INFINEON TECHNOLOGIES AG
Form 6-K
February 11, 2009

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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 11, 2009
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 11, 2009, contains a quarterly report of Infineon Technologies AG for the Company s first quarter of the 2009 fiscal year.

INFINEON TECHNOLOGIES AG

QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
December 31, 2008

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Interim Group Management Report (Unaudited)

This interim group management report should be read in conjunction with our condensed consolidated financial statements and other financial information included elsewhere in this report.

This interim group management 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.

The following were key developments in our business during the three months ended December 31, 2008:

Financial Results

The financial results are prepared in accordance with International Financial Reporting Standards (IFRS) for the three months ended December 31, 2007 and 2008.

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. For the first quarter of the 2009 fiscal year, we reported revenues of 830 million, reflecting a decrease in revenues in all of the company s operating segments due to significantly lower demand caused by the economic slow-down and due to inventory corrections throughout the electronic supply chain, and representing a 24 percent decrease compared to revenues of 1,090 million in the first quarter of the 2008 fiscal year. Our Automotive and Wireless Solutions segments were most affected. Excluding effects of currency fluctuations, primarily between the U.S. dollar and the Euro, and acquisitions and divestitures, revenues decreased 26 percent year-on-year.

Beginning October 1, 2008, our Management Board uses Segment Result to assess the operating performance of our reportable segments and as a basis for allocating resources among the segments. We define Segment Result as operating income (loss) excluding asset impairments, restructuring and other related closure costs, 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. Gains (losses) on sales of assets, businesses, or interests in subsidiaries, include, among others, gains or losses that may be realized from potential sales of shares Qimonda AG (Qimonda) or other investments and activities. The combined Segment Result for all segments was negative 102 million in the first quarter of the 2009 fiscal year compared to positive 80 million in the first quarter of the 2008 fiscal year. The combined Segment Result for the first quarter of the 2009 fiscal year was better than expected as a result of higher than anticipated revenues and the progress with cost reductions our IFX10+ cost-reduction program.

Our company s results from continuing operations before income taxes decreased by 172 million from positive 60 million in the first quarter of the 2008 fiscal year to negative 112 million in the first quarter of the 2009 fiscal year. This decline primarily resulted from the deterioration of our gross profit as a result of the decrease in revenues and higher idle capacity cost, which was partly offset by decreases in research and development expenses and selling, general and administrative expenses.

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. We currently hold a 77.5 percent equity interest in Qimonda. In December 2008, we, the German state of Saxony and Portugal agreed in principle on a rescue package designed to bail out Qimonda. Given the difficult overall economic situation and the further deterioration of the DRAM business in the first quarter of the 2009 fiscal year, the parties were ultimately unable to agree on a rescue package that work for everyone involved. All parties individual positions are understandable from their respective standpoints, but they ultimately proved irreconcilable.

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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 our condensed consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the condensed consolidated balance sheet. In addition, we recorded after-tax write-downs totaling 1,475 million, in order to re-measure Qimonda to its estimated fair value less costs to sell as of September 30, 2008. In the first quarter of the 2008 fiscal year, loss from discontinued operations, net of income taxes included Qimondas negative results and amounted to 577 million. During the first quarter of the 2009 fiscal year, loss from discontinued operations, net of income taxes totalled 288 million. This amount was primarily composed of the realization of currency translation effects from Qimonda s sale of its interest in Inotera Memories Inc. (Inotera) to Micron Technology, Inc (Micron) of 88 million and provisions and allowances of 195 million resulting from the application to open insolvency proceedings by Qimonda. In respect of the latter, the application to open insolvency proceedings by Qimonda exposed Infineon to potential liabilities and allowances arising from the Qimonda business; however, the provisions and allowances recorded as of December 31, 2008 relate only to those issues which management believes are probable of occurring and can be estimated with reasonable accuracy at this time.

As a result of the developments described above, our company s net loss decreased from 529 million in the first quarter of the 2008 fiscal year to 404 million in the first quarter of the 2009 fiscal year.

Our cash flow provided by operating activities from continuing operations decreased from 118 million in the three months ended December 31, 2007 to 5 million in the three months ended December 31, 2008. This decrease primarily reflects the decrease of our results from continuing operations, net of income taxes, partly offset by a lower negative impact of changes in operating assets and liabilities in the three months ended December 31, 2008.

Corporate Activities

During the first quarter of the 2009 fiscal year, we repurchased notional amounts of 95 million and 22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. The repurchases were made out of available cash. We realized a gain of 36 million before income tax, which was recognized in interest income during the three months ended December 31, 2008.

During the 2007 fiscal year, we acquired Texas Instruments Inc. s (TI) DSL Customer Premises Equipment (CPE) business for a cash consideration of 45 million. The purchase price was subject to an upward or downward contingent consideration adjustment based on negotiated revenue targets of the CPE business. Due to the failure to achieve the negotiated revenue targets of the CPE business, TI reimbursed an amount of 13 million. The reimbursement resulted in a respective decrease of goodwill.

We exited the German employers union in November 2008 in order to achieve more flexibility in wage adjustments.

In the first quarter of the 2009 fiscal year, we made progress with cost reductions under the IFX10+ program, mainly in operating expenses, where we saved approximately 45 million during the quarter compared to the expense run-rate of the prior quarter. In that context, we also made progress with regards to headcount reductions. As of December 31, 2008, we had reached agreements regarding or had already effected separation with respect to approximately 85 percent of the announced workforce reduction. In response to continuing weak demand worldwide in all of our target markets, we have identified additional potential savings from a combination of measures that have already been implemented or will be implemented in the near future. Amongst others, we have introduced reduced work hours in the company s German production sites

Regensburg and Dresden in January 2009, have changed our bonus schemes for the 2009 fiscal year and have issued a new and stringent travel policy.

Business highlights for the first quarter of the 2009 fiscal year

In the first quarter of the 2009 fiscal year, we were selected as a Preferred Supplier for our 32-bit microcontroller family TriCore^tm by one of the world s leading automotive system suppliers. In addition, our TriCore ^tm products were chosen by a further Tier 1 supplier for the use in powertrain applications. We now hold an approximate market share of 25 percent of the total available market for powertrain applications. 32-bit microcontroller helps to reduce fuel consumption and emissions of automobiles.

We were selected as supplier of automotive radar chips for the third-generation long range radar system of Bosch GmbH (Bosch), one of the world s largest suppliers of components for the automotive industry. Bosch intends to bring the radar systems into the midrange and compact class, where they could soon become part of a car s standard equipment.

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 and around 15 percent of this 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.

Communications

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 20 percent lower compared to existing GSM/ GPRS solutions. The new platform supports color display, MP3 playback, FM Radio, and USB charging, and is prepared for Dual-SIM and camera solutions.

We announced first samples of the second generation of our Long-Term-Evolution (LTE) RF transceiver. The SMARTi™ LU is a single-chip-65-nanometer CMOS RF transceiver providing LTE/3G/2G functionality with digital baseband interface for data rates up to 150 Megabit per second in LTE networks. In addition, we announced the third generation of our 3G RF transceiver family SMARTi™ UE. The SMARTi™ UEmicro is optimized for lowest cost 3G designs and enables a 40 percent lower bill of material than available solutions on the market.

As a leading player in the wireless infrastructure market, we expect to benefit from the China 3G mobile license awards. As a leading player in the Mobile Backhauling market, we anticipate products to be deployed in the WCDMA, TD-SCDMA, and CDMA2000 networks.

Reaffirming our position as an innovative pioneer in ultra-low capacitance and miniature transient voltage suppression TVS diodes, we began offering in high volume the world s smallest TVS diode for the protection of antennas in the latest electronic equipment. Applications include GPS, mobile TV, FM radio, and vehicles Remote Keyless Entry (RKE) and Tire Pressure Monitoring Systems (TPMS).

Security

We were again recognized as an innovator in the chip card industry and awarded the Sesame Award 2008 in the category of Best Hardware for our latest 16-bit security microcontroller family SLE 78, which incorporates brand new digital security features and was recently launched. This is the fifth time we have received the prestigious Sesame Award for Best Hardware Innovation.

We further expanded our position in the electronic ID market and will be one of the chip suppliers for Turkey s new electronic citizen ID card. We have already delivered the first units for the pilot. Upon the completion of the pilot, nation-wide implementation is expected to start in 2010 and last until 2013. The electronic ID card is going to replace the current paper-based identification document and is planned to cover about 80 percent of the 70 million citizens of Turkey.

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Revenue by Segment

	Three months ended December 31, 2007	2008
	(in millions)	
Revenue:		
Automotive	310	206
Industrial & Multimarket	291	234
Chip Card & Security	116	91
Wireless Solutions[1]	253	197
Wireline Communications	103	88
Other Operating Segments[2]	64	8
Corporate and Eliminations[3]	(47)	6
Total	1,090	830

(1) Includes revenues of 7 million for the three months ended December 31, 2007 and 1 million for the three months ended December 31, 2008 from sales of wireless communication applications to Qimonda.

(2) Includes revenues of 36 million for the three months ended December 31, 2007 from sales of wafers from Infineon s 200-millimeter facility in Dresden to Qimonda under a foundry agreement.

(3) Includes the elimination of sales of 43 million for the three months ended December 31, 2007 and 1 million for the three months ended December 31, 2008 since these sales are not expected to be part of the Qimonda disposal plan.

Automotive In the first quarter of the 2009 fiscal year revenues of the segment decreased by 34 percent to 206 million compared to 310 million in the first quarter of the 2008 fiscal year. This decrease was mainly due to the demand driven automotive market downturn combined with inventory clearing measures at our customer base.

Industrial & Multimarket Revenues of the segment in the three months ended December 31, 2008, decreased by 20 percent to 234 million compared to 291 million in the three months ended December 31, 2007. This decrease primarily resulted from weak demand for consumer & computing products as well as inventory adjustments in the value chain.

Chip Card & Security In the first quarter of the 2009 fiscal year revenues of the segment decreased by 22 percent to 91 million compared to 116 million in the first quarter of the 2008 fiscal year. The decrease resulted primarily from reduced revenues from existing customers which were not fully offset by additional project ramp ups. Furthermore, inventory corrections at several major customers contributed to the revenue decrease.

Wireless Solutions Revenues of the segment in the three months ended December 31, 2008, decreased by 22 percent to 197 million compared to 253 million in the three months ended December 31, 2007. This decrease was mainly driven by a weakened demand due to the economic downturn and resulting decline in handset sales.

Wireline Communications In the first quarter of the 2009 fiscal year revenues of the segment decreased by 15 percent to 88 million compared to 103 million in the first quarter of the 2008 fiscal year. This decrease in revenues was mainly driven by the weak market environment and inventory corrections in the supply chain.

Other Operating segments Revenues of other operating segments decreased by 88 percent from 64 million in the three months ended December 31, 2007 to 8 million in the three months ended December 31, 2008. Revenues of other operating segments in the three months ended December 31, 2007 comprised mainly revenues from sales of wafers from our 200-milimeter facility in Dresden to Qimonda under a foundry agreement which revenues have been eliminated in the Corporate and Eliminations segment. Effective November 30, 2007, Qimonda canceled the foundry agreement. The last wafers were delivered to Qimonda in May 2008. Furthermore, revenues of other operating segments in the three months ended December 31, 2007 included revenues from our hard disk drive (HDD) business which we sold to LSI Corporation (LSI) in April 2008.

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Revenue by Region

	Three months ended December 31,			
	2007		2008	
	(in millions)			
Revenue:				
Germany	220	20%	165	20%
Other Europe	194	18%	145	17%
North America	145	13%	95	12%
Asia/Pacific	459	42%	369	44%
Japan	54	5%	45	6%
Other	18	2%	11	1%
Total	1,090	100%	830	100%

The regional distribution remained broadly unchanged during the first quarter of the 2009 fiscal year compared to the first quarter of the 2008 fiscal year.

Cost of Goods Sold and Gross Profit

	Three months ended December 31,	
	2007	2008
	(in millions)	
Cost of goods sold	705	678
Percentage of revenues	65%	82%
Gross profit	385	152

Cost of goods sold decreased in the first quarter of the 2009 fiscal year by 4 percent, or 27 million, to 678 million compared to 705 million in the first quarter of the 2008 fiscal year. Our gross profit decreased from 385 million in the first quarter of the 2008 fiscal year to 152 million in the first quarter of the 2009 fiscal year or as a percentage of revenues from 35 percent to 18 percent, respectively. This deterioration primarily resulted from lower sales volumes and higher idle capacity cost.

Research and Development Expenses

	Three months ended December 31,	
	2007	2008
	(in millions)	

Research and development expenses	181	149
Percentage of revenues	17%	18%

In absolute terms, research and development expenses amounted to 149 million in the three months ended December 31, 2008 compared to 181 million in the three months ended December 31, 2007. This decease resulted primarily from cost savings, in particular within our Wireless Solutions and Wireline Communications segment. Furthermore, cost saving measures which were implemented under our IFX10+ cost-reduction program also contributed to the decrease in research and development expenses. As a percentage of revenues, research and development expenses in the three months ended December 31, 2008 increased slightly to 18 percent, compared to 17 percent in the three months ended December 31, 2007, primarily as a result of lower revenues, and despite lower research and development expenses.

Selling, General and Administrative Expense

	Three months ended December 31,	
	2007	**2008**
	(in millions)	
Selling, general and administrative expense	136	112
Percentage of revenues	12%	13%

In absolute terms selling, general and administrative expenses amounted to 112 million in the first quarter of the 2009 fiscal year compared to 136 million in the first quarter of the 2008 fiscal year. This decease resulted primarily from cost savings as a result of our IFX10+ cost-reduction program and

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reduced provisions for incentives. As a percentage of revenues, selling, general and administrative expenses in the first quarter of the 2009 fiscal year increased slightly to 13 percent, compared to 12 percent in first quarter of the 2008 fiscal year, primarily as a result of lower revenues, and despite lower selling, general and administrative expenses.

Other Items Affecting Earnings

	Three months ended December 31,	
	2007	**2008**
	(in millions)	
Other operating income	33	3
Percentage of revenues	3%	0%
Other operating expense	(19)	(11)
Percentage of revenues	(2)%	(1)%
Financial income	18	60
Percentage of revenues	2%	7%
Financial expense	(40)	(56)
Percentage of revenues	(4)%	(7)%
Income from investments accounted for using the equity method, net		1
Percentage of revenues		0%

Other operating income for the three months ended December 31, 2008, decreased to 3 million compared to 33 million for the three months ended December 31, 2007. For the three months ended December 31, 2007, other operating income primarily consisted of a gain from the sale of 40 percent of our interest in Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) to Siemens AG.

Other operating expense decreased from 19 million in the first quarter of the 2008 fiscal year to 11 million in the first quarter of the 2009 fiscal year. Other operating expense in the first quarter of the 2008 fiscal year included a write-down of 14 million of in process-R&D acquired from LSI as no future economic benefit for its use or disposal was expected.

Financial income and expense, net increased in the three months ended December 31, 2008 to positive 4 million from negative 22 million in the three months ended December 31, 2007, primarily as a result of the gain of 36 million we realized from the repurchase of notional amounts of 95 million and 22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. Financial income and expense, net was partially offset by valuation changes and losses on available-for-sale financial assets in the three months ended December 31, 2008.

Income from investments accounted for using the equity method, net for the three months ended December 31, 2008 consisted of our share in the net income of Bipolar.

Segment Result

	Three months ended December 31,	
	2007	**2008**

	(in millions)	
Segment Result:		
Automotive	23	(56)
Industrial & Multimarket	26	2
Chip Card & Security	17	(1)
Wireless Solutions	18	(44)
Wireline Communications	4	2
Other Operating Segments	2	(1)
Corporate and Eliminations	(10)	(4)
Total	80	(102)

Automotive Segment Result of the Automotive segment decreased from positive 23 million in the first quarter of the 2008 fiscal year to negative 56 million in the first quarter of the 2009 fiscal year. This decrease was mainly due to the significant decline in revenues and high idle cost which could only be partially offset by savings realized by the segment under the IFX10+ cost reduction program.

Industrial & Multimarket Segment Result of the Industrial & Multimarket segment remained positive with 2 million for the first quarter of the 2009 fiscal year, but decreased significantly by 92 percent compared to 26 million for the first quarter of the 2008 fiscal year. This decrease is mainly caused by the decline in revenues and an increase in idle cost which could only be partially offset by savings realized by the segment under the IFX10+ cost reduction program.

Chip Card & Security In the first quarter of the 2009 fiscal year Segment Result of the Chip Card & Security segment was negative 1 million compared to positive 17 million in the first quarter of the 2008 fiscal year. This decrease was mainly due to reduced gross profit contribution resulting from substantially higher idle cost and product mix effects. Realized savings under the IFX10+ cost reduction program only partially offset these effects.

Wireless Solutions Segment Result of the Wireless Solutions segment decreased from positive 18 million in the first quarter of the 2008 fiscal year to negative 44 million in the first quarter of the 2009 fiscal year. This decrease was mainly due to the significant decline in revenues and an increase in idle cost which could only be partially offset by the measures the segment has implemented under the IFX10+ cost-reduction program.

Wireline Communications In the first quarter of the 2009 fiscal year Segment Result of the Wireline Communications segment remained positive at 2 million, but decreased by 50 percent in comparison to positive 4 million in the first quarter of the 2008 fiscal year. The decline resulted from lower revenues and was partly offset by the measures the segment has implemented under the IFX10+ cost reduction program.

The following table provides the reconciliation of Segment Result to our loss from continuing operations before income tax:

	Three months ended December 31,	
	2007	**2008**
	(in millions)	
Total Segment Result	80	(102)
Adjusted:		
Asset impairments		
Restructuring and other related closure cost	(3)	(3)
Stock-based compensation expense	(1)	
Acquisition-related amortization and gains (losses)	(9)	(6)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries	15	(1)
Other income (expense), net		(5)
Operating income (loss)	82	(117)
Financial Income	18	60
Financial Expense	(40)	(56)
Income from investment accounted for using the equity method, net		1
Loss from continuing operations before income tax	60	(112)

Loss from discontinued operations, net of income taxes

In the first quarter of the 2008 fiscal year, loss from discontinued operations, net of income taxes included Qimonda s net loss and amounted to 577 million. During the first quarter of the 2009 fiscal year, Loss from Discontinued Operations, net of income taxes totaled 288 million. This amount was primarily composed of the realization of currency translation effects from Qimonda s sale of its interest in Inotera to Micron of 88 million and provisions and allowances of 195 million resulting from Qimonda s insolvency. In respect of the latter, the application to commence insolvency proceedings by Qimonda exposed Infineon to potential liabilities and allowances arising from the Qimonda business; however, the provisions and allowances recorded as of December 31, 2008 relate only to those issues which management believes are probable of occurring and can be estimated with reasonable accuracy at this time. Potential liabilities resulting from Qimonda s insolvency filing include pending antitrust and securities law claims, potential claims for repayment of governmental subsidies received, and employee-related contingencies. There can be no assurance that such provisions and allowances recorded will be sufficient to cover all losses that may ultimately be incurred in relation to these matters.

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The operating losses of Qimonda, exclusive of depreciation, amortization and impairment of long-lived assets in the first quarter of the 2009 fiscal year were offset by a 460 million partial reversal of the write downs recorded in the 2008 fiscal year to reduce the net assets of Qimonda to fair value less cost to sell. Such reversal was recorded due to the fact that Infineon has neither the obligation nor the intention to provide additional equity capital to fund the operating losses of Qimonda.

The results of Qimonda presented in the condensed consolidated statements of operations as discontinued operations consist of the following components:

	Three months ended December 31,	
	2007	2008
	(in millions)	
Revenue	513	314
Costs and expenses	(1,082)	(867)
Reversal of write-down to fair value less costs to sell		460
Estimated expenses with respect to Qimonda s application to commence insolvency proceedings		(195)
Loss from discontinued operations, before income tax	(569)	(288)
Income tax expense	(8)	
Loss from discontinued operations, net of income tax	(577)	(288)

Financial Condition

	As of		
	September 30, 2008	December 31, 2008	Change
	(in millions, except percentages)		
Current assets	4,648	4,089	(12)%
thereof: Assets classified as held for disposal	2,129	1,933	(9)%
Non-current assets	2,334	2,200	(6)%
Total assets	6,982	6,289	(10)%
Current liabilities	3,673	3,302	(10)%
thereof: Liabilities associated with assets classified as held for disposal	2,123	1,927	(9)%
Non-current liabilities	1,148	1,124	(2)%
Total liabilities	4,821	4,426	(8)%

Minority Interests	70	61	(13)%
Total equity attributable to shareholders of Infineon Technologies AG	2,091	1,802	(14)%
Total equity	2,161	1,863	(14)%

As of December 31, 2008, our current assets decreased in comparison to September 30, 2008 by 559 million, due to a decrease within our continuing operations of 363 million and a decrease in assets held for disposal of 196 million. The decrease within our continuing operations primarily relates to a decrease of 278 million in trade and other receivables and a 104 million decrease in our gross cash position, consisting of cash and cash equivalents and available-for-sale financial assets, which were partly offset by increases in other current financial assets. Trade and other receivables within our continuing operations decreased primarily as a result of lower revenues during the first quarter of the 2009 fiscal year. Furthermore, increased allowances for doubtful accounts following Qimonda s application to commence insolvency proceedings contributed to the decrease in trade and other receivables within our continuing operations. Our gross cash position within our continuing operations decreased as of December 31, 2008 compared to September 30, 2008 primarily due to the repurchase of notional amounts of 95 million and 22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. Additionally, purchases of intangible assets and property, plant and equipment contributed to the decrease of our gross cash position, which was partly offset by receipt of the contingent consideration of 13 million received from TI due to the failure to achieve the revenue targets of the CPE business. The decrease in assets held for disposal as of December 31, 2008 compared to September 30, 2008 primarily relates to changes at Qimonda.

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Non-current assets decreased by 134 million as of December 31, 2008 compared to September 30, 2008. This decrease primarily results from a 102 million decrease in property, plant and equipment, net, as capital expenditures during the first quarter of the 2009 fiscal year were lower than depreciation. Additionally, goodwill and other intangible assets decreased by 15 million mainly due to the reduction of goodwill relating to the acquisition of the CPE business from TI as a result of the contingent consideration of 13 million received from TI. Other financial assets decreased by 22 million. These decreases were partly offset by an increase of deferred tax assets of 11 million.

As of December 31, 2008, current liabilities decreased by 371 million compared to September 30, 2008, mainly due to lower trade and other payables within our continuing operations, mainly resulting from to lower purchased services and lower capital expenditures. These decreases were partly offset by an increase of other current financial liabilities. Additionally, liabilities associated with assets classified as held for disposal decreased as of December 31, 2008 due to changes at Qimonda.

Non-current liabilities decreased as of December 31, 2008 by 24 million compared to September 30, 2008, primarily due to a decrease of long-term debt of 103 million which mainly relates to the repurchase of notional amounts of 95 million and 22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively. This decrease was partly offset by a 86 million increase in long-term provisions, primarily for potential liabilities resulting from Qimonda s insolvency.

Liquidity

	Three months ended December 31,	
	2007	**2008**
	(in millions)	
Net cash provided by operating activities from continuing operations	118	5
Net cash used in investing activities from continuing operations	(712)	(22)
Net cash provided by (used in) financing activities from continuing operations	25	(81)
Net decrease in cash and cash equivalents from discontinued operations	(229)	(28)
Net decrease in cash and cash equivalents	(798)	(126)

Cash provided by operating activities from continuing operations was 5 million for the first quarter of the 2009 fiscal year, and reflected mainly the loss from continuing operations of 116 million which was net of non-cash charges for depreciation and amortization of 145 million. Cash provided by operating activities in the first quarter of the 2009 fiscal year was negatively impacted by changes in operating assets and liabilities of 49 million, and positively impacted by income taxes received and interest received, net in total of 23 million.

Cash used in investing activities from continuing operations was 22 million for the three months ended December 31, 2008 and primarily relates to cash used for the purchases of property, plant and equipment, intangible assets and other assets in total of 40 million which were partly offset by proceeds from sales of available-for-sale financial assets of 5 million and the contingent consideration of 13 million received from TI due to the failure to achieve the revenue targets of the CPE business.

Cash used in financing activities from continuing operations was 81 million and primarily relates to the repurchase of notional amounts of 95 million and 22 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively.

Free cash flow from continuing operations, representing cash flows from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets, was negative 22 million for the three months ended December 31, 2008, an improvement from negative 270 million for the three months ended December 31, 2007. Free cash flow during the first quarter of the 2008 fiscal year included higher cash used in investing activities for continuing operations, due to the acquisition of the mobility products business from LSI and had higher capital expenditures, which were only partly offset by higher cash provided from operating activities from continued operations.

Our gross cash position from continuing operations as of December 31, 2008 representing cash and cash equivalents and available-for-sale financial assets, decreased to 779 million from 883 million as of September 30, 2008, primarily reflecting the cash used in financing and investing activities. Our net cash position from continuing operations as of December 31, 2008 defined as gross cash position less short and long-term debt was negative 293 million and, therefore, remained broadly unchanged compared to negative 287 million as of September 30, 2008.

Employees

The following table indicates the composition of our workforce by function and region at the dates shown:

	As of September 30, 2008	As of December 31, 2008	Change
Function:			
Production	19,358	18,520	(4)%
Research & Development	6,273	6,165	(2)%
Sales & Marketing	1,905	1,782	(6)%
Administrative	1,583	1,558	(2)%
Infineon	29,119	28,025	(4)%
Qimonda	12,224	11,079	(9)%
Total	41,343	39,104	(5)%
Region:			
Germany	10,053	9,773	(3)%
Europe	5,192	5,039	(3)%
North America	821	761	(7)%
Asia/Pacific	12,897	12,305	(5)%
Japan	156	147	(6)%
Infineon	29,119	28,025	(4)%
Qimonda	12,224	11,079	(9)%
Total	41,343	39,104	(5)%

During our first quarter of the 2009 fiscal year Infineon s workforce decreased in all functions and regions primarily as a result of our IFX10+ cost-reduction program.

Outlook

Industry Environment

In the fourth quarter of calendar year 2008, the world economy further deteriorated. According to the International Monetary Fund s latest World Economic Outlook Update the world economy is in its most severe downturn since World War II. Global growth is projected to experience a gradual recovery in calendar year 2010, the timing and pace of which depend critically on strong policy actions according to the International Monetary Fund.

The global economic crisis significantly affected the global semiconductor market. In the fourth quarter of calendar year 2008, the market contracted by 21.9 percent (in U.S. dollar terms) compared to the fourth quarter of calendar year

2007. The latest data from the World Semiconductor Trade Statistics (WSTS) shows that overall worldwide semiconductor revenues decreased by 2.8 percent in calendar year 2008 compared to the year before. For calendar year 2009, market experts predict a further decrease in revenues. iSuppli Corporation projects for calendar year 2009 a decline of 9 percent in worldwide semiconductor revenues. Future Horizons forcast a decline of 28 percent for calendar year 2009.

Outlook for the second quarter of the 2009 fiscal year

The drastic slow-down in world economic demand that started in the first quarter of the 2009 fiscal year is expected to continue to have a severe impact on overall demand levels in the second quarter of the 2009 fiscal year. In addition, we anticipate that inventory reductions throughout the entire electronics supply chain will continue. As such, we have relatively limited visibility with respect to the revenue development, even in the second quarter of the 2009 fiscal year. Within the limits of that low visibility, we currently expect revenues from continuing operations for the second quarter of the 2009 fiscal year to decrease by approximately 10 percent compared to the first quarter of the 2009 fiscal year. After the significant decrease in demand in the Automotive and Wireless Solutions segments in the first quarter of the 2009 fiscal year, we expect these segments to be more resilient in the second quarter of the 2009 fiscal

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year compared to the first quarter of the 2009 fiscal year. By contrast, the three other segments, Industrial & Multimarket, Chip Card & Security and Wireline Communications, are expected to be more severely affected by the continuing slow-down in the second quarter of the 2009 fiscal year.

Additional savings measures implemented under the IFX10+ program are expected to result in substantial additional cost and cash savings over and above the savings levels realized in the first quarter of the 2009 fiscal year. As a consequence of continued sales declines and an aggressive reduction in factory loading in order to reduce inventory, we expect combined Segment Result margin in the second quarter to be within the range of a negative mid-to-high teens percentage. Without the additional measures described above, the impact of lower sales and factory loading on the bottom-line would have been significantly more severe.

Following Qimonda s insolvency filing, we expect to deconsolidate Qimonda in the second quarter of the 2009 fiscal year. In this context, we anticipate that we will recognize accumulated losses related to unrecognized currency translation effects related to Qimonda. As of December 31, 2008, the amount of such accumulated losses totaled approximately 100 million. The recognition of such accumulated losses will not have any impact on our shareholders equity.

Risks and Opportunities

We are exposed to a number of risks as a result of the high volatility of the semiconductor business, its international orientation and its wide product range. Such risks include, but are not limited to, trends in demand and prices for semiconductors generally and for our products in particular, the success of our development efforts, both alone and with our partners, the success of our efforts to introduce new production processes at our facilities and the actions of our competitors, the availability of funds for planned expansion efforts, the outcome of antitrust investigations and litigation matters, the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, certain liabilities related to the Qimonda insolvency, including pending antitrust and related securities law claims, the potential repayment of governmental subsidies received, employee-related contingencies and other matters, as well as the other factors mentioned herein and those described in our Annual Report for the 2008 fiscal year. To minimize the negative impact of these risks, we continuously optimize our company-wide risk and opportunity management system. For more detailed information on risks and opportunities and their potential effect on our business, financial condition or results of operations, please refer to our Annual Report for the 2008 fiscal year.

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended December 31, 2007 and 2008
(in millions, except for per share data)

	December 31, 2007 (millions)	December 31, 2008 (millions)	December 31, 2008 ($ millions)
Revenue	1,090	830	1,155
Cost of goods sold	(705)	(678)	(944)
Gross profit	385	152	211
Research and development expenses	(181)	(149)	(207)
Selling, general and administrative expenses	(136)	(112)	(156)
Other operating income	33	3	4
Other operating expense	(19)	(11)	(15)
Operating income (loss)	82	(117)	(163)
Financial income	18	60	84
Financial expense	(40)	(56)	(78)
Income from investments accounted for using the equity method, net		1	1
Income (loss) from continuing operations before income taxes	60	(112)	(156)
Income tax expense	(12)	(4)	(5)
Income (loss) from continuing operations	48	(116)	(161)
Loss from discontinued operations, net of income taxes	(577)	(288)	(401)
Net loss	(529)	(404)	(562)
Attributable to:			
Minority interests	(120)	(30)	(42)
Shareholders of Infineon Technologies AG	(409)	(374)	(520)
Basic and diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):			
Basic and diluted earnings (loss) per share from continuing operations	0.05	(0.16)	(0.22)

Basic and diluted loss per share from discontinued operations	(0.60)	(0.34)	(0.47)
Basic and diluted loss per share	(0.55)	(0.50)	(0.69)

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, 2008 and December 31, 2008

	September 30, 2008 (millions)	December 31, 2008 (millions)	December 31, 2008 ($ millions)
Assets:			
Current assets:			
Cash and cash equivalents	749	647	901
Available-for-sale financial assets	134	132	184
Trade and other receivables	799	521	725
Inventories	665	661	920
Income tax receivable	29	19	26
Other current financial assets	19	49	68
Other current assets	124	127	177
Assets classified as held for disposal	2,129	1,933	2,690
Total current assets	4,648	4,089	5,691
Property, plant and equipment	1,310	1,208	1,682
Goodwill and other intangible assets	443	428	596
Investments accounted for using the equity method	20	21	29
Deferred tax assets	400	411	572
Other financial assets	133	111	155
Other assets	28	21	29
Total assets	6,982	6,289	8,754
Liabilities and equity:			
Current liabilities:			
Short-term debt and current maturities of long-term debt	207	212	295
Trade and other payables	506	317	441
Current provisions	424	439	611
Income tax payable	87	99	138
Other current financial liabilities	63	77	107
Other current liabilities	263	231	322
Liabilities associated with assets classified as held for disposal	2,123	1,927	2,682
Total current liabilities	3,673	3,302	4,596
Long-term debt	963	860	1,197
Pension plans and similar commitments	43	42	59
Deferred tax liabilities	19	33	46
Long-term provisions	27	113	157
Other financial liabilities	20	3	4

Other liabilities	76	73	102
Total liabilities	4,821	4,426	6,161
Equity:			
Shareholders equity:			
Ordinary share capital	1,499	1,499	2,086
Additional paid-in capital	6,008	6,008	8,363
Accumulated deficit	(5,252)	(5,626)	(7,831)
Other components of equity	(164)	(79)	(110)
Total equity attributable to shareholders of Infineon Technologies AG	2,091	1,802	2,508
Minority interests	70	61	85
Total equity	2,161	1,863	2,593
Total liabilities and equity	6,982	6,289	8,754

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Income and Expense Recognized in Equity (Unaudited)
For the three months ended December 31, 2007 and 2008

	December 31, 2007 (millions)	**December 31, 2008 (millions)**	**December 31, 2008 ($ millions)**
Net loss	(529)	(404)	(562)
Currency translation effects	(47)	85	118
Net change in fair value of available-for-sale financial assets		2	3
Net change in fair value of cash flow hedges	1	19	26
Net loss recognized directly in equity, net of tax	(46)	106	147
Total income and expense recognized in equity	(575)	(298)	(415)
Attributable to:			
Minority interests	(130)	(9)	(14)
Shareholders of Infineon Technologies AG	(445)	(289)	(401)

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, 2007 and 2008

	December 31, 2007 (millions)	December 31, 2008 (millions)	December 31, 2008 ($ millions)
Net loss	(529)	(404)	(562)
Less: net loss from discontinued operations	577	288	401
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	147	145	202
Provision for doubtful accounts		1	1
Gains on sales of businesses and interests in subsidiaries	(28)	(1)	(1)
Losses (gains) on disposals of property, plant, and equipment	13		
Income from investments accounted for using the equity method		(1)	(1)
Stock-based compensation	1		
Deferred income taxes		3	4
Changes in operating assets and liabilities:			
Trade and other receivables	70	250	348
Inventories	(28)	5	7
Other current assets	(7)	(46)	(64)
Trade and other payables	(75)	(179)	(249)
Provisions	(29)	(66)	(92)
Other current liabilities	(16)	(5)	(7)
Other assets and liabilities	19	(8)	(11)
Interest received	8	9	12
Interest paid	(9)	(7)	(10)
Income tax received	4	21	29
Net cash provided by operating activities from continuing operations	118	5	7
Net cash used in operating activities from discontinued operations	(127)	(354)	(493)
Net cash used in operating activities	(9)	(349)	(486)
Cash flows from investing activities:			
Purchases of available-for-sale financial assets	(324)		
Proceeds from sales of available-for-sale financial assets		5	7

Proceeds from sales of businesses and interests in subsidiaries	36		
Business acquisitions, net of cash acquired	(316)	13	18
Purchases of intangible assets, and other assets	(13)	(11)	(15)
Purchases of property, plant and equipment	(98)	(29)	(40)
Proceeds from sales of property, plant and equipment	3		
Net cash used in investing activities from continuing operations	(712)	(22)	(30)
Net cash provided by (used in) investing activities from discontinued operations	(64)	307	427
Net cash provided by (used in) investing activities	(776)	285	397
Cash flows from financing activities:			
Net change in short-term debt		10	14
Net change in related party financial receivables and payables	(3)	(2)	(3)
Proceeds from issuance of long-term debt	102	1	1
Principal repayments of long-term debt	(9)	(84)	(117)
Change in restricted cash		(1)	(1)
Dividend payments to minority interests	(65)		
Capital contribution		(5)	(7)
Net cash provided by (used in) financing activities from continuing operations	25	(81)	(113)
Net cash provided by (used in) financing activities from discontinued operations	(38)	19	27
Net cash used in financing activities	(13)	(62)	(86)
Net decrease in cash and cash equivalents	(798)	(126)	(175)
Effect of foreign exchange rate changes on cash and cash equivalents	(8)	(9)	(13)
Cash and cash equivalents at beginning of period	1,809	1,171	1,630
Cash and cash equivalents at end of period	1,003	1,036	1,442
Less: Cash and cash equivalents at end of period from discontinued operations	502	389	541
Cash and cash equivalents at end of period from continuing operations	501	647	901

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
Condensed Consolidated Changes in Equity (Unaudited)
For the three months ended December 31, 2007 and 2008
(in millions of euro, except for share data)

	Issued Ordinary shares		Additional paid-in	Accumulated	Foreign currency translation	Unrealized gain (loss) on	Unrealized gain (loss) on cash flow	Total equity attributable to shareholders of Infineon	Minority	Total
	Shares	Amount	capital	deficit	adjustment	securities	hedge	AG	interests	equity
alance as of October 1, 007	749,728,635	1,499	6,002	(2,328)	(106)	(6)	(17)	5,044	960	6,004
otal income and expense ecognized in equity				(409)				(409)	(120)	(529)
hare-based compensation			3					3		3
ther changes in equity				1	(36)			(35)	(76)	(111)
alance as of ecember 31, 2007	749,728,635	1,499	6,005	(2,736)	(142)	(6)	(17)	4,603	764	5,367
alance as of October 1, 008	749,742,085	1,499	6,008	(5,252)	(142)	(3)	(19)	2,091	70	2,161
otal income and expense ecognized in equity				(374)				(374)	(30)	(404)
hare-based compensation			1					1		1
ther changes in equity			(1)		65	2	18	84	21	105
alance as of ecember 31, 2008	749,742,085	1,499	6,008	(5,626)	(77)	(1)	(1)	1,802	61	1,863

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Infineon Technologies AG and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

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, 2007 and 2008, have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU). The accompanying condensed consolidated financial statements have been prepared in compliance with IAS 34 *Interim financial reporting* . 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, 2008 was derived from audited financial statements, it does not include all disclosures required by IFRS. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements prepared in accordance with IFRS, as adopted by the European Union (EU) as of and for the period ended September 30, 2008. The accounting policies applied in preparing the accompanying condensed consolidated financial statements are consistent with those for the year ended September 30, 2008 (see note 2).

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 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 Euro (or) except where otherwise stated. The accompanying condensed consolidated balance sheet as of December 31, 2008, and the condensed consolidated statements of operations for the three months then ended, and the condensed consolidated statement of 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 1 = $1.3919, the Federal Reserve noon buying rate on December 31, 2008.

Certain amounts in the prior period condensed consolidated financial statements and notes have been reclassified to conform to the current period presentation. During the second quarter of the 2008 fiscal year the Company committed to a plan to dispose of Qimonda. As a result, the historical results of Qimonda are reported as discontinued operations for all periods presented, and its assets and liabilities have been classified as held for disposal for all periods presented. In addition, effective October 1, 2008, the Company reorganized its core business into five operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, Wireless Solutions, and Wireline Communications.

2. Standards and Interpretations Issued but Not Yet Adopted

In September 2007, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements* . The revision is aimed at improving users ability to analyze and compare the information given in financial statements. IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The revised IAS 1 resulted in consequential amendments to other statements and interpretations. The revision of IAS 1 will be effective for fiscal years beginning on or after January 1, 2009, with early adoption permitted. The EU has not yet endorsed the amendment to IAS 1. The Company is currently evaluating the potential effects of IAS 1.

In January 2008, the IASB published the amended standards IFRS 3, *Business Combinations*, (IFRS 3 (2008)) and IAS 27, *Consolidated and Separate Financial Statements* (IAS 27 (2008)). Neither standard has been endorsed by the EU yet.

IFRS 3 (2008) reconsiders the application of acquisition accounting for business combinations. Major changes relate to the measurement of non-controlling interests, the accounting for business combinations achieved in stages as well as the treatment of contingent consideration and acquisition-related costs. Based

Infineon Technologies AG and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

on the new standard, non-controlling interests may be measured at their fair value (full-goodwill-methodology) or at the proportional fair value of assets acquired and liabilities assumed. In business combinations achieved in stages, any previously held equity interest in the acquiree is remeasured to its acquisition date fair value. Any changes to contingent consideration classified as a liability at the acquisition date are recognized in profit and loss. Acquisition-related costs are expensed in the period incurred.

Major changes in relation to IAS 27 (2008) relate to the accounting for transactions which do not result in a change of control as well as for those leading to a loss of control. If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions not affecting profit and loss. At the date control is lost, any retained equity interests are remeasured to fair value. Based on the amended standard, non-controlling interests may show a deficit balance since both profits and losses are allocated to the shareholders based on their equity interests.

The amended standards are effective for business combinations in annual periods beginning on or after July 1, 2009. The Company is currently evaluating the potential effects of IFRS 3 (2008) and IAS 27 (2008).

3. Acquisitions

On July 31, 2007, the Company acquired Texas Instruments Inc. s (TI) DSL Customer Premises Equipment (CPE) business for cash consideration of 45 million. The purchase price was subject to an upward or downward contingent consideration adjustment of up to $16 million, based on negotiated revenue targets of the CPE business. Due to the failure to achieve the negotiated revenue targets of the CPE business during the nine months following the acquisition date the cash consideration has been adjusted downward by an amount of 13 million, and the amount of 13 million was reimbursed by TI. Accordingly, the Company allocated the adjustment of the purchase price to goodwill.

On October 24, 2007, the Company completed the acquisition of the mobility products business of LSI Corporation (LSI) for cash consideration of 316 million ($450 million) plus transaction costs. As part of the acquisition, an amount of 14 million was allocated to purchased in-process research and development based on discounted estimated future cash flows over the respective estimated useful life. During the three months ended December 31, 2007, this amount was expensed as other operating expense, because no future economic benefit from its use or disposal was expected. The purchase price was subject to a contingent performance-based payment based on the relevant revenues in the measurement period following the completion of the transaction and ending December 31, 2008. Due to the lower revenues during the measurement period, no performance-based payment has been paid.

On April 28, 2008, the Company acquired Primarion, Inc., Torrance, California (Primarion) for cash consideration of 32 million ($50 million) plus a contingent performance-based payment of up to $30 million. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. As a result of the law suit filed against Primarion subsequent to the acquisition, the Company reassessed the estimated fair value of the liabilities assumed. The adjustment resulted in a decrease of the net assets acquired by 4 million with a corresponding increase in goodwill.

4. Divestitures and Discontinued Operations

High Power Bipolar Business

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG (Siemens). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) and Siemens subsequently acquired a 40 percent interest in Bipolar for 37 million. The transaction received regulatory approval and subsequently closed on November 30, 2007. As a result of the sale, the Company realized a gain before tax of 32 million which was recorded in other operating income during the fiscal year ended September 30, 2008. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounts for the retained interest in Bipolar under the equity method of accounting.

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements

Qimonda

During the 2008 fiscal year, the Company committed to a plan to dispose of Qimonda. As a consequence, the results of Qimonda are reported as discontinued operations in the Company s condensed consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the condensed consolidated balance sheets. In addition, the Company recorded after-tax write-downs totaling 1,475 million during the 2008 fiscal year. Pursuant to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* , the recognition of depreciation and amortization expense and impairments of long-lived asset recorded by Qimonda ceased as March 31, 2008.

Loss from discontinued operations, net of income taxes recognized during the first quarter of the 2009 fiscal year is primarily composed of the realization of currency translation effects, not included in the disposal group, from Qimonda s sale of its interest in Inotera Memories Inc. (Inotera) to Micron Technology, Inc (Micron) of 88 million and provisions and allowances of 195 million resulting from Qimonda s insolvency described below. While these amounts result from the Qimonda business they are not included in the assets and liabilities classified as held for disposal. The operating losses of Qimonda, exclusive of depreciation, amortization and impairment of long-lived assets in the first quarter of the 2009 fiscal year 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 cost to sell. Such reversal was recorded due to the fact that Infineon has neither the obligation nor the intention to provide additional equity capital to fund the operating losses of Qimonda.

On December 21, 2008, the Company, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. The package included a 150 million loan from the German Free State of Saxony, a 100 million loan from a state bank in Portugal and a 75 million loan from Infineon. In addition to this financing package, Qimonda had announced that it expected to receive guarantees totaling 280 million from the Federal Government of Germany and the Free State of Saxony. Based on such guarantees, Qimonda had also announced that it was in advanced negotiations regarding a 150 million package. Given the difficult overall economic situation and the further deterioration of the DRAM business during the three months ended December 31, 2008, the negotiating parties were ultimately unable to agree on the rescue package that would work for everyone involved.

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 (see note 19). With respect to the application to commence insolvency proceedings by Qimonda exposed Infineon to potential liabilities and allowances arising from the Qimonda business. Potential liabilities resulting from Qimonda s insolvency filing include pending antitrust and securities law claims, potential claims for repayment of governmental subsidies received, and employee-related contingencies. The Company recorded additional provisions and allowances of 195 million as of December 31, 2008, relating to those issues which management believes are probable of occurring and can be estimated with reasonable accuracy at this time. These additional provisions and allowances were recognized in loss from discontinued operations, net of income taxes in the three months ended December 31, 2008. 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.

The results presented for Qimonda are based on preliminary results provided by Qimonda prior to the filing by Qimonda and Qimonda Dresden GmbH & Co. oHG for insolvency protection in the Munich Local Court on January 23, 2009, and were prepared on a going concern basis. Liquidation basis financial statements that would be required when the going concern assumptions is not assured are not available from Qimonda. There can be no assurances that individually the assets and liabilities held for disposal would not be materially different if presented on a liquidation basis, however, as the net assets of Qimonda that are held for disposal are valued at the fair value less costs to sell, the net value presented in these condensed consolidated financial statements would not be impacted.

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements

The results of Qimonda presented in the condensed consolidated statements of operations as discontinued operations consist of the following components:

	Three months ended December 31, 2007	2008
	(in millions)	
Revenue	513	314
Costs and expenses	(1,082)	(867)
Reversal of measurement to fair value less costs to sell		460
Expenses resulting from Qimonda s application to commence insolvency proceedings		(195)
Loss from discontinued operations, before income tax	(569)	(288)
Income tax expense	(8)	
Loss from discontinued operations, net of income tax	(577)	(288)

Assets and liabilities held for disposal are primarily composed of the book values of Qimonda s assets and liabilities. At September 30, 2008 and December 31, 2008, the carrying amounts of the major classes of assets and liabilities classified as held for disposal were as follows:

	September 30, 2008	December 31, 2008
	(in millions)	
Cash and cash equivalents	421	389
Trade accounts receivable, net	255	153
Inventories	289	237
Other current assets	376	76
Property, plant and equipment, net	2,059	1,869
Goodwill and other intangibles	76	72
Investments accounted for using the equity method	14	14
Deferred tax asset	59	63
Other assets	55	75
Subtotal	3,604	2,948
Write-down	(1,475)	(1,015)

Total assets classified as held for disposal	2,129	1,933
Short-term debt and current maturities of long-term debt	346	405
Trade accounts payable	592	434
Current Provisions	220	205
Other current liabilities	300	251
Long-term debt	427	403
Pension plans and similar commitments	22	23
Deferred tax liabilities	16	13
Long-term provisions	25	26
Other liabilities	175	167
Total liabilities associated with assets held for disposal	2,123	1,927
Amounts recognized directly in equity relating to assets and liabilities classified as held for disposal	(158)	(71)

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Infineon Technologies AG and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements

5. Restructuring

During the 2007 fiscal year, restructuring measures were taken by the Company, mainly as a result of the insolvency of one of its largest mobile phone customers, BenQ Mobile GmbH & Co. oHG, and in order to further streamline certain research and development locations. Approximately 280 jobs were affected worldwide, thereof approximately 120 in the German locations Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures were completed during the 2007 fiscal year.

To address rising risks in the current market environment, adverse currency trends and below benchmark margins, the Company implemented the IFX10+ cost-reduction program in the third quarter of the 2008 fiscal year. The IFX10+ program includes measured target areas including product portfolio management, manufacturing costs reduction, value chain optimization, process efficiency, reorganization of the Company s structure along its target markets, and reductions in workforce. Approximately 10 percent of Infineon Logic s worldwide workforce is expected to be impacted by IFX10+. During the first quarter of the 2009 fiscal year, and in light of continuing adverse developments in general economic conditions and in the industry, the Company identified significant further cost savings in addition to those originally anticipated.

During the three months ended December 31, 2007 and 2008, charges of 3 million and 3 million, respectively, were recognized.

The development of the restructuring liability during the three months ended December 31, 2008, was as follows:

	September 30, 2008 Liability	Restructuring Charges, net	Payments	December 31, 2008 Liability
		(in millions)		
Employee terminations	179	3	(28)	154
Other exit costs	10		(9)	1
Total	189	3	(37)	155

6. Financial Income

The amount of financial income is as follows for the three months ended December 31, 2007 and 2008, respectively:

	Three months ended December 31, 2007	2008
	(in millions)	
Interest income	15	49

Valuation changes and gains on sales	3	
Other financial income		11
Total	18	60

Interest income for three months ended December 31, 2008, includes a net gain of 36 million before tax, as a result of the repurchased notional amounts of the subordinated exchangeable notes due 2010 and convertible subordinated notes due 2010 (see note 13).

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Infineon Technologies AG and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

7. Financial Expense

The amount of financial expense is as follows for the three months ended December 31, 2007 and 2008, respectively:

	Three months ended December 31,	
	2007	2008
	(in millions)	
Interest expense	36	35
Valuation changes and losses on sales	3	21
Other financial expense	1	
Total	40	56

8. Income Taxes

Income (loss) from continuing operations before income taxes and income tax expense are as follows:

	Three months ended December 31,	
	2007	2008
	(in millions, except percentages)	
Income (loss) from continuing operations before income taxes	60	(112)
Income tax expense	12	4
Effective tax rate	20.6%	

In the three months ended December 31, 2007 and 2008, the tax expense of the Company is affected by lower foreign tax rates, tax credits and the need for valuation allowances on deferred tax assets in certain jurisdictions.

9. 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.

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The computation of basic and diluted EPS is as follows:

	Three months ended December 31,	
	2007	**2008**
Numerator (in millions):		
Income (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	38	(117)
Loss from discontinued operations, net of tax attributable to shareholders of Infineon Technologies AG	(447)	(257)
Net loss attributable to shareholders of Infineon Technologies AG	(409)	(374)
Denominator (shares in millions):		
Weighted-average shares outstanding basic and diluted	749.7	749.7
Basic and diluted loss per share (in):		
Income (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	0.05	(0.16)
Loss from discontinued operations, net of tax attributable to shareholders of Infineon Technologies AG	(0.60)	(0.34)
Net loss attributable to shareholders of Infineon Technologies AG	(0.55)	(0.50)

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, includes 37.0 million and 30.0 million shares underlying employee stock options for the three months ended December 31, 2007 and 2008, respectively. Additionally, 68.4 million and 58.3 million ordinary shares issuable upon conversion of outstanding convertible subordinated notes during the three months ended December 31, 2007 and 2008, respectively, were not included in the computation of diluted earnings (loss) per share as their impact was not dilutive.

10. Trade and Other Receivables, net

Trade accounts and other receivables consist of the following:

	September 30, 2008	December 31, 2008
	(in millions)	
Third party trade	590	348

Associated and Related Companies	28	20
Trade accounts receivable, gross	618	368
Allowance for doubtful accounts	(29)	(37)
Trade accounts receivable, net	589	331
Grants receivable	28	31
License fees receivable	10	6
Third party financial and other receivables	17	26
Receivables from German bank s deposit protection fund	121	121
Associated and related companies financial and other receivables	22	
Employee receivables	8	2
Other receivables	4	4
Subtotal	799	521

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11. Inventories

Inventories consist of the following:

	September 30, 2008	December 31, 2008
	(in millions)	
Raw materials and supplies	59	63
Work-in-process	372	345
Finished goods	234	253
Total inventories	665	661