INFINEON TECHNOLOGIES AG
Form 6-K
August 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
August 2, 2007
INFINEON TECHNOLOGIES AG

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(Address of principal executive offices)

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 August 2, 2007, contains a quarterly report of Infineon Technologies AG for the Company s third quarter results of the 2007 fiscal year.

INFINEON TECHNOLOGIES AG

QUARTERLY REPORT
FOR THE THREE AND NINE MONTHS ENDED
June 30, 2007

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Overview Of Financial Results

Third Quarter of Fiscal Year 2007

Infineon excluding Qimonda reported revenues of Euro 1.01 billion. EBIT was Euro 13 million, up from negative Euro 28 million in the prior quarter. EBIT included charges for restructuring, largely offset by a gain from the sale of a business.

Including Qimonda, the Infineon group reported revenues of Euro 1.75 billion, a net loss of Euro 197 million, and EBIT of negative Euro 280 million for the third quarter.

Infineon expects further revenue growth in the fourth quarter of the 2007 fiscal year for its businesses excluding Qimonda, driven mainly by a further increase in mobile phone platform shipments. The company also anticipates that EBIT for its businesses excluding Qimonda will increase from the third quarter.

For the third quarter of the 2007 fiscal year, Infineon Technologies AG reported revenues of Euro 1.75 billion, down 11 percent compared to the second quarter and to the same quarter last year. Revenues of Infineon excluding Qimonda were Euro 1.01 billion, increasing 3 percent sequentially and 2 percent year on year.

The Infineon group EBIT was negative Euro 280 million in the third quarter, compared to Euro 49 million in the prior quarter and Euro 49 million in the same quarter last year. EBIT for Infineon excluding Qimonda amounted to Euro 13 million in the third quarter, up from negative Euro 28 million in the second quarter and negative Euro 51 million in the same quarter last year. The EBIT loss in the third quarter included charges of Euro 20 million for restructuring measures in manufacturing facilities and further streamlining of the company s research & development locations, largely offset by a gain of Euro 17 million related to the sale of the company s Polymer Optical Fiber (POF) business. In the prior quarter, EBIT included charges of Euro 54 million, mainly for restructuring measures and an asset write-down, partially offset by gains totaling Euro 25 million related to asset disposals and a revision to accrued personnel cost.

The Infineon group net loss was Euro 197 million in the third quarter compared to a net loss of Euro 11 million in the second quarter and a net loss of Euro 23 million in the same quarter last year.

Basic and diluted loss per share in the third quarter of the 2007 fiscal year was Euro 0.26, compared with basic and diluted loss per share of Euro 0.01 in the second quarter and Euro 0.03 in the same quarter last year.

Segment s Fiscal Third Quarter 2007 Performance and Outlook

Revenues

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

In the third quarter of the 2007 fiscal year, the Automotive, Industrial & Multimarket segment reported revenues of Euro 752 million, representing a 2 percent increase sequentially and a 5 percent increase year-on-year. As anticipated, revenues in the automotive business increased, mostly due to seasonality. The industrial & multimarket business remained broadly flat compared with the second quarter as continued demand in high-power products offset some softness in the low-power business. Infineon s security & ASIC business were in line with the prior quarter, as strength in the chip card and security business was offset by continued softness in the hard-disk-drive business.

Revenues in the Communication Solutions segment were Euro 259 million in the third quarter of the 2007 fiscal year, a 9 percent increase sequentially and a 3 percent decrease year-on-year. In the wireless business, mobile phone platform shipments increased strongly, driven both by continued ramp-ups to existing customers and the start of ramp-ups at new customers. Revenues in the broadband business decreased compared to the prior quarter, mainly due to a temporary slowdown in some infrastructure deployments, as well as customer-related inventory issues in broadband Customer Premises Equipment (CPE) following strong demand in previous quarters.

Qimonda reported revenues of Euro 740 million in the third quarter of the 2007 fiscal year, a decline of 25 percent quarter-over-quarter and a 24 percent decrease year-on-year. The sequential decrease was mainly due to a 40 percent decline in average selling prices and a weaker U.S. dollar. This decrease was only partially offset by a 28 percent growth in bit-shipments.

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Revenues in the Other Operating Segments were Euro 54 million in the third quarter of the 2007 fiscal year, increasing from Euro 50 million in the prior quarter and decreasing from Euro 73 million in 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.

Earnings Before Interest and Tax (EBIT)

EBIT developments during the third quarter of the 2007 fiscal year as compared to the previous quarter and the third quarter of the 2006 fiscal year were as follows:

The Automotive, Industrial & Multimarket segment s third quarter 2007 EBIT increased to Euro 81 million from Euro 66 million in the prior quarter and from Euro 57 million in the same quarter last year. Third quarter 2007 EBIT results included a gain of Euro 17 million related to the sale of the company s POF business.

In the third quarter of the 2007 fiscal year, EBIT in the Communication Solutions segment improved in line with the revenue increase to negative Euro 34 million, compared to negative Euro 53 in the second quarter and to negative Euro 61 million in the same quarter last year.

Qimonda reported EBIT after minority interests of negative Euro 293 million in the third quarter of the 2007 fiscal year, compared to Euro 77 million in the prior quarter and Euro 100 million in the same quarter last year, primarily as a result of the decline in average selling prices.

In the third quarter of the 2007 fiscal year, EBIT in the Other Operating Segments was negative Euro 2 million, compared to negative Euro 5 million in the prior quarter and negative Euro 2 million in the same quarter last year.

Third quarter 2007 EBIT in Corporate and Eliminations was negative Euro 32 million compared to negative Euro 36 million in the prior quarter and negative 45 million in the same quarter last year. Included in the third quarter 2007 EBIT were charges of Euro 20 million for restructuring measures in manufacturing facilities and further streamlining of the company s research & development locations. EBIT of the Corporate and Eliminations segment in the second quarter of the 2007 fiscal year included charges of Euro 54 million. These primarily consisted of restructuring charges of approximately Euro 20 million for planned downsizings, mainly in the Essonnes, France (ALTIS) manufacturing facility and in the company s baseband business following the insolvency of BenQ s German subsidiary, as well as an asset write-down of Euro 35 million. Also included in EBIT in the second quarter of the 2007 fiscal year was a positive effect of Euro 22 million from a revision to accrued personnel costs.

Expenses

Expenses for Research and Development in the third quarter of the 2007 fiscal year totaled Euro 295 million, increasing from Euro 281 million in the prior quarter and decreasing from Euro 329 million in the same quarter last year. As a percentage of revenues, research and development expenses increased sequentially to 17 percent from 14 percent and remained unchanged compared to the same quarter last year.

Expenses for SG&A (Selling, General & Administrative) in the third quarter of the 2007 fiscal year increased to Euro 172 million from Euro 161 million in the prior quarter and decreased from Euro 180 million in the same quarter last year. As a percentage of revenues SG&A increased to 10 percent in the third quarter of the 2007 fiscal year from 8 percent in the prior quarter and 9 percent in the same quarter last year.

Liquidity

Free cash flow, representing cash flows from operating and investing activities excluding purchases or sales of marketable securities, decreased to a net outflow of Euro 219 million in the third quarter of the 2007 fiscal year from a net inflow of Euro 22 million in the previous quarter. The primary reason for the decrease was lower cash flows provided by operating activities. Accordingly, gross cash position as of June 30, 2007, representing cash and cash equivalents and marketable securities, decreased sequentially from Euro 2.0 billion to Euro 1.8 billion, while the company s net cash position, defined as gross cash position less short and long-term debt, decreased sequentially from Euro 607 million to Euro 389 million as of June 30, 2007.

Outlook for the Fourth Quarter of the 2007 Fiscal Year

In the fourth quarter of the 2007 fiscal year, Infineon expects revenues for its segments excluding Qimonda to increase further, driven mainly by the Communication Solutions segment and to a lesser extent by the Automotive, Industrial & Multimarket segment. The company expects further strong growth in EBIT with improving EBIT margin. Net charges are expected to be insignificant in the fourth quarter.

Infineon expects the revenues of its Automotive, Industrial & Multimarket segment to increase in the fourth quarter of the 2007 fiscal year compared to the third quarter. The company expects improved EBIT performance in the segment s ongoing operations, excluding the effect of the gain in the third quarter from the sale of the POF business. The EBIT margin is expected to be close to 10 percent. Results in the segment s automotive business are expected to remain broadly on the same level as in the third quarter. The industrial & multimarket business is expected to post higher revenues and EBIT, mainly due to improved demand in the consumer and computer markets. The security & ASIC business is expected to be negatively impacted by continued weak demand for hard-disk-drives, despite further good business development in the chip card and security business.

Revenues of the Communication Solutions segment are expected to increase strongly in the fourth quarter of the 2007 fiscal year compared to the third quarter, mainly driven by continued increases in mobile phone platform shipments due to scheduled production ramp-ups at customers. In the broadband access business, revenues are anticipated to remain stable. The Communication Solutions segment s EBIT is also anticipated to improve considerably, driven by the revenue increase. The company continues to target break-even EBIT for its wireless business for the fourth quarter of the 2007 calendar year.

Qimonda expects its bit production to grow by 15 to 20 percent in the fourth quarter of the 2007 fiscal year, mainly based on increased in-house and partner capacities and continued productivity improvements from the ongoing conversion to 80-nanometer and 75-nanometer technologies. Qimonda targets a share of bit-shipments to non-PC applications of approximately 50 percent for the fourth quarter, and expects the trend of strong demand for PC-related products in particular to continue.

Infineon expects revenues and EBIT in Other Operating Segments and Corporate and Eliminations to remain broadly unchanged in the fourth quarter 2007, prior to inclusion of net charges. Net charges are expected to be insignificant in the fourth quarter of the 2007 fiscal year.

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended June 30, 2006 and 2007
(in millions, except for per share data)

	June 30, 2006 (millions)	June 30, 2007 (millions)	June 30, 2007 ($ millions)
Net sales	1,972	1,751	2,367
Cost of goods sold	1,397	1,639	2,216
Gross profit	575	112	151
Research and development expenses	329	295	399
Selling, general and administrative expenses	180	172	233
Restructuring charges	13	20	27
Other operating income, net	(1)	(23)	(32)
Operating income (loss)	54	(352)	(476)
Interest expense, net	(21)	(10)	(14)
Equity in earnings of associated companies, net	9	39	53
Gain on subsidiaries and associated company share issuance	30		
Other non-operating (expense) income, net	(39)	7	10
Minority interests	(5)	26	35
Income (loss) before income taxes	28	(290)	(392)
Income tax (expense) benefit	(51)	93	126
Net loss	(23)	(197)	(266)
Basic and diluted loss per share	(0.03)	(0.26)	(0.36)

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the nine months ended June 30, 2006 and 2007
(in millions, except for per share data)

	June 30, 2006 (millions)	June 30, 2007 (millions)	June 30, 2007 ($ millions)
Net sales	5,639	5,844	7,901
Cost of goods sold	4,214	4,553	6,156
Gross profit	1,425	1,291	1,745
Research and development expenses	946	868	1,174
Selling, general and administrative expenses	532	505	683
Restructuring charges	18	42	57
Other operating expenses (income), net	11	(30)	(42)
Operating loss	(82)	(94)	(127)
Interest expense, net	(71)	(29)	(39)
Equity in earnings of associated companies, net	38	104	141
Gain on subsidiaries and associated company share issuance, net	30		
Other non-operating (expense) income, net	(21)	23	31
Minority interests	(10)	(13)	(18)
Loss before income taxes	(116)	(9)	(12)
Income tax expense	(116)	(44)	(60)
Loss before extraordinary loss	(232)	(53)	(72)
Extraordinary loss, net of tax		(35)	(47)
Net loss	(232)	(88)	(119)
Basic and diluted loss per share before extraordinary loss	(0.31)	(0.08)	(0.10)
Basic and diluted loss per share	(0.31)	(0.12)	(0.16)

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 June 30, 2007

	September 30, 2006 (millions)	June 30, 2007 (millions)	June 30, 2007 ($ millions)
Assets:			
Current assets:			
Cash and cash equivalents	2,040	1,307	1,767
Marketable securities	615	475	642
Trade accounts receivable, net	1,245	883	1,194
Inventories	1,202	1,223	1,653
Deferred income taxes	97	74	100
Other current assets	482	546	739
Total current assets	5,681	4,508	6,095
Property, plant and equipment, net	3,764	3,734	5,048
Long-term investments	659	697	942
Restricted cash	78	77	104
Deferred income taxes	627	653	883
Other assets	376	348	471
Total assets	11,185	10,017	13,543
Liabilities and shareholders equity:			
Current liabilities:			
Short-term debt and current maturities	797	257	347
Trade accounts payable	1,245	1,107	1,497
Accrued liabilities	562	479	648
Deferred income taxes	26	27	37
Other current liabilities	675	564	762
Total current liabilities	3,305	2,434	3,291
Long-term debt	1,208	1,136	1,536
Deferred income taxes	60	58	78
Other liabilities	457	376	508
Total liabilities	5,030	4,004	5,413
Minority interests	840	835	1,129
Shareholders equity:			
Ordinary share capital	1,495	1,499	2,027
Additional paid-in capital	5,828	5,857	7,919
Accumulated deficit	(1,780)	(1,868)	(2,526)
Accumulated other comprehensive loss	(228)	(310)	(419)
Total shareholders equity	5,315	5,178	7,001
Total liabilities and shareholders equity	11,185	10,017	13,543

See accompanying notes to the unaudited condensed consolidated financial statements.

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Shareholders Equity (Unaudited)
For the nine months ended June 30, 2006 and 2007
(in millions of euro, except for share data)

	Issued Ordinary shares Shares	Amount	Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability	Unrealized gain (loss) on securities	Unrealized gain (loss) on cash flow hedge	Total
Balance as of October 1, 2005	747,569,359	1,495	5,800	(1,512)	(58)	(84)	12	(24)	5,629
Net loss				(232)					(232)
Other comprehensive (loss) income					(34)	(1)	(12)	4	(43)
Total comprehensive loss									(275)
Issuance of ordinary shares:									
Exercise of stock options	27,600								
Stock-based compensation			21						21
Balance as of June 30, 2006	747,596,959	1,495	5,821	(1,744)	(92)	(85)		(20)	5,375
Balance as of October 1, 2006	747,609,294	1,495	5,828	(1,780)	(127)	(87)	5	(19)	5,315
Net loss				(88)					(88)
Other comprehensive (loss) income					(73)		(11)	2	(82)
Total comprehensive loss									(170)
Issuance of ordinary shares:									
Exercise of stock options	1,772,421	4	12						16
Stock-based compensation			13						13
Deferred compensation, net			4						4
Balance as of June 30, 2007	749,381,715	1,499	5,857	(1,868)	(200)	(87)	(6)	(17)	5,178

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 nine months ended June 30, 2006 and 2007

	June 30, 2006 (millions)	June 30, 2007 (millions)	June 30, 2007 ($ millions)
Net loss	(232)	(88)	(119)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	1,054	960	1,298
Provision for (recovery of) doubtful accounts	3	(17)	(23)
Gain on sale of marketable securities	(3)	(7)	(9)
Loss (gain) on sale of businesses	1	(21)	(28)
Gain on disposal of property, plant, and equipment	(4)	(8)	(11)
Equity in earnings of associated companies, net	(38)	(104)	(141)
Gain on subsidiaries and associated company share issuance, net	(30)		
Minority interests	10	13	18
Impairment charges	14	35	47
Stock-based compensation	21	13	18
Deferred income taxes	68	9	12
Changes in operating assets and liabilities:			
Trade accounts receivable	(170)	352	476
Inventories	(223)	(36)	(49)
Other current assets	3	(18)	(24)
Trade accounts payable	138	(130)	(176)
Accrued liabilities	20	(72)	(97)
Other current liabilities	(6)	(100)	(135)
Other assets and liabilities	(79)	(78)	(107)
Net cash provided by operating activities	547	703	950
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(460)	(222)	(300)
Proceeds from sale of marketable securities available for sale	639	355	480
Proceeds from sale of businesses	10	57	77
Investment in associated and related companies	(1)	(1)	(1)
Cash increase from initial consolidation of ALTIS	119		
Purchases of intangible assets	(7)	(29)	(39)
Purchases of property, plant and equipment	(965)	(930)	(1,258)
Proceeds from sales of property, plant and equipment	15	19	26
Net cash used in investing activities	(650)	(751)	(1,015)
Cash flows from financing activities:			
Net change in short-term debt	4		
Net change in related party financial receivables and payables	3	(3)	(4)
Proceeds from issuance of long-term debt	378	29	39

Principal repayments of long-term debt	(56)	(704)	(951)
Change in restricted cash	10	1	1
Proceeds from issuance of ordinary shares		20	27
Capital distributions to minority interests	(5)	(6)	(8)
Net cash provided by (used in) financing activities	334	(663)	(896)
Effect of foreign exchange rate changes on cash and cash equivalents	(15)	(22)	(30)
Net increase (decrease) in cash and cash equivalents	216	(733)	(991)
Cash and cash equivalents at beginning of period	1,148	2,040	2,758
Cash and cash equivalents at end of period	1,364	1,307	1,767

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 and nine months ended June 30, 2006 and 2007, 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 for 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 June 30, 2007, and the condensed consolidated statements of operations for the three and nine months then ended, and the condensed consolidated statements of cash flows for the nine months then ended are also presented in U.S. dollars ($), solely for the convenience of the reader, at the rate of one euro = $1.3520, the U.S. Federal Reserve noon buying rate on June 29, 2007.

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 for more

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Infineon Technologies AG and Subsidiaries
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(euro in millions, except where otherwise stated)

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.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* . SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS No. 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted as of the beginning of a fiscal year provided that the entity also early adopts all of the requirements of SFAS No. 157. The Company is currently evaluating whether to elect the option provided for in this standard.

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Infineon Technologies AG and Subsidiaries
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(euro in millions, except where otherwise stated)

3. Memory Product Business

On January 26, 2007 Infineon and Qimonda AG, its majority owned subsidiary, extended their agreement for the production of wafers in Infineon Technologies Dresden GmbH & Co. OHG production facility through September 30, 2009.

On April 25, 2007, Qimonda and SanDisk Corporation (SanDisk) entered into an agreement to jointly develop and manufacture multichip packages (MCPs) utilizing SanDisk s NAND flash and controllers and Qimonda s low power mobile DRAM. The collaboration targets the need for high capacity, integrated memory solutions for data-intensive mobile applications. This agreement will be executed through a jointly owned company based in Portugal, subject to the fulfillment of certain closing conditions, in particular regulatory approvals.

On April 25, 2007, Qimonda announced plans to construct a fully-owned 300-millimeter front-end manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, Qimonda plans to invest approximately 2 billion in the site over the next 5 years. Qimonda expects to finance the initial capital expenditures for the construction with a combination of its own cash flows and project-based financing.

4. Acquisitions

On June 25, 2007, the Company announced the planned acquisition of Texas Instruments Inc. s (TI) DSL Customer Premises Equipment (CPE) business. The Company plans to continue supporting the acquired product portfolio and existing customer designs while leveraging the acquired experience in future product generations. The transaction is subject to regulatory approval and is expected to close during the fourth quarter of the 2007 financial year (see note 22).

5. Divestitures

On June 29, 2007, the Company sold its Polymer Optical Fiber (POF) business, based in Regensburg, Germany, to Avago Technologies. The POF business operates in the market for automotive multimedia infotainment networks and transceivers for safety systems. As a result of the sale, the Company realized a gain before tax of 17 which was recorded in other operating income during the quarter ended June 30, 2007.

6. Licenses

In June 2007 Qimonda entered into an agreement with Winbond Electronics Corp., Hsinchu, Taiwan (Winbond). Under the terms of the agreement, Qimonda will transfer its 75-nanometer and 58-nanometer DRAM technologies to Winbond s 300-millimeter facility in Taichung, Taiwan. In return, Winbond will manufacture DRAMs for computing applications in these technologies exclusively for Qimonda. The transfer of the 58-nanometer technology from Qimonda will enable Winbond also to develop and sell proprietary specialty memories for which Qimonda will receive license fees and royalties. This new agreement is the extension of the two companies existing cooperation which encompasses the transfer and licensing of the Qimonda 110-nanometer, 90-nanometer and 80-nanometer DRAM technologies for Winbond s production sites.

7. Restructuring

During the 2006 financial year, restructuring plans were announced to downsize the workforce at ALTIS Semiconductor S.N.C., Essonnes, France and the Company s chip card back-end activities in order to maintain competitiveness and reduce cost. In addition, 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. Further restructuring measures were taken by the Company during the quarter ended June 30, 2007, mainly in order to further streamline certain research and development locations.

During the quarter ended June 30, 2007, charges of 20 were recognized, primarily as a result of the above mentioned restructuring initiatives undertaken by the Company.

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Infineon Technologies AG and Subsidiaries
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(euro in millions, except where otherwise stated)

The development of the restructuring liability is as follows:

	September 30, 2006 Liabilities	Restructuring Charges	Payments	June 30, 2007 Liabilities
Employee terminations	57	37	(51)	43