convertible notes due 2014 with a nominal value of 196 million and having issued 337 million new shares for a gross cash inflow of 725 million in the 2009 fiscal year, we currently do not foresee undertaking any major capital raising measures in the 2010 fiscal year in order to finance our operations or meet our debt maturities.

On June 5, 2010, our subordinated convertible notes with a book value outstanding as of September 30, 2009 of 425 million will come due. Given our gross cash position of 1,507 million as of September 30, 2009, our expected improvement in combined Segment Result and expected depreciation and amortization in excess of capital expenditures for the 2010 fiscal year, we expect to redeem these convertible notes out of existing cash reserves. Similarly, over the course of the 2010 fiscal year, we expect to make other debt repayments totaling 96 million out of existing cash reserves.

Over the course of the 2010 fiscal year, we anticipate that the expected improvement in combined Segment Result, lower cash outflows for restructuring measures, the cash inflow from the sale of our Wireline Communications business, and depreciation and amortization in excess of capital expenditures should contribute positively to free cash flow. Nonetheless, given the debt maturities described above, potential cash outflows in connection with ALTIS as well as the insolvency of Qimonda and given an increase in our net working capital, our gross cash position as of September 30, 2010 is expected to be below our gross cash position as of September 30, 2009. Nevertheless, we expect that we will have ample cash at the end of our 2010 fiscal year to meet all of our anticipated obligations.

Recent Developments Related to Qimonda

We currently hold a 77.5 percent interest in the memory products company Qimonda, which was carved out from Infineon in 2006. On January 23, 2009, Qimonda filed for insolvency, and formal insolvency proceedings were opened in the local registry court in Munich on April 1, 2009. We report the results of Qimonda as discontinued operations in our consolidated financial statements and have deconsolidated Qimonda as of January 23, 2009. The resolution of Qimonda s insolvency proceedings remains highly uncertain. See *Risk Factors We may face significant liabilities as a result of the insolvency of Qimonda* . For further details regarding the impact of Qimonda s insolvency on our financial condition, results of operations and cash flows in the 2009 fiscal year see note 5 to our consolidated financial statements.

Subsequent Events

We closed the sale our Wireline Communications business to Lantiq on November 6, 2009. The final purchase price amounts to approximately 243 million reflecting adjustments under the asset purchase agreement. On the closing date we received cash consideration of 223 million. The final portion of the purchase price of up to 20 million will become

due in the fourth quarter of the 2010 fiscal year.

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The occurrence of any of the following events could harm us. If these events occur, the trading price of our shares could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

Risks related to us and our market

Ongoing financial market volatility and adverse developments in the global economic environment have had and could continue to have a significant adverse impact on our business, financial condition and operating results.

Our business, financial condition and results of operations have been and could in the future be significantly negatively impacted by general economic conditions and the related downturn in the semiconductor market. The global economy has recently experienced a significant downturn, reflecting the effects of the credit market crisis, slower economic activity, a generally negative economic outlook, and a decrease in consumer and business confidence. A prolonged economic downturn would pose a number of significant risks for Infineon, including:

- significant declines in revenue;
- significant reductions in selling prices;
- increased volatility and/or declines in our share price;
- increased volatility or adverse movements in foreign currency exchange rates;
- delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of overall economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives or new product development;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn, such as automotives;
- unprofitable operations;
- impairment of goodwill or other long-lived assets; and
- negative cash flows.

To the extent that the current economic downturn worsens or is prolonged, our business, financial condition and results of operations could continue to be significantly and adversely affected.

If we are unsuccessful in implementing our operational restructuring plans, our revenues and profitability may be adversely affected.

Our future success and financial performance are largely dependent on our ability to successfully implement our business strategy and achieve sustained profitability. In furtherance of our overall strategy, we have restructured and

are continuing to restructure our operations to improve our focus on our main business. These operational restructuring plans include the implementation of our cost-reduction program IFX10+, which have included the following primary measures:

- product portfolio management to eliminate unprofitable or insufficiently profitable product families and to increase efficiency in R&D;
- reduction of manufacturing costs and optimization of the value chain;
- improved efficiency of processes and tasks in the fields of general and administrative expenses, R&D, and marketing and sales; and

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re-organization of our structure along our target markets; and

reductions in workforce.

Any failure to continue to execute our strategy successfully, including the execution of our cost reduction program IFX10+ , could have a material adverse effect on our operations or financial performance.

The semiconductor industry is characterized by intense competition, which could reduce our revenues or put continued pressure on our sales prices.

The semiconductor industry is highly competitive, and has been characterized by rapid technological change, short product lifecycles, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. Increased competitive pressure or the relative weakening of our competitive position could materially and adversely affect our business, financial condition and results of operations.

We operate in a highly cyclical industry and our business has in the past suffered, is currently suffering and could again suffer from periodic downturns.

The semiconductor industry is highly cyclical and has suffered from significant economic downturns at various times. These downturns have involved periods of production overcapacity, oversupply, lower prices and lower revenues. In addition, average selling prices for our products can fluctuate significantly from quarter to quarter or month to month.

There can be no assurance that the markets in which we operate will experience sustained growth in the near term, that the growth rates experienced in past periods will be attainable again in future years, or that we will be successful in managing any future downturn or substantial decline in average selling prices, any of which could have a material adverse effect on our results of operations and financial condition.

We may not be able to match our production capacity to demand.

It is difficult to predict future developments in the markets we serve, making it hard to estimate requirements for production capacity. If markets do not grow as we have anticipated, or shrink faster than we have anticipated, we risk under-utilization of our facilities or having insufficient capacity to meet customer demand.

Market developments and industry overcapacity may lead to under-utilization of our facilities, which may result in idle capacity costs, write-offs of inventories and losses on products due to falling average selling prices. Such a development could potentially require us to undertake restructuring activities that may involve significant charges to our results of operations. In particular, semiconductor companies have added significant capacity from time to time, including in recent periods prior to the economic downturn. In the past, the net increases of supply sometimes exceeded demand requirements, leading to oversupply situations and downturns in the industry. Downturns, such as the current downturn, have had a severe negative effect on the profitability of the industry. Given the volatility and competition in the semiconductor industry, we are likely to face downturns again in the future, which would likely have similar effects. Fluctuations in the rate at which industry capacity grows relative to the growth rate in demand for semiconductor products may in the future put pressure on our average selling prices and negatively affect our results of operations.

In addition, during periods of increased demand, we may not have sufficient capacity to meet customer orders. In the past, we have responded to increased demand by opening new production facilities or entering into strategic alliances,

which in many cases resulted in significant expenditures. We have also purchased an increasing number of processed wafers and packages from semiconductor foundries and subcontractors to meet higher levels of demand and have incurred higher costs of goods sold as a result. To expand our production capacity in the future, we may have to invest substantial amounts, which could negatively affect our results of operations.

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Our business could suffer as a result of volatility in different parts of the world.

We operate globally, with numerous development, manufacturing, assembly and testing facilities on three continents, including facilities that we operate jointly with partners. In the 2009 fiscal year, 82 percent of our revenues were generated outside Germany and 64 percent were generated outside Europe. Our business is therefore subject to risks involved in international business, including:

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war, terrorist attacks, epidemic, pandemic 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. Our results of operations could also be hurt if demand for the products made by our customers decreases due to adverse economic conditions in any of the regions where they sell their own products.

In difficult market conditions, our high fixed costs adversely affect our results.

In less favorable industry conditions, in addition to price pressure, we are faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. Since the semiconductor industry is characterized by high fixed costs, our ability to reduce our total costs in line with revenue declines is limited. The costs associated with excess capacity, particularly for our front-end fabrication facilities (fabs), are charged directly to cost of sales as idle capacity charges. We cannot guarantee that difficult market conditions will not adversely affect the capacity utilization of our fabs and, consequently, our future gross profits.

The competitive environment of the semiconductor industry has led to industry consolidation, and we may face even more intense competition from newly merged competitors.

The highly competitive environment of the semiconductor industry and the high costs associated with manufacturing technologies and developing marketable products have resulted in significant consolidation in the industry and are likely to lead to further consolidation in the future. Such consolidation can allow our competitors to further benefit from economies of scale, enjoy improved or more comprehensive product portfolios and increase the size of their serviceable markets. In addition, we may become a target for a company looking to improve its competitive position. Any such corporate event could result in unpredictable consequences, which could have a material adverse effect on our results of operations and financial condition. Consequently, our competitive position may be adversely impacted by consolidation among other industry participants, who may leverage increased market share and economies of scale to improve their competitive position.

We intend to continue to engage in acquisitions, joint ventures and other transactions that may complement or expand our business. We may not be able to complete these transactions, and even if executed, these transactions pose significant risks and could have a negative effect on our operations.

Our future success may be dependent on opportunities to enter into joint ventures and to buy other businesses or technologies that could complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities or gains in productivity. If we are unable to identify suitable targets, our growth prospects may suffer, and we may not be able to realize sufficient scale advantages to compete effectively in all relevant

markets. We may also face competition for desirable targets from other companies in the semiconductor industry. Our ability to acquire targets may also be limited by applicable antitrust laws and other regulations in the United States, the European Union and other jurisdictions in which we do business. We may not be able to complete such transactions, for reasons including, but not limited to, a failure to secure financing or as a result of restrictive covenants in our debt

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instruments. Any transactions that we are able to identify and complete may involve a number of risks, including:

- the diversion of our management s attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture;
- possible negative impacts on our operating results during the integration process; and
- our possible inability to achieve the intended objectives of the transaction.

We may be unable to successfully integrate businesses we acquire and may be required to record charges related to the goodwill or other long-lived assets associated with the acquired businesses.

We have acquired other companies, businesses and technologies from time to time. We intend to continue to make acquisitions of, and investments in, other companies. We face risks resulting from the expansion of our operations through acquisitions, including the risk that we might be unable to successfully integrate new businesses or teams with our culture and strategies on a timely basis or at all. We also cannot be certain that we will be able to achieve the full scope of the benefits we expect from a particular acquisition or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any businesses we acquire.

We review the goodwill associated with our acquisitions for impairment at least once a year. Changes in our expectations due to changes in market developments which we cannot foresee have in the past resulted in us writing off amounts associated with the goodwill of acquired companies, and future changes may require additional write-offs in future periods, which could have a material adverse effect on our financial results.

We may not be able to protect our proprietary intellectual property and may be accused of infringing the intellectual property rights of others.

Our success depends on our ability to obtain patents, licenses and other intellectual property rights covering our products and our design and manufacturing processes. The process of seeking patent protection can be long and expensive. Patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide us with meaningful protection or commercial advantage. In addition, effective copyright, trademark and trade secret protection may be unavailable or limited in some countries, and our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons.

Competitors may also develop technologies that are protected by patents and other intellectual property rights. These technologies may therefore either be unavailable to us or be made available to us only on unfavorable terms and conditions. Litigation, which could require significant financial and management resources, may be necessary to enforce our patents or other intellectual property rights or to defend against claims of infringement of intellectual property rights brought against Infineon by others. Lawsuits may have a material adverse effect on our business. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third-party intellectual property.

Our business could suffer due to decreases in customer demand.

Our sales volume depends significantly on the market success of our customers in developing and selling end-products that incorporate our products. The fast pace of technological change, difficulties in the execution of individual projects, general economic conditions and other factors may limit the market success of our customers,

resulting in a decrease in the volume of demand for our products and adversely affecting our results of operations.

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Due to the time needed to develop the final product for end customers and the time until such products are ultimately introduced to the market, we may face significant and sometimes unpredictable delays between the implementation of our products and volume ramp up. This may cause significant idle capacity costs.

The loss of one or more of our key customers may adversely affect our business.

Historically, a significant portion of our revenue has come from a relatively small number of customers and distributors. The loss or financial failure of any significant customer or distributor, or any reduction in orders by any of our key customers or distributors, could materially and adversely affect our business.

Fluctuations in the mix of products sold may adversely affect our financial results.

We achieve differing gross profits across our wide range of products. Our financial results therefore depend in part on the structure of our product portfolio. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover our fixed costs and investments that are associated with a particular product, and as a result can negatively impact our financial results.

If we fail to successfully implement an optimum make-or-buy strategy, our business could suffer from higher costs.

We intend to continue to invest in leading-edge process technologies such as power, embedded flash and radio-frequency technologies. At the same time, for complementary metal-oxide-semiconductors, or CMOS, below 90-nanometers, we plan to continue to share risks and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants and by making more extensive use of manufacturing at silicon foundries. However, the decision to develop our own solutions or to cooperate with third-party suppliers could adversely affect our results of operations if we fail to achieve sufficient volume production, if market conditions for the services we obtain from foundries become more expensive due to increases in worldwide demand for foundry services, or if strategic partners fail to perform properly.

Our business could suffer from problems with manufacturing.

The semiconductor industry is characterized by the introduction of new or enhanced products with short life cycles in a rapidly changing technological environment. We manufacture our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the manufacturing process can reduce yields or interrupt production, especially during rapid ramp up periods, and as a result of such problems we may on occasion not be able to deliver products on time or in a cost-effective, competitive manner.

We cannot foresee and prepare for every contingency. If production at a fabrication facility is interrupted, we may not be able to shift production to other facilities on a timely basis or customers may purchase products from other suppliers. In either case, the loss of revenues and damage to the relationship with our customers could be significant. Increasing production capacity to reduce exposure to potential production interruptions would increase our fixed costs. If demand for our products does not increase proportionally to the increase in production capacity, our operating results could be harmed.

If our outside foundry suppliers fail to meet our expectations, our results of operations and our ability to exploit growth opportunities could be adversely affected.

We outsource production of some of our products to third-party suppliers, including semiconductor foundry manufacturers and assembly and test facilities, and expect that our reliance on outsourcing will increase. If our outside

suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs. Our

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internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based in large part on market conditions. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly, negatively impacting our results of operations.

Products that do not meet customer specifications or that contain, or are perceived to contain, defects or errors or that are otherwise incompatible with their intended end use could impose significant costs on us.

The design and production processes for our products are highly complex. It is possible that we may produce products that do not meet customer specifications, contain or are perceived to contain defects or errors, or are otherwise incompatible with their intended uses. We may incur substantial costs in remedying such defects or errors, which could include material inventory write-downs. Moreover, if actual or perceived problems with nonconforming, defective or incompatible products occur after we have shipped the products, we might not only bear direct liability for providing replacements or otherwise compensating customers, but could also suffer from long-term damage to our relationship with important customers or to our reputation in the industry generally. This could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by property loss and business interruption.

Damage and loss caused by fire, natural hazards, supply shortage, or other disturbance at semiconductor facilities or within our supply chain at customers as well as at suppliers can be severe. Thus, even though we have constructed and operate our facilities in ways that minimize the specific risks and that enable a quick response if such event should occur, damages from such events could nonetheless be severe. Furthermore, despite our continued expectations to invest in prevention and response measures at our facilities and to maintain property loss and business interruption insurance, any loss may exceed the amounts recoverable under our insurance policies. As a result, any such events could have a material adverse effect on our business, financial condition and results of operations, and any such loss may exceed the amounts recoverable under our insurance policies.

Our business could suffer if we are not able to secure the development of new technologies or if we cannot keep pace with the technology development of our competitors.

The semiconductor industry is characterized by rapid technological changes. New process technologies using smaller feature sizes and offering better performance characteristics are introduced every one to two years. The introduction of new technologies allows us to increase the functions per chip while at the same time improving performance parameters, such as decreasing power consumption or increasing processing speed. In addition, the reduction of feature sizes allows us to produce smaller chips offering the same functionality and thereby considerably reduce the costs per function. In order to remain competitive, it is essential that we secure the capabilities to develop and qualify new technologies for the manufacturing of new products. If we are unable to develop and qualify new technologies and products, or if we devote resources to the pursuit of technologies or products that fail to be accepted in the marketplace or that fail to be commercially viable, our business may suffer.

We rely on strategic partners and other third parties, and our business could be harmed if they fail to perform as expected or relationships with them were to be terminated.

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants, both to manufacture semiconductors and to develop new manufacturing process technologies and products. If our strategic partners encounter financial difficulty or change their business strategies, they may no longer be able or willing to participate in these alliances. Some of the agreements governing our strategic alliances allow our

partners to terminate the agreement if our equity ownership changes so that a third party gains control of Infineon or of a significant portion of our shares. Our business

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could be harmed if any of our strategic partners were to discontinue our participation in a strategic alliance or if the alliance were otherwise terminated. To the extent we rely on alliances and third-party design and/or manufacturing relationships, we face the risks of:

- reduced control over delivery schedules and product costs;
- manufacturing costs that are higher than anticipated;
- the inability of our manufacturing partners to develop manufacturing methods appropriate for our products and their unwillingness to devote adequate capacity to produce our products;
- a decline in product reliability;
- an inability to maintain continuing relationships with our suppliers; and
- limited ability to meet customer demand when faced with product shortages.

If any of these risks materialize, we could experience an interruption in our supply chain or an increase in costs, which could delay or decrease our revenues or adversely affect our business, financial condition and results of operations.

New business is often subject to a competitive selection process that can be lengthy and uncertain and that requires us to incur significant expenses in advance. Even if we win and begin a product design, a customer may decide to cancel or change our product plans, which could cause us to generate no sales from a product and adversely affect our results of operations.

In several of our business areas, we focus on winning competitive bid selection processes, known as design wins , to develop products for use in our customers products. These selection processes can be lengthy and can require us to incur significant design and development expenditures. We may not win the competitive selection process and may never generate any revenues despite incurring significant design and development expenditures.

If we win a product design and receive corresponding orders from our customers, we may experience delays in generating revenues from our products as a result of the lengthy development and design cycle. In addition, a delay or cancellation of a customer s plans could significantly adversely affect our financial results, as we may have incurred significant expenses and generated no revenues. Finally, if our customers fail to successfully market and sell their products, our results of operations could be materially adversely affected as the demand for our products falls.

We rely on a limited number of suppliers of manufacturing equipment and materials and could suffer shortages if these suppliers were to interrupt supply or increase their prices.

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers on a just-in-time basis. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for another or one piece of equipment for another. Some materials are only available from a limited number of suppliers. Although we believe that supplies of the materials we use are currently adequate, shortages could occur in critical materials, such as silicon wafers or specialized chemicals used in production, due to interruption of supply or increased industry demand. Our results of operations would be hurt if we were not able to obtain adequate supplies of quality equipment or materials in a timely manner or if there were significant increases in the costs of equipment or materials.

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We may be adversely affected by rising raw material prices.

We are exposed to fluctuations in raw material prices. In the recent past, gold, copper and petroleum-based organic polymer prices in particular have fluctuated on a worldwide basis. If we are not able to compensate for or pass on our increased costs to customers, such price increases could have a material adverse impact on our financial results.

Our business could suffer if we are unable to secure dependable power supplies at reasonable cost.

Our business requires reliable electrical power at reasonable cost and may be adversely affected by power shortages due to disruptions in supply, as well as by increases in market prices for fuel or electricity.

Our operations rely on complex information technology systems and networks, and any disruptions in such systems or networks could have a material adverse impact on our business and results of operations.

We rely heavily on information technology systems and networks to support business processes as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. However, despite precautions taken by us to manage our risks related to system and network disruptions, including the use of multiple suppliers, an extended outage in a telecommunications network utilized by our systems or a similar event could lead to an extended unanticipated interruption of our systems or networks, which could have an adverse effect on our business. Furthermore, any data leaks resulting from information technology security breaches despite use of sophisticated information technology security to protect our highly confidential information could adversely affect our business operations or reputation.

We have recorded significant reorganization and impairment charges in the past and may do so again in the future, which could materially adversely affect our business.

In the past, we have recorded restructuring and asset impairment charges relating to our efforts to consolidate and refocus our business. As we respond to continuing rapid change in the semiconductor industry in order to remain competitive, we may incur additional employee termination, restructuring and asset impairment charges in the future.

In addition, we test our long-lived assets, including intangible assets, for impairment when events or changes in circumstances indicate that our carrying value may not be recoverable. We believe that the substantial decrease in our market value in recent periods was largely due to factors which do not impact the fair value of our cash generating units to the same extent, and therefore concluded that long-lived assets were not impaired as of such date. We will continue to review our long-lived assets for potential impairment, and may in the future be required to record charges in that regard.

Charges related to employee termination, restructuring and asset impairments may have a material adverse effect on our business, financial condition and results of operations, especially in the periods in which such charges are recorded.

Our business could suffer if third-party service providers fail to perform as expected.

We have outsourced a number of business functions and processes, including some of our IT services, and therefore are subject to risks customarily encountered in outsourcing arrangements. For example, if a service provider is not able to provide the agreed services at the level of quality we require, we may not be able to replace such service provider on short notice, which may have an adverse effect on our business.

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Our success depends on our ability to recruit and retain sufficient qualified key personnel.

Our success depends significantly on the recruitment and retention of highly skilled personnel, particularly in the areas of R&D, marketing, production management and general management. The competition for such highly skilled employees is intense and the loss of the services of key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on Infineon. We can provide no assurance that we will be able to successfully retain and/or recruit the key personnel we require.

Reductions in government subsidies or demands for repayment of such subsidies could increase our reported expenses or limit our ability to fund capital expenditures.

Our reported expenses have been reduced in recent years by various subsidies received from governmental entities. In particular, we have received, and expect to continue to receive, subsidies for investment projects as well as for R&D projects. We recognized governmental subsidies as a reduction of R&D expenses and cost of sales in an aggregate amount of 106 million in the 2007 fiscal year, 78 million in the 2008 fiscal year and 66 million in the 2009 fiscal year.

As the general availability of government funding is outside our control, we can provide no assurance that we will continue to benefit from such support, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to us as those we currently receive. In addition, if certain conditions are not met or certain events occur, we may have to repay the government subsidies that we have already received.

The application for and implementation of such subsidies often involves compliance with extensive regulatory requirements, including, in the case of subsidies to be granted within the European Union, notification to the European Commission of the contemplated grant prior to disbursement. In particular, establishment of compliance with project-related ceilings on aggregate subsidies defined under European Union law often involves highly complex economic evaluations. If we fail to meet applicable requirements, we may not be able to receive the relevant subsidies or may be obliged to repay current or future subsidies, which could have a material adverse effect on our business.

The terms of certain of the subsidies we have received impose conditions that may limit our flexibility to utilize subsidized facilities as we deem appropriate, to move equipment to other facilities, to reduce employment at the site, or to use related intellectual property outside the European Union. This could impair our ability to operate our business in the manner we believe to be most cost effective.

Our operating results fluctuate significantly from quarter to quarter, and as a result we may fail to meet the expectations of securities analysts and investors, which could cause our stock price to decline.

Our operating results have fluctuated significantly from quarter to quarter in the past and are likely to continue to do so due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, the market price of our shares will likely decline. Our reported results can be affected by numerous factors, including:

- the overall cyclicality of, and changing economic and market conditions in, the semiconductor industry, as well as seasonality in sales of consumer products in which our products are incorporated;
- our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;

the gain or loss of a key customer, design win or order;

the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;

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changes in accounting rules;

our success in implementing cost reductions measures;

the length of particular product development cycles; and

liabilities arising as a result of Qimonda s insolvency.

Due to the foregoing factors and the other risks discussed in this annual report, investors should not rely on quarter-to-quarter comparisons of our operating results as an indicator of future performance.

Our results of operations and financial condition can be adversely impacted by changes in exchange rates.

Our results of operations can be negatively affected by changes in exchange rates, particularly between the Euro and the U.S. dollar or the Japanese yen. In addition, the balance sheet impact of currency translation adjustments has been, and may continue to be, material. Furthermore, while we operate in an industry with prices primarily denominated in U.S. dollars and therefore receive a large proportion of our revenues in U.S. dollars, a large proportion of our expenses are in Euro; and we also report our financial results in Euro, which is our operational currency. As a result, our financial results can be significantly negatively affected by exchange rate fluctuations of the U.S. dollar against the Euro. See *Operating and Financial Review Quantitative and Qualitative Disclosures about Market Risks*.

If we fail to maintain effective internal controls, we may not be able to report financial results accurately or on a timely basis, or to detect fraud, which could have a material adverse effect on our business or share price.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent financial fraud. Pursuant to the Sarbanes Oxley Act, we are required to periodically evaluate the effectiveness of the design and operation of our internal controls. Internal controls over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error or collusion, the circumvention or overriding of controls, or fraud. If we fail to maintain an effective system of internal controls, our business and operating results could be harmed, and we could fail to meet our reporting obligations, which could have a material adverse effect on our business and our share price.

We are exposed to various tax risks, and several factors could have an adverse effect on our tax burden.

Our German and foreign tax returns are periodically examined by tax authorities, and several entities of the consolidated group are currently subject to such an examination. The most recent finalized corporate income, trade and sales tax audit of Infineon and our German subsidiaries covered the 1999 through 2001 fiscal years; for the 2002 through 2005 fiscal years a tax audit has started. Given the considerable amount of available tax losses incurred by us, additional tax assessments at Infineon level should not trigger substantial tax charges, if any. We regularly assess the adequacy of our domestic and foreign tax provisions in light of new evidence and make adjustments to the extent necessary. Due to the complexities in tax laws and their interpretation by the tax authorities there can be no assurance that the outcome of German and foreign tax audits will not differ from these estimates, and therefore, additional tax charges imposed by the tax authorities may exceed taxes accrued as liabilities or provisions and may require additional liquidity.

In case of changes in the shareholder structure of Infineon, there is a risk that our tax losses, tax loss carry-forwards and interest carry-forwards may be eliminated entirely or in part. Such elimination in whole or in part may, in particular, result from a direct or indirect acquisition of shares (e.g., acquisition or capital increase) of more than

50 percent or of more than 25 percent up to 50 percent, respectively, by an individual shareholder, a related party, or a defined group of shareholders within a five-year period (see Section 8c of the German Corporate Income Tax Act *(Körperschaftsteuergesetz)*). Such elimination of the

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tax loss carry-forwards could have a non-cash effect in our consolidated financial statements as a consequence of the derecognition of deferred tax assets relating to those tax loss carry-forwards. In addition, the tax burden in Germany for future tax assessment periods could increase as respective tax losses, tax loss carry-forwards or interest carry-forwards may no longer be available to offset future taxable income.

Furthermore, future changes of the tax laws in Germany or other jurisdictions relevant for us could increase our tax burden. Any such changes, as well as the above mentioned risks, could have a material adverse effect on our cash flows, financial condition and results of operations.

Our deferred tax assets are subject to regular reassessment, which may result in additional valuation allowances.

We recognized deferred tax assets in a total amount of 396 million as of September 30, 2009. We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The assessment requires the exercise of judgment on the part of our management with respect to, among other things, 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, among other things, our ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. The recorded amount of total deferred tax assets could be reduced, resulting in a decrease in our total assets and consequently in our shareholders equity, if our estimates of projected future taxable income and benefits from available tax strategies are lowered as a result of a change in management s assessment or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize tax loss and credit carry-forwards in the future. A change of the estimated amounts and character of future income may require additional valuation allowances.

Environmental laws and regulations may expose us to liability and increase our costs.

Our operations are subject to many environmental laws and regulations wherever we operate, governing, among other things, air and noise emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal and the investigation and remediation of soil and ground water contamination.

An EU Directive imposes a take-back obligation on manufacturers to finance the collection, recovery and disposal of electrical and electronic equipment. Because of unclear statutory definitions and interpretations in individual member states, as well as ongoing discussions on national implementing measures, we are unable at this time to determine in detail the consequences of this directive for us. Additional European legislation restricts the use of lead and other hazardous substances in electrical and electronic equipment from July 2006. Both Directives are under revision and their possible impacts currently cannot be determined in detail. A further EU Directive restricts the use of hazardous substances in automotive vehicles. Because the Directive has been changed and further revision is foreseen, the future impact on Infineon cannot currently be determined in detail.

Another Directive describes eco-design requirements for energy-using products, including information requirements for components and sub-assemblies. Furthermore the European regulatory framework for chemicals, called REACH, deals with the registration, evaluation, authorization and restriction of chemicals. This legislation may complicate our R&D activities and may require us to change certain of our manufacturing processes to utilize more costly materials or to incur substantial additional costs. In addition, pursuant to the EU Directive on environmental liability with regard to the prevention and remedying of environmental damage, we could face increased environmental liability, which may result in higher costs and potential damage claims.

In addition, the Chinese government restricts the use of lead and other hazardous substances in electronic products. Because neither all implementing measures nor the key product catalogue are in place, the consequences for Infineon

cannot currently be determined in detail. Similar regulations or

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substance bans are being proposed or implemented in various countries of the world. We are not able at this time to estimate the amount of additional costs that we may incur in connection with these regulations.

There is a risk that we may become the subject of environmental, health or safety liabilities or litigation. Environmental, health, and safety claims or the failure to comply with current or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. Significant financial reserves or additional compliance expenditures could be required in the future due to changes in law or new information regarding environmental conditions or other events, and those expenditures could adversely affect our business or financial condition. As with other companies engaged in similar activities, we face inherent risks of environmental liability in our current and historical manufacturing locations. Costs associated with future additional environmental compliance or remediation obligations could adversely affect our business.

We may face significant liabilities as a result of the insolvency of Qimonda.

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to potential liabilities arising in connection with the Qimonda business. Such potential liabilities include, among others, pending antitrust and securities law claims, potential liabilities arising from our former participation in Qimonda Dresden, potential claims for repayment of governmental subsidies, claims by former employees of Qimonda and other employee-related contingencies.

In addition, we may be subject to claims by the insolvency administrator under German insolvency laws for repayment of certain amounts received by us from Qimonda, such as payments for intra-group services and supplies, during defined periods prior to the commencement of insolvency proceedings. Depending on future developments in Qimonda s operations in Portugal, there is also a risk that claims could be made against us in connection with governmental subsidiaries received by Qimonda Portugal S.A. prior to the carve-out. The insolvency of Qimonda may also subject us to other claims arising in connection with the contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as we expect that Qimonda will not be able to fulfill its obligation to indemnify us against any such liabilities.

Furthermore, we may lose rights and licenses to Qimonda s intellectual property that we are entitled to under the contribution agreement between us and Qimonda due the fact that the insolvency administrator has declared non-performance of this agreement. We are evaluating the scope of any potentially affected intellectual property, and we are unable to provide any reasonable estimate of any potential related costs to us.

As of September 30, 2009, we recorded aggregate liabilities of 21 million and provisions of 163 million in connection with these matters. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions and allowances recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Finally, there can be no assurance that the insolvency administrator or creditors of Qimonda will not seek to recover money from us by asserting claims that we cannot currently foresee. Even if a court were to dismiss or otherwise rule against such claims, defending against them could require us to expend significant time, money and management attention.

A sale or closure of the ALTIS facility may result in us incurring material additional costs and charges.

We and our joint venture partner IBM are currently involved in ongoing negotiations with strategic and financial partners regarding a divestiture of our respective shares in ALTIS, a manufacturing joint venture in France. The

outcome of these negotiations cannot be predicted at this stage. In the event of a failure to reach an agreement with the potential buyers, we will have to reassess all options. All currently

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conceivable scenarios may result in our company incurring material additional costs and charges. In the event of a sale, we may incur, among others, expenses under a wafer supply agreement that is to be concluded between the joint venture partners and the potential buyer. In the event of a closure, we and IBM may incur material expenses relating to the closing. Although the exact amount of any such expenses cannot be reliably assessed as yet, such expenses could have a material adverse effect on our results of operations and financial position.

Our business and financial condition could be adversely affected by current or future litigation.

We are a party to lawsuits in the normal course of our business, including suits involving allegations of intellectual property infringement, product liability and breaches of contract. The results of complex legal proceedings are difficult to predict. There can be no assurance that the results of current or future legal proceedings will not materially harm our business, reputation or brand.

We record a provision for litigation risks when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. We maintain liability insurance for certain legal risks at levels our management believes are appropriate and consistent with industry practice. We may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance and such losses may have a material adverse effect on the results of our operations or financial condition, and our provisions for litigation-related losses may not be sufficient to cover our ultimate loss or expenditure. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition.

We are a subject of investigations in several jurisdictions in connection with pricing practices in the Dynamic Random Access Memory (DRAM) industry, and are a defendant in civil antitrust claims in connection with these matters.

In September 2004, we entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice (the DOJ) in connection with its investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, we agreed to plead guilty to a single count relating to the price fixing of DRAM products and to pay a fine of $160 million, payable in equal annual installments through 2009. The last installment was paid in October 2009.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against us and other DRAM suppliers in U.S. federal courts and in state courts in various U.S. states and Canadian provinces. The complaints allege violations of U.S. federal and state or Canadian antitrust and competition laws and seek treble damages in unspecified amounts, costs, attorneys fees and an injunction against the allegedly unlawful conduct on behalf of the plaintiffs. In July 2006, the state attorney generals of a number of U.S. states and territories filed actions against us and other DRAM suppliers in U.S. federal courts. The claims involve allegations of DRAM price fixing and artificial price inflation and seek to recover three times actual damages and other relief.

In April 2003, we received a request for information from the European Commission in connection with alleged anti-competitive practices in the European market for DRAM products. The European Commission opened formal proceedings in February 2009. We are cooperating with the European Commission in its investigation.

Qimonda is obligated to indemnify us for any liabilities arising from the claims and proceedings described above. Due to Qimonda s recent insolvency filing, however, we expect that Qimonda will not be able to indemnify us against any such potential liabilities.

In May 2004, we received a notice of a formal inquiry into alleged DRAM industry competition law violations from the Canadian Competition Bureau. We are cooperating with the Canadian Competition Bureau in its inquiry.

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An adverse final resolution of the matters described above could result in significant financial liability to, and other adverse effects upon, us which would have a material adverse effect on our business, results of operations and financial condition. Irrespective of the validity or the successful assertion of the above-referenced claims, we could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on our results of operations, financial condition and cash flow. For further detail, see note 38 to our consolidated financial statements.

Purported class action lawsuits have been filed against us alleging securities fraud.

Following our announcement in September 2004 of our agreement to plead guilty in connection with the DOJ s antitrust investigation and to pay a fine of $160 million, several purported securities class action lawsuits have been brought against us in U.S. district courts. The lawsuits were consolidated into one complaint that is pending at the U.S. District Court for the Northern District of California. Plaintiffs allege violations of the U.S. securities laws and assert that we made materially false and misleading public statements about our historical and projected financial results and competitive position and manipulated the price of our securities, thereby injuring our shareholders. These matters are currently subject to mediation. Although we are defending against these suits vigorously, a significant settlement or negative outcome at trial could have a material adverse effect on our financial results.

We are the subject of an investigation by the European Commission in connection with alleged violations of competition laws in the Chip Card & Security segment.

In October 2008, we learned that the European Commission had commenced an investigation involving our Chip Card & Security segment for alleged violations of competition laws. In September and October 2009, we and our French subsidiary received written requests for information from the European Commission. If the European Commission were to find that our Chip Card & Security segment violated European Union competition laws, the fines and penalties that would likely be imposed on us could be substantial and would be expected to have a material adverse effect on our business, operations and financial condition.

We might be faced with product liability or warranty claims.

Despite our current efforts, defects may occur in our products. The occurrence of defects, particularly in consumer areas and areas in which personal injury could result, such as our automotive business, could give rise to warranty claims or to liability for damages caused by such defects. We could also incur consequential damages and experience limited acceptance of our products in the market. In addition, customers have from time to time notified us of potential contractual warranty claims in respect of products that we supplied, and are likely to do so in the future. These matters could have a material adverse effect on our business and financial condition.

Risk related to our shares

Our share price is subject to significant fluctuations.

The price of our shares could vary considerably, especially because of fluctuations in actual or forecast results of operations, changes in profit forecasts or the non-fulfillment of securities analysts profit expectations, changes in general economic conditions, or other factors. The general volatility of share prices, which has increased considerably over the course of the worsening credit crisis in the financial markets in 2008 and 2009, could also put pressure on the price of our shares without this being directly related to our business activities, cash flow, financial condition, results of operations, or business outlook. Furthermore, the possibility exists that hedge funds having short-term investment goals have already acquired, or will acquire, large blocks of shares, which would enable such funds to deliberately affect our share price.

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BUSINESS

Overview

We are one of the world s leading semiconductor suppliers by revenue. We have been at the forefront of the development, manufacture and marketing of semiconductors for more than 50 years, first as the Siemens Semiconductor Group and then, from 1999, as an independent group. Infineon Technologies AG has been a publicly traded company since March 2000. According to the market research company iSuppli (August 2009), we were ranked the number 10 semiconductor company in the world by revenue in the first six months of the 2009 calendar year.

We design, develop, manufacture and market a broad range of semiconductors and complete system solutions used in a wide variety of applications for energy efficiency, security and communications. Our main business is currently conducted through our four operating segments: Automotive, Industrial & Multimarket, Chip Card & Security and Wireless Solutions. On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, and such sale closed on November 6, 2009.

In the 2009 fiscal year, we took significant measures, in particular through our capital increase in August 2009 and our cost-reduction program IFX10+, with the aim of cutting costs, reducing debt, preserving cash and otherwise improving our financial condition. The efforts continue at present. We believe that due to the positive impact of our overall cost reduction and cash preservation measures to retain liquidity we will be able to finance our normal business operations out of cash flows from continuing operations despite the sharp decline in revenue levels.

The address of our principal executive offices is: Am Campeon 1-12, D-85579, Neubiberg, Germany, and our main telephone number is +49-89-234-0. Our agent in the United States is Infineon Technologies North America Corp., which has its principal executive offices at 640 N. McCarthy Blvd., Milpitas, CA 95035.

The principal developments during the 2009 fiscal year included the following:

Corporate and Commercial Developments

On July 16, 2009, we launched a rights issue for up to 337 million shares with a subscription price of 2.15 per share. On August 5 and August 11, 2009, we completed the rights issue and issued approximately 323 million shares to our then existing shareholders and approximately 14 million new shares, representing approximately 1.3 percent of our total share capital, to a financial investor, respectively. The capital increase raised approximately 725 million in gross proceeds.

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business to Lantiq, affiliates of Golden Gate Private Equity Inc. The majority of the purchase price was paid at closing on November 6, 2009 in the amount of 223 million, with up to an additional 20 million of the purchase price being payable 9 months after the closing date. We sold the Wireline Communications business in order to focus on the further development of our main business, our strategy and strong position in the key areas of energy efficiency, security and communications, while at the same time further improving our balance sheet and strengthening our liquidity position.

On May 26, 2009, we, through our subsidiary, Infineon Technologies Holding B.V., issued a nominal amount of 196 million guaranteed subordinated convertible notes due 2014 at a discount of 7.2 percent.

In the 2009 fiscal year, we repurchased and redeemed a total of 215 million in nominal amount of our guaranteed subordinated exchangeable notes due 2010 that were issued by our subsidiary Infineon Technologies Investment B.V. and 152 million in nominal amount of our guaranteed subordinated convertible notes due 2010 that were issued by our subsidiary Infineon Technologies

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Holding B.V. for an aggregate of 285 million in cash, including transaction costs of 3 million. All notes repurchased were subsequently cancelled.

On September 29, 2009, we redeemed the remaining outstanding balance of a nominal amount of 19.35 million of our subordinated exchangeable notes due 2010 at par.

In April 2009, we voluntarily delisted our ADSs from the New York Stock Exchange and our ADSs began trading over-the-counter on the OTCQX International market.

On January 23, 2009, Qimonda filed for insolvency and formal insolvency proceedings were opened in the local registry court in Munich on April 1, 2009. Infineon deconsolidated Qimonda during the second quarter of the 2009 fiscal year.

We, together with 17 European partner companies, formed the technology consortium SmartPM (Smart Power Management in Home and Health) to significantly increase the energy efficiency of home appliances, power supplies and healthcare and medical equipment by 2012.

We, BMW Forschung und Technik GmbH, Continental AG, Daimler AG and Bosch had formed the Radar on Chip for Cars (RoCC) technology cooperation project. The aim of the three-year project is to significantly increase driving safety by making highly reliable radar systems available in all vehicle classes.

The Hirose plant of the car manufacturer Toyota awarded us the Best of Excellent Quality Award 2009 for our extraordinary product quality. This is the first time that a non-Japanese company was honored with such an award and we are the only recipient of the award in 2009.

We and Nokia entered into a collaboration for Enhanced Data rate for GSM Evolution (EDGE) technology. We will supply our XMM™ 2130 EDGE platform to Nokia, enabling the mobile device manufacturer to bring a new breed of internet capable devices to the market.

We signed a collaboration contract with Bosch under which we will license to Bosch certain manufacturing processes for power semiconductors. Additionally, the contract includes a second-source agreement. In addition to Bosch s own semiconductor manufacturing in Reutlingen, we will produce components developed on the basis of these processes and will supply Bosch with these components.

We announced that we had sold more than 100 million of our chips for entry-level handset models, often referred to as Ultra Low Cost telephones. The X-GOLD™ 101 (E-GOLD™voice) mobile communications chip is the second generation of our highly integrated baseband chips for GSM/GPRS handsets. We also unveiled our third-generation ultra-low-cost (ULC) mobile communications chip, the new X-GOLD™ 110.

We announced that Bosch will use a chip from our RASIC™ (Radar System IC) product family in its new LRR3 radar sensor system (third-generation Long Range Radar).

We announced that our 16-bit security microcontroller family SLE 78 was selected as the winner of the 2008 Sesame Award in the category of Best Hardware.

We announced a strategic technology collaboration with Micron for the development of high-density subscriber identity module (HD-SIM) cards with storage capacities above 128 megabytes. HD-SIMs are ideal for delivering expanded storage and greater services while improving the operator s processes.

Autoliv the world s largest supplier of automotive safety systems selected us as the sole supplier of power semiconductors for its next-generation seatbelt pretension systems, called Active Seatbelts. Autoliv s Active Seatbelts use a small motor device containing the Infineon NovalithIC™ power chip, which enables additional safety and comfort features in cars.

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Technical and Product Developments

We expanded our application kit portfolio to simplify and accelerate the design of energy-efficient motor drives based on our 8-bit and 16-bit microcontrollers. The new kits are built around members of our 8-bit XC800 and 16-bit XE166 family supporting advanced motor control techniques like Field Oriented Control (FOC) and Power Factor Control (PFC).

We expanded our product portfolio for automotive infotainment applications by introducing a single-chip linear voltage regulator with integrated diagnosis and car radio system protection functions. The integration of the functions improves the reliability of car radios.

We launched the next-generation 600V CoolMOS™ C6 series of high-performance MOSFETs (metal-oxide semiconductor field-effect transistors). With the 600V CoolMOS™ C6 series, energy conversion applications such as Power Factor Correction (PFC) or Pulse Width Modulation (PWM) stages can be made significantly more energy efficient.

We introduced our new lamp ballast controller that integrates Power Factor Correction (PFC), lamp controller, and high-voltage half-bridge driver functions into a single, compact, surface-mounted package. Typical applications for the ICB2FL01G product are electronic ballasts for compact fluorescent lamps, linear fluorescent T5 and T8 lamps, dimmable fluorescent lamps and emergency lighting.

We announced production availability of our OptiMOS™ 3 75V power MOSFET family for energy efficient power conversion applications. The new devices feature industry leading on-state resistance and Figure of Merit (FOM) characteristics.

We launched the world s smallest transient voltage suppression (TVS) diode for the protection of antennas in the latest electronic equipment. Applications include GPS, mobile TV, FM radio, and Remote Keyless Entry (RKE) and Tire Pressure Monitoring Systems (TPMS) in vehicles.

We announced the further expansion of our RFID (Radio Frequency Identification) product portfolio. Our new RFID chip PJM Light (Phase Jitter Modulation) provides a memory capacity of one kilobit and privacy features designed to prevent unauthorized access to the protected data.

We introduced two new RF-chips for LTE (Long-Term-Evolution) and 3G. The SMARTi™ LU is a single-chip 65nm CMOS RF transceiver providing 2G/3G/LTE functionality with a DigRF digital baseband interface for data rates of up to 150 Mbps in LTE Networks. The SMARTi™ UEmicro is optimized for low-cost 3G designs.

We and Seiko Epson Corporation developed the next generation of advanced global positioning system (GPS) technology. The new GPS single-chip design, the XPOSYS™, is optimized for mobile devices for the consumer market; especially cellular phones with GPS navigation.

We presented our latest single-chip VDSL/ADSL solutions for next generation telecom networks. The XWAY™ xRX200 family offers high integration, with a more than 50 percent smaller footprint compared to existing solutions, and best-in-class energy efficiency, with more than 50 percent lower power consumption compared to similar single-chip solutions.

We introduced a new family of single-chip WLAN integrated circuits (ICs). The new XWAY™ WAVE100 ICs provide a high-performance and cost-effective solution for wireless network access points that are compliant with the 802.11n draft standard for data rates up to 150Mbit/s and the 802.11 b/g standard.

Industry Background

Semiconductors power, control and enable an increasing variety of electronic products and systems. Improvements in semiconductor process and design technologies continue to result in ever more powerful, complex and reliable devices at a lower cost per function. As their performance has increased and size and costs have decreased, semiconductors have become common components in an ever increasing number

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of products used in everyday life, including personal computers, telecommunications systems, wireless handheld devices, automotive products, industrial automation and control systems, digital cameras, digital audio devices, digital TVs, chip cards, security applications and game consoles. According to WSTS (November 2009), the global market for semiconductors in 2008 was $249 billion.

In addition to the adverse effects of the global economic downturn and financial crisis on the entire semiconductor industry, the semiconductor market, and hence our business, is characterized by a number of distinct factors.

Volatility: The market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins.

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

Seasonality: Our sales are affected by seasonal and cyclical influences, with sales historically strongest in our fourth fiscal quarter.

Product Life Cycles: Our business is affected by the product life cycles determined by our customers as a response to innovative technical solutions. The product life cycle prior to the start of volume production can range from several months to more than one year, or even several years for automotive products. Due to this lengthy cycle, we may experience significant delays from the time we incur expenses for R&D, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any.

Substantial Capital and R&D Expenditures: Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. 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. To reduce total costs, we intend to share the costs of our R&D and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing.

Price Declines and Competition: Our products generally have a certain degree of application specification. Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. 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.

See *Operating and Financial Review The Semiconductor Industry and Factors that Impact Our Business.*

Strategy

We strive to achieve profitable growth by maintaining and expanding our leadership position in semiconductor solutions in our target markets. We are leveraging key market trends towards energy efficiency, security, and communications and seek to:

Build on our leadership position in key markets, in particular by helping to improve energy efficiency. We believe that our success to date has been based on a deep understanding of a wide range of applications for the

automotive and industrial sectors as well as for personal computers and other consumer devices. Our leading position in these areas is built on high-performance products, superior process technologies and optimized in-house manufacturing capabilities. We see significant growth potential for our power business, in particular, driven by

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high energy costs, a shift towards renewable energy generation, and the need for ever longer battery life in mobile devices.

Strengthen our leadership position in security solutions. We seek to benefit from growth in electronic and mobile communication and the growing desire to access data anywhere and at any time, which drives demand for data protection and data integrity such as secure authentication and identification of users. We intend to leverage our know-how to address applications in new areas, and believe we are well positioned to benefit from future trends, such as the transition to e-Passports, e-Health cards and RFID ICs in logistics.

Provide the technology to be connected every day and everywhere. We seek to continue to profit from our key strengths in areas such as RF and mixed signal technologies employed, in particular, in our wireless business. In order to benefit from the ever-increasing need for mobility and communication in all aspects of day-to-day life, we intend to grow our broad customer base and to focus on the most promising solutions for future profitable growth, such as cellular phone platforms. In the wireless market, these include, in particular, highly integrated, cost efficient single-chip solutions and highly integrated cellular phone platforms for wireless high speed data transfer in HSPA-enabled phones and smart phones.

In addition, it is part of our manufacturing strategy to carefully manage the mix of in-house versus outsourced manufacturing capacity and process technology development. We intend to continue to invest in those process technologies that provide us with a competitive advantage. This is the case particularly for our power process technologies and in manufacturing capacity that can meet the very strict quality requirements of automotive customers. At the same time, in standard CMOS below the 90-nanometer node, we will continue to share risks and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants. We do not intend to invest in in-house capacity for standard CMOS processes below the 90-nanometer node, and will make use of outsourced manufacturing capacity at silicon foundries instead.

We believe that ongoing cost control and projects to continually improve productivity are important elements to support the successful implementation of our profitable growth strategy.

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Products and Applications

Principal Products, Applications and Customers

The following summary provides an overview of some of our more significant products and applications and some of the more significant direct customers of each of our segments.

Segment	Principal Products	Principal Applications	Significant Customers in the 2009 Fiscal Year
Automotive	Power semiconductors (discretes, ICs and modules), sensors and microcontrollers (8-bit, 16-bit, 32-bit) with and without embedded memory, silicon discretes	Powertrain (engine control, transmission control, hybrid), body and convenience (comfort electronics, air conditioning), safety and vehicle dynamics (ABS, airbag, stability control), connectivity (wireless communication, telematics/navigation)	Avnet, Bosch, Continental, Delphi
Industrial & Multimarket	Power semiconductors (discretes, ICs and modules), silicon discretes, ASIC solutions including secure ASICs	Power management & supplies, lighting, drives, renewable energy, power generation and distribution, industrial control, RF and protection devices for multimarket applications, ASICs (for example, for game consoles, hearing aids, computer peripherals)	Avnet, Delta, Siemens, WPG Holdings
Chip Card & Security	Chip card and security ICs	Security memory ICs and security microcontroller ICs for identification documents, payment cards, SIM cards, prepaid telecom cards, access and transportation cards, Pay TV and platform security products for computers and networks (for example, Trusted Platform Modules), RFID ICs for object identification	Gemalto, Giesecke & Devrient, Oberthur Card Systems, U.S. Government Printing Office
Wireless Solutions	Baseband ICs, RF transceivers, power management ICs, single chip ICs integrating these components, mobile phone platform solutions including software, tuner ICs, RF-power transistors	Mobile telephone solutions for major standards (GSM, GPRS, EDGE, UMTS, HSPA, LTE), RF connectivity solutions (for example, Bluetooth, GPS), cellular base stations	Hon Hai Precision, LG Electronics, Nokia, Samsung

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors and complete system solutions for use in automotive applications. Our Automotive segment focuses on microcontrollers and power semiconductors (which handle higher voltage and higher current than standard semiconductors), discrete semiconductors, modules and sensors. According to Strategy Analytics (May 2009), we have been the number two chip manufacturer for the automotive industry by revenue for the past five years, with more than 9 percent of the worldwide market, and the largest in Europe.

The market for semiconductors for automotive applications has grown substantially in recent years, reflecting increased electronic content in automotive applications in the areas of safety, powertrain, body and convenience systems. This growth also reflects increasing substitution of mechanical devices, such as relays, by semiconductors, in order to meet more demanding reliability, space, weight, and power reduction requirements. However, the market for semiconductors for automotive applications contracted during the 2009 fiscal year due to the economic downturn. The resulting decrease in revenue was in line with the volume reduction in the automobile market driven by the economic downturn. In addition, we saw a temporary market shift to smaller-sized cars with lower semiconductor content triggered by national car-scrap bonus programs and an economic stimulus program in China.

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Our automotive division offers semiconductors and complete system solutions in the engine management, safety and chassis, body and convenience, and infotainment markets, in some cases including software. Our principal automotive products include:

- semiconductors for powertrain applications, which perform, for example, engine and transmission control and enable hybrid powertrains;
- semiconductors for safety management, which manage tasks such as the operation of airbags, anti-lock braking systems, electronic stability systems, power steering systems and tire pressure monitoring systems;
- semiconductors for body and convenience systems, which include light modules, heating, ventilation and air conditioning systems, door modules (power windows, door locks, mirror control) and electrical power distribution systems.

According to Strategy Analytics (January 2009), the safety, chassis and security segment comprises the largest portion of the market, followed by powertrain applications, such as transmission, engine and exhaust control, then body applications, and finally in-car entertainment and driver information.

Our automotive products include power semiconductors, microcontrollers, discrete semiconductors and silicon sensors, along with related technologies and packaging. To take advantage of expected growth in the market for green vehicles, our power competencies across all of our business divisions are bundled in order to better enable us to provide semiconductor and power module solutions for hybrid vehicles.

Time periods between design and sale of our automotive products are relatively prolonged (three to four years) because of the long periods required for the development of new automotive platforms, many of which may be in different stages of development at any time. This is one of the reasons why automotive products tend to have relatively long life-cycles compared to our other products. The nature of this market, together with the need to meet demanding quality and reliability requirements designed to ensure safe automobile operation, makes it relatively difficult for new suppliers to enter.

In order to strengthen our position in all areas of automotive electronics, we seek to further develop our strong relationships with world-wide leading car manufacturers and their suppliers, with a particular focus on those at the forefront in using electronic components in cars. We believe that our ability to offer complete semiconductor solutions integrating power, analog and mixed-signal ICs and sensor technology is an important differentiating factor among companies in the automotive market.

We strongly emphasize high quality in our products. We have implemented a program called Automotive Excellence, through which we aim for the goal of zero defects in our automotive semiconductors and solutions.

Industrial & Multimarket

The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial and multimarket applications, in addition to applications with customer-specific product requirements. Within the fragmented market for industrial semiconductor applications, we focus on power management and supply, as well as drives and power generation and distribution. IMS Research (July 2009) reported that we were the number one supplier worldwide for power semiconductors and power modules by total revenue in 2008 with a market share of more than 10 percent. We have a broad portfolio addressing consumer, computing and communication applications.

The market for semiconductors for industrial applications is highly fragmented in terms of both suppliers and customers. It is characterized by large numbers of both standardized and application-specific products employed in a large number of diverse applications in industries such as transportation, factory automation and power supplies.

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Within the industrial business, we focus on two major applications: power management & supply and power conversion. We provide differentiated products combining diverse technologies to meet our customers specific needs. With global energy demand continuing to rise, supplies generally tightening and concerns over the environmental impact of power generation rising, power semiconductors can make a major contribution by addressing the increasing need for energy savings.

We have a strong position in power applications. According to IMS Research (July 2009), we have been the global market leader for power semiconductors and power modules for the past six years, with a 10.2 percent market share in 2008.

Our broad portfolio comprises power modules, small signal and discrete power semiconductors and power management ICs. Our industrial products are used in a wide range of applications, such as:

- power supplies (AC/DC), divided into two main categories: uninterruptible power supplies, such as power backbones for internet servers; and switched-mode power supplies for PCs, servers and consumer electronics such as televisions and gaming consoles, as well as battery chargers for mobile phones, notebook computers and other handheld devices;
- DC/DC power converters for computing and communication applications such as motherboards, telecommunications equipment and graphic cards;
- lighting (electronic lamp ballast and control and LED drivers);
- drives for machine tools, motor controls, pumps, fans and heating, ventilation, consumer appliances (such as washing machines), air-conditioning systems and transportation as well as power supplies for additional consumer appliances such as inductive cooking;
- industrial automation and metering systems;
- power generation, especially in the fields of renewable energy and power distribution systems; and
- other industrial applications such as medical equipment.

Our portfolio of RF and protection devices includes:

- radio frequency (RF) devices (diodes, transistors, Monolithic Microwave Integrated Circuits (MMICs), CMOS based RF switches, Small Scale Integrated Circuits (SSICs));
- protection devices such as Transient Voltage Suppressor diodes (TVS diodes) and High Performance Active and Passive Integration (HIPAC) devices offering Electro Static Discharge/Electro Magnetic Interference (ESD/EMI) protection and high integration in advanced applications (for example, in mobile communication devices);
- High Reliability Discretes (bipolar transistors and diodes) for use in space and avionic applications;
- Silicon MEMS Microphone (SMM): acoustical sensors based on Micro-Electro-Mechanical System (MEMS) semiconductor technology (for use in mobile phone applications, for example); and
- audio frequency (AF) discretes (general purpose diodes and transistors, switching diodes, digital transistors).

Within our ASIC activities, we focus on customer-specific products integrating intellectual property from our customers with our own IP. These products are used in a variety of markets, with a special focus on industrial usage, mobility, and security. The main products of this business unit include:

- products for computer and gaming peripherals;
- secure ASICs and ASSPs for authentication or copy protection applications, taking advantage of our security know-how; and
- customer designs manufactured by us on a foundry basis.

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Most of these products are tailored to customer specifications and are often provided by us on a sole-source basis. As a result, we are often able to establish long-term relationships with customers in this area, in some cases actively supporting the customer s product roadmap.

Chip Card & Security

Our Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications. According to Frost & Sullivan (October 2009), we remained the market leader in ICs for smart card applications in the 2008 calendar year for the twelfth consecutive year, with a market share of 26 percent.

The markets for our security products are characterized by an increasing emphasis on high-security applications, such as identification and payment, and by trends towards lower prices and higher demand for embedded non-volatile memory in SIM cards.

In our Chip Card & Security business, we focus on products making use of our core competencies in security, contactless ICs and embedded control. Our products are used in a variety of markets, with a special focus on communication, payment, government identification, personal and object identification, and platform security. The main products of this segment include:

- contact-based and contactless security microcontroller ICs for identification documents (for example, passports, national identification cards and health cards), payment cards, SIM cards and Pay-TV applications;
- security memory ICs in prepaid telecom cards, access and transportation cards;
- Trusted Platform Module (TPM) products (hardware-based security for trusted computing) in computers and networks; and
- RFID ICs for object identification (for example, in logistics).

Wireless Solutions

Our Wireless Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireless communication applications. We are among the leading players in the markets for semiconductor solutions for mobile phones.

In the Wireless Solutions segment, our principal products include baseband ICs, RF transceivers and single-chip ICs for the major air interface standards (GSM, GPRS, EDGE, UMTS and HSPA), power management ICs, radio-frequency products such as Bluetooth ICs, GPS ICs, and Tuner ICs, as well as RF-power components for wireless infrastructure (base stations). Our principal solutions include hardware system design and software solutions for mobile telephone systems (addressing primarily the GSM, GPRS, EDGE, UMTS and HSPA standards).

According to iSuppli (June 2009), in the 2008 calendar year we held the number four position in wireless ASSPs with a worldwide market share of 6 percent.

The markets for products in which our cellular communication ICs and systems are utilized are characterized by trends towards lower cost, increasingly rapid succession of product generations, increased system integration, and market consolidation. According to Strategy Analytics (May 2009), approximately 1.2 billion cellular handsets were

produced in the 2008 calendar year, compared with approximately 1.1 billion devices in 2007. This growth was to a large extent driven by strong demand in emerging markets. Increasing demand for connectivity and multimedia capability is expected to increase the IC content of mobile phones. However, despite such increased demand, the average selling prices for cellular phone ICs have declined in recent years. We expect that a further price decline of entry-level handset models, often referred to as Ultra Low Cost telephones, will generate additional demand in emerging markets. We expect these trends to create both opportunities and threats for suppliers of cellular

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communication semiconductors and systems. In recent periods, however, the market for semiconductors for wireless solutions has contracted due to the current economic downturn.

We offer products and solutions to customers in the following principal application areas:

Global System for Mobile Communication (GSM), which is the de facto wireless telephone standard in Europe and available in more than 120 countries. GSM is a wireless mobile telecommunication standard that includes, among others, General Packet Radio Service (GPRS) and EDGE. We offer products and solutions such as baseband ICs, RF transceivers, power management ICs, single-chip ICs integrating these components, mobile software, and reference designs addressing all of these wireless communication standards;

Universal Mobile Telecommunications System (UMTS), a GSM-based standard for third-generation (3G) broadband, packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2 megabits per second (Mbps). We offer complete multimedia mobile phone platforms, RF transceivers and mobile software for UMTS and also for the High-Speed Packet Access standard (HSPA) that supports data rates of up to 7.2 Mbps;

Digital Video Broadcasting (DVB) and other digital and analog television standards. We offer tuner ICs for stationary, portable and mobile television receivers for the analog (PAL, NTSC, SECAM) and digital (DVB-C/T/H, ISDB-T, ATSC, DAB, T-DMB, CMMB) TV standards;

The Global Positioning System (GPS), a location system based on a network of satellites. GPS is widely used in automotive, wireless, mobile computing and consumer applications. Together with a development partner, we have introduced XPOSYS^{tm}, our next generation of single-chip advanced GPS receiver for mobile telephones, smart phones and PDAs with competitive superiority in terms of sensitivity, power consumption and footprint;

Bluetooth, a computing and telecommunications industry specification that allows mobile phones, computers and PDAs to connect with each other and with home and business phones and computers using a short-range wireless connection. We offer BlueMoon^{tm} UniCellular, a fast and energy-efficient Bluetooth-chip which supports the Bluetooth enhanced data rate (EDR) protocol; and

Satellite Digital Audio Radio Service (SDARS), a satellite-based radio communication service through which audio programming is digitally transmitted by space-based satellites and terrestrial repeaters to fixed, mobile, and/or portable subscription consumer radios.

Wireline Communications

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. The Wireline Communications business designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions focused on wireline access applications.

Customers, Sales and Marketing

Customers

We sell our products to customers located mainly in Europe, the United States, the Asia/Pacific region and Japan.

We target our sales and marketing efforts on creating demand at approximately 440 direct customers worldwide.

No customer accounted for more than 10 percent of our sales in the 2009 fiscal year, and our top 25 customers accounted for approximately 72 percent of our sales.

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We focus our sales efforts on semiconductors customized to meet our customers needs. We therefore seek to design our products and solutions in cooperation with our customers so as to become their preferred supplier. We also seek to create relationships with our major customers that are leaders in their market segments and have the most demanding technological requirements in order to obtain the system expertise necessary to compete in the semiconductor markets.

We have sales offices throughout the world. We believe that this global presence enables us not only to respond promptly to our customers needs, but also to be involved in our customers product development processes and thereby be in a better position to design customized ICs and solutions for their new products. We believe that cooperation with customers that are leaders in their respective fields provides us with a special insight into these customers concerns and future development of the market. Contacts to our customers customers and market studies about the end consumer also position us to be an effective partner for our customers.

We believe that a key element of our success is our ability to offer a broad portfolio of technological capabilities and competitive services to support our customers in providing innovative and competitive products to their customers and markets. This ability permits us to balance variations in demand in different markets and, in our view, is a significant factor in differentiating us from many of our competitors.

Customers by principal segment

Automotive

In the Automotive segment, which includes sales of microcontrollers, power devices and sensors, our customer base includes most of the world s major automotive suppliers. Our two largest customers in the 2009 fiscal year were Bosch and Continental. Sales of automotive products are made primarily in Europe and, to an increasing extent, in the United States, China, Korea and Japan. A significant portion of our automotive sales came from the distribution channel, with Avnet and Arrow accounting for the highest revenues among our distribution partners.

Industrial & Multimarket

In the Industrial & Multimarket segment, the Siemens group is the largest OEM customer. The bulk of our sales of industrial products are made in small volumes to customers that are either served directly or through third-party distributors such as Arrow, Avnet and WPG Holdings. Our sales of industrial products vary by type of product, with devices for drive and power conversion applications sold primarily in Europe and the United States, and devices for power management and supply sold primarily in Asia (other than Japan) and Europe. Our wide variety of RF and protection devices is targeted at customers in all major fields of applications, including automotive, consumer, computing and communication.

With our broad and complementary IP portfolio, system integration skills, and manufacturing expertise, we seek to leverage our IP in ASIC-based system solutions. We concentrate on customized designs for customers such as Siemens and Microsoft Corporation.

Chip Card & Security

Our Chip Card & Security segment derives a large portion of its revenues from large-scale projects like ePassport projects. Within this segment, three card manufacturers Gemalto, Giesecke & Devrient and Oberthur Card Systems currently account for a significant portion of sales. Other than the card manufacturers, our customer base includes secure printers, such as the U.S. Government Printing Office, and customers served through distribution channels.

Wireless Solutions

In our Wireless Solutions segment, we sell a variety of products addressing applications such as cellular phones, ICs for GPS and wireless infrastructure to most of the world s leading wireless device and equipment suppliers. In cellular phone applications, customers purchase products that range from ASSPs

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and customized ASSPs that we produce to customer design and specifications to complete system solutions including mobile software. With complete system solutions, we target OEMs as well as design houses and ODMs. Our largest announced cellular phone customers include LG Electronics, Nokia and Samsung. We supply RF-power products to wireless infrastructure customers such as Ericsson. In the 2009 fiscal year. Our Wireless Solutions segment derived 27 percent of its revenues from two related customers.

Sales and Marketing

As of September 30, 2009, we had 1,680 sales and marketing employees worldwide, including approximately 30 sales and marketing employees worldwide in the Wireline Communications segment.

We create and fulfill our product sales either directly or through our network of distribution partners.

A team of Corporate Account Executives is assigned to develop business relationships with our most important strategic customers. Dedicated Account Managers foster our relationships with all other important direct customers. Regional sales units offer additional support for global accounts based in their regions, as well as local accounts that are key players in specific markets. In three smaller markets, we have contractual arrangements with the Siemens and Epcos sales organizations to provide defined sales support.

To serve the broader market and expand our indirect sales, a dedicated organization develops, maintains and interacts with a strong network of distribution partners. This optimized network includes globally active distributors, strong regional partners and committed niche specialists. In addition, third-party sales representatives help to identify and create business, particularly in the United States.

A number of our important direct customers increasingly outsource activities ranging from product design and procurement to manufacturing and logistics to global Electronics Manufacturing Services (EMS). To meet the specific requirements of the EMS industry, we have a dedicated EMS sales team. Focusing on the EMS market leaders, these account managers follow up on manufacturing transfers from OEM to EMS and conclude strategic partnerships for design and technology to increase our market share within the EMS channel.

Within each of our business divisions, we have product- and application-oriented marketing employees. These employees investigate market trends and the needs of their respective segments to grow our market share. They define, develop, optimize and position new products and provide product support from market introduction up to the end-of-life stage.

Finally, we utilize advertising campaigns, mainly in the trade press, to establish and strengthen our identity as a major semiconductor provider. Furthermore, we actively participate in trade shows, conferences and events to strengthen our brand recognition and industry presence.

Backlog

Standard Products

Industry cyclicality makes it undesirable for many customers to enter into long-term, fixed-price contracts to purchase standard (that is, non-customized) semiconductor products. As a result, the market prices of our standard semiconductor products, and our revenues from sales of these products, fluctuate very significantly from period to period. Most of our standard products are priced, and orders are accepted, with an understanding that the price and other contract terms may be adjusted to reflect market conditions at the delivery date. It is a common industry practice to permit major customers to change the date on which products are delivered or to cancel existing orders. For these

reasons, we believe that the backlog at any time of standard products is not a reliable indicator of future sales.

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Non-Standard Products

For more customized products, orders are generally made well in advance of delivery. Quantities and prices of such products may nevertheless change between the times they are ordered and when they are delivered, reflecting changes in customer needs and industry conditions. During periods of industry overcapacity and falling sales prices, customer orders are generally not made as far in advance of the scheduled shipment date as during periods of capacity constraints, and more customers request logistics agreements based on rolling forecasts. The resulting lower levels of backlog reduce our management s ability to forecast optimum production levels and future revenues. As a result, we do not rely solely on backlog to manage our business and do not use it to evaluate performance.

Competition

The markets for many of our products are intensely competitive, and we face significant competition in each of our product lines. We compete with other major international semiconductor companies, some of which have substantially greater financial and other resources with which to pursue research, development, manufacturing, marketing and distribution of their products. Smaller niche companies are also becoming increasingly important players in the semiconductor market, and semiconductor foundry companies have expanded significantly. Competitors include manufacturers of standard semiconductors, application-specific ICs and fully customized ICs, including both chip and board-level products, as well as customers that develop their own integrated circuit products and foundry operations. We also cooperate in some areas with companies that are our competitors in other areas.

The following table shows key competitors for each of our principal operating segments in alphabetical order:

Key Competitors by Segment

Automotive	Freescale, International Rectifier, Mitsubishi, ON Semiconductor, NEC, NXP, Renesas, STMicroelectronics, Texas Instruments
Industrial & Multimarket	Fairchild, Fuji Electric, International Rectifier, Mitsubishi, NXP, ON Semiconductor, Renesas, STMicroelectronics, Texas Instruments, Toshiba, Vishay
Chip Card & Security	Atmel, NXP, Renesas, Samsung, STMicroelectronics, Texas Instruments
Wireless Solutions	Broadcom, Mediatek, Qualcomm, ST-Ericsson

We compete in different product lines to various degrees on the basis of product design, technical performance, price, production capacity, product features, product system compatibility, delivery times, quality and level of support. Innovation and quality are competitive factors for all segments. Production capacity as well as the ability to deliver products reliably and within a very short period of time play particularly important roles.

Our ability to compete successfully depends on elements both within and outside of our control, including:

- successful and timely development of new products, services and manufacturing processes;
- product performance and quality;
- manufacturing costs, yields and product availability;

pricing;

our ability to meet changes in our customers demands by altering production at our facilities;

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our ability to provide solutions that meet our customers specific needs;

the competence and agility of our sales, technical support and marketing organizations; and

the resilience of our supply chain for services that we outsource and the delivery of products, raw materials and services by third-party providers needed for our manufacturing capabilities.

Manufacturing

Our production of semiconductors is generally divided into two steps, referred to as the front-end process and the back-end process.

Front-end

In the first step, the front-end process, electronic circuits are produced on raw silicon wafers through a series of patterning, etching, deposition and implantation processes. At the end of the front-end process, we test the chips for functionality.

The structure size of our current products is as small as 65-nanometers, with our 65-nanometer technology being qualified at multiple manufacturing sites of external partners.

We believe that we achieve substantial differentiation at our customers due to our power semiconductor process technology and our world-wide network of manufacturing sites that combine the highest quality standards and flexibility.

Back-end

In the second step of semiconductor production, the back-end process (also known as the packaging, assembly and test phase), the processed wafers are ground and mounted on a synthetic foil, which is fixed in a wafer frame. Mounted on this foil, the wafer is diced into small silicon chips, each one containing a complete integrated circuit. One or multiple individual chips are removed from the foil and fixed onto a substrate or lead-frame base, which will enable the physical connection of the product to the electronic board. The next step is creating electrical links between the chip and the base by soldering or wiring. Subsequently, the chips and electrical links are molded with plastic compounds for stabilization and protection. Depending on the package type, the molded chips undergo a separation and pin bending process. Finally, the semiconductor is subject to functional tests.

Our back-end facilities are equipped with state-of-the-art equipment and highly automated manufacturing technology, enabling us to perform assembly and test on a cost-effective basis. We have improved our cost position by moving significant production volumes to lower-cost countries such as Malaysia and China. Our back-end facilities also provide us with the flexibility needed to customize products according to individual customer specifications (giving us System in Package capabilities). We are continuing the process of converting our packages to comply with new international environmental requirements for lead- and/or halogen-free green packages .

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Manufacturing Facilities

We operate manufacturing facilities around the world, including through joint ventures in which we participate. There are no material encumbrances on our manufacturing facilities. The following table shows selected key information with respect to our current major manufacturing facilities:

Manufacturing Facilities

	Year of commencement of first production line	Principal products or functions
Front-end facilities wafer fabrication plants		
Dresden, Germany	1996	ASICs and MCUs with embedded flash memory, logic ICs
Essonnes, France[1]	1963[2]	Logic ICs and ASICs with embedded flash memory
Kulim, Malaysia	2006	Power, smart power, ASICs and MCUs with embedded flash memory
Regensburg, Germany	1986	Power, smart power, sensors, mixed signal
Villach, Austria	1979	Power, smart power and discretes
Warstein, Germany	1965[2]	High power
Back-end facilities assembly and final testing plants		
Batam, Indonesia	1996	Leaded power and non-power ICs
Cegléd, Hungary	1997	High power
Morgan Hill, California	2002	RF-power
Regensburg, Germany	2000	Chip card modules, sensors and pilot lines
Singapore	1970	Leadless non-power ICs, wafer test
Warstein, Germany	1965[2][3]	High power
Wuxi, China	1996	Discretes, chip card modules
Malacca, Malaysia	1973	Discretes, power packages, sensors, leaded and non-leaded logic IC

Notes

(1) ALTIS, our joint venture with IBM.

(2) The current main production line began operations in 1991.

(3) Part of the Infineon Technologies Bipolar joint venture with Siemens.

In addition to our own manufacturing capacity, we have entered into a number of alliances and joint ventures, and have relationships with several foundry partners, which give us access to substantial additional manufacturing capacity, allowing us to more flexibly meet variable demand for products over market cycles. These arrangements are described below and under the heading Strategic Alliances and Other Collaborations .

Front-end

Our front-end facilities currently have a capacity of approximately 240,000 200-millimeter equivalent wafer starts per month. In implementing our fab-light strategy, we have begun to shift the focus of our in-house manufacturing toward power logic products and to shift manufacturing of advanced CMOS logic products to foundries.

Currently, in-house production of advanced logic wafers (with structure sizes of 250-nanometers or less) is carried out at our 200-millimeter wafer manufacturing facility in Dresden and at our ALTIS joint-venture with IBM in Essonnes, France, while in-house production of power logic wafers (with structure

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sizes of more than 250-nanometers) is largely carried out at our front-end manufacturing facilities in Kulim, Regensburg, and Villach.

Generally, we use foundries to provide flexibility in meeting demand, as well as managing investment expenditures. In recent years, we have enhanced our manufacturing cooperation with United Microelectronics Corporation (UMC), Chartered Semiconductor (CSMC) and Taiwan Semiconductor Manufacturing Corporation (TSMC), particularly with respect to leading-edge CMOS products for wireless communications down to 65-nanometers.

We are partnering within the International Semiconductor Development Alliance (ISDA), a technology alliance between IBM, AMD/GlobalFoundries, Chartered Semiconductor, Freescale, us, NEC, Samsung, STMicroelectronics and Toshiba for CMOS development and manufacturing at 45-nanometer and 32-nanometer process to accelerate the move to 65-nanometer and below. We currently deliver 65-nanometer products to customers and have begun to develop products based on 40-nanometer technology, which we currently plan will first be manufactured at one of our manufacturing partners. Our current agreements build on the success of earlier joint development and manufacturing agreements. Starting with 65-nanometer technology, our advanced logic front-end manufacturing will be solely sourced from manufacturing partners, optimizing capital investment and business flexibility. In November 2009, we announced the signing of a joint development agreement on 65-nanometer embedded Flash technologies together with TSMC.

We are continuing the ramp up of our power-logic plant in the Kulim Hi-Tech Park in the north of Malaysia and plan to further increase our production capacity at that site. This will allow us to further expand our presence in the growing Asian market, as well as to strengthen our cost and competitive positions. We expect that maximum capacity could reach approximately 100,000 wafer starts per month when the facility is fully ramped up, as and when market demand dictates.

Back-end

We have a number of back-end facilities, located primarily in Asia. We also use assembly and test subcontractors to provide us with flexibility in meeting demand, as well as managing investment expenditures. For assembly services, we have further intensified our partnership with AMKOR Technology on leadless and flip-chip technologies.

We and Advanced Semiconductor Engineering Inc., (ASE) announced in November 2007 a partnership to introduce semiconductor packages with a higher integration level of package size, the Wafer-Level Ball Grid Array technology, which achieves a 30 percent reduction of dimension compared to conventional (lead-frame laminate) packages. This partnership unites the technology developed by us with the packaging know-how of ASE in a license model.

In August 2008, we, STMicroelectronics and STATS ChipPAC announced an agreement to jointly develop the next-generation of eWLB technology, based on our first-generation technology, for use in manufacturing future-generation semiconductor packages. This will build on our existing eWLB packaging technology, which we have licensed to our development partners. The R&D effort, for which the resulting IP will be jointly owned by the three companies, focuses on using both sides of a reconstituted wafer to provide solutions for semiconductor devices with a higher integration level and a greater number of contact elements.

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Research and Development

R&D is critical to our continuing success, and we are committed to maintaining high levels of R&D over the long term. The table below sets forth information with respect to our R&D expenditures for the periods shown:

Research and Development Expenditures

	For the years ended September 30,		
	2007	**2008**	**2009**
	(in millions, except percentages)		
Expenditures (net of subsidies received)	621	606	468
As a percentage of revenue	17%	16%	15%

Our R&D activities are concentrated in the areas of semiconductor based product and system development, as well as process technology. Major R&D activities range from the development of leading edge RF, analog and power circuits, complex digital system-on-chip solutions, high and low power discretes, sensors, reusable IP-blocks, software blocks, CAD flow and libraries, and packaging technology to complex mobile phone system integration.

Our ICs generally utilize complex system-on-chip designs and require a wide variety of intellectual property and sophisticated design methodologies, to combine high performance with low power consumption. We believe that our range of intellectual property and methodologies for logic ICs, in particular our capability to integrate various ICs and complex software products, will enable us to continue to strengthen our position in the logic IC market. We view expertise in analog/mixed-signal devices and RF design as a particular competitive strength.

Our power ICs and discrete power transistors utilize a sophisticated co-design of circuits and technology procedures to optimize parameters like on-resistance, switching speed and reliability. We believe our expertise in all fields of power applications up to the highest voltage and current levels will enable us to retain a leading development position and help us to remain a leading supplier for power semiconductors.

Process technologies are another important focus of our R&D activities. We continuously develop our power technologies in order to support our number one position in the power market. Requirements for automotive and industrial applications, such as high-temperature, high switching power and reliability, allow for differentiation through in-house R&D. For advanced logic technologies we are following a strategy of alliances with several partners and consortia to maintain a competitive technology roadmap at an affordable cost level. Our process technologies benefit from many modular characteristics, including special low-power variants, analog options and high-voltage capabilities.

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Locations

Our R&D activities are conducted at locations throughout the world. The following table shows our major R&D locations and their respective areas of competence:

Principal Research and Development Locations[1]

Location	Areas of Competence
Allentown, Pennsylvania, U.S.A.	IC, software and system development for wireless products
Bangalore, India	IC, software and system development for wireless, automotive and industrial products, CAD flow and library development
Bucharest, Romania	Power mixed-signal semiconductors, chip card ICs
Dresden, Germany	Advanced technology development
Duisburg, Germany	IC and system development for wireless products, RF IC development
Graz, Austria	Contactless systems, automotive power systems, sensor products
Linz, Austria	RF IC and software development for wireless and sensor products
Morgan Hill, California, U.S.A.	RF IC development for high power applications
Munich, Germany	Main product development site. Technology integration, CAD flow, library development, IC, software and system development for wireless products, microcontrollers, ASICs, chip card ICs, automotive power and industrial products, process technology development
Nuremberg, Germany	Software and system development for wireless products
Regensburg, Germany	Package development, process technology development
Shanghai, China	System development for wireless products
Singapore	IC, software and system development for wireless and industrial products, package development
Sophia Antipolis, France	IC development for wireless products, library development, CAD flow
Torrance, California, U.S.A.	Development of digital power ICs
Villach, Austria	Development for power semiconductor products, mixed signal Development for automotive and communication products
Xi an, China	IC development for automotive and communication products

Note:

(1) On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, and the sale closed on November 6, 2009. The sale affected engineers in the principal research and development locations of Bangalore, India, Duisburg, Germany, Munich, Germany, Singapore and Villach, Austria, who were transferred to Lantiq but will continue using our facilities under lease and sub-lease agreements.

As of September 30, 2009, our R&D staff consisted of 5,971 employees working in our R&D units throughout the world, including 509 employees in our Wireline Communications business. We have given particular emphasis in recent years to the expansion of our R&D resources in cost-attractive locations with good access to lead markets and lead customers. We believe that appropriate utilization of skilled R&D personnel in lower-cost locations will improve our ability to maintain our technical position while controlling expenses.

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Intellectual Property

Our intellectual property rights include patents, copyrights, trade secrets, trademarks, utility models and designs. The subjects of our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset not only to protect our investment in technology but also a vital prerequisite for cross licensing agreements with third-parties.

As of September 30, 2009, we owned more than 20,800 patent applications and patents (both referred to as patents below) in over 40 countries throughout the world. These patents belong to approximately 8,150 patent families (each patent family containing all patents originating from the same invention). We transferred 1,900 of those patent applications and patents (approximately 820 patent families) to Lantiq upon the closing of the sale of our Wireline Communications business on November 6, 2009.

National and regional patent offices examine whether our patent applications meet the necessary requirements. Owing to the complex nature of our patent applications this examination process typically takes several years until grant of a patent.

It is common industry practice for semiconductor companies to enter into patent cross licensing agreements with each other. These agreements enable each company to utilize the patents of the other on specified conditions. In some cases, these agreements provide for payments to be made by one party to the other. We are a party to a number of patent cross licensing agreements, including agreements with other major semiconductor companies. We believe that our own substantial patent portfolio enables us to enter into patent cross licensing agreements on favorable terms and conditions. We are in ongoing patent cross licensing negotiations with other industry participants. Depending on new developments, new products or other business necessities, we may initiate additional patent cross licensing agreements in the future.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we have obtained many patents and patent licenses and intend to continue to seek patents on our developments. The process of seeking patent protection can be lengthy and expensive, and there can be no assurance that patents will be issued from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide us with meaningful protection or a commercial advantage, or that they will not be revoked upon a third-party challenge. In addition, effective copyright, trademark and trade secret protection may be limited in some countries or even unavailable. In many jurisdictions, including Germany, when a licensee or licensor becomes insolvent or bankrupt, the license may be subject to limitation, termination or other impairment. Thus, insolvency and bankruptcy issues concerning our intra-group or extra-group licensing counterparties could have a material adverse effect on our business, including, but not limited to, competitors benefiting from license arrangements, or termination of cross-licenses, that could leave us with insufficient intellectual property rights to continue our business as intended or at all.

Our competitors also seek to protect their technology by obtaining patents and asserting other forms of intellectual property rights. Third-party technology that is protected by patents and other intellectual property rights may be unavailable to us or available only on unfavorable terms and conditions. Third parties may also claim that our technology infringes their patents or other intellectual property rights, and they may bring suit against us to protect their intellectual property rights. From time to time, it may also be necessary for us to initiate legal action to enforce our own intellectual property rights. Litigation can be very expensive and can divert financial resources and management attention from other important issues. It is difficult or impossible to predict the outcome of most litigation matters, and an adverse outcome can result in significant financial costs that can have a material adverse

effect on the losing party. For a description of ongoing disputes, see note 38 to our consolidated financial statements.

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Strategic Alliances and Other Collaborations

As a part of our long-term strategy, we have entered into a number of strategic alliances with other leaders in the semiconductor industry, primarily in the areas of R&D for manufacturing process technologies and joint manufacturing facilities as well as cooperative product design and development.

In addition to our own manufacturing capacity, we have entered into a number of alliances and joint ventures, and have relationships with several foundry partners, which give us access to substantial additional manufacturing capacity, allowing us to more flexibly meet variable demand for products over market cycles. These arrangements are described below under *Manufacturing joint ventures; Foundries*.

Manufacturing joint ventures; Foundries

Joint Venture with IBM (ALTIS)

In 1991, we entered into an arrangement with IBM, under which IBM manufactured DRAM products in its facility in Essonnes, France and we received a share of the production. Later we agreed with IBM to convert the Essonnes facility to the production of logic devices and to convert the existing production cooperation arrangement into a joint venture called ALTIS. We currently own 50 percent of the joint venture s shares plus one share and IBM owns the rest. Our allocated percentage of the output of ALTIS is currently 100 percent.

In December 2005, we amended our agreements with IBM in respect of ALTIS, and extended our product purchase agreement with ALTIS through 2009. Under the December 2005 amendment, we and IBM agreed to a number of administrative matters regarding the governance and management of ALTIS, as well as related cost-allocation and accounting matters. We began to fully consolidate ALTIS following the December 19, 2005 amendment whereby IBM s 50 percent less one vote ownership interest has been reflected as a minority interest. In August 2009, we further amended our agreements with IBM in respect of ALTIS and extended our product purchase agreement with ALTIS through May 2010.

Manufacturing Agreement with UMC and TSMC

We have established relationships with semiconductor foundry partners particularly in Asia, including UMC and TSMC, to increase our manufacturing capacities, and therefore our potential revenues, without investing in additional manufacturing assets. We outsource production to these foundries, which manufacture the semiconductors that we design. Foundry partnerships provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, and access to additional production capacities. We seek to make optimal use of third-party foundries when strategically appropriate.

Joint Venture with Siemens (Bipolar)

On September 28, 2007, we entered into a long-term joint venture agreement with Siemens, whereby we contributed all assets and liabilities of our high power bipolar business (including licenses, patents, front-end and back-end production assets) into the newly formed Bipolar business and Siemens subsequently acquired a 40 percent interest in Bipolar for 37 million. We contributed all assets and liabilities of our high power bipolar business into Bipolar with economic effect as of September 30, 2007. The joint venture agreement grants Siemens certain contractual participating rights which will inhibit us from exercising control over the newly formed entity. Accordingly, we account for our 60 percent interest in Bipolar under the equity method of accounting. The transaction closed on

November 30, 2007.

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New collaborations announced in the 2009 fiscal year

During the 2009 fiscal year, we also announced a number of collaborations and partnerships, including the following:

In the security and chip card segment, we entered into new collaborations with Intel. One agreement concerns the development of optimized chip solutions for high-density SIM cards in the 4- to 64-megabit memory capacity range, for which we are contributing our expertise in security hardware. Pursuant to a second agreement, we are providing our Trusted Platform Module professional package software to fully support Intel s TPM1.2 hardware solutions. This package will enable PC designers to take advantage of a cost effective, flexible and reliable security solution for Intel vPro technology, Intel Centrino processor technology and other fundamental business platforms.

We entered into a collaboration agreement with PGP Corporation to increase and enhance security options. Together, we will initially provide a combined solution towards Trusted Platform Module provisioning and management in conjunction with PGP Whole Disk Encryption.

We signed a license agreement for differential power analysis countermeasures with Cryptography Research.

Based on our background in confidential data storage, smart cards and security controllers, we expanded our cooperation with the German Federal Ministry of the Interior on certification and identity documents.

We entered into a cooperation with IBM on the technology and manufacturing of security solutions for the US government, specifically passports.

We expanded our cooperation with IMEC on innovative design-technology interfaces in future technology nodes.

We signed a memorandum of understanding with the European Commission on its automotive safety initiative. This move adds momentum to eCall, an integrated, automatic accident alert system for automobiles. The system collects data from key safety components and transmits this data to an emergency call center along with location information supplied by a GPS navigation module.

Our subsidiary, Comneon, and Sonus Networks joined forces in developing, testing and provisioning advanced consumer-ready mobile services, including IP-voice for mobile networks and Voice Call Continuity (VCC), a service that allows seamless roaming between operator controlled mobile and open WiFi networks.

In order to strengthen our MEMS based business, we entered into a cooperation with Hosiden on the development of silicon-based microphones. Hosiden is contributing its competence in electro-mechanics and acoustics as well as its market expertise, while we are providing our rugged microphone MEMS technology.

With respect to our CPE business, we entered into a cooperation with Jungo Ltd. to deliver production-ready carrier-grade reference designs for the multi-service residential gateway market. The partnership, currently based upon our ADSL2/2+ and VDSL solutions, enables customers to offer complete solutions for operator-specific products based on a pre-integrated, carrier-ready software platform from Jungo Ltd.

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Acquisitions, Dispositions and Discontinued Operations

The principal transactions completed in the 2009 fiscal year were as follows:

Sale of Infineon Technologies SensoNor AS

On March 4, 2009, we sold the business of our wholly-owned subsidiary Infineon Technologies SensoNor AS (SensoNor), including property, plant and equipment, inventories, and pension liabilities, and transferred employees to a newly formed company called SensoNor Technologies AS for cash consideration of 4 million and one share in the capital of the new company. In addition, we granted a license for intellectual property and entered into a supply agreement through December 2011. As a result of this transaction, we realized losses before tax of 17 million which were recorded in other operating expense in the 2009 fiscal year. We have entered into business agreements with the new company to ensure both a continued supply of the components for our tire pressure monitoring systems while we transfer production to our Villach site and the smooth transition of all services and functions to the new company.

Status of Qimonda

We currently hold a 77.5 percent interest in the memory products company Qimonda, which was carved out from Infineon in 2006. In connection with the formation of Qimonda as a separate legal entity, we and Qimonda entered into a number of agreements governing the carve-out of the memory products business, the licensing of intellectual property, the use of our 200-millimeter fabrication facility in Dresden, and support services in the areas of general support, IT services and R&D services. On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG filed an application to commence insolvency proceedings, and formal insolvency proceedings were opened by the court on April 1, 2009. We reported the results of Qimonda as discontinued operations in our consolidated financial statements and deconsolidated Qimonda during the second quarter of the 2009 fiscal year. The resolution of Qimonda s insolvency proceedings remains highly uncertain. See *Risk Factors We may face significant liabilities as a result of the insolvency of Qimonda*. For further details regarding the impact of Qimonda s insolvency on our financial condition, results of operations and cash flows in the 2009 fiscal year see note 5 to our consolidated financial statements.

Status of ALTIS

We and our joint venture partner IBM are currently involved in ongoing negotiations with strategic and financial partners regarding a divestiture of our respective shares in ALTIS, the manufacturing joint venture in France. The outcome of these negotiations cannot be predicted at this stage. In the event of a failure to reach an agreement with the potential buyers, we will have to reassess all options regarding ALTIS. In August 2009, we further amended our agreements with IBM in respect of ALTIS and extended our product purchase agreement with ALTIS through May 2010. All currently conceivable scenarios may result in us incurring material additional costs and charges in connection with ALTIS. See *Risk Factors A sale or closure of the ALTIS facility may result in us incurring material additional costs and charges.*

Joint Venture with LS Industrial Systems for molded power module products

On June 9, 2009, we signed a Joint Venture Agreement with LS Industrial Systems, South Korea to develop, produce and market molded power modules for low power applications. We will provide the joint venture with a license for IP as well as technology and process know-how for our power module family CIPOS^{tm} (Control Integrated Power System), and will transfer existing CIPOS backend manufacturing equipment from Regensburg, Germany. We will

hold 46 percent of the joint venture which will be headquartered in South Korea.

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Divestiture of the Wireline Communications Business

On November 6, 2009 we closed the sale of our Wireline Communications business to Lantiq. The purchase price amounted to approximately 243 million. We received a payment of approximately 223 million from Lantiq on November 6, 2009, and we will receive a further payment of up to an additional 20 million from Lantiq in August 2010. The sale and transfer of our Wireline Communications business to Lantiq comprised fixed assets, inventories, contracts, customer relationships and intellectual property as well as certain liabilities exclusively related to the Wireline Communications business. In addition, we granted Lantiq a license to certain of our intellectual property. We have further agreed to provide Lantiq with certain transitional services during an interim period, including wafers and backend services.

Employees

We employed a total of 26,464 employees as of September 30, 2009. For a further description of our workforce by location and function over the past two years, see *Operating and Financial Review Employees.* In connection with the sale of the Wireline Communications business, approximately 860 employees are to be transferred to Lantiq.

A significant percentage of our employees, especially in Germany, are covered by collective bargaining agreements determining remuneration, working hours and other conditions of employment. On November 12, 2008, Infineon Technologies AG terminated its membership in the Association of the Bavarian Electrical and Metalworking Industries. However, according to the German Collective Bargaining Agreements Act (*Tarifvertragsgesetz*), all collective bargaining agreements that were in effect on the termination date will continue to be binding until they expire or are terminated in accordance with their respective terms.

A significant percentage of our employees are also represented by works councils. Works councils are employee-elected bodies established at each location in Germany and also at the parent-company level (Infineon Technologies AG). Furthermore, works councils exist at our subsidiaries in Austria and France (including ALTIS, our joint venture with IBM). In Germany, works councils have extensive rights to notification and of co-determination in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*), the works councils must be notified in advance of any proposed employee termination, they must approve hiring and relocation and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. We may also be required to involve the relevant German works council prior to and in the context of restructuring measures. Our management believes that it has a positive relationship with the works councils. The members of the senior management of Infineon Technologies AG are represented by a senior management committee (*Sprecherausschuss*).

During the last three fiscal years, we have not experienced any labor disputes resulting in significant work stoppages in Germany. In June 2009 a work stoppage was organized at ALTIS in France in connection with the potential risk of closing ALTIS. The work stoppage lasted from June 15, 2009 until June 22, 2009.

As part of our IFX10+ cost-reduction program, approximately 10 percent of our worldwide workforce has been terminated over the past twelve months. Since the primary objective is to avoid redundancies for operational reasons, and as a first step towards improving business results as quickly as possible, we have offered a limited-term, voluntary severance bonus based on a voluntary severance agreement for German locations except Dresden. At the same time, we have entered into negotiations with the central works council on a balancing of interest procedure (*Interessenausgleich*) and a social plan (*Sozialplan*). The balancing of interest procedure was concluded on April 28, 2009. A social plan has neither been negotiated nor concluded.

Furthermore, in light of the present crisis in the financial markets, and in particular in our sales markets, and in light of the associated decline in demand in the automotive, industrial, security and communication sectors, we implemented reduced work hours arrangements and income-reduction measures at the beginning of 2009. In Germany and Austria, we introduced reduced work hours

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arrangements nationwide for non-exempt and exempt employees. With certain exceptions, all of our other affected employees worldwide participated in the Unpaid Leave Program.

Legal Matters

Litigation and Investigations

We are the subject of a number of governmental investigations and civil lawsuits which are described in detail in note 38 to our consolidated financial statements, included elsewhere in this annual report.

Provisions and the Potential Effects of these Lawsuits on our Business

Provisions related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the average amount is accrued. Under the contribution agreement in connection with the carve-out of the Qimonda business, Qimonda is required to indemnify us, in whole or in part, for any claim (including any related expenses) arising in connection with liabilities we incur in connection with the antitrust actions and the securities class action described in notes 5 and 38 to our consolidated financial statements. Due to Qimonda s recent insolvency, however, we expect that Qimonda will not be able to indemnify us against any such potential liabilities.

As additional information becomes available, the potential liability related to the matters described in notes 5 and 38 to our consolidated financial statements will be reassessed and the estimates revised, if necessary. These provisions 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 our financial condition and results of operations.

An adverse final resolution of the investigations or lawsuits described in notes 5 and 38 to our consolidated financial statements could result in significant financial liability to, and other adverse effects on, our company, which would have a material adverse effect on our results of operations, financial condition and cash flows. In each of these matters, we are continuously evaluating the merits of the respective claims and defending ourselves vigorously or seeking to arrive at alternative resolutions in our best interest, as we deem appropriate. Irrespective of the validity or the successful assertion of the claims described above, we could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to various other lawsuits, legal actions, claims and proceedings related to products, patents, environmental matters, and other matters incidental to our businesses. We have 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, we do not believe that the ultimate resolution of such other pending matters will have a material adverse effect on our financial position, although the final resolution of such matters could have a material adverse effect on our results of operations or cash flows in the period of settlement.

Environmental Protection and Sustainable Management

Our Infineon Integrated Management Program for Environment, Safety and Health (IMPRES) is a framework integrating our safety, health, and environmental protection processes, strategy, and objectives, using high standards globally. IMPRES is certified according to OHSAS 18001 and EN ISO 14001. The integration of both standards enables synergies throughout our business. IMPRES is designed to minimize or eliminate the possible impact of our manufacturing processes on the environment, our employees and third parties.

Hazardous substances or materials are to a certain extent necessary in the production of semiconductors. However, most of our processes are carried out in closed loops and systems that eliminate the

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impact of hazardous substances or materials on the health of our employees and on the environment. We regularly test and monitor employees whose work may expose them to hazardous substances or materials, in order to detect any potential health risks and to take appropriate remedial measures by an early diagnosis. As part of IMPRES, we train our employees in the proper handling of hazardous substances. We have introduced a harmonized process for risk assessment at the relevant sites.

Where we are not able to eliminate entirely adverse environmental impact, we aim to minimize such impact. For example, we must utilize perfluorinated compounds (PFCs) as etching agents in the production of semiconductors. As early as 1992, we started to install exhaust air filter systems to reduce PFC emissions. We are a signatory to the Memorandum of Agreement, a voluntary commitment by the European Semiconductor Industry which has the goal of reducing, by 2010, overall PFC emissions by approximately 10 percent from the emission level of 1995, calculated in CO_2 equivalents. We have signed a similar commitment for Germany, with a normalized target of 8 percent emission reduction on the basis of CO_2 equivalents, which is on track. In respect of our European sites, we achieved our European reduction target by the end of calendar year 2007.

We believe that we are in substantial compliance with environmental as well as health and safety laws and regulations. There is, nevertheless, a risk that we may become the subject of environmental, health or safety liabilities or litigation. Environmental, health, and safety claims or the failure to comply with current or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. Significant financial reserves or additional compliance expenditures could be required in the future due to changes in law or new information regarding environmental conditions or other events, and those expenditures could adversely affect Infineon s business or financial condition. See *Risk Factors Environmental laws and regulations may expose us to liability and increase our costs.*

National legislation enacted pursuant to EU Directive 2002/96/EC creates significant obligations regarding the collection, recovery and disposal of waste electrical and electronic equipment. This directive obligates manufacturers to finance the collection, recovery and disposal of such products at the end of their life cycle. The end-of-life obligations may affect us as supplier to electrical and electronic equipment producers and as producer of electronic equipment. Because the directive is currently under revision, and because a number of statutory definitions and interpretations remain unclear and are still pending, the consequences for us cannot currently be determined in detail. As a result, we are not able as of the date hereof to estimate the amount of additional costs that we may incur in connection with this legislation in the future.

Since July 1, 2006, another relevant EU Directive, 2002/95/EC, has restricted the use of lead and other hazardous substances in electrical and electronic equipment. Because of this directive, ongoing compliance expenditures could be required in the future. This EU Directive is currently under revision, which could result in additional adverse impacts on our business.

A further EU Directive, 2000/53/EC, restricts the use of hazardous substances in vehicles. The directive has been changed and further revision is foreseen. The future impact on us cannot currently be determined in detail.

EU Directive 2005/32/EC on the eco-design of energy-using products concerns the ecologically sound development of electrical and electronic devices. It also provides for the possibility that manufacturers of components and sub-assemblies may be subject to specific information requirements regarding environmentally relevant product characteristics. Implementing measures and possible market requirements are not yet fully defined. As a result, we are not able at this time to estimate the amount of additional costs that we may incur in connection with this legislation in the future.

EU Regulation 1907/2006, called REACH, dealing with the registration, evaluation, authorization and restriction of chemicals, became effective on June 1, 2007. Subsequent obligations will become effective in stages over the next few years. This regulation could have a considerable impact not only on producers and importers of chemical substances, but also on downstream users like the semiconductor industry. The

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availability of chemical substances could be significantly reduced in the European Union, which could have a negative impact on our production as well as research and development activities. We are in close contact with our suppliers and consider ourselves prepared according to the current status of REACH obligations. However, we cannot exclude the possibility of significant future costs in connection with this regulation.

The European Commission is considering further restrictions on the use of PFOS (Perfluorooctane sulfonate) in the EU. PFOS is an important constituent of key chemicals used in the semiconductor industry. Any restriction affecting its use may adversely impact our production and cost position.

The Chinese government restricts the use of lead and other hazardous substances in electronic products. Because neither all implementing measures nor the key product catalog are in place, the consequences for us cannot currently be determined. As a result, we are not able to estimate the impact, including the additional costs, in connection with these regulations.

Similar regulations on substance bans are being established in various countries of the world. We are not able at this time to estimate the impact, including the amount of additional costs that we may incur, in connection with these possible regulations.

Because some of our facilities, including some of those of our joint ventures, are located close to or shared with those of other companies, we may be subject to certain claims and certain liabilities relating to environmental issues, such as contamination, not entirely originating from our own operations.

Because the damage and loss caused by fire, natural hazards, supply shortage, or other disturbance at a semiconductor facility or within our supply chain at customers as well as at suppliers can be severe, we have constructed and operate our facilities in ways that minimize the specific risks and that enable a quick response if such an event should occur. We expect to continue to invest in prevention and response measures at our facilities.

Real Estate

We own approximately 1.3 million square meters of land at Cegled (Hungary), Dresden, Neubiberg, Regensburg and Warstein (Germany), Essonnes (France) and Villach (Austria).

Furthermore, we own approximately 730,200 square meters of building space at Batam (Indonesia), Cegled (Hungary), Dresden, Regensburg and Warstein (Germany), Essonne (France), Kulim and Malacca (Malaysia), Singapore (Singapore), Villach (Austria) and Wuxi (PR China).

In addition, we have long-term rental and lease arrangements covering approximately 953,700 square meters of land at Batam (Indonesia), Kulim and Malacca (Malaysia), Neubiberg and Duisburg (Germany), Singapore (Singapore), Wuxi (PR China).

Furthermore we have long-term rental and lease arrangements covering approximately 319,500 square meters of building space in various locations in Asia Pacific, Europe and North America. We believe that these properties are rented or leased on ordinary market terms and conditions.

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MANAGEMENT

Supervisory Board Members

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2009
Max Dietrich Kley *Chairman*	69	2010	Lawyer	Chairman of the Supervisory Board of SGL Carbon AG, Wiesbaden Member of the Supervisory Board of BASF SE, Ludwigshafen HeidelbergCement AG, Heidelberg Schott AG, Mainz (until September 30, 2009) Member of the Board of Directors of UniCredit S.p.A., Milan, Italy (until April 29, 2009)
Gerd Schmidt[(1)] *Deputy Chairman*	55	2010	Chairman of the Infineon Central Works Council Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer[(1)]	56	2010	Labor union clerk IG Metall, Berlin	
Alfred Eibl[(1)]	60	2010	Chairman of the Infineon Works Council Munich-Campeon	
Peter Gruber[(1)] *Representative of Senior Management (since February 12, 2009)*	48	2010	Senior Vice President Operations Finance, Infineon Technologies AG	Member of the Supervisory Board of Infineon Technologies Dresden GmbH, Dresden (since December 15, 2008) Member of the Partner Delegation of: Comneon GmbH, Nuremberg COMNEON Electronic Technology GmbH, Linz, Austria Member of the Board of Directors of ALTIS Semiconductor S.N.C., Essonnes, France

				Infineon Technologies Savan Ltd., Netanya, Israel (inactive) Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia
Gerhard Hobbach[(1)]	47	2010	Deputy Chairman of the Works Council, Infineon Munich-Campeon	
Prof. Dr. Renate Köcher	57	2010	Managing Director Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of Allianz SE, Munich MAN AG, Munich BMW AG, Munich
Dr. Siegfried Luther	65	2010	Managing Director of Reinhard Mohn Verwaltungs GmbH, Gütersloh	Member of the Supervisory Board of: WestLB AG, Duesseldorf/Muenster Wintershall Holding AG, Kassel EVONIK Industries AG, Essen Chairman of the Board of Administration of RTL Group S.A., Luxembourg Member of the Board of Administration of Compagnie Nationale à Portefeuille S.A., Loverval, Belgium
Dr. Manfred Puffer (since July 30, 2009)	46	2010	Management Consultant	

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Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2009
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	56	2010	Professor at the Munich Technical University, Munich	
Horst Schuler[1] (since February 12, 2009)	57	2010	Deputy Chairman of the Infineon Central Works Council	
Kerstin Schulzendorf[1]	47	2010	Member of the Works Council, Infineon Dresden	
Dr. Eckart Sünner	65	2010	President and Chief Compliance Officer of BASF SE, Ludwigshafen	Member of the Supervisory Board of K+S AG, Kassel
Alexander Trüby[1]	39	2010	Member of the Works Council, Infineon Dresden	Member of the Supervisory Board of Infineon Technologies Dresden GmbH (since March 31, 2009)
Arnaud de Weert (since February 1, 2009)	45	2010	President of Novelis Europe, Novelis AG, Zurich, Switzerland (until September 30, 2009) Management Consultant (since October 1, 2009)	Chairman of the Supervisory Board of Aluminium Norf GmbH, Neuss Novelis Deutschland GmbH, Goettingen (until September 30, 2009)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	65	2010	Management Consultant	Member of the Supervisory Board of Deutsche Messe AG, Hanover (until December 31, 2008) Leoni AG, Nuremberg SAP AG, Walldorf Chairman of the Board of Administration of Siemens Ltd., Seoul, Korea (until January 31, 2009)
Former members of the Supervisory Board				
Prof. Johannes Feldmayer (until February 18, 2009)	52		Management Consultant	
Jakob Hauser[1] (until February 12, 2009)	57		Chairman of the Works Council, Qimonda AG, Munich	
Michael Ruth[1] Representative of Senior Management (until February 12, 2009)	49		Corporate Vice President Reporting, Planning and Controlling, Infineon Technologies AG	
Prof. Dr. rer. nat. Martin Winterkorn (until	62		Chairman of the Management Board of:	Chairman of the Supervisory Board of Audi AG, Ingolstadt

January 31, 2009)	Volkswagen AG, Wolfsburg	Member of the Supervisory Board of Salzgitter AG, Salzgitter FC Bayern München AG, Munich TÜV Süddeutschland Holding AG, Munich Member of the Board of Administration of SEAT S.A., Barcelona, Spain Chairman of Board of Directors of: Scania AB, Södertälje, Sweden

(1) Employee representative

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The Supervisory Board maintains the following principal committees:

Committee	Members
Executive Committee	Max Dietrich Kley (Chairman) Gerd Schmidt Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Investment, Finance and Audit Committee	Dr. Siegfried Luther (Chairman) Max Dietrich Kley Gerd Schmidt
Mediation Committee	Max Dietrich Kley (Chairman) Alfred Eibl Gerd Schmidt Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Nomination Committee	Max Dietrich Kley Prof. Dr. Renate Köcher Dr. Siegfried Luther Dr. Manfred Puffer Prof. Dr. rer. nat. Doris Schmitt-Landsiedel Dr. Eckart Sünner Arnaud de Weert Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Strategy and Technology Committee	Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (Chairman) Wigand Cramer Alfred Eibl Gerhard Hobbach Prof. Dr. rer. nat. Doris Schmitt-Landsiedel Arnaud de Weert

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Management Board Members

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2009
Peter Bauer	49	September 30, 2011	Spokesman of the Management Board, 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 North America Corp., Wilmington, Delaware, USA Infineon Technologies Japan K.K., Tokyo, Japan
Prof. Dr. Hermann Eul	50	August 31, 2012	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of 7 Layers AG, Ratingen Member of the Supervisory Board of Infineon Austria AG, Villach, Austria (since July 18, 2008)
Dr. Reinhard Ploss	53	May 31, 2012	Member of the Management Board and Executive Vice President	Chairman of the Supervisory Board of Infineon Technologies Austria AG, Villach, Austria Infineon Technologies Dresden GmbH, Dresden, Germany (since February 13, 2009) Chairman of the Board of Directors of Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia Member of the Supervisory Board of Qimonda AG, Munich
Dr. Marco Schröter	46	March 31, 2013	Member of the Management Board, Executive Vice President, Chief Financial Officer and Labor Director	Member of the Supervisory Board of 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

Peter Bauer is member of the Management Board and has been our Chief Executive Officer since June 1, 2008. He has been a member of the Management Board from our formation in 1999. From 2005 to 2008, Mr. Bauer served as head of our Automotive, Industrial & Multimarket Business Group and was responsible for the Central Sales Functions. From 1999 until 2004, he served as our Executive Vice President and Chief Sales and Marketing Officer. He was President and Chief Executive Officer of Siemens Microelectronics, Inc. from 1998 to April 1999. From 1997 to 1999, Mr. Bauer was President of Sales and Solution Centers for the Siemens Semiconductor Group. He began his career with the Siemens Semiconductor Group in 1986 as a development engineer. Mr. Bauer holds a degree in electrical engineering from the Munich Technical University.

Dr. Marco Schröter is member of the Management Board, our Chief Financial Officer and Labor Director since April 1, 2008. From 2002 to 2008 he was a Member of Management Board and Chief Financial Officer at Schenker AG, Essen, responsible for accounting, finance, controlling, risk management and purchasing. From 1994 to 2002, Dr. Schröter held several management positions, including Head of Central Controlling, at Stinnes AG, Muehlheim. Dr. Schröter holds a degree in business administration and a Ph.D. in economics.

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Prof. Dr. Hermann Eul is member of the Management Board and is responsible for Sales, Marketing, Technology and R&D. He was appointed Deputy Executive Vice President of our Management Board as of August 2005 and subsequently Executive Vice President as of December 1, 2006. Until 1999 he was General Manager of the Digital TeleCom and Data Com ICs operations at Siemens. When our company was formed, he took over the Wireless Baseband and Systems Business Unit as Vice President and General Manager. From 2001 to 2002, he was responsible for Security & Chip Card ICs operations as Chief Executive Officer. In 2003, he was appointed as full Professor and Faculty Chair for RF-Technology and Radio-Systems at Hanover University. In 2004, he returned to Infineon where he first managed the Wireline Communications Business Group as Senior Vice President and General Manager, and then, following a reorganization, became President and General Manager of the Communication Solutions Business Group comprising all of our communication businesses. Professor Eul studied electrical engineering and has a doctorate and professorate in engineering.

Dr. Reinhard Ploss is member of the Management Board and is responsible for Operations. He was appointed Executive Vice President and Head of Operations effective June 1, 2007. Dr. Ploss joined Siemens in 1986 as a process engineer. In 1996 he took over the Power Semiconductor business unit, focusing on development and manufacturing. In 1999, he was appointed President of eupec GmbH Co. KG. In 2000, Dr. Ploss became head of the Automotive & Industrial segment, which at the time consisted of power semiconductors, electric drives, automotive applications and the microcontroller business unit. In 2005, he assumed responsibility for manufacturing, development and operational management in the Automotive, Industrial & Multimarket segment. Dr. Ploss studied chemical engineering and has a doctorate in engineering.

The members of our Management Board, individually or in the aggregate, do not own, directly or indirectly, more than 1 percent of our outstanding share capital.

The business address of each of the members of our Management Board is Infineon Technologies AG, Am Campeon 1-12, 85579 Neubiberg, Germany.

Corporate Governance

Overview of Corporate Governance Structure

The corporate bodies of our company are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the general shareholders meeting (*Hauptversammlung*). The powers vested in these bodies are governed by the German Stock Corporation Act, the Articles of Association (*Satzung*), and, with respect to our Management Board and our Supervisory Board, their respective rules of procedure (*Geschäftsordnungen*). Our Management Board and our Supervisory Board are separate and no individual may simultaneously exercise functions or serve as a member of both boards.

Our Management Board is responsible for managing our business in accordance with applicable laws, our Articles of Association and the rules of procedure of the Management Board, taking into account the resolutions adopted by the general shareholders meeting. It represents us in our dealings with third parties. The Management Board is required to ensure the establishment and operation by our company of an appropriate risk management and internal monitoring system facilitating the timely identification of developments that might jeopardize our continued existence (Sec. 91 (2) of the German Stock Corporation Act).

Members of the Management Board are appointed by the Supervisory Board and can be dismissed for good cause. The Supervisory Board is required to supervise and advise the Management Board in its management of our company, but is not permitted to make management decisions. To ensure that these functions are carried out properly, the Management Board must, among other things, inform the Supervisory Board on a regular, timely and comprehensive

basis about all issues of relevance to our company with respect to planning, the course of business, risks and risk management, as well as strategic measures. In this regard, the Management Board is also required to describe and explain any deviations in the course of business from plans and targets that have been set. Furthermore, the chairman of the

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Supervisory Board must be informed of any other important developments. The Management Board must obtain the consent of the Supervisory Board for certain transactions as determined by the Supervisory Board. The Supervisory Board is also entitled to request special reports at any time.

In carrying out their duties, members of both the Management Board and Supervisory Board must exercise the standard of care of a prudent and diligent businessman, and they are liable to us for damages if they fail to do so. Both boards are required to take into account a broad range of considerations in their decisions, including the interests of our company and our shareholders, employees and creditors. The Management Board is required to respect the shareholders rights to equal treatment and equal information. Both the Management Board members and the Supervisory Board members are jointly and severally liable vis-à-vis our company for breaches of their duties if, as a result, we suffer damages.

As a general rule under German law, a shareholder has no direct recourse against the members of the Management Board or the Supervisory Board in the event that they are believed to have breached a duty to our company. Apart from insolvency or other special circumstances, only our company has the right to claim damages from members of either board. We may waive these damages or settle these claims only if at least three years have passed and if the shareholders approve the waiver or settlement at the shareholders general meeting with a simple majority, provided that opposing shareholders do not hold, in the aggregate, one-tenth or more of the share capital of our company and do not have their opposition formally noted in the minutes maintained by a German notary.

Supervisory Board

Our Supervisory Board currently consists of 16 members. The shareholders, by a majority of the votes cast in a general meeting, currently elect eight members and the employees currently elect the remaining eight members. Among the eight employee representatives on the Supervisory Board, one member is from the ranks of the executive employees (*Leitende Angestellte*), five members are from the ranks of the employees (excluding executive employees) and two are representatives of the trade unions represented in the Infineon group in Germany. According to German law, the shareholders may determine the term of each shareholder-elected member of the Supervisory Board. The maximum term of office of shareholder-elected Supervisory Board members expires at the end of shareholders general meeting in which the shareholders discharge the Supervisory Board members for the fourth fiscal year after the start of their term as a Supervisory Board member. The fiscal year in which the term of office begins is not included in this calculation. Supervisory Board members may be re-elected. The term of all current shareholder representatives ends with the annual general meeting to be held in 2010. The employee representatives on the Supervisory Board took office on February 12, 2009.

The Supervisory Board is composed of the minimum number of members required by law. Under the German Co-Determination Act *(Mitbestimmungsgesetz)*, a company that employs more than 10,000 employees is required to have a supervisory board comprised of at least 16 members. Companies that employ not more than 10,000 employees are required to have a supervisory board comprised of at least 12 members. As the number of employees working for us or any of our domestic group companies in Germany has fallen below 10,000, the Management Board initiated statutory proceedings *(Statusverfahren)* in July 2009 to reduce the size of the Supervisory Board to 12 seats. Consequently, the term of office of all current members of our Supervisory Board will end and our employees and shareholders will each elect six new representatives to the Supervisory Board. We expect such proceedings to be finalized with the election of the shareholder representatives by the general shareholders meeting in February 2010.

Any member of the Supervisory Board elected by shareholders may be removed by a resolution of the general shareholders meeting if such resolution is approved by a simple majority of the votes cast. Any member of the Supervisory Board elected by employees may be removed by three quarters of the votes cast by the electoral delegates representing the employees and any member of the Supervisory Board elected by unions may be removed by the

union that nominated the member. In addition, the Articles of

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Association provide that all members of the Supervisory Board may resign at any time, with or without good cause, by providing four weeks prior written notice to the Supervisory Board chairman.

The Supervisory Board elects a chairman and a deputy chairman from among its members. If no candidate is elected by a vote of two-thirds of the members of the Supervisory Board, the representatives of the shareholders have the right to elect the chairman and the representatives of the employees have the right to elect the deputy chairman. Should the chairman or the deputy chairman leave office prior to the expiry of his or her term, the Supervisory Board must without delay elect a successor to fill the remaining term of the departing chairman or deputy chairman. The German Accounting Law Modernization Act *(Bilanzrechtsmodernisierungsgesetz)* provides that at least one independent member of the Supervisory Board of publicly traded companies must have expertise in the fields of accounting or auditing that is, be an independent financial expert. On the Supervisory Board, Max Dietrich Kley and Dr. Siegfried Luther, among others, have the required financial expertise and independence.

Under mandatory statutory provisions and the Articles of Association, the Supervisory Board issues rules of procedure for itself. The Supervisory Board s current rules of procedure are effective as of November 26, 2009.

The Supervisory Board meets at least once every calendar quarter. The meetings may also be held in the form of a telephone or video conference and individual members may participate in the meeting by way of telephone or video communication. Unless otherwise required by law or by the Articles of Association, Supervisory Board resolutions are passed with a simple majority of votes cast. This applies also to election and deselection processes (except for the election of the chairman and the deputy chairman, which require a two-thirds majority). In the event of an equality of votes, a new vote will be held in which the chairman of the Supervisory Board shall have two votes.

The main functions of the Supervisory Board are:

- to monitor our management;
- to appoint our Management Board and determine the Management Board members compensation;
- to approve decisions of our Management Board in relation to the following:
  - finance and investment planning, including the budget and the establishment of limits on indebtedness;
  - any investment or disposition that exceeds 10 percent of our total investment budget; and
  - the granting of sureties, guarantees and loans to third parties outside the group, if the amount exceeds 5 percent of the share capital of our company;
- to approve matters in areas that the Supervisory Board has made generally subject to its approval; and
- to approve matters that the Supervisory Board decides on a case-by-case basis to make subject to its approval.

The Supervisory Board may form committees from among its members and charge them with the performance of specific tasks. The committees tasks, authorizations and processes are determined by the Supervisory Board. Where permissible by law, important powers of the Supervisory Board may also be transferred to the committees. The Supervisory Board has established and maintains the following committees:

Our Supervisory Board has established an Investment, Finance and Audit Committee, comprising the chairman of the Supervisory Board and two other members of the Supervisory Board, one of whom is elected from the shareholder

representatives and the other from the employee representatives on the Supervisory Board. All members of the Investment, Finance and Audit Committee are independent under U.S. securities regulations applicable to our company. The Investment, Finance and Audit Committee

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carries out the functions normally carried out by the audit committee of a U.S. company including, among other duties:

- monitoring our company s financial reporting system and preparing the decisions of the Supervisory Board regarding approval of our annual financial statements and the consolidated financial statements, including review of the financial statements, combined operating and financial reviews, the proposed application of earnings and the reports of our auditors;
- reviewing our interim financial statements that are made public or otherwise filed with any securities regulatory authority;
- issuing to our auditors terms of reference for their audit of our annual financial statements;
- examining the effectiveness of our compliance, internal control, internal audit and risk management systems; and
- approving decisions of our Management Board or a committee thereof regarding increases of our company s capital through the issuance of new shares out of authorized or conditional capital, to the extent they are not issued to employees as part of a share option plan.

The Investment, Finance and Audit Committee also supports the Supervisory Board in its duty of supervising our business and may exercise the oversight powers conferred upon the Supervisory Board by German law for this purpose. Decisions of the Investment, Finance and Audit Committee require a simple majority.

The Executive Committee, composed of the Chairman of the Supervisory Board, the Vice-Chairman, and one shareholder representative, recommends the appointment and dismissal of members of the Management Board as well as the resolution of the Supervisory Board plenum on the Management Board members compensation and is responsible for the negotiation, modification and termination of contracts with Management Board members.

The Mediation Committee, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative, and one employee representative, submits proposals to the Supervisory Board in the event that the Supervisory Board cannot reach the two-thirds majority required to appoint a Management Board member. The Mediation Committee was not convened in the 2009 fiscal year.

The Nomination Committee, which consists exclusively of shareholder representatives of the Supervisory Board, recommends candidates as future shareholder representatives of the Supervisory Board.

The Strategy and Technology Committee, which consists of three shareholder representatives and three employee representatives, deals with topics concerning our business strategy.

Neither we nor any of our subsidiaries have entered into special service contracts with the members of the Supervisory Board that provide for benefits during or upon termination of their board membership other than as described under *Compensation* .

Management Board

The Supervisory Board determines the number of Management Board members. According to Section 5 of the Articles of Association, the Management Board must consist of at least two members. In accordance with the rules of procedure for the Management Board, the Supervisory Board may appoint one Management Board member as the

chairman or the speaker of the Management Board. Our Management Board currently consists of four members.

Management Board members are appointed by the Supervisory Board in accordance with the provisions of the German Stock Corporation Act and the German Codetermination Act (*Mitbestimmungsgesetz*) for a maximum term of five years. Reappointment or extension of the term for up to five years in each case is permissible. The Supervisory Board may revoke the appointment of a member of the Management Board

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prior to the expiry of his term of office for good cause, such as for gross violation of duties or a vote of no confidence in the board member by the general shareholders meeting, unless the vote of no confidence was made on blatantly arbitrary grounds (Sec. 84 (3) of the German Stock Corporation Act). The Supervisory Board is also responsible for entering into, amending and terminating employment agreements with the members of the Management Board and determining the Management Board Members compensation.

In accordance with Section 5(2) of the Articles of Association, our company is represented by two members of the Management Board or by one Management Board member acting jointly with an authorized signatory *(Prokurist)*.

Under our Articles of Association and German law, the Management Board adopts rules of procedure for the conduct of its affairs, and may amend them at any time. The adoption and amendment of these rules require the unanimous vote of the Management Board and the consent of the Supervisory Board. The Supervisory Board may, however, decide to adopt rules of procedure for the Management Board instead.

Our Management Board has adopted rules of procedure, which our Supervisory Board has approved. The rules of procedure provide, among other things, that the chairman of the Management Board must notify the chairman of the Supervisory Board of any pending matter that is significant. The Supervisory Board may, on a case-by-case basis, designate such matter as one requiring Supervisory Board approval.

The chairman of the Management Board must propose a plan that allocates responsibilities among the Management Board members and must obtain the consent of the Supervisory Board without delay once the Management Board has adopted the plan. This consent has been obtained.

The rules of procedure provide that decisions of the Management Board require simple majority, unless statutory law, the Articles of Association of our company or the rules of procedure require otherwise. A member of the Management Board may not deal with, or vote on, matters that relate to proposals, arrangements or contracts between such member and our company.

Compensation

In compliance with legal requirements and the recommendations of the German Corporate Governance Code as amended on June 18, 2009, this report provides information on the principles for determining the compensation of the Management Board and Supervisory Board of Infineon Technologies AG and the amount of compensation paid to the individual members of the Management Board and Supervisory Board.

Compensation of the Management Board

Compensation structure

So far, the Supervisory Board plenum was responsible for resolving the Management Board compensation system while the compensation of the individual members of the Management Board was determined by the executive committee of the Supervisory Board (the Executive Committee). Since the respective legal provisions became effective, Management Board compensation is determined and regularly reviewed by the Supervisory Board plenum at the proposal of the Executive Committee. The compensation of the members of the Management Board is intended to reflect our size and global presence, its economic condition and performance, and the typical level and structure of the compensation paid to management boards of comparable companies within Germany and abroad. Additional factors taken into account are the duties, responsibilities and the performance of each member of the Management Board as well as our compensation structure. Their compensation is calculated to be competitive both nationally and internationally and thus to provide an incentive for dedicated and successful work within a dynamic environment. The

level of compensation is generally re-evaluated every two years, taking into account an analysis of the income paid to executives of comparable companies. Currently, the compensation structure is reviewed by an independent external compensation expert.

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In the 2009 fiscal year, the compensation of the Management Board comprised the following elements:

Fixed annual base salary. The non-performance-related annual base salary is contractually fixed. It is partly paid in 12 equal monthly installments, and partly paid as a lump sum at the end of each fiscal year, referred to below as the Annual Lump Sum.

Performance-related compensation. The annual bonus is dependent on the return on assets, which we define as earnings before interest and taxes (EBIT) adjusted for exceptional effects, in proportion to capital employed. This ensures that a bonus is earned only if the business develops positively. The annual bonus is determined by the Supervisory Board in a two-phase process. In a first step, a target bonus amount is determined from a table agreed in the service agreements on the basis of the return on assets. The Supervisory Board subsequently evaluates the personal performance of each individual board member over the past fiscal year, and then determines the actual bonus amount. In addition to the bonus dependent on the return on assets, Management Board contracts provide for a possible special bonus awarded in recognition of special business achievements.

Infineon stock options. Management Board members are eligible to receive stock options under the 2006 Stock Option Plan approved by the Infineon Shareholders Annual General Meeting (the Annual General Meeting) on February 16, 2006, as a variable compensation element with a long-term incentive effect and a risk character. Each stock option guarantees the right to acquire one share at a fixed exercise price. The options are valid for six years and may be exercised only after an initial waiting period of three years and not during specified black-out periods. The Supervisory Board is responsible for all decisions on granting options to members of the Management Board. In the 2009 fiscal year, no options were granted to members of the Management Board. Further details of the Company s 2006 Stock Option Plan are described in note 32 to our consolidated financial statements for the year ended September 30, 2009 and are available in full text on the internet at www.infineon.com.

As the 2006 Stock Option Plan expired at the end of the 2009 fiscal year, a new long-term incentive plan is being developed that will focus on the long-term success of the company.

Compensation of the Management Board in the 2009 fiscal year

In the 2009 fiscal year, the current members of the Management Board received total compensation of 3,605,108 (previous year: 3,309,687, pro rata to the duration of membership on the Management Board during the fiscal year). The total annual compensation for all members of the Management Board who were active in the previous fiscal year amounted to 4,920,006 and included the compensation for Mr. Fischl and Dr. Ziebart who retired during the 2008 fiscal year. In view of the economic situation, the members of the Management Board decided in February 2009 to voluntarily forego part of their fixed salaries for the 2009 fiscal year (the CEO will forego 20 percent, the other members of the Management Board will forego 10 percent). The annual lump sum payment was reduced accordingly. No performance-related bonuses were paid for the 2009 fiscal year.

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The total annual compensation paid in the 2009 fiscal year (gross without statutory deductions) consisted of the following elements:

		Non-performance-related compensation			
		Annual Base Salary[1]			
Management Board member	Fiscal year	Amount paid in monthly installments	Annual Lump Sum	Other[2]	Total cash compensation
Peter Bauer	2009	700,000	420,000	35,087	1,155,087
(CEO as of June 1, 2008)	2008	533,333	533,333	22,948	1,089,614
Prof. Dr. Hermann Eul	2009	450,000	360,000	13,590	823,590
	2008	450,000	450,000	14,457	914,457
Dr. Reinhard Ploss	2009	350,000	280,000	10,616	640,616
	2008	350,000	350,000	20,859	720,859
Dr. Marco Schröter	2009	500,000	400,000	85,815	985,815
(as of April 1, 2008)	2008	250,000	250,000	84,757	584,757
Total	**2009**	**2,000,000**	**1,460,000**	**145,108**	**3,605,108**
	2008	**1,583,333**	**1,583,333**	**143,021**	**3,309,687**

(1) Each in accordance with the duration of membership on the Management Board during the respective fiscal year.

(2) The compensation included under Other comprises primarily the monetary value of the provision of a company car and insurance contributions, and, in the case of Dr. Schröter, the reimbursement of expenses for the maintenance of double residences.

Stock-based compensation

As in the previous year, no stock options were granted to members of the Management Board in the 2009 fiscal year. In the 2009 fiscal year, no member of the Management Board exercised stock options.

Commitments to the Management Board upon termination of employment

Allowances and pension entitlements in the 2009 fiscal year

The current members of the Management Board are contractually entitled to a fixed pension payment, which increases by 5,000 (and in the case of Mr. Bauer by 10,000) annually until a maximum amount is attained. In accordance with IFRS, for the current members of the Management Board, a total of 786,292 was expensed and added to pension reserves in the 2009 fiscal year (previous year: 534,275). Upon termination of membership on the Management Board, pension entitlements normally begin from age 60 but may be paid earlier in case of retirement for medical reasons. Our agreement with Mr. Bauer deviates from this model, and he is entitled to a pension before age 60 if his contract is not renewed, provided that there is no good cause for a revocation of the appointment in accordance with Section 84(3) of the German Stock Corporation Act. In any case of pension payment before age 60, however, the income from other employment and self-employed activities would be set off against up to 50 percent of the

respective pension entitlements.

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The following overview represents the annual pension entitlements, as of the beginning of retirement, for current Management Board members on the basis of the entitlements vested through September 30, 2009.

Management Board member	Pension entitlements (annual) as of beginning of pension period in	Maximum amount in	Expenses in connection with increase in pension reserves in fiscal year 2009 (IFRS) in
Peter Bauer (CEO)	290,000	400,000	235,967
Prof. Dr. Hermann Eul	205,000	270,000	202,178
Dr. Reinhard Ploss	175,000	210,000	173,184
Dr. Marco Schröter	255,000	350,000	174,963
Total	**925,000**	**1,230,000**	**786,292**

Furthermore, our contract with Mr. Bauer provides for a one-time transitional allowance upon termination of his employment under certain circumstances, including due to retirement or another reason. This transitional allowance is equivalent to one year s income, composed of the last 12 basic monthly installments, and a sum amounting to the average of the bonus sums received over the last three fiscal years prior to termination. The transitional allowance will not be paid in the event of termination by a member of the Management Board not prompted by us, or if we have good cause for the termination.

Early termination of employment

The contracts with the members of the Management Board include change-of-control clauses: A change of control within the meaning of these clauses occurs when a third party, individually or in cooperation with another party, acquires 30 percent of the voting rights in Infineon as stipulated by Section 30 of the German Securities Acquisition and Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz-WpHG)*. The Management Board members have the right to resign and terminate their contracts within a period of 12 months after the announcement of such change of control if the exercise of their office and the fulfillment of their contract become unacceptable, due, for example, to considerable restrictions in their areas of responsibility. In such an event, board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of two years. This amount is based on the annual target income applicable to the resigning member at the time of his resignation and the variable components assuming a 6 percent return on our assets. In the event of a termination by Infineon of the contracts of the Management Board members within 12 months after the announcement of a change of control, the Management Board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of three years. The Management Board members pension entitlements remain unaffected. These rights in the event of a change of control, however, only exist if there is no serious breach of duty by the respective Management Board member.

Furthermore, the contract of Dr. Schröter provides for a transitional allowance equivalent to 30 percent of his annual base salary. This transitional allowance is paid until the beginning of the pension payments if Dr. Schröter leaves our company except for (i) resignation by Dr. Schröter or (ii) our company having good cause for a revocation of the appointment in accordance with Section 84(3) of the German Stock Corporation Act. His income from other employment and self-employed activities, however, would be set off against the transitional allowance.

Other than described above, the Management Board contracts do not generally provide for severance payments in the event of their early termination.

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Fringe benefits and other awards in the 2009 fiscal year

The members of the Management Board received no fringe benefits besides the elements listed under Other in the compensation table.

We do not provide loans to the members of the Management Board.

The members of the Management Board received no compensation or promise of compensation with regard to their activities on the Management Board from third parties in the 2009 fiscal year.

We maintain directors and officers group liability insurance (D&O insurance). The D&O insurance policy covers personal liability in the event of claims made against members of the Management Board for indemnification of losses incurred in the exercise of their duties. According to the existing contracts with the Management Board members, the D&O insurance provides for a deductible of 25 percent of such member s fixed annual base salary (which is compliant with the deductible provisions as outlined in Section 93(2)3 of the German Stock Corporation Act in connection with Section 23(1) of the introductory provisions to the German Stock Corporation Act).

We have entered into a restitution agreement with each member of the Management Board. According to the restitution agreements, we cover all costs incurred in connection with proceedings brought against members of the Management Board by courts, government authorities, regulatory bodies or parliamentary committees due to the exercise of their duties, to the extent legally permitted. The agreements do not cover, in particular, any restitution of costs incurred due to an infringement of their duties as management board members pursuant to Section 93(2) of the German Stock Corporation Act.

Payments to former members of the Management Board in the 2009 fiscal year

Former members of the Management Board received total severance and pension payments of 1,798,225 (previous year: 916,896) in the 2009 fiscal year.

As of September 30, 2009, pension reserves for former members of the Management Board amount to 27,034,008 (previous year: 26,566,664).

Compensation of the Supervisory Board

Compensation structure

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

Fixed compensation of 25,000 per year and member.

A **variable element** in the form of 1,500 **share appreciation rights** per annum, which are granted and may be exercised on the same terms as provided for by the Infineon Stock Option Plan 2006 approved by the Annual General Meeting. These share appreciation rights, however, do not entitle the holder to purchase shares but only to a settlement in cash. The basic principles of our 2006 Stock Option Plan are described in note 32 to our consolidated financial statements for the year ended September 30, 2009 and are available in

full text on the internet at www.infineon.com.

Additional compensation is paid for certain functions on the Supervisory Board. The chairman of the Supervisory Board receives an additional 100 percent of the fixed compensation. Furthermore, each vice-chairman and each other member of a Supervisory Board committee, with the exception of the Nomination Committee and the Mediation Committee, receives an additional 50 percent of their fixed compensation.

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

Compensation of the Supervisory Board in the 2009 fiscal year

In the 2009 fiscal year, the members of the Supervisory Board waived their share appreciation rights. The Supervisory Board compensation otherwise remained unchanged from the previous year. The individual current members of the Supervisory Board received the following cash compensation (excluding 19 percent VAT), in the 2009 fiscal year:

Supervisory Board member	**Base compensation in**	**Additional compensation for special functions in**	**Total payment in**
Max Dietrich Kley	25,000	25,000	50,000
Wigand Cramer	25,000	8,333(1)	33,333
Alfred Eibl	25,000	12,500	37,500
Prof. Johannes Feldmayer	10,417(2)		10,417
Peter Gruber	16,667(1)		16,667
Jakob Hauser	8,333(3)	4,167(3)	12,500
Gerhard Hobbach	25,000	8,333(1)	33,333
Prof. Dr. Renate Köcher	25,000		25,000
Dr. Siegfried Luther	25,000	12,500	37,500
Michael Ruth	8,333(3)		8,333
Manfred Puffer	4,167(5)		4,167
Gerd Schmidt	25,000	12,500	37,500
Prof. Dr. Doris Schmitt-Landsiedel	25,000	12,500	37,500
Horst Schuler	16,667(1)		16,667
Kerstin Schulzendorf	25,000		25,000
Dr. Eckart Sünner	25,000		25,000
Alexander Trüby	25,000	4,167(3)	29,167
Arnaud de Weert	16,667(6)	8,333(1)	25,000
Prof. Dr. Martin Winterkorn	8,333(4)	4,167(4)	12,500
Prof. Dr.-Ing. Klaus Wucherer	25,000	12,500	37,500
Total	**389,584**	**125,000**	**514,584**

(1) Prorated from appointment on February 12, 2009.

(2) Prorated up to retirement from office on February 18, 2009.

(3) Prorated up to retirement from office on February 12, 2009.

(4) Prorated up to retirement from office on January 31, 2009.

(5) Prorated from appointment on July 30, 2009.

(6) Prorated from appointment on February 1, 2009.

Other

We do not provide loans to the members of the Supervisory Board.

We maintain D&O insurance. The insurance covers personal liability in the event of claims made against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties. Each member of the Supervisory Board has agreed to an appropriate deductible.

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PRINCIPAL SHAREHOLDERS

The following table shows the beneficial ownership of our company s share capital by the principal shareholders (each person or entity that has reported to us, as required by applicable German law, that it beneficially owns 3 percent or more of our shares). The percentages stated below refer to the share capital held on the date of the applicable notification. On August 5, 2009, the number of our outstanding shares was increased to a total of 1,072,569,049 and on August 11, 2009 was further increased to a total of 1,086,742,085. Therefore, the notifications received by us from shareholders had different respective reference points depending on the date of the notification and current shareholdings may differ from the numbers and percentages stated below.

We are not directly or indirectly owned or controlled by any foreign government.

The members of our Management Board and Supervisory Board, each as a group, hold less than one percent of our outstanding share capital.

	Shares Owned	
As of September 30, 2009 **Shareholder**	**Number**	**Percentage relating to the number of shares at the date of notification**
Dodge & Cox[1]	106,771,627	9.95%
Capital Group[2]	36,995,392	4.95%
Odey Asset Management LLP[3]	23,687,180	3.16%

Notes

(1) Based on a notification to Infineon by Dodge & Cox Investment Managers on August 6, 2009 pursuant to the requirements of the German Securities Trading Act. As the notification was received prior to the effectiveness of the second step of the capital increase completed on August 11, 2009, the number of shares and percentage ownership may vary after the capital increase. The business address of the shareholder is 555 California Street, 40th Floor, San Francisco, California 94104, U.S.A.

(2) Based on a notification to Infineon by the shareholder on June 14, 2006 pursuant to the requirements of the German Securities Trading Act. As the notification was received prior to the first step of the capital increase completed on August 5, 2009, the number of shares and percentage ownership may vary after the capital increase. The business address of the shareholder is 333 South Hope Street, Los Angeles, CA 90071-1406, U.S.A.

(3) Based on a notification to Infineon by the shareholder on May 6, 2009 pursuant to the requirements of the German Securities Trading Act. As the notification was received prior to the first step of the capital increase completed on August 5, 2009, the number of shares and percentage ownership may vary after the capital increase. The business address of the shareholder is 12 Upper Grosvenor Street, London, W1K 2ND, UK.

The German Securities Trading Act *(Wertpapierhandelsgesetz)* requires each person whose shareholding of a listed German company reaches, exceeds or, after exceeding, falls below 3 percent, 5 percent, 10 percent, 15 percent,

20 percent, 25 percent, 30 percent, 50 percent or 75 percent voting rights thresholds to notify the corporation and the German Federal Supervisory Authority for Financial Services in writing without undue delay, at the latest within four trading days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold.

Other than as disclosed above, we have not been notified by any party holding 3 percent or more of our shares as of September 30, 2009.

Major shareholders do not have differing voting rights. Other than as a result of the capital increase referenced above, there were no significant changes in the percentage ownership held of record by major shareholders in the last three fiscal years

To our knowledge, as of September 30, 2009, there were 36,833,316 of our American Depositary Shares outstanding (representing an equivalent number of our ordinary shares), which represented approximately 3.4 percent of our issued and outstanding share capital, and there were 159 holders of record of our American Depositary Shares.

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RELATED PARTY TRANSACTIONS

In accordance with IFRS, we report related party transactions as transactions in the normal course of business with associated companies in which we have the ability to exercise significant influence over the other party s operations and financial policies and related persons such as Management and Supervisory Board members in accordance with the International Accounting Standard No. 24.

We purchase certain of our raw materials, especially chipsets, from, and sell certain of our products to, related parties. Purchases and sales to related parties are generally based on market prices or manufacturing costs plus a mark-up.

Qimonda

In connection with the formation of Qimonda as a separate legal entity, we and Qimonda entered into a number of agreements in 2006 governing the carve-out of the memory products business, the licensing of intellectual property, the use of our 200-millimeter fabrication facility in Dresden, and support services in the areas of general support, IT services and R&D services. Qimonda was carved out as our wholly-owned subsidiary effective May 1, 2006.

On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, we deconsolidated Qimonda during the second quarter of the 2009 fiscal year, Qimonda ceased being a related party in accordance with IFRS and subsequent transactions between us and Qimonda are no longer reflected as related party transactions. Transactions between us and Qimonda subsequent to the deconsolidation are no longer reflected as related party transactions.

Due to Qimonda s insolvency, we expect that Qimonda will not be able to fulfill its indemnification obligations and indemnify us against any potential liabilities.

For more information on related party transactions with Qimonda, please see *Major Shareholders and Related Party Transactions Related Party Transactions* in the Annual Report on Form 20-F filed by Qimonda with the U.S. Securities and Exchange Commission on November 16, 2007 (file no. 001-32972).

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ARTICLES OF ASSOCIATION

This section summarizes the material rights of holders of the shares of our company under German law and the material provisions of the Articles of Association of our company. This description is only a summary and does not describe everything that the Articles of Association contain. Copies of the Articles of Association are publicly available at our website, www.infineon.com, and from the Commercial Register in Munich, Germany. An English translation has been filed with the Securities and Exchange Commission in the United States.

Equity

The issued share capital of our company amounts to 2,173,484,170 divided into 1,086,742,085 individual shares in registered form with a notional value of 2.00 each. Since the end of our 2006 fiscal year, changes in our share capital have been as follows:

During the 2007 fiscal year, our share capital increased by 4,238,682 as a result of the exercise of 2,119,341 employee stock options. After these exercises our share capital consisted of 1,499,457,270.

During the 2008 fiscal year, our share capital increased by 26,900 as a result of the exercise of 13,450 employee stock options. After these exercises our share capital consisted of 1,499,484,170.

On August 5, 2009, we increased our share capital by 645,653,928 by issuing 322,826,964 shares resulting from the Authorized Capital 2007 (registered in the Commercial Register as Authorized Capital 2007/I) resolved on February 15, 2007 and part of the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were offered to our shareholders for subscription at a ratio of four new shares for every nine existing shares held. After the execution of the capital increase, our share capital consisted of 2,145,138,098.

On August 11, 2009, we further increased our share capital by 28,346,072 by issuing 14,173,036 shares resulting from the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were issued to Admiral Participations (Luxembourg) S.a.r.l. After the execution of the capital increase, our share capital consisted of 2,173,484,170.

Registrar Services GmbH, the transfer agent and registrar of our company in Germany, registers record holders of shares in the share register on our behalf pursuant to a transfer agent agreement. The transfer agent also maintains the register of our shareholders.

Authorized Capital

Under the German Stock Corporation Act, a stock corporation s shareholders can authorize the Management Board to issue shares in a specified aggregate nominal amount of up to 50 percent of the issued share capital at the time the resolution is passed. The shareholders authorization may extend for a period of no more than five years.

The Authorized Capital II/2004 expired on January 19, 2009. Furthermore, the capital increases in August 2009 were implemented by utilizing all of our Authorized Capital 2007 as well as the Authorized Capital 2009/I. Therefore, our Articles of Association currently do not provide for any authorized capital.

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Conditional Capital

Under the German Stock Corporation Act, a stock corporation s shareholders can create conditional capital of up to 50 percent of the issued share capital at the time of the resolution. Our conditional capital recorded in the Commercial Register amounts to 665,335,548. It has been created through six conditional capital increases.

Conditional Capital I (registered in the Commercial Register as Conditional Capital 1999/I) pursuant to Section 4(4) of the Articles of Association in an aggregate nominal amount of up to 34.6 million that may be used to issue up to 17.3 million new registered shares in connection with our 2001 Long-Term Incentive Plan;

Conditional Capital III (registered in the Commercial Register as Conditional Capital 2001/I) pursuant to Section 4(6) of the Articles of Association in an aggregate nominal amount of up to 29 million that may be used to issue up to 14.5 million new registered shares in connection with our 2001 and 2006 Long-Term Incentive Plans;

Conditional Capital 2002 (registered in the Commercial Register as Conditional Capital 2007/II) pursuant to Section 4(7) of the Articles of Association in an aggregate nominal amount of up to 152 million that may be used to issue up to 76 million new registered shares upon conversion of convertible bonds issued in June 2003;

Conditional Capital 2007 (registered in the Commercial Register as Conditional Capital 2007/I) pursuant to Section 4(5) of the Articles of Association in an aggregate nominal amount of 149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of debt securities, which we may issue at any time prior to February 14, 2012;*

Conditional Capital 2008 (registered in the Commercial Register as Conditional Capital 2008/I) pursuant to Section 4(8) of the Articles of Association in an aggregate nominal amount of 149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of debt securities, which we may issue at any time prior to February 13, 2013;*

Conditional Capital 2009/I pursuant to Section 4(9) of the Articles of Association is an aggregate nominal amount of 149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of convertible bonds issued in May 2009.

* Due to the issuance of convertible bonds in May 2009, which are covered by the Conditional Capital 2009/I, other debt securities to be converted into our shares may no longer be issued under authorizations existing as of September 30, 2009. Accordingly, shares may no longer be issued from Conditional Capitals 2007 and 2008.

All of these shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Subscription Rights

The German Stock Corporation Act provides that all shareholders generally have subscription rights with respect to newly issued shares (as well as newly issued convertible bonds, bonds with warrants, income bonds and profit participation certificates). No subscription rights exist with respect to shares resulting from conditional capital. Subscription rights are generally freely transferable and may be traded on the stock exchanges during a specific period prior to the expiration of the subscription period. Our general shareholders meeting may exclude subscription rights by a majority of at least three-quarters of the issued share capital represented at the meeting approving the resolution. The articles of association may specify a higher majority and additional requirements. The Articles of Association of our

company do not contain such specifications. The exclusion of subscription rights further requires a justification. The exclusion is justified if our interest in excluding subscription rights outweighs the interest of shareholders in the subscription rights being granted. Without such a justification, subscription rights for the issuance of new shares may only be excluded if the share capital is being increased for cash consideration, the amount of the capital increase does not exceed 10 percent of our existing share capital and the issue price of the new shares is not substantially lower than the market price of our shares. In each case, the decision requires a report by the

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Management Board that sets forth the justification or the compliance with the requirements for the 10 percent exclusion, as the case may be.

Shareholders Meetings and Voting Rights

Our shareholders vote at general meetings. The general shareholders meeting can be convened by the Management Board, the Supervisory Board or, under certain circumstances, by shareholders whose holdings together make up 5 percent of the share capital. The Supervisory Board must convene a general shareholders meeting if this is deemed necessary for the well-being of our company. The annual general shareholders meeting must take place within the first eight months of the fiscal year. The Management Board calls this meeting upon the receipt of the Supervisory Board s report on the annual financial statements.

Unless a shorter period is permissible by law, the general shareholders meeting must be convened at least 30 days before the day by which shareholders must register for the meeting and be announced in the electronic Federal Gazette *(elektronischer Bundesanzeiger)*, stating the agenda. Furthermore, the invitation to the general shareholders meeting, including the agenda and the relevant documents, must be made available on the company s website. According to our Articles of Association, we may communicate information to shareholders of our company using electronic media.

A shareholder or group of shareholders holding a minimum of either 5 percent of the share capital of our company or shares representing at least 500,000 of our registered capital may require that additional or modified proposals be made at our shareholders general meeting.

Shareholders are entitled to participate in the general shareholders meeting and to exercise their voting rights if they are entered in our share register and have given notification of attendance which must be received at least six days prior to the meeting, not counting the day of notice and the day of the meeting. Following the deadline for the registration of attendance at the shareholders general meeting, the shares are not blocked and may be transferred. In certain cases, a shareholder can be prevented from exercising his or her voting rights. This would be the case, for instance, for resolutions on the waiver or assertion of a claim by our company against the shareholder. Furthermore, a breach of the notification requirements with regard to material holdings in voting rights according to the German securities laws results in a loss of the rights attached to the shares, including the voting rights, until the satisfaction of the notification requirement. In the event of willful or grossly negligent breaches of the notification requirement, the loss of the rights continues for six months following the subsequent submission of the notification. Neither German law nor the Articles of Association restricts the right of non-resident or foreign shareholders to hold shares or any voting rights attached to the shares.

Voting rights may be exercised by proxies. If neither a bank nor a shareholders association is named as proxy, authority to attend and vote by proxy must be granted in textual form *(Textform)* in accordance with Section 126b German Civil Code or via the internet as further detailed by the company. If a proxy is instructed directly, the proxy will be required to produce documentation of its authority at the general meeting.

Each share carries one vote at general meetings of the shareholders. Resolutions are generally passed with a simple majority of the votes cast. Resolutions that require a capital majority are passed with a simple majority of the issued capital, unless statutory law or the Articles of Association of our company require otherwise. Under the German Stock Corporation Act, a number of significant resolutions must be passed by a majority of the votes cast and at least 75 percent of the share capital represented in connection with the vote taken on that resolution. The majority required for some of these resolutions may be lowered by the Articles of Association. The shareholders of our company have lowered the majority requirements to the extent permitted by law.

Resolutions of fundamental importance that require a majority of at least 75 percent of the votes cast include, in particular:

changing the objects and purposes provision in the Articles of Association;

approving authorized and conditional capital increases;

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excluding preemptive rights of shareholders to subscribe for new shares;

dissolving the company;

merging into, or consolidating with, another stock corporation;

transferring all or virtually all of the company s assets; and

changing the company s corporate form.

Although our company must notify shareholders of an ordinary or extraordinary shareholders meeting as described above, neither the German Stock Corporation Act nor our Articles of Association fix a minimum quorum requirement. This means that holders of a minority of our shares could control the outcome of resolutions not requiring a specified majority of our outstanding share capital.

Dividend Rights

Shareholders participate in profit distributions in proportion to the number of shares they hold.

Under German law, we may declare and pay dividends only from balance sheet profits as they are shown in our unconsolidated annual financial statements prepared in accordance with applicable German law. In determining the distributable balance sheet profits, the Management Board and the Supervisory Board may allocate to profit reserves up to one half of the annual surplus remaining after allocations to statutory reserves and losses carried forward.

The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

According to the Articles of Association of our company the shareholders general meeting may also resolve upon a dividend in kind in addition to or instead of a dividend in cash.

Dividends approved at a shareholders general meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the shareholders general meeting. Where shareholders hold physical certificates, we will pay dividends to those shareholders who present us or the paying agent or agents that we may appoint from time to time, with the appropriate dividend coupon. If a shareholder holds shares that are entitled to dividends in a clearing system, the dividends will be paid according to that clearing system s rules. We will publish notice of dividends paid and the paying agent or agents that we have appointed in the electronic Federal Gazette.

Liquidation Rights

Except in the cases of a liquidation based on insolvency proceedings or judicial decree, our company may only be liquidated by a resolution of the general shareholders meeting, which under the German Stock Corporation Act requires a majority of at least three-quarters of the share capital represented when the vote is taken. The articles of association may specify a higher majority and additional requirements. The Articles of Association of our company do not contain such specifications. In this case, the assets remaining after all the liabilities of the company have been settled will be distributed among the shareholders proportionally to their holdings of the share capital, as provided by the German Stock Corporation Act. Certain requirements for the protection of creditors must be complied with in this process.

Shareholders Other Rights and Obligations

Our shareholders have other rights and obligations, for example the right to participate in the general discussion at the general shareholders meeting and ask questions of our management. If shareholders believe that our company has been harmed by members of the Management Board or Supervisory Board they can initiate proceedings against those persons under certain conditions. If a German court determines that members of the Management Board or Supervisory Board have violated their obligations towards our company, then they are liable for damages to our company, but generally not to the shareholders directly. Such direct claims would be successful under very rare circumstances, for example

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upon a finding that the member of the Management Board or the Supervisory Board has engaged in willful misconduct with the intention of harming shareholders.

Disclosure Requirement

The German Securities Trading Act requires each person whose shareholding of a listed company reaches, exceeds or, after exceeding, falls below 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent voting rights thresholds to notify the corporation and the German Federal Supervisory Authority for Financial Services in writing without undue delay, at the latest within four trading days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold. Such holders cannot exercise any rights associated with those shares until they have satisfied this disclosure requirement. In the event of willful or grossly negligent breaches of the notification requirement, the loss of the rights continues for six months following the subsequent submission of the notification. In addition, the German Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the exercise of the voting rights attached to those shares.

Repurchase of Our Own Shares

We may repurchase our own shares pursuant to the authorization granted by the shareholders general meeting on February 12, 2009, or in other very limited circumstances set out in the German Stock Corporation Act. The authorization granted by our general shareholders meeting expires on August 11, 2010. Shareholders may grant a new authorization at our 2010 shareholders general meeting. According to the new version of Section 71 of the German Stock Corporation Act, Shareholders may not grant a share repurchase authorization lasting for more than five years. The rules in the German Stock Corporation Act generally limit repurchases to 10 percent of our share capital and resales must be made either on the stock exchange, in a manner that treats all shareholders equally or in accordance with the rules that apply to preemptive rights relating to a capital increase.

Corporate Purpose of Our Company

Pursuant to Section 2 of the Articles of Association, our company s corporate purpose is to engage, directly or indirectly, in the business of researching, developing, producing and selling electronic devices, electronic systems and software as well as providing corresponding services.

We are authorized to take all actions and measures which are directly or indirectly incidental to the accomplishment of our purposes. This includes the establishment of subsidiaries and branches in Germany and abroad, and the participation in other enterprises. We are authorized to buy or sell enterprises, combine them under single management and conclude enterprise agreements with such enterprises or restrict ourselves to managing our participation. We are also authorized to spin off operations, in whole or part, into affiliated enterprises.

Registration of Our Company with the Commercial Register

Infineon Technologies AG is a stock corporation (*Aktiengesellschaft*) organized under German law. It has been a publicly traded company since March 2000. It was established under the name Infineon Technologies AG on March 7, 1999. Our registered office is in Neubiberg, Germany. Our headquarters are located at Am Campeon 1-12, 85579 Neubiberg, Germany (telephone: +49-89-234-0). Our company was entered into the commercial register of Munich, Germany, as a stock corporation on July 14, 1999 under the number HRB 126492.

Our fiscal year runs from October 1 until September 30 of the following year.

As a German stock corporation, we are governed by German corporate law.

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ADDITIONAL INFORMATION

Organizational Structure

Infineon Technologies AG is the parent company of the Infineon group, with subsidiaries incorporated in jurisdictions throughout Europe and Asia, as well as in the United States. Our most significant subsidiaries are set out below. Unless otherwise indicated, all of the subsidiaries in the Infineon group are directly or indirectly wholly owned by Infineon Technologies AG as of September 30, 2009.

Principal Subsidiaries as of September 30, 2009

Corporate name	Registered office	Principal activity
ALTIS Semiconductor S.N.C[1]	Essonnes, France	Production
Comneon GmbH	Nuremberg, Germany	Research and Development
Infineon Technologies Asia Pacific Pte. Ltd.	Singapore	Production, distribution
Infineon Technologies Austria AG	Villach, Austria	Production and development
Infineon Technologies Bipolar GmbH & Co. KG[2]	Warstein, Germany	Production and development
Infineon Technologies Center of Competence (Shanghai) Co. Ltd.	Shanghai, People s Republic of China	Research and Development
Infineon Technologies China Co. Ltd.	Shanghai, People s Republic of China	Holding
Infineon Technologies Dresden GmbH	Dresden, Germany	Production
Infineon Technologies Finance GmbH	Neubiberg, Germany	Financial services
Infineon Technologies France S.A.S.	Saint Denis, France	Distribution and development
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	Holding
Infineon Technologies Industrial Power, Inc.	Delaware, U.S.A.	Sales
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	Holding
Infineon Technologies Japan K.K.	Tokyo, Japan	Distribution
Infineon Technologies North America Corp.	Delaware, U.S.A.	Research, development and distribution
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	Production
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	Production
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	Production
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People s Republic of China	Production
Infineon Technologies (Xi an) Co., Ltd.	Xi an, People s Republic of China	Research and Development

Notes

(1) 50 percent interest plus one share held by Infineon.

(2) 60 percent held by Infineon.

In addition, we currently hold a 77.5 percent interest in the memory products company Qimonda, which filed an application to commence insolvency proceedings on January 23, 2009. Formal insolvency proceedings were opened in the local registry court in Munich on April 1, 2009.

Dividend Policy

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, Infineon Technologies AG, as determined in accordance with HGB, the German Commercial Code . All dividends must be approved by the shareholders. The ordinary shareholders meeting held in February 2009 did not authorize a dividend in respect of the 2008 financial year. No earnings are available for distribution as a dividend for the 2009 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2009. Subject to market conditions, we intend to retain future earnings for investment in the development and expansion of our business.

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Significant Changes

Except as discussed elsewhere in this annual report on Form 20-F, no significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

Market Information

General

The principal trading market for our shares is the Frankfurt Stock Exchange, where our ordinary shares trade under the trading symbol IFX. Options on the shares trade on the German options exchange (Eurex Deutschland) and other exchanges. All of our shares are in registered form. ADSs, each representing one share, were listed on the New York Stock Exchange and traded under the symbol IFX until April 24, 2009, the date on which the voluntary delisting of our ADSs took effect. Our ADSs are currently traded through a Level I American depositary receipt facility on the OTCQX International over-the-counter market under the symbol IFNNY. The depositary for the ADSs is Deutsche Bank Trust Company Americas.

Trading on the Frankfurt Stock Exchange

Our shares have traded on the Frankfurt Stock Exchange since March 13, 2000. The table below sets forth, for the periods indicated, the high and low closing sales prices for our company s shares on the Frankfurt Stock Exchange, as reported by the Frankfurt Stock Exchange Xetra trading system[(1)]:

	Price per share in Euro	
	High	**Low**
Fiscal year ended September 30, 2005	8.05	5.75
Fiscal year ended September 30, 2006	8.90	6.80
Fiscal year ended September 30, 2007	12.02	8.28
Fiscal year ended September 30, 2008	10.69	3.27
Fiscal year ended September 30, 2009	4.00	0.35
October 2007 through December 2007	10.69	6.82
January 2008 through March 2008	7.27	3.65
April 2008 through June 2008	6.36	4.09
July 2008 through September 30, 2008	5.59	3.27
October 2008 through December 2008	3.68	0.58
January 2009 through March 2009	1.07	0.35
April 2009 through June 2009	2.42	0.76
July 2009 through September 30, 2009	4.00	2.17
June 2009	2.42	1.96
July 2009	3.13	2.17
August 2009	3.67	2.74
September 2009	4.00	3.46
October 2009	4.02	3.05
November 2009	3.50	3.06
December 2009[(2)]	3.31	3.29

(1) On July 20, 2009, our shares began trading ex-rights, which rights related to the right to subscribe for shares in the rights offering we commenced on such date. The closing sales prices presented in this table are adjusted to reflect the price of our shares ex-rights.

(2) Up to and including December 4, 2009.

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On December 4, 2009, the closing sales price per share on the Frankfurt Stock Exchange, as reported by the Xetra trading system, was 3.31, equivalent to $4.97 per share (translated at the noon buying rate on November 30, 2009).

Trading on the New York Stock Exchange and OTCQX International

ADSs representing our shares traded on the New York Stock Exchange from March 13, 2000 until April 24, 2009, the date on which the voluntary delisting of our ADSs took effect and our ADSs started trading on the OTCQX International over-the-counter market under the symbol IFNNY. The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the New York Stock Exchange and OTCQX International, as applicable[(1)]:

	Price per ADS in U.S. dollars	
	High	**Low**
Fiscal year ended September 30, 2005	10.86	7.77
Fiscal year ended September 30, 2006	11.72	8.28
Fiscal year ended September 30, 2007	17.27	10.88
Fiscal year ended September 30, 2008	15.84	4.85
Fiscal year ended September 30, 2009	5.82	0.43
October 2007 through December 2007	15.84	10.44
January 2008 through March 2008	10.98	5.86
April 2008 through June 2008	10.13	6.66
July 2008 through September 30, 2008	8.31	4.85
October 2008 through December 2008	5.31	0.81
January 2009 through March 2009	1.49	0.43
April 2009 through June 2009	3.47	1.03
July 2009 through September 30, 2009	5.82	3.08
June 2009	3.47	2.77
July 2009	4.90	3.08
August 2009	5.22	3.90
September 2009	5.82	4.86
October 2009	5.95	4.38
November 2009	5.20	4.48
December 2009[(2)]	4.93	4.85

(1) On July 20, 2009, our shares began trading ex-rights, which rights related to the right to subscribe for shares in the rights offering we commenced on such date. The closing sales prices presented in this table are adjusted to reflect the price of our ADSs ex-rights.

(2) Up to and including December 4, 2009.

On December 4, 2009, the closing sales price per ADS on OTCQX International was $4.85.

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Exchange Rates

Fluctuations in the exchange rate between the Euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of shares or ADSs on conversion of dividends, if any, paid in Euro on the shares and will affect the U.S. dollar price of the ADSs on OTCQX International. In addition, to enable you to ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below states the average exchange rates of U.S. dollars per Euro for the periods shown. The annual average exchange rate is computed by using the U.S. dollar/Euro exchange rate on the last business day of each month during the period indicated. For periods up to December 31, 2008, the exchange rate used is the Federal Reserve Bank of New York s noon buying rate and, for periods after December 31, 2008, the exchange rate used is the Federal Reserve Board s noon buying rate in New York.

Annual average exchange rates of the U.S. dollar per Euro

Fiscal year ended September 30,	Average
2005	1.2727
2006	1.2364
2007	1.3415
2008	1.5067
2009	1.3552

The table below shows the high and low Federal Reserve Board s noon buying rates for Euro in U.S. dollars per Euro for each month from April 2009 through September 2009:

Recent high and low exchange rates of the U.S. dollar per Euro

	High	Low
April 2009	1.3458	1.2903
May 2009	1.4126	1.3267
June 2009	1.4270	1.3784
July 2009	1.4279	1.3852
August 2009	1.4416	1.4075
September 2009	1.4795	1.4235

The noon buying rate on September 30, 2009 was 1.00 = $1.4630, and on November 30, 2009 was 1.00 = $1.5022.

Taxation

German Taxation

The following is a summary discussion of the material German tax consequences for shareholders who are not resident in Germany for income tax purposes and who do not hold shares or ADSs as business assets of a permanent establishment or fixed base in Germany (Non-German Shareholders). The discussion does not purport to be a

comprehensive description of all the tax considerations that may be relevant to a decision to invest in or hold our shares or ADSs. The discussion is based on the tax laws of Germany as in effect on the date of this annual report, which may be subject to change at short notice and, within certain limits, possibly also with retroactive effect. You are advised to consult your tax advisors in relation to the tax consequences of the acquisition, holding and disposition or transfer of shares and ADSs and in relation to the procedure which needs to be observed in the event of a possible reduction or refund of German withholding taxes. Only these advisors are in a position to duly consider your specific tax situation.

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Taxation of the Company

In Germany, the Corporate Tax Reform Act of 2008 introduced several changes to the taxation of German business activities, including a reduction of the combined corporate and trade tax rate for the company from approximately 37 percent to approximately 28 percent.

In principle, German corporations are subject to corporate income tax at a rate of 15 percent (25 percent prior to 2008). This tax rate applies irrespective of whether profits are distributed or retained. In addition, a solidarity surcharge of 5.5 percent is levied on the assessed corporate income tax liability, so that the combined effective tax burden of corporate income tax and solidarity surcharge is 15.825 percent (26.375 percent prior to 2008). Certain foreign source income is exempt from corporate income tax. Generally, dividends received by us and capital gains realized by us on the sale of shares in other corporations will also be exempt from corporate income tax. However, 5 percent of such dividends and capital gains are considered non-deductible business expenses.

In addition, German corporations are subject to a profit-based trade tax, the exact amount of which depends on the municipality in which the corporation conducts its business. With effect for fiscal years ending after December 31, 2007, the basic factor for the calculation of trade tax applicable to corporations has been reduced from 0.05 to 0.035. As a compensation, trade tax is no longer a deductible item in calculating the corporation s tax base for corporate income tax and trade tax purposes.

Tax losses carried forward in respect of German corporate income tax and trade tax have an indefinite life. According to a minimum taxation regime applicable as of 2004, not more than 1 million plus 60 percent of the amount exceeding 1 million of the income of one fiscal year may be offset against tax losses carried forward.

The Corporate Tax Reform Act of 2008 provides certain rules regarding the computation of profits, which shall broaden the tax base for corporate income tax and trade tax. Inter alia, the deductibility of interest expenses of the company (payable to shareholders or to third parties) may be limited to 30 percent of the company s taxable income before interest, taxes, depreciation and amortization provided that the net interest expense of the company (interest payable less interest receivable) exceeds 1 million. Non-deductible interest can be carried forward.

Taxation of Dividends

Tax must be withheld at a rate of 25 percent plus solidarity surcharge of 5.5 percent (in total 26.375 percent) on dividends paid (if any).

Pursuant to most German tax treaties, including the income tax treaty between Germany and the United States (the Treaty), the German withholding tax may not exceed 15 percent of the dividends received by Non-German Shareholders who are eligible for treaty benefits. The difference between the withholding tax including solidarity surcharge that was levied and the maximum rate of withholding tax permitted by an applicable tax treaty is refunded to the shareholder by the German Federal Tax Office (*Bundeszentralamt für Steuern,* An der Küppe 1, D-53225 Bonn, Germany) upon application. Forms for a refund application are available from the German Federal Tax Office and German embassies and consulates. A further reduction applies pursuant to most tax treaties if the shareholder is a corporation which holds a stake of 25 percent or more, and in some cases (including under the Treaty) of 10 percent or more, of the registered share capital (or according to some tax treaties of the votes) of a company.

Withholding Tax Refund for U.S. Shareholders

U.S. shareholders who are eligible for treaty benefits under the Treaty (as discussed below in United States Taxation) are entitled to claim a refund of the portion of the otherwise applicable 25 percent German withholding tax and

5.5 percent solidarity surcharge on dividends that exceeds the applicable Treaty rate (generally 15 percent).

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For shares or ADSs kept in custody with the Depository Trust Company in New York or one of its participating banks, the German tax authorities use a collective procedure for the refund of German dividend withholding tax and solidarity surcharge thereon. Under this procedure, the Depository Trust Company may submit claims for refunds payable to U.S. shareholders under the Treaty collectively to the German tax authorities on behalf of these U.S. shareholders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to the Depository Trust Company, which will redistribute these amounts to the U.S. shareholders according to the regulations governing the procedure. The Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to the Depository Trust Company. Details of this collective procedure are available from the Depository Trust Company. This procedure is currently permitted by German tax authorities but that permission may be revoked, or the procedure may be amended, at any time in the future.

Individual claims for refunds may be made on a special German form, which must be filed with the German Federal Tax Office (*Bundeszentralamt für Steuern,* An der Küppe 1, D-53225 Bonn, Germany) within four years from the end of the calendar year in which the dividend is received. Copies of the required forms may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, NW, Washington D.C. 20007-1998. As part of the individual refund claim, a U.S. shareholder must submit to the German tax authorities the original withholding certificate (or a certified copy thereof) issued by the paying agent documenting the tax withheld and an official certification of United States tax residency on IRS Form 6166. IRS Form 6166 generally may be obtained by filing a properly completed IRS Form 8802 with the Internal Revenue Service, P.O. Box 71052, Philadelphia, PA 19176-6052. Requests for certification must include the U.S. shareholder s name, Social Security Number or Employer Identification Number, the type of U.S. tax return filed, the tax period for which the certification is requested and a user fee of $35. An online payment option is also available. The Internal Revenue Service will send the certification on IRS Form 6166 to the U.S. shareholder who then must submit the certification with the claim for refund.

Taxation of Capital Gains

In case of an acquisition of shares and ADSs prior to January 1, 2009, capital gains from the disposition of such shares and ADSs realized by a Non-German shareholder other than a corporation are subject to German tax only if (i) such shareholder at any time during the five years preceding the disposition held directly or indirectly an interest of 1 percent or more in a company s issued share capital; if the shareholder has acquired the shares or ADSs without consideration, the previous owner s holding period and size of shareholding will also be taken into account, or (ii) the shareholder has acquired the shares no earlier than 12 months before the disposition. After 2008, the disposition of shares acquired after December 31, 2008 will be generally subject to German tax.

If the shareholder is an individual, 100 percent of the capital gain realized will be taxable, but generally at a uniform tax rate of 25 percent plus solidarity surcharge of 5.5 percent (in total: 26.375 percent). If the shareholder is a corporation, effectively 5 percent of the capital gain will generally be taxable. However, most German tax treaties, including the Treaty, provide that Non-German shareholders who are beneficiaries under the respective treaty are generally not subject to German tax even under the circumstances described in the preceding paragraph.

Special rules may apply to certain companies of the finance or insurance sector (including pension funds) that are not protected from German tax under a tax treaty.

Inheritance and Gift Tax

Under German domestic law, the transfer of shares or ADSs will be subject to German inheritance or gift tax on a transfer by reason of death or as a gift if:

(a) the donor or transferor or the heir, donee or other beneficiary is resident in Germany at the time of the transfer, or, if a German citizen, was not continuously outside of Germany and without German residence for more than five years; or

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(b) at the time of the transfer, the shares or ADSs are held by the decedent or donor as assets of a business for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(c) the decedent or donor has held, alone or together with related persons, directly or indirectly, 10 percent or more of a company s registered share capital at the time of the transfer.

The few presently existing German estate tax treaties (e.g. the Estate Tax Treaty with the United States) usually provide that German inheritance or gift tax may only be imposed in cases (a) and (b) above.

Other Taxes

There are no transfer, stamp or similar taxes which would apply to the sale or transfer of the shares or ADSs in Germany. Net worth tax is no longer levied in Germany.

United States Taxation

The following discussion is a summary of the material United States federal tax consequences of the purchase, ownership and disposition of shares or ADSs. This summary addresses only U.S. Holders (as defined below) that hold shares or ADSs as capital assets for United States federal income tax purposes and that use the U.S. dollar as their functional currency.

As used in this document, the term U.S. Holder means a beneficial owner of shares or ADSs that is for United States federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation, formed under the laws of the United States or any state thereof or the District of Columbia; or

an estate or trust, the income of which is subject to United States federal income taxation regardless of its source.

The tax consequences to a partner in a partnership holding shares or ADSs will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership that holds shares or ADSs, you are urged to consult your own tax advisor regarding the specific tax consequences of the purchase, ownership and disposition by the partnership of shares or ADSs.

The following summary is of a general nature and does not address all of the tax consequences that may be relevant to you if you are a member of a special class of holders, some of which may be subject to special rules, such as banks or other financial institutions, insurance companies, regulated investment companies, securities brokers-dealers, traders in securities that elect to use a mark-to-market method of accounting for security holdings, persons who are owners of an interest in a partnership or other pass-through entity that is a holder of shares or ADSs, tax-exempt entities, holders owning directly, indirectly or by attribution 10 percent or more of our voting shares, persons holding shares or ADSs as part of a hedging, straddle, conversion or constructive sale transaction or other integrated investment, persons who receive shares or ADSs as compensation, or persons who are resident in Germany for German tax purposes, hold the shares or ADSs in connection with the conduct of business through a permanent establishment in Germany, or perform personal services through a fixed base in Germany.

In addition, this summary does not discuss the tax consequences of the exchange or other disposition of foreign currency in connection with the purchase or disposition of shares or ADSs.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the Treaty, all as currently in effect and all subject to change at any time, possibly with retroactive effect, or to different interpretation. There can be no assurance that the U.S. Internal Revenue Service (the IRS) will not challenge one or more of the tax consequences described in this summary, and we have not obtained,

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nor do we intend to obtain, a ruling from the IRS with respect to the United States federal income tax consequences of the purchase, ownership or disposition of shares or ADSs. In addition, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

In general, for U.S. federal income tax purposes and for purposes of the Treaty, holders of ADSs will be treated as the owners of our shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

For United States federal income tax purposes, the gross amount of cash distributions (including the amount of foreign taxes, if any, withheld therefrom) paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as dividend income on the date of receipt. Dividends paid by us will be treated as foreign source income and will not be eligible for the dividends received deduction generally allowed to corporate shareholders under United States federal income tax law. Distributions in excess of our earnings and profits will be treated, for United States federal income tax purposes, first as a nontaxable return of capital to the extent of your tax basis in the shares or ADSs, and thereafter as capital gain. The amount of any dividend paid in a non-United States currency will be equal to the United States dollar value of the non-United States currency on the date of receipt, regardless of whether you convert the payment into United States dollars. You will have a tax basis in the non-United States currency distributed equal to such United States dollar amount. Gain or loss, if any, recognized by you on the sale or disposition of the non-United States currency generally will be United States source ordinary income or loss.

Dividend income is generally taxed as ordinary income. However, a maximum United States federal income tax rate of 15 percent will apply to qualified dividend income received by individuals (as well as certain trusts and estates) in taxable years beginning before January 1, 2011, provided that certain holding period requirements are met. Qualified dividend income includes dividends paid on shares of United States corporations as well as dividends paid on shares of qualified foreign corporations if, among other things: (i) the shares of the foreign corporation are readily tradable on an established securities market in the United States; or (ii) the foreign corporation is eligible with respect to substantially all of its income for the benefits of a comprehensive income tax treaty with the United States which contains an exchange of information program (a qualifying treaty). We believe we are currently eligible for the benefits of the Treaty, and the IRS has determined that the Treaty is a qualifying treaty. Accordingly, we believe that dividends paid by us with respect to our shares and ADSs should constitute qualified dividend income for United States federal income tax purposes, provided that the holding period requirements are satisfied and none of the other special exceptions applies.

Any foreign tax withheld from a distribution will generally be treated as a foreign income tax that you may elect to deduct in computing your United States federal taxable income or, subject to certain complex conditions and limitations which must be determined on an individual basis by each U.S. Holder, credit against your United States federal income tax liability. The limitations include, among others, rules that may limit foreign tax credits allowable with respect to specific categories of income to the United States federal income taxes otherwise payable with respect to each such category of income. Dividends paid by us generally will be foreign source income and will generally constitute passive category income, but could, in the case of certain U.S. Holders, constitute general category income for foreign tax credit purposes.

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders of shares or ADSs generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder s U.S. dollar basis in the shares or ADSs. Any such capital gain or loss will be a long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the shares or ADSs were held for more than one year. The deductibility of capital losses is subject to limitations.

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Information Reporting and Backup Withholding

Dividends paid in respect of shares or ADSs, and payments of the proceeds of a sale, exchange, redemption or other disposition of shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries (generally an IRS Form W-8BEN). Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder s U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS and furnishing any required information.

United States Gift and Estate Taxes

An individual U.S. Holder generally will be subject to United States gift and estate taxes with respect to the shares or ADSs in the same manner and to the same extent as with respect to other types of personal property.

Exchange Controls and Limitations Affecting Shareholders

Germany does not currently restrict the movement of capital between Germany and other countries, except for prohibitions on the provision of financial aid or capital to certain individuals and in connection with banned weapons-related transactions to Belarus, Burma/Myanmar, Iran, Ivory Coast, Democratic Republic of the Congo, Lebanon, Liberia, Democratic People s Republic of Korea, Somalia, Sudan, Uzbekistan and Zimbabwe. Germany also imposes certain restrictions on the movement of capital to Iraq, as well as the provision of financial aid or capital to the Taliban and Al Qaeda. Similar provisions have been imposed with regard to certain individuals in order to support the mandate of the International Criminal Tribunal for the Former Yugoslavia. Further information can be found in German at http://www.bundesbank.de/finanzsanktionen/finanzsanktionen.php.

For statistical purposes, with some exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident corporation or individual if the payment exceeds 12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against, or liabilities payable to, a non-resident corporation or individual exceeding an aggregate of 5.0 million (or the equivalent in a foreign currency) at the end of any calendar month.

Neither German law nor the Articles of Association restrict the right of non-resident or foreign owners of shares to hold or vote the shares.

Change of Control Provisions

Our guaranteed subordinated convertible notes due 2010 that were issued by our subsidiary Infineon Technologies Holding B.V. and our guaranteed subordinated convertible notes due 2014 that were issued by our subsidiary Infineon Technologies Holding B.V. (for further information see note 27 to our consolidated financial statements), each contain a change of control clause, which grants the note holders an early redemption option in the event of a change of control (as defined).

In addition, some of the cross-license agreements and development agreements of our company contain change of control clauses pursuant to which the counterparty is entitled to terminate the agreement which require the other party s approval of the change of control.

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We have also entered into change of control provisions with the members of the Management Board, which are designed to protect the members of the Management Board and to contribute to their independence in the event of a change of control. For further information see *Management Compensation Compensation of the Management Board Commitments to the Management Board upon termination of employment* .

Documents on Display

Our company is subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act). In accordance with these requirements, we file reports and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549, and at the SEC s regional offices in Chicago, Illinois and New York, NY. The public may obtain information on the operation of the SEC s Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports and other information regarding registrants. Material filed by us with the SEC can also be inspected at the offices of Deutsche Bank as depositary for our ordinary shares, at 60 Wall Street, New York, NY 10005.

Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2009. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2009, our company s disclosure controls and procedures were (1) designed to ensure that material information relating to our company, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Management s Annual Report on Internal Control over Financial Reporting

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and board of our company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company s assets that could have a material effect on our financial statements.

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Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control Integrated Framework. Based on our assessment, management concluded that, as of September 30, 2009, our internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal control over financial reporting as of September 30, 2009, has been audited by our independent registered public accounting firm, KPMG AG Wirtschaftsprüfungsgesellschaft. Their report thereon appears on page F-2 of this Annual Report on Form 20-F.

Changes in Internal Controls Over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal year ended September 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations

There are inherent limitations to the effectiveness of any system of disclosure and internal controls, including the possibilities of faulty judgments in decision-making, simple error or mistake, fraud, the circumvention of controls by individual acts or the collusion of two or more people, or management override of controls. Accordingly, even an effective disclosure and internal control system can provide only reasonable assurance with respect to disclosures and financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of a disclosure and internal control system may vary over time.

Audit Committee Financial Expert

Our Supervisory Board has determined that Mr. Kley and Dr. Luther are audit committee financial experts , as such term is defined by the regulations of the U.S. Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002, and are independent , as such term is defined in Rule 10A-3 under the Exchange Act.

Code of Ethics

We have adopted a code of ethics (as a part of our Business Conduct Guidelines) that applies to all of our employees worldwide, including our principal executive officer, principal financial officer and principal accounting officer within the meaning of Item 16B of Form 20-F. These guidelines provide rules and conduct guidelines aimed at ensuring high ethical standards throughout our organization. You may obtain a copy of our code of ethics, at no cost, by writing to us at Infineon Technologies AG, Am Campeon 1-12, D-85579 Neubiberg, Germany, Attention: Legal Department.

Principal Accountant Fees and Services

Audit Fees. KPMG, our independent auditors, charged us an aggregate of 5.2 million in the 2008 fiscal year and 1.9 million in the 2009 fiscal year in connection with professional services rendered for the audit of our annual consolidated financial statements and of internal control over financial reporting and services normally provided by them in connection with statutory and regulatory filings or other compliance engagements. These services consisted of quarterly review engagements and the annual audit.

Audit-Related Fees. In addition to the amounts described above, KPMG charged us an aggregate of 1.3 million in the 2008 fiscal year and 1.8 million in the 2009 fiscal year for assurance and related services in connection with the

performance of the audit of our annual consolidated financial statements. These services consisted of transaction and accounting advisory services, comfort letters, IT system audits and services related to the transition to IFRS.

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Tax Fees. In addition to the amounts described above, KPMG charged us an aggregate of less than 0.1 million in the 2008 fiscal year and less than 0.1 million in the 2009 fiscal year for professional services related primarily to tax compliance.

The above services fall within the scope of audit and permitted non-audit services within the meaning of section 201 of the Sarbanes-Oxley Act of 2002. Our Investment, Finance and Audit Committee has pre-approved KPMG s performance of these audit and permitted non-audit services and set limits on the types of services and the maximum cost of these services in any fiscal year. KPMG reports to our Investment, Finance and Audit Committee on a quarterly basis on the type and extent of non-audit services provided during the period and compliance with these criteria.

Exemptions from the Listing Standards for Audit Committees

As permitted by the rules of the U.S. Securities and Exchange Commission, our audit committee includes one member who is a non-executive employee of our company and who is named to our Supervisory Board pursuant to the German law on employee co-determination. We believe that our reliance on this exemption from the listing standards for audit committees does not materially adversely affect the ability of our audit committee to act independently.

Material Contracts

This section provides a summary of material contracts not in the ordinary course of business to which we are a party and that have been entered into during the two immediately preceding fiscal years. Our joint venture and strategic alliance agreements set out in *Business Strategic Alliances and Other Collaborations* contain additional information regarding our material contracts. In addition, please see *Related Party Transactions* for a summary of material contracts with certain of our related parties.

Real Estate Leasing Contract with MoTo Object CAMPEON GmbH & Co. KG

On December 23, 2003, we 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 us to centralize the majority 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 under an operating lease arrangement in October 2005 and completed the gradual move of our employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, we have 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, we placed a rental deposit of 75 million in escrow, which is included in restricted cash as part of the Other Financial Assets line item on our balance sheet as of September 30, 2009. Lease payments are subject to limited adjustment based on specified financial ratios related to us. The agreement was accounted for as an operating lease, in accordance with IAS 17 Leases , with monthly lease payments expensed on a straight-line basis over the lease term.

Backstop Arrangement

In connection with the rights offering launched on July 16, 2009 and completed in August 2009, we and a financial investor entered into an investment agreement on July 10, 2009 pursuant to which the financial investor agreed, subject to certain conditions, to subscribe for all unsubscribed shares in the capital increase. Upon completion of the capital increase, the financial investor acquired approximately 14 million new shares, representing approximately 1.3 percent of our total share capital. Under the investment agreement, if the financial investor acquired shares

representing 25 percent or less of our outstanding share capital, we were required to pay the financial investor an amount equal to the sum of (i) 5.5 million plus (ii) an amount of 0.057 per share by which the number of shares acquired by the financial investor fell short of 25 percent plus one share of our outstanding share capital. Accordingly, we paid the

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financial investor approximately 20.2 million under the investment agreement. For more information regarding the investment agreement, please see *Description of the Offering Backstop Arrangement* in the Registration Statement on Form F-3 filed by us with the U.S. Securities and Exchange Commission on July 16, 2009 (file no. 333-160601).

Divestiture of Wireline Communications Business

On July 7, 2009, we entered into an asset purchase agreement to sell our Wireline Communications business, which closed on November 6, 2009. See *Business Acquisitions, Dispositions and Discontinued Operations Divestiture of the Wireline Communications Business.*

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GLOSSARY

200-millimeter manufacturing, 300-millimeter manufacturing	The size refers to the diameter of the wafers being processed in a front-end fab.
2G	2G is short for second-generation wireless telephone technology. Subsequent to the first generation (analog), 2G digital signals offer improved overall sound quality and numerous data services. Second generation mobile communications in Europe is also referred to as GSM.
3G	See UMTS .
x -nanometer technology	The size refers to the structure size of the manufacturing process used in a front-end fab.
A-GPS	Assisted Global Positioning System. GPS uses a network of satellites to triangulate a receiver s position and provide latitude and longitude coordinates. Assisted GPS, or A-GPS, is a technology that uses an assistance server to cut down the time needed to find the location.
AC/DC, DC/DC	Electrical current appears as alternating current (AC) or as direct current (DC). In alternating current the movement of electric charge periodically reverses direction, whereas in direct current the movement of electric charge is only in one direction. AC/DC refers to the conversion from alternating current to direct current. DC/DC refers to the change in voltage from one direct current to another one.
ADSL, ADSL2, ADSL2+	Asymmetric Digital Subscriber Line. A form of Digital Subscriber Line (see xDSL) in which the bandwidth available for downloading data is significantly larger than for uploading data. This technology is well suited for web browsing and client server applications as well as for emerging applications such as video on demand. There are different ADSL standards deployed differing in the downstream and upstream rates.
analog	A continuous representation of phenomena in terms of points along a scale, each point merging imperceptibly into the next. Analog signals vary continuously over a range of values. Real world phenomena, such as heat and pressure, are analog. See also digital .
ASIC	Application Specific Integrated Circuit. A logic or mixed-signal circuit designed for a specific use and for a specific customer.
ASSP	Application Specific Standard Product. A logic or mixed-signal circuit designed for a specific application market, and sold to more than one customer, and thus, standard.
Back-end	

	The packaging, assembly and testing stages of the semiconductor manufacturing process, which take place after electronic circuits are imprinted on silicon wafers in the front-end process.
Baseband IC	The baseband IC is an essential part of a cell phone. It includes a digital signal processor, a microcontroller, some on-chip memory, interfaces to several external devices, and mixed-signal functionality like a coder/decoder for speaker and microphone.
Bit	A unit of information; a computational quantity (binary pulse) that can take one of two values, such as true and false or 0 and 1; also the smallest unit of storage sufficient to hold one bit.

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Broadband	Any network technology that combines and sorts multiple, independent network frequencies onto a single cable. Commonly used to refer to high-bandwidth copper or fiber cables with a bandwidth of 1 Mbit per second and above.
CAT-iq	Cordless Advanced Technology internet and quality. CAT-iq was created by the DECT forum, and allows standard cordless DECT phones to be used for VoIP. It is a technology made to bring together broadband internet and telephony. This convergence is also part of the fixed mobile convergence .
Chip cards	Cards that contain an IC. Frequently used for telephone cards, debit cards, SIM cards, social cards, identification cards and Pay-TV cards.
CMOS	Complementary Metal Oxide Substrate technology. A process technology that uses complementary MOS transistors (NMOS and PMOS) to make a chip that will consume relatively low power and permit a high level of integration.
CO	Central Office. A common carrier switching office in which users lines terminate. The nerve center of a telephone system.
Contactless chip card	In contrast to contact-based chip cards, contactless chip cards communicate with the card reader through induction technology. Contactless cards require only close proximity to an antenna to complete a transaction.
CODEC	Coder/Decoder. Hardware used to code and decode digital signals.
CPE	Customer Premises Equipment. CPE is telephone or other service provider equipment that is located on the customer s premises (physical location) rather than on the provider s premises or in between.
DECT	Digital Enhanced Cordless Telecommunications. A standard used for pan-European digital cordless telephones.
digital	The representation of data by a series of bits or discrete values such as 0 and 1. See also analog .
Discrete semiconductors	Semiconductor devices that involve only a single device like a transistor or a diode.
DigRF	A digital interface intended for the cellular market. The DigRF standard specifies a digital serial interface between the RF transceiver and the baseband chip, which replaces the analog interface in previous gene