INFINEON TECHNOLOGIES AG
Form 6-K
February 02, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
February 2, 2007
INFINEON TECHNOLOGIES AG

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________.

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This Report on Form 6-K dated February 2, 2007, contains a quarterly report of Infineon Technologies AG for the Company s fiscal first quarter of the 2007 financial year.

INFINEON TECHNOLOGIES AG
QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
DECEMBER 31, 2006

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Overview Of Financial Results
Fiscal First Quarter 2007

Infineon group s revenues for the quarter were Euro 2.13 billion. Revenues for Infineon excluding Qimonda were Euro 958 million.

Infineon group s EBIT was Euro 216 million. Excluding Qimonda, the EBIT loss was Euro 9 million. Net charges in the fiscal first quarter 2007 were insignificant.

Infineon group s net income was Euro 120 million, resulting in diluted earnings per share of Euro 0.15.

For the fiscal second quarter 2007, Infineon expects revenues and EBIT for its businesses excluding Qimonda, before charges, to remain at least flat compared to the fiscal first quarter. Following the loss of business as a result of the insolvency of BenQ Mobile s German subsidiary, Infineon is implementing restructuring measures and currently expects that related charges will be recorded in the second quarter, rather than the first quarter as originally expected. Such charges will be significantly lower than the Euro 30 million originally anticipated.

For the fiscal first quarter 2007, Infineon Technologies AG s revenues were Euro 2.13 billion, decreasing 7 percent sequentially but increasing 27 percent year-on-year. Revenues of Infineon excluding Qimonda were Euro 958 million, decreasing 9 percent from Euro 1.06 billion in the prior quarter and 4 percent from Euro 996 million in the same quarter last year. As expected, revenues in both the Communication Solutions and the Automotive, Industrial & Multimarket segments declined.

Infineon group s EBIT increased to Euro 216 million in the fiscal first quarter 2007, up from Euro 30 million in the prior quarter and negative Euro 122 million in the same quarter last year. Infineon excluding Qimonda incurred an EBIT loss of Euro 9 million in the fiscal first quarter 2007. Net charges in the fiscal first quarter 2007 were insignificant. EBIT loss for Infineon excluding Qimonda was Euro 174 million in the prior quarter, including charges of Euro 164 million, mainly resulting from the IPO of Qimonda and the insolvency of BenQ Mobile s German subsidiary. Before these charges, the fourth quarter 2006 EBIT loss excluding Qimonda would have been Euro 11 million.

Infineon group s net income was Euro 120 million in the fiscal first quarter 2007, compared to net loss of Euro 36 million in the previous quarter and Euro 183 million in the same quarter last year.

Basic and diluted earnings per share in the fiscal first quarter 2007 increased to Euro 0.16 and Euro 0.15, respectively, from basic and diluted loss per share of Euro 0.05 in the previous quarter and Euro 0.25 in the same quarter last year.

Segments Fiscal First Quarter 2007 Performance and Outlook

Revenues

Segment revenue developments during the fiscal first quarter 2007 as compared to the previous quarter and the fiscal first quarter 2006 were as follows:

In the fiscal first quarter 2007, the Automotive, Industrial & Multimarket segment performed slightly better than originally anticipated. It reported revenues of Euro 710 million, a 4 percent decrease compared to the prior quarter and a 9 percent increase compared to the same quarter last year. As anticipated, seasonal effects and weak U.S. car production led to a decline in revenues in the automotive business. The industrial & multimarket and security & ASIC businesses in total remained flat as expected.

Fiscal first quarter revenues in the Communication Solutions segment were Euro 236 million, a 21 percent decrease from the prior quarter and a 29 percent decrease from the same quarter last year. The decrease in revenues during the first quarter was in line with expectations, reflecting the anticipated large decline of revenues from BenQ Mobile following the insolvency of its German subsidiary. In addition, the wireless business saw the typical start of the seasonally weaker period. Revenues in the broadband access business remained broadly flat relative to the prior quarter.

Qimonda achieved revenues of Euro 1.17 billion in the fiscal first quarter 2007, decreasing 5 percent from the prior quarter but increasing 73 percent from the same quarter last year.

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Fiscal first quarter revenues in the Other Operating Segments were Euro 70 million, decreasing 10 percent from the prior quarter but increasing 4 percent from the same quarter last year. Effective May 1, 2006, with the completion of the Qimonda carve-out, Other Operating Segments revenues primarily consist of sales of wafers from Infineon s 200-millimeter production facility in Dresden to Qimonda under foundry agreements, which are eliminated in the Corporate and Eliminations segment.

Net Sales by Segment for the First Quarter of the Fiscal Year (in millions of euro)

Earnings

The Automotive, Industrial and Multimarket segment s fiscal first quarter EBIT decreased to Euro 55 million from Euro 64 million in the previous quarter but increased from Euro 51 million in the same quarter last year. Seasonal effects and weak U.S. car production led to a sequential decline in EBIT in the automotive business.

The Communication Solutions segment s EBIT loss in the fiscal first quarter was Euro 57 million, decreasing from a loss of Euro 120 million in the previous quarter but increasing from a loss of Euro 21 million in the same quarter last year.

Qimonda s fiscal first quarter EBIT after minority interests was Euro 225 million compared to EBIT of Euro 204 million in the fiscal fourth quarter 2006 and EBIT loss of Euro 123 million in the same quarter last year.

The Other Operating Segments EBIT loss in the fiscal first quarter was Euro 3 million, compared to positive Euro 3 million in the previous quarter and positive Euro 2 million in the same quarter last year.

In Corporate and Eliminations, EBIT loss in the fiscal first quarter 2007 was Euro 4 million. Net charges in the fiscal first quarter 2007 were insignificant. EBIT loss in the prior quarter was Euro 121 million, and included charges of Euro 86 million, mainly in connection with the IPO of Qimonda, restructuring measures in some of the company s production facilities, and impairments of long-lived assets. EBIT loss in the same quarter last year was Euro 31 million.

Expenses

Expenditures for Research and Development in the fiscal first quarter totaled Euro 292 million, decreasing sequentially from Euro 303 million, primarily due to a decrease in research and development expenses in the Communication Solutions and Qimonda segments. As a percentage of revenues, research and development expenses increased sequentially to 14 percent from 13 percent.

Expenses for SG&A (Selling, General & Administrative) in the fiscal first quarter decreased to Euro 172 million or 8 percent of revenues, in comparison to Euro 219 million or 10 percent of revenues in the prior quarter. The decrease was primarily related to charges incurred in the previous quarter in connection with the insolvency of BenQ s German subsidiary.

Liquidity

Free cash flow, representing cash flows from operating and investing activities excluding purchases or sales of marketable securities, decreased significantly in the fiscal first quarter 2007 to Euro 16 million from Euro 194 million in the previous quarter. The primary reasons for the decrease were lower cash flows provided by operating activities, which decreased from Euro 427 million in the previous quarter to Euro 318 million in the fiscal first quarter 2007, and cash flows used in investing activities excluding purchases or sales of marketable securities, which increased from Euro 233 million in the previous quarter to Euro 302 million in the fiscal first quarter. Gross cash position as of December 31, 2006, representing cash and cash equivalents and marketable securities, remained substantially unchanged at Euro 2.7 billion. In addition, net cash position, defined as gross cash position

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less short and long-term debt, increased sequentially from Euro 650 million to Euro 660 million as of the end of the fiscal first quarter 2007.

Outlook for the Fiscal Second Quarter 2007

In the fiscal second quarter 2007, Infineon expects revenues and EBIT for its businesses excluding Qimonda, and prior to inclusion of charges, to remain at least flat compared to the fiscal first quarter.

Infineon expects a return to growth in its Automotive, Industrial & Multimarket segment in the fiscal second quarter 2007. The company foresees a slight increase in revenues quarter-on-quarter and an improved EBIT margin. With improving seasonality, the company anticipates that revenues in its automotive business will increase compared to the fiscal first quarter, despite continued weakness in the U.S. car market. Results in its industrial & multimarket and security & ASIC businesses are expected to remain broadly on the same level as in the previous quarter.

In the fiscal second quarter 2007, Infineon expects revenues and EBIT of the Communication Solutions segment to remain broadly unchanged compared to the previous quarter. Continued customer ramp-ups in the company s mobile phone platform business are likely to offset the typical seasonal decline in the wireless business. In the broadband access business, revenues are anticipated to remain stable. Implemented measures for cost reductions in the mobile platform business are likely to contribute to EBIT improvements in the fiscal third quarter 2007.

Qimonda expects its bit production to grow between 8 to 12 percent in the fiscal second quarter 2007. Qimonda expects this bit growth to be based on improved productivity as a result of the continued conversion of capacities to 90-nanometer-technology and smaller technologies. Qimonda also expects to maintain its share of bit-shipments for use in non-PC applications significantly above 50 percent in the second fiscal quarter and for its full 2007 fiscal year.

In the fiscal second quarter 2007, Infineon expects revenues and EBIT in Other Operating Segments and Corporate and Eliminations before charges to remain broadly unchanged relative to the previous quarter. The company currently expects that charges in connection with the restructuring of its baseband operations following the insolvency of BenQ Mobile s German subsidiary will be recorded in the second quarter, rather than the first quarter as originally expected. The company is still implementing measures aimed at lowering the overall level of charges while maintaining the targeted savings, and currently expects that these charges will be significantly lower than the Euro 30 million originally anticipated. The Corporate and Eliminations segment will continue to reflect intra-group elimination of sales between Infineon and Qimonda.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended December 31, 2005 and 2006
(in millions, except for per share data)

	December 31, 2005	December 31, 2006	December 31, 2006
	(millions)	(millions)	($ millions)
Net sales	1,674	2,131	2,812
Cost of goods sold	1,350	1,465	1,933
Gross profit	324	666	879
Research and development expenses	311	292	384
Selling, general and administrative expenses	173	172	227
Restructuring charges	2	2	3
Operating (loss) income	(162)	200	265
Interest expense, net	(21)	(9)	(12)
Equity in earnings of associated companies, net	17	37	49
Other non-operating income, net	24	6	8
Minority interests	(1)	(27)	(36)
Income (loss) before income taxes	(143)	207	274
Income tax expense	(40)	(87)	(115)
Net (loss) income	(183)	120	159
Basic (loss) earnings per share	(0.25)	0.16	0.21
Diluted (loss) earnings per share	(0.25)	0.15	0.20

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
September 30, 2006 and December 31, 2006

	September 30, 2006	December 31, 2006	December 31, 2006
	(millions)	(millions)	($ millions)
Assets:			
Current assets:			
Cash and cash equivalents	2,040	2,047	2,702
Marketable securities	615	635	838
Trade accounts receivable, net	1,245	1,093	1,442
Inventories	1,202	1,310	1,729
Deferred income taxes	97	91	120
Other current assets	482	564	744
Total current assets	5,681	5,740	7,575
Property, plant and equipment, net	3,764	3,732	4,924
Long-term investments	659	657	867
Restricted cash	78	78	103
Deferred income taxes	627	609	804
Other assets	376	346	457
Total assets	11,185	11,162	14,730
Liabilities and shareholders equity:			
Current liabilities:			
Short-term debt and current maturities	797	800	1,057
Trade accounts payable	1,245	1,214	1,602
Accrued liabilities	562	535	706
Deferred income taxes	26	23	30
Other current liabilities	675	633	835
Total current liabilities	3,305	3,205	4,230
Long-term debt	1,208	1,222	1,612
Deferred income taxes	60	55	73
Other liabilities	457	416	549
Total liabilities	5,030	4,898	6,464
Minority interests	840	862	1,137
Shareholders equity:			
Ordinary share capital	1,495	1,496	1,974
Additional paid-in capital	5,828	5,836	7,702

Accumulated deficit	(1,780)	(1,660)	(2,191)
Accumulated other comprehensive loss	(228)	(270)	(356)
Total shareholders equity	5,315	5,402	7,129
Total liabilities and shareholders equity	11,185	11,162	14,730

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Consolidated Statements of Shareholders Equity
for the three months ended December 31, 2005 and 2006
(in millions of euro, except for share data)

	Issued Ordinary shares Shares	Issued Ordinary shares Amount	Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability	Unrealized gain on securities	Unrealized gain (loss) on cash flow hedge	Total
Balance as of October 1, 2005	747,569,359	1,495	5,800	(1,512)	(58)	(84)	12	(24)	5,629
Net loss				(183)					(183)
Other comprehensive (loss) income					(18)			3	(15)
Total comprehensive loss									(198)
Stock-based compensation			7						7
Balance as of December 31, 2005	747,569,359	1,495	5,807	(1,695)	(76)	(84)	12	(21)	5,438
Balance as of October 1, 2006	747,609,294	1,495	5,828	(1,780)	(127)	(87)	5	(19)	5,315
Net income				120					120
Other comprehensive income (loss)					(42)				(42)
Total comprehensive income									78

Issuance of ordinary shares:									
Exercise of stock options	219,355	1	1						2
Stock-based compensation			5						5
Deferred compensation, net			2						2
Balance as of December 31, 2006	747,828,649	1,496	5,836	(1,660)	(169)	(87)	5	(19)	5,402

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended December 31, 2005 and 2006

	December 31, 2005	December 31, 2006	December 31, 2006
	(millions)	(millions)	($ millions)
Net (loss) income	(183)	120	159
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	338	323	427
Provision for doubtful accounts		(9)	(12)
Gain on sale of businesses	(1)	(2)	(3)
Gain on disposal of property, plant, and equipment	(2)	(2)	(3)
Equity in earnings of associated companies, net	(17)	(37)	(49)
Minority interests	1	27	36
Stock-based compensation	7	5	7
Deferred income taxes	24	17	22
Changes in operating assets and liabilities:			
Trade accounts receivable	59	143	189
Inventories	(100)	(118)	(156)
Other current assets	(45)	(39)	(51)
Trade accounts payable	102	(27)	(36)
Accrued liabilities	54	(21)	(28)
Other current liabilities	(85)	(39)	(51)
Other assets and liabilities	(50)	(23)	(31)
Net cash provided by operating activities	102	318	420
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(63)	(83)	(110)
Proceeds from sale of marketable securities available for sale	172	62	82
Proceeds from sale of businesses	6	27	36
Investment in associated and related companies		(1)	(1)
Cash increase from initial consolidation of ALTIS	119		
Purchases of intangible assets	(1)	(6)	(8)
Purchases of property, plant and equipment	(405)	(326)	(430)
Proceeds from sales of property, plant and equipment	4	4	5
Net cash used in investing activities	(168)	(323)	(426)

Cash flows from financing activities:			
Net change in short-term debt	3		
Net change in related party financial receivables and payables		(2)	(3)
Proceeds from issuance of long-term debt	55	29	39
Principal repayments of long-term debt	(4)	(2)	(3)
Proceeds from issuance of ordinary shares		4	5
Net cash provided by financing activities	54	29	38
Effect of foreign exchange rate changes on cash and cash equivalents	2	(17)	(22)
Net increase (decrease) in cash and cash equivalents	(10)	7	10
Cash and cash equivalents at beginning of period	1,148	2,040	2,692
Cash and cash equivalents at end of period	1,138	2,047	2,702

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
(euro in millions, except where otherwise stated)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Infineon Technologies AG and its subsidiaries (Infineon or the Company) as of and for the three months ended December 31, 2005 and 2006, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. In addition, although the condensed consolidated balance sheet as of September 30, 2006 was derived from audited financial statements, it does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows of the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full fiscal year. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2006. The accounting policies applied in preparing the accompanying condensed consolidated financial statements are consistent with those for the year ended September 30, 2006 (see note 2).

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

All amounts herein are shown in millions of euro ( ) other than percentages, shares, per share amounts or where otherwise stated. The accompanying condensed consolidated balance sheet as of December 31, 2006, and the condensed consolidated statements of operations and cash flows for the three months then ended are also presented in U.S. dollars ($), solely for the convenience of the reader, at the rate of one euro = $1.3197, the U.S. Federal Reserve noon buying rate on December 29, 2006.

2. Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections* . SFAS No. 154 replaces Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes* , and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* , and changes the requirements for the accounting and reporting of a change in accounting principle. The Company adopted SFAS No. 154 on October 1, 2006. The adoption of SFAS No. 154 did not have a significant impact on the Company s consolidated financial position or results of operations.

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

In September 2006, the FASB released SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors requests

Infineon Technologies AG and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

(euro in millions, except where otherwise stated)

for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 is effective for the Company for fiscal years beginning after October 1, 2008, and interim periods within those fiscal years. The Company is in the process of evaluating the impact that the adoption of SFAS No. 157 will have on its consolidated financial position and results of operations.

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

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

3. Restructuring

During October 2006, following the insolvency of one of the Company s largest mobile phone customers, BenQ Mobile GmbH & Co OHG, the Company announced restructuring plans to downsize its workforce. As a result of measures undertaken by the Company, the number of employees to be impacted by the restructuring is expected to be substantially lower than initially estimated. The exact amount of the restructuring charges can not be estimated at this time due to the early stage of the negotiations with works councils.

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
(euro in millions, except where otherwise stated)

The development of the restructuring liability is as follows:

	September 30, 2006 Liabilities	Restructuring Charges	Payments	December 31, 2006 Liabilities
Employee terminations	57	2	(3)	56
Other exit costs	6		(1)	5
Total	63	2	(4)	61

4. Income Taxes

Income (loss) before income taxes and minority interest is attributable to the following geographic locations:

	Three months ended December 31,	
	2005	2006
Germany	(187)	71
Foreign	45	163
Total	(142)	234

Income tax expense is as follows:

	Three months ended December 31,	
	2005	2006
Current taxes:		
Germany	3	44
Foreign	13	26
	16	70
Deferred taxes:		
Germany	23	11
Foreign	1	6
	24	17

Income tax expense	40	87

In the three months ended December 31, 2005 and 2006, respectively, the tax expense of the Company is affected by lower foreign tax rates and valuation allowances in certain jurisdictions where the Company had incurred a cumulative loss over a three-year period. Additionally, in the three months ended December 31, 2006, the positive results of Qimonda in Germany lead to current tax expense as the tax loss carry forwards related to the Qimonda segment have been retained by Infineon Technologies AG in connection with the formation of Qimonda.

At December 31, 2006, the Company had in Germany tax loss carry-forwards of 2,693 (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of 1,447); in other jurisdictions the Company had tax loss carry-forwards of 201 and tax effected credit carry-forwards of 125. Such tax loss carry-forwards and tax effected credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim.

Pursuant to SFAS No. 109 *Accounting for Income Taxes* the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors,

Infineon Technologies AG and Subsidiaries
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benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company s ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three-year period as of December 31, 2006, the impact of forecasted future taxable income is excluded from such an assessment, pursuant to the provisions of SFAS No. 109. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods.

5. Earnings (Loss) Per Share

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

The computation of basic and diluted EPS is as follows (shares in million):

	Three months ended December 31,	
	2005	**2006**
Numerator:		
Net income (loss)	(183)	120
Denominator:		
Weighted-average shares outstanding-basic	747.6	747.7
Effect of dilutive instruments		68.9
Weighted-average shares outstanding-diluted	747.6	816.6
Loss per share (in euro):		
Basic	(0.25)	0.16
Diluted	(0.25)	0.15

The weighted average of potentially dilutive instruments that were excluded from the diluted earnings (loss) per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise not dilutive, include 41.0 million and 43.3 million shares underlying employee stock options for the three months ended December 31, 2005 and 2006, respectively. Additionally, 86.5 million and 18.1 million ordinary shares issuable upon the conversion of the subordinated convertible notes for the three months ended December 31, 2005 and 2006, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

6. Trade Accounts Receivable, net

Trade accounts receivable, net consist of the following:

	September 30, 2006	December 31, 2006
Third party trade	1,304	1,131
Associated and Related Companies trade (note 13)	8	9
Trade accounts receivable, gross	1,312	1,140
Allowance for doubtful accounts	(67)	(47)
Trade accounts receivable, net	1,245	1,093

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
(euro in millions, except where otherwise stated)

7. Inventories

Inventories consist of the following:

	September 30, 2006	December 31, 2006
Raw materials and supplies	125	147
Work-in-process	777	785
Finished goods	300	378
Total Inventories	1,202	1,310

8. Long-term Investments

The agreement governing the joint venture with Nanya Technology Corporation (Nanya) allows Infineon to transfer its shares in Inotera to Qimonda. However, under Taiwanese law, Infineon s shares in Inotera are subject to a compulsory restriction on transfer (lock-up) as a result of Inotera s initial public offering (IPO). Infineon may only transfer these shares to Qimonda gradually over the four years following Inotera s IPO. The Company has sought an exemption from this restriction that would permit the immediate transfer of all of these shares to Qimonda. In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which Infineon holds shares in Inotera in trust for Qimonda until the shares can legally be transferred. This trust agreement provides for Infineon to transfer the shares to Qimonda as and when the transfer restrictions expire or Infineon receives an exemption from the statutory lock-up. During October 2006, the Taiwanese authorities granted an exemption to the Company to transfer the shares, which is expected to be finalized during the three months ending March 31, 2007.

Hwa-Keng Investment Corp., a Taiwanese company was formed for the purpose of facilitating the distribution of Inotera shares to Inotera s employees. As a result of the Inotera IPO, Hwa-Keng s business purpose has been fulfilled and therefore Hwa-Keng Investment Corp. has been dissolved. The dissolution did not have a significant financial impact on the Company.

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

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

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

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

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

On November 13, 2006 Qimonda sold its investment in Ramtron International Corp., Colorado, USA (Ramtron) in a private placement. As a result of the sale, Qimonda recorded a gain of 2 during the three months ended December 31, 2006.

9. Trade Accounts Payable

Trade accounts payable consist of the following:

	September 30, 2006	**December 31, 2006**
Third party trade	1,165	1,119
Associated and Related Companies trade (note 13)	80	95
Total	1,245	1,214

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10. Debt

Debt consists of the following:

	September 30, 2006	December 31, 2006
Short-term debt:		
Loans payable to banks, weighted average rate 3.50%	51	51
Convertible subordinated notes, 4.25%, due 2007	638	639
Current portion of long-term debt	108	110
Total short-term debt and current maturities	797	800
Long-term debt:		
Convertible subordinated notes, 5.0%, due 2010	692	693
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.56%, due 2009 2013	458	473
Secured term loans, weighted average rate 1.65%, due 2013	7	7
Other loans payable, weighted average rate 4.70%, due 2011	3	2
Notes payable to governmental entity, rate 2.35%, due 2010 2027	48	47
Total long-term debt	1,208	1,222

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

			As of December 31, 2006		
Term	Nature of financial Institution Commitment	Purpose/intended use	Aggregate facility	Drawn	Available
short-term	firm commitment	working capital, guarantees	99	51	48
short-term	no firm commitment	working capital, cash management	346		346
long-term	firm commitment	working capital	812	262	550
long-term[(1)]	firm commitment	project finance	377	377	