INFINEON TECHNOLOGIES AG
Form 6-K
May 05, 2010

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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

May 5, 2010

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 X Form 40-F ___

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 ___ No X

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 May 5, 2010, contains the Quarterly Report of Infineon Technologies AG for the Company s second quarter of the 2010 fiscal year.

INFINEON TECHNOLOGIES AG

QUARTERLY REPORT
FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2010

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Interim Group Management Report (Unaudited)

This interim group management report should be read in conjunction with our unaudited 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.

On November 6, 2009, we closed the sale of the Wireline Communications business to Lantiq, affiliates of Golden Gate Private Equity Inc. (Lantiq). All assets and liabilities of the Wireline Communications business to be sold are presented as Assets classified as held for sale and Liabilities classified as held for sale in our condensed consolidated statements of financial position as of September 30, 2009 and March 31, 2010; the results of the Wireline Communications business and the gain on the sale are both presented as Income (loss) from discontinued operations, net of income taxes in our condensed consolidated statements of operations for all periods presented.

The following were key developments in our business during the three and six months ended March 31, 2010:

Financial Results

For the three months ended March 31, 2010, we reported revenues of 1,035 million, an increase of 55 percent compared to revenues of 669 million for the three months ended March 31, 2009, reflecting increased demand as a result of the overall economic recovery, only partially offset by less favorable foreign currency rates, in particular between the U.S. dollar and the Euro. All of our operating segments benefited from the general economic recovery and improved demand in the supply chain as well as at end customers, in particular the Automotive and the Industrial & Multimarket segments. Revenues for the three months ended March 31, 2010 represented a 10 percent increase over revenues of 941 million in the three months ended December 31, 2009, also mainly driven by the Automotive and the Industrial & Multimarket segments, while the Wireless Solutions segment was only slightly impacted by normal negative seasonality.

Our revenues increased by 40 percent from 1,411 million in the six months ended March 31, 2009 to 1,976 million in the six months ended March 31, 2010, mostly driven by the general economic recovery and improved demand in the supply chain as well as at end customers. The Automotive, the Industrial & Multimarket and the Wireless Solutions segments contributed most significantly to the increase in revenues. Given the revenues in the first half of the 2010 fiscal year and the current visibility, we are now expecting revenue growth in the 2010 fiscal year in a high 30 s percentage compared with the 2009 fiscal year.

The Segment Result[(1)] of all our operating segments significantly improved in the three and six months ended March 31, 2010 compared to the three and six months ended March 31, 2009. The improvements in Segment Result primarily reflect the increases in revenues. Our production facilities are currently almost fully loaded, reflecting the ongoing demand. This resulted in a significant decrease in idle capacity cost during the three and six months ended March 31, 2010, compared to the three and six months ended March 31, 2009. Furthermore, we continued our strong cost discipline in the three and six months ended March 31, 2010.

Segment Results for the three months ended March 31, 2010 were as follows: Automotive Segment Result was positive 51 million (three months ended March 31, 2009: negative 65 million), Industrial & Multimarket Segment Result was positive 59 million (three months ended March 31, 2009: negative 7 million), Chip Card & Security Segment Result was positive 3 million (three months ended March 31, 2009: negative 8 million), and Wireless Solutions Segment Result was positive 9 million (three months ended March 31, 2009: negative

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

29 million). The Other Operating Segment Result was negative 8 million and Corporate and Elimination Segment Result was negative 4 million for the three months ended March 31, 2010, compared to negative 6 million and positive 2 million, respectively, for the three months ended March 31, 2009. Compared to the three months ended December 31, 2009, Automotive Segment Result increased by 14 million, Industrial & Multimarket Segment Result increased by 15 million, and Chip Card & Security Segment Result increased by 2 million, while Wireless Solutions Segment Result decreased by 8 million.

Segment Results for the six months ended March 31, 2010 were as follows: Automotive Segment Result was positive 88 million (six months ended March 31, 2009: negative 121 million), Industrial & Multimarket Segment Result was positive 103 million (six months ended March 31, 2009: negative 5 million), Chip Card & Security Segment Result was positive 4 million (six months ended March 31, 2009: negative 9 million), and Wireless Solutions Segment Result was positive 26 million (six months ended March 31, 2009: negative 73 million). The Other Operating Segment Result was negative 13 million and Corporate and Elimination Segment Result was negative 10 million for the six months ended March 31, 2010, compared to negative 8 million and negative 3 million, respectively, for the six months ended March 31, 2009.

Given the Segment Results in the first half of the 2010 fiscal year and the current visibility, we are now expecting combined Segment Result margin to be more than 10 percent for the full 2010 fiscal year, while at the end of the 2009 fiscal year we anticipated a 2010 combined Segment Result margin in the mid single-digits.

Our income from continuing operations before income taxes was 88 million in the three months ended March 31, 2010, an improvement of 243 million from a loss of 155 million in the three months ended March 31, 2009. This improvement primarily reflects the increased Segment Result of our operating segments described above. For the six months ended March 31, 2010 our income from continuing operations before income taxes was 50 million and improved from a loss of 270 million in the six months ended March 31, 2009. This was besides the negative impact of 73 million as a result of the deconsolidation of ALTIS Semiconductor S.N.C, Essonnes, France (ALTIS) as a subsidiary, as described below, and a lower financial result (financial income net of financial expense).

Loss from discontinued operations, net of income taxes, for the three months ended March 31, 2010 was 2 million, while we realized income from discontinued operations, net of income taxes, for the six months ended March 31, 2010 of 110 million, primarily reflecting the after-tax gain of 106 million realized on the sale of our Wireline Communications business to Lantiq described below during the three months ended December 31, 2009. In the three and six months ended March 31, 2009, we recognized a loss from discontinued operations, net of income taxes, of 106 million and 391 million, respectively, primarily reflecting charges in connection with Qimonda as further described below.

Primarily as a result of the developments described above, we realized net income of 79 million and 145 million for the three and six months ended March 31, 2010, respectively, compared to net loss of 258 million and 662 million for the three and six months ended March 31, 2009, respectively.

Our net cash provided by operating activities from continuing operations was 329 million in the six months ended March 31, 2010, compared to net cash used in operating activities from continuing operations of 83 million in the six months ended March 31, 2009. This improvement primarily reflects the increase of our results from continuing operations excluding non-cash charges for depreciation and amortization and losses resulting from the deconsolidation of ALTIS and continued tight working capital management. Accordingly, free cash flow from continuing operations, defined as net cash from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets, for the six months

ended March 31, 2010 was positive 155 million, compared with negative 73 million in the six months ended March 31, 2009, notwithstanding the deconsolidation of the cash of the ALTIS joint venture in the amount of 88 million during the later period.

As of March 31, 2010, our gross cash position, defined as cash and cash equivalents and available-for-sale financial assets, was 1,667 million, compared with 1,507 million as of September 30, 2009. The increase of 160 million included cash inflow of 223 million in connection with the sale of the Wireline Communications business to Lantiq, partially offset by the deconsolidation of the cash

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of the ALTIS joint venture in the amount of 88 million. During the six months ended March 31, 2010, we also repurchased notional amounts of 190 million of our convertible subordinated notes due June 2010 and repaid other debt in a net amount of 14 million. Overall, our net cash position, defined as gross cash position less short-term debt and long-term debt, increased to 995 million as of March 31, 2010, compared to 657 million as of September 30, 2009.

Corporate Activities

In July 2009, we entered into a purchase agreement with Lantiq, pursuant to which we agreed to sell the Wireline Communications business, one of our segments. The majority of the purchase price was paid at closing in November 2009, in the amount of 223 million, with up to an additional 20 million of the purchase price being payable nine months after the closing date. We recognized an after-tax gain of 106 million at the closing of the sale. Certain current assets in the manufacturing supply chain at the date of closing could not yet be transferred to Lantiq and are presented as assets held for sale in the condensed consolidated statement of financial position as of March 31, 2010. Prepayments in relation to those assets were recognized and are presented within liabilities classified as held for sale.

In late December 2009 we deconsolidated ALTIS, our joint venture with IBM, following the waiver of our option to acquire further voting shares in ALTIS from our joint venture partner. The assets and liabilities of ALTIS as well as the non-controlling interests in this previously consolidated subsidiary were derecognized, and we recognized our interest in ALTIS as an investment in an associated company at its fair value of zero. We subsequently account for ALTIS using the equity method. Furthermore, in the 2009 calendar year we entered into several amendments to our agreements with IBM in respect of ALTIS, which changed the output and cost allocation of ALTIS and certain rights of the shareholders. Additionally, the product purchase agreement with ALTIS was extended through May 2010. Upon deconsolidation, cash and cash equivalents decreased by 88 million and non-controlling interests by 61 million. The total operating loss recognized in connection with the deconsolidation originally amounted to 81 million in the three months ended December 31, 2009, which was adjusted in the three months ended March 31, 2010 to 73 million; this is presented within other operating expense.

In November 2009, we and the Korean company LS Industrial Systems (LSIS) established the joint venture LS Power Semitech Co., Ltd. (LS), which will focus on the development, production and marketing of molded power modules for white goods applications. LSIS holds 54 percent and we hold 46 percent of the joint venture, which has its headquarters at the LSIS site in Cheonan, South Korea. We contributed licenses of intellectual property as well as technology and process know-how for our power module family CIPOS^{tm} (Control Integrated Power System), and existing CIPOStm back-end manufacturing equipment. We realized a gain of 3 million before tax from our contribution to the joint venture, which is recognized in other operating income in the six months ended March 31, 2010. The investment in the joint venture is accounted for using the equity method.

During the three and six months ended March 31, 2010, we repurchased notional amounts of 142 million and 190 million of our convertible subordinated notes due June 2010 for cash of 143 million and 191 million, respectively. We realized losses of 3 million and 5 million before income taxes, which was recognized as interest expense within financial expense during the three and six months ended March 31, 2010, respectively. The outstanding nominal amount and carrying amount of our convertible subordinated notes due June 2010 was 258 million and 254 million, respectively, as of March 31, 2010. In addition, convertible subordinated notes due 2014 in a nominal amount of 196 million with a carrying amount of 149 million were outstanding as of March 31, 2010.

During the six months ended March 31, 2010, we made investments in property, plant and equipment and intangible assets of 111 million, compared to 89 million in the six months ended March 31, 2009. In particular, we invested 18 million in copper capacity at our production site in Dresden and continued to ramp up our factory in Kulim, Malaysia. At the Kulim site, 40 percent of the available clean room space is currently in use, while equipment is being fully used. By the end of this fiscal year, we will extend the capacity to 50 percent of the available clean room space. Since the end of December 2009, production in front-end and back-end is running at full capacity. Current utilization rates generally range between 90 and 100 percent. In the three months ended March 31, 2010, we reached almost the maximum of our existing production capacity, forcing us partly to push

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out new orders. In light of the dynamic revenue growth, fully loaded production facilities and planned development milestones, we currently plan investments in property, plant and equipment and intangible assets in our 2010 fiscal year to total more than 300 million, compared to 154 million in the 2009 fiscal year.

Business Highlights

We settled a patent infringement lawsuit with Fairchild Semiconductor International, Inc. (Fairchild) in the three months ended December 31, 2009. We initiated the lawsuit in November 2008 in the U.S. District Court for the District of Delaware. The patents in the suit and counter suit related to super-junction power transistors, trench power MOSFETs and IGBT power transistors. The lawsuit has been settled through a broad patent cross license relating to semiconductor technology. As part of the agreement, Fairchild made payments to Infineon.

Energy Efficiency

Our Automotive Segment entered into a strategic partnership with a leading European Tier 1 company and won a significant Engine Control and Transmission platform with our next generation 32-bit TriCore microcontroller family. We have also won the next generation of Hybrid and Electric Vehicle platforms at a large North American OEM with our latest IGBTs and driver ICs.

With a series of recent design wins at Body and Safety suppliers we are successfully rolling out our latest 130 nanometer based Smart Power Technology (SPT9), a technology that offers monolithic integration of power devices, microcontroller, and non-volatile memory functionality.

We reported a significant design win for magnetic sensors in an engine management application at an industry leading Tier 1 company.

We launched an OptiMOS 25V device family that is optimized for voltage regulation in power supplies for computer servers and telecommunications/data communications switches. The new power MOSFETs are also integrated into the IC TDA21220 which is compliant with the industry DrMOS specification. With significant reductions in three critical Figures of Merit (FoM), important for overall efficiency, the new devices reduce MOSFET power losses up to 20 percent and deliver optimized performance across all load conditions, thus improving the energy efficiency of computing and telecommunications applications considerably.

We introduced a specific off-line driver IC for high-efficiency LED bulbs with dimming for residential lighting. With a flexible architecture, the ICL8001G supports very cost-effective 40W/60W/100W incandescent bulb replacement for typical consumer lighting applications. The ICL8001G sets a new benchmark with respect to integration, performance, features, and total system cost. It enables up to 90 percent efficiency, supports a broad variety of already installed wall dimmers, and is the only primary controlled off-line LED drive solution with integrated Power Factor Correction (PFC). With an increasing number of countries banning incandescent lamps in favor of energy saving alternatives, LED lamps are expected to emerge as a favored replacement.

Security

The US market research company Frost & Sullivan named us as the top supplier in the Smart5 Card IC market for the twelfth consecutive year, confirming that we were the number one supplier of chip card semiconductors in 2008, with sales representing about one fourth of the segment s global revenue. Our market share was 25.5 percent of the overall chip card IC (integrated circuit) market in 2008, which totaled about $2.4 billion.

Confirming our continued innovation in contactless excellence, we introduced the new SLE 78CL (CL for contactless) family at the Cartes & Identification Trade Show. This high-security dual-interface microcontroller family provides digital security features previously unknown in contactless chips. It incorporates our award-winning Integrity Guard hardware security technology, which has been recognized by the chip card industry as a Best Hardware Innovation . With the SLE 78CL family we address next-generation government identification (ID) and payment applications in the smart card form factor and beyond.

We secured a new strategic partnership and agreed on a Strategic Architectural License Agreement for Advanced Security Applications with ARM Ltd. (ARM). This agreement includes a long-

term strategic collaboration in the field of security controllers for chip card and security applications. Infineon will receive an ARMv6M and ARMv7M architecture license. With our own specialized ARM® architecture-compliant CPU cores, we will address the current and future needs of security markets in terms of hardware-based security, combined with the advantages of the industry s most widely licensed 32-bit CPU technology.

Communications

The recently introduced flagship-models of several renowned Smartphone OEMs are powered by our new HSUPA-Basebands and RF-Transceivers.

At the beginning of the 2010 fiscal year we successfully taped-out our next generation HSPA+ platform XMM 6260 and achieved a Design Win with a Tier 1 customer.

We successfully started the volume-ramp of our X-GOLD™ 110, the third generation of our highly-integrated and very cost effective one-chip solution for GSM/GPRS ultra low-cost phones.

Fulfilling requirements of the growing mobile GPS market for higher sensitivity, higher immunity against interference of cellular signals and low power consumption, we introduced the next generation of the world s smallest GPS Receiver Front-End Module. The new BGM781N11 further boosts GPS sensitivity to enable, for example, E911 emergency call requirements for mobile phones, personal navigation devices and other handheld systems, and GPS applications in vehicles. Including all key components to amplify a GPS signal and filter out interference, the module measures just 2.5 millimeters x 2.5 millimeters x 0.7 millimeters in size, which is more than 60 percent smaller than the closest competitive product offering a similar integration level.

Revenue by Segment

	Three months ended March 31,		Six months ended March 31,	
	2009	**2010**	**2009**	**2010**
	(in millions)			
Automotive	189	316	395	595
Industrial & Multimarket	193	315	427	588
Chip Card & Security	80	99	171	182
Wireless Solutions[1]	204	267	401	537
Other Operating Segments	2	40	10	73
Corporate and Eliminations[2]	1	(2)	7	1
Total	669	1,035	1,411	1,976

(1) Includes revenues of 1 million for the six months ended March 31, 2009 from sales of wireless communication applications to Qimonda.

(2) Includes the elimination of revenues of 1 million for the six months ended March 31, 2009 since these sales were not part of the Qimonda disposal plan.

Revenues for the three and six months ended March 31, 2009, were characterized by the worldwide economic and financial crisis, which affected all our operating segments. Due to the fast and general recovery of the economy in recent months, we have seen a recovery of the revenues of all our operating segments.

Automotive In the three months ended March 31, 2010, segment revenues were 316 million, an increase of 127 million or 67 percent compared to 189 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, segment revenues increased by 200 million or 51 percent to 595 million, compared to 395 million in the six months ended March 31, 2009. These increases were mainly driven by increased car production worldwide, together with supply chain replenishment worldwide.

Industrial & Multimarket In the three months ended March 31, 2010, segment revenues were 315 million, an increase of 122 million or 63 percent compared to 193 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, segment revenues increased by 161 million or 38 percent to 588 million, compared to 427 million in the six months ended March 31, 2009. These increases primarily resulted from higher demand for infrastructure products and higher end customer demand for computing, communications and industrial products.

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Chip Card & Security In the three months ended March 31, 2010, segment revenues were 99 million, an increase of 19 million or 24 percent compared to 80 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, segment revenues increased by 11 million or 6 percent to 182 million, compared to 171 million in the six months ended March 31, 2009. These increases were mainly driven by higher revenues from payment and mobile communication applications. The absolute and relative increase in revenues for the six-month period is lower than for the three-month period due to a positive one-time effect in the six months ended March 31, 2009 following the cancelation of a customer project.

Wireless Solutions In the three months ended March 31, 2010, segment revenues were 267 million, an increase of 63 million or 31 percent compared to 204 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, segment revenues increased by 136 million or 34 percent to 537 million, compared to 401 million in the six months ended March 31, 2009. These increases primarily reflect increased demand from most major mobile phone platform customers. Our innovative Ultra Low Cost, Entry Phone, UMTS and HSPA solutions were positively received and had strong market momentum.

Other Operating Segments Revenues of other operating segments increased by 38 million from 2 million in three months ended March 31, 2009, to 40 million in the three months ended March 31, 2010, and by 63 million from 10 million in the six months ended March 31, 2009, to 73 million in the six months ended March 31, 2010, primarily reflecting revenues from product supply agreements with Lantiq after the closing of the sale of our Wireline Communications business.

Revenue by Region

	Three months ended March 31,				**Six months ended March 31,**			
	2009		**2010**		**2009**		**2010**	
	(in millions, except percentages)							
Germany	133	20%	216	21%	278	20%	398	20%
Other Europe	130	19%	181	18%	261	18%	330	17%
North America	62	10%	169	16%	153	11%	366	18%
Asia/Pacific	311	46%	408	39%	635	45%	767	39%
Japan	26	4%	50	5%	70	5%	93	5%
Other	7	1%	11	1%	14	1%	22	1%
Total	669	100%	1,035	100%	1,411	100%	1,976	100%

The regional distribution of revenues in the three and six months ended March 31, 2010 was largely unchanged compared to the three and six months ended March 31, 2009, other than a shift between Asia/Pacific and North America, which primarily reflects changes in the distribution channels of one major customer.

Cost of Goods Sold and Gross Profit

	Three months ended March 31,	**Six months ended March 31,**

	2009	2010	2009	2010
	(in millions, except percentages)			
Cost of goods sold	581	682	1,200	1,309
Percentage of revenue	87%	66%	85%	66%
Gross profit	88	353	211	667
Percentage of revenue (gross margin)	13%	34%	15%	34%

Cost of goods sold increased in the three months ended March 31, 2010 by 17 percent, or 101 million, to 682 million, compared to 581 million in the three months ended March 31, 2009, and by 9 percent to 1,309 million in the six months ended March 31, 2010, compared to 1,200 million in the six months ended March 31, 2009. Our gross profit increased from 88 million in the three months ended March 31, 2009, to 353 million in the three months ended March 31, 2010, or as a percentage of revenue from 13 percent to 34 percent, respectively. For the six months ended March 31, 2010, our gross profit was 667 million (representing 34 percent of revenues) an increase of 456 million compared to 211 million

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(representing 15 percent of revenues) for the six months ended March 31, 2009. These improvements primarily reflect higher sales revenues, the corresponding positive effects of higher factory loading resulting in lower idle capacity cost and the improved product mix portfolio. All operating segments showed improved gross margin in the three and six months ended March 31, 2010, compared to the three and six months ended March 31, 2009.

Research and Development Expenses

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions, except percentages)			
Research and development expenses	110	136	242	266
Percentage of revenue	16%	13%	17%	13%

Research and development expenses totaled 136 million and 266 million in the three and six months ended March 31, 2010, respectively, a moderate increase of 26 million and 24 million compared to 110 million and 242 million in the three and six months ended March 31, 2009, respectively, reflecting higher research and development activities throughout all our operating segments and lower capitalized development cost. As a percentage of revenues, research and development expenses in the three and six months ended March 31, 2010 were 13 percent, compared to 16 percent and 17 percent for the three and six months ended March 31, 2009, respectively, reflecting the disproportionately high increase in revenues. As a percentage of revenues, research and development expenses decreased in the three and six months ended March 31, 2010, compared to the three and six months ended March 31, 2009, throughout all our operating segments.

Selling, General and Administrative Expense

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions, except percentages)			
Selling, general and administrative expense	100	115	203	221
Percentage of revenue	15%	11%	14%	11%

In absolute terms selling, general and administrative expenses increased by 15 million and 18 million, to 115 million and 221 million, in the three and six months ended March 31, 2010, respectively, compared to 100 million and 203 million in the three and six months ended March 31, 2009, respectively, primarily resulting from higher sales volumes. The increase in selling, general and administrative expenses, however, was lower than the increase in revenues, and therefore as a percentage of revenues, selling, general and administrative expenses decreased in the three and six months ended March 31, 2010 to 11 percent, compared to 15 percent and 14 percent for the three and six months ended March 31, 2009, respectively.

Other Operating Income and Other Operating Expense

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions, except percentages)			
Other operating income	15	3	18	9
Percentage of revenue	2%	%	1%	%
Other operating expense	(39)	4	(50)	(92)
Percentage of revenue	(6)%	%	(4)%	(5)%

Other operating income for the three months ended March 31, 2010 decreased by 12 million from 15 million in the three months ended March 31, 2009 to 3 million, and by 9 million from 18 million in the six months ended March 31, 2009 to 9 million in the six months ended March 31, 2010. Other operating income for the three and six months ended March 31, 2009 included 10 million from claims associated with the insolvency of BenQ. Included in other operating income for the six months ended March 31, 2010 is a gain of 3 million from the contribution of licenses and back-end equipment to our LS joint venture with LSIS.

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Other operating expense for the three and six months ended March 31, 2010 are primarily impacted by the deconsolidation of ALTIS, described above, while other operating expense for the three and six months ended March 31, 2009 included a loss of 16 million we realized on the sale of the business of Infineon Technologies SensoNor AS (SensoNor).

Operating Income (Loss)

In the three and six months ended March 31, 2010 our operating income was 109 million and 97 million, respectively, and improved significantly compared to operating loss of 146 million and 266 million for the three and six months ended March 31, 2009, respectively, primarily reflecting improved results of our operating segments, and in spite of the negative impact on our operating results of the deconsolidation of ALTIS of 73 million in the six months ended March 31, 2010.

Segment Result

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions)			
Automotive	(65)	51	(121)	88
Industrial & Multimarket	(7)	59	(5)	103
Chip Card & Security	(8)	3	(9)	4
Wireless Solutions	(29)	9	(73)	26
Other Operating Segments	(6)	(8)	(8)	(13)
Corporate and Eliminations	2	(4)	(3)	(10)
Total	(113)	110	(219)	198

Segment Result development for our reporting segments was as follows:

Automotive Segment Result of the Automotive segment was 51 million in the three months ended March 31, 2010, a significant increase of 116 million from negative 65 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, Segment Result increased by 209 million to 88 million, compared to negative 121 million in the six months ended March 31, 2009. These increases reflect primarily improved gross margin resulting from higher revenues and the corresponding positive effects of higher factory loading resulting in lower idle capacity cost, partially offset by higher R&D spending in connection with our 65-nanometer TriCore microcontroller and integrated power-logic-products.

Industrial & Multimarket Segment Result of the Industrial & Multimarket segment was 59 million in the three months ended March 31, 2010, an increase of 66 million from negative 7 million for the three months ended March 31, 2009. In the six months ended March 31, 2010, Segment Result increased by 108 million to 103 million, compared to negative 5 million in the six months ended March 31, 2009. These increases reflect primarily improved gross margin resulting from higher revenues and the corresponding positive effects of higher factory loading resulting in lower idle capacity cost and further slight improvement in the segment s product mix. In addition, Segment Result for the six months ended March 31, 2010 benefited from the settlement of a patent infringement lawsuit with Fairchild.

Chip Card & Security Segment Result of the Chip Card & Security segment was positive 3 million in the three months ended March 31, 2010, an increase of 11 million from negative 8 million for the three months ended March 31, 2009. In the six months ended March 31, 2010, Segment Result increased by 13 million to 4 million, compared to negative 9 million in the six months ended March 31, 2009. These increases reflect primarily improved gross margin resulting from higher revenues and the corresponding positive effects of higher factory loading resulting in lower idle capacity cost. Furthermore, a continued shift in product mix towards higher margin business contributed to the increases in Segment Result.

Wireless Solutions Segment Result of the Wireless Solutions segment was 9 million in the three months ended March 31, 2010, an increase of 38 million from negative 29 million in the three months ended March 31, 2009. In the six months ended March 31, 2010, Segment Result increased by 99 million to 26 million, compared to negative 73 million in the six months ended March 31,

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2009. These increases are mainly driven by higher revenues, further productivity gains and increased capacity utilization resulting in lower idle capacity cost.

Other Operating Segments Segment Result of Other Operating Segments was negative 8 million and negative 13 million in the three and six months ended March 31, 2010, respectively, compared to negative 6 million and negative 8 million in the three and six months ended March 31, 2009, respectively. This deterioration primarily reflects those costs that remain with us after the sale of the Wireline Communications business, and which were previously allocated to the Wireline Communications segment.

Corporate and Eliminations Segment Result in the three and six months ended March 31, 2010 was negative 4 million and negative 10 million, respectively, compared to positive 2 million and negative 3 million in the three and six months ended March 31, 2009, respectively. Previous year amounts were positively impacted by the release of provisions as a result of the termination of an employee service anniversary payment scheme.

The following table provides a reconciliation of Segment Result to our operating loss:

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions)			
Total Segment Result	(113)	110	(219)	198
Adjusted:				
Asset impairments, net	(1)		(1)	(4)
Restructuring charges, and other related closure cost, net	(3)		(6)	
Share-based compensation expense	(1)		(1)	
Acquisition-related amortization and gains (losses)	(5)	(5)	(11)	(11)
Gains (losses) on disposal of assets, businesses, or interests in subsidiaries, net	(16)	(1)	(16)	2
Losses in connection with the deconsolidation of ALTIS		8		(73)
Other expense, net	(7)	(3)	(12)	(15)
Operating income (loss)	(146)	109	(266)	97

Financial Income and Financial Expense

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions, except percentages)			
Financial income	20	8	80	19
Percentage of revenue	3%	1%	6%	1%

Financial expense	(31)	(30)	(87)	(68)
Percentage of revenue	(5)%	(3)%	(6)%	(3)%

In the three and six months ended March 31, 2010, financial income was 8 million and 19 million, respectively, representing a decrease of 12 million and 61 million compared to 20 million and 80 million in the three and six months ended March 31, 2009, respectively. Included in financial income for the three and six months ended March 31, 2009 are gains of 12 million and 48 million, respectively, from the repurchases of our exchangeable subordinated notes due August 2010 (which were fully redeemed in the fourth quarter of the 2009 fiscal year) and our convertible subordinated notes due June 2010. In addition, gains of 3 million and 15 million from the valuation of interest rate swaps are included in financial income in the three and six months ended March 31, 2009, respectively, while such gains are insignificant in the three and six months ended March 31, 2010.

In the three months ended March 31, 2010, financial expense in the amount of 30 million was almost unchanged compared to 31 million the three months ended March 31, 2009. In the six months ended March 31, 2010, financial expense amounted to 68 million, a decrease of 19 million compared to 87 million in the six months ended March 31, 2009. Losses on valuation changes and sales of available-

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for-sale financial assets as a result of the financial crisis impacted financial expense by 24 million in the six months ended March 31, 2009, but had no effect in the six months ended March 31, 2010. The decrease in losses on valuation changes and sales of available-for-sale financial assets was partially offset by a loss of 5 million on the repurchase of subordinated convertible notes due June 2010 with notional amounts of 190 million in the six months ended March 31, 2010.

Income from Investments Accounted for Using the Equity Method

Income from investments accounted for using the equity method for the three and six months ended March 31, 2010 were 1 million and 2 million, respectively, a decrease from 2 million and 3 million for the three and six months ended March 31, 2009, respectively. This income consisted of our share in the net income of Infineon Technologies Bipolar GmbH & Co. KG (Bipolar), our equity method investment together with Siemens AG, and our share in the net income of our in November 2009 newly established joint venture LS with LSIS.

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Income (Loss) from Discontinued Operations, Net of Income Taxes

The results of Qimonda and of the Wireline Communications business are presented in the condensed consolidated statements of operations as discontinued operations for the three months and six months ended March 31, 2009 and 2010, and consist of the following components:

	Three months ended March 31,		Six months ended March 31,	
	2009	2010	2009	2010
	(in millions)			
Qimonda[1]				
Revenue			314	
Costs and expenses			(779)	
Reversal of measurement to fair value less costs to sell			460	
Expenses resulting from Qimonda s application to open insolvency proceedings	(8)	(1)	(203)	(1)
Losses resulting from the realization of accumulated losses related to unrecognized currency translation effects (primarily upon deconsolidation and Qimonda s sale of Inotera)	(100)		(188)	
Loss before income taxes	(108)	(1)	(396)	(1)
Income tax expense				
Qimonda s share of discontinued operations, net of income taxes	(108)	(1)	(396)	(1)
Wireline Communications Business				
Revenue	79	(1)	167	31
Costs and expenses	(77)		(161)	(26)
Pre-tax income (loss)	2	(1)	6	5
Income tax expense			(1)	
Income (loss) from operations	2	(1)	5	5
Pre-tax gain recognized on the sale of the Wireline Communications business				110
Income tax expense on gain				(4)
Gain on the sale of the Wireline Communications business, net of income taxes				106

Wireline Communications share of discontinued operations, net of income taxes	2	(1)	5	111
Income (Loss) from discontinued operations, net of income taxes	(106)	(2)	(391)	110

(1) No further information concerning Qimonda s condensed consolidated statements of operations is available for the period from January 1, 2009 to January 23, 2009, the date of the application by Qimonda to commence insolvency proceedings. Due to the write down of Qimonda s net assets to zero as of September 30, 2008, the operating losses of Qimonda for the period from October 1, 2008 to January 23, 2009 did not affect the consolidated net income of the Company, but instead were eliminated via an offsetting partial reversal of previously recorded impairments. Therefore, while the amounts of revenue and costs and expenses in the table above exclude amounts for the period from January 1, 2009 to January 23, 2009, Qimonda s share of the loss from discontinued operations, net of income taxes of 396 million, is unaffected.

Qimonda

In the three and six months ended March 31, 2010, Qimonda had no significant impact on our results. Certain adjustments to individual provisions for contingent liabilities in connection with the insolvency of Qimonda were necessary to reflect current developments in these matters. However, the net impact of these adjustments on our condensed consolidated statements of operations was only negative 1 million.

During the six months ended March 31, 2009, Qimonda-related amounts of 396 million included in loss from discontinued operations, net of income taxes, which consisted principally of the realization of accumulated foreign currency translation losses of 188 million and charges for provisions and allowances of 203 million in connection with Qimonda s insolvency. The realization of accumulated currency translation effects, which were previously recorded in equity, resulted mainly from Qimonda s sale of its interest in Inotera Memories Inc. (Inotera) to Micron Technology, Inc. (Micron) in the three months ended December 31, 2008, as well as the deconsolidation of Qimonda in the three months ended March 31, 2009. We recorded additional provisions and allowances of 195 million as of December 31, 2008 in connection with Qimonda s insolvency. In the three months ended March 31, 2009, we adjusted our initial recorded provisions and allowances by an additional 8 million. As a result of the commencement of insolvency proceedings by Qimonda we are exposed to certain potential liabilities in connection with the Qimonda business which are described in more detail in note 3 to our condensed consolidated financial statements for the three and six months ended March 31, 2009 and 2010. 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 of zero.

Wireline Communications Business

In July 2009 we entered into a purchase agreement with Lantiq, pursuant to which we agreed to sell our Wireline Communications business, one of our segments. The majority of the purchase price was paid at closing in November 2009, in the amount of 223 million, with up to an additional 20 million of the purchase price being payable nine months after the closing date. We recognized an after-tax gain of 106 million at the closing of the sale. Certain current assets in the manufacturing supply chain at the date of closing could not yet be transferred to Lantiq and are presented as assets held for sale in the condensed consolidated statement of financial position at March 31, 2010. Prepayments in relation to those assets were recognized and are presented within liabilities classified as held for sale. We report the results of the Wireline Communications business, as well as the gain on the sale, as discontinued operations, net of income taxes, in our condensed consolidated statements of operations for all periods presented.

Financial Condition

	As of September 30, 2009	As of March 31, 2010	Change
	(in millions, except percentages)		
Current assets	2,744	2,919	6%
therein: assets held for sale	112	21	(81)%
Non-current assets	1,862	1,754	(6)%
Total assets	4,606	4,673	1%
Current liabilities	1,658	1,682	1%
Non-current liabilities	615	567	(8)%
Total liabilities	2,273	2,249	(1)%
Non-controlling interests	60		(100)%
	2,273	2,424	7%

Total equity attributable to shareholders of Infineon Technologies AG			
Total equity	2,333	2,424	4%

As of March 31, 2010, our current assets increased by 175 million compared with September 30, 2009. This reflects primarily an increase of 160 million in our gross cash position, consisting of cash and cash equivalents and available-for-sale financial assets. Despite continued working capital management, inventories increased by 44 million, primarily driven by the ramp up of certain products at major mobile phone customers, and trade and other receivables increased by 43 million, primarily driven by the increase in revenues. These increases were partly offset by a decrease in assets classified as held for sale of 91 million. Our gross cash position in the six months ended March 31, 2010 increased from the net cash provided by operating activities as well as from 223 million of cash received from the sale of the Wireline Communications business. This was partly offset by the deconsolidation of the cash and cash equivalents of ALTIS of 88 million and repurchases of 190 million of notional amounts of our convertible subordinated notes due June 2010 and the repayment of 22 million partly offset by 8 million of

additional drawdowns in other debt in the six months ended March 31, 2010. The decrease in assets classified as held for sale reflects the closing of the sale of our Wireline Communications business and transfer of the assets to Lantiq.

Non-current assets decreased by 108 million as of March 31, 2010 compared to September 30, 2009. This decrease primarily results from a 124 million decrease in property, plant and equipment, as capital expenditures during the first half of the 2010 fiscal year were lower than depreciation. Furthermore, the deconsolidation of ALTIS contributed to the decrease in property, plant and equipment. This decrease was partly offset by an increase in intangible assets due to capitalized development costs and investments accounted for using the equity method in connection with the formation of LS.

Total liabilities as of March 31, 2010 remained almost unchanged and amounted to 2,249 million compared to 2,273 million as of September 30, 2009. Current liabilities increased slightly by 24 million, while non-current liabilities decreased slightly by 48 million. The changes in current liabilities relate primarily to increases in trade and other payables by 97 million and in current provisions by 87 million, offset by decreases in short-term debt and current maturities of long-term debt of 143 million. The increase in trade and other payables results primarily from higher purchases of materials in light of higher production levels as a result of higher demand. Current provisions increased among others as a result of increases in provisions for warranties and increases in personnel provisions as well as provisions in connection with ALTIS. The decrease in short-term debt and current maturities of long-term debt is the result of repurchases of notional amounts of 190 million of our convertible subordinated notes due June 2010 and additional debt repayments of 22 million, partly offset by transfers of 38 million from long-term debt to short-term debt and the additional drawdown of 8 million in short-term debt. Other changes in current liabilities include the payment of the last installment of our settlement with the U.S Department of Justice (DOJ). The decrease in non-current liabilities as of March 31, 2010, compared to September 30, 2009 reflects, among other things, transfers of 38 million from long-term debt to short term debt.

Total equity as of March 31, 2010 increased by 91 million to 2,424 million compared to 2,333 million as of September 30, 2009. This increase reflects net income of 144 million and other comprehensive income of 7 million attributable to the shareholders of Infineon Technologies AG in the six months ended March 31, 2010, partly offset by the decrease in non-controlling interests of 60 million, primarily resulting from the deconsolidation of ALTIS with 61 million, offset by 1 million of net income attributable to non-controlling interests.

Liquidity

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

Cash Flow

	Six months ended March 31,	
	2009	2010
	(in millions)	
Net cash provided by (used in) operating activities from continuing operations	(83)	329
Net cash provided by (used in) investing activities from continuing operations	20	(522)
Net cash used in financing activities from continuing operations	(180)	(205)
Net increase (decrease) in cash and cash equivalents from discontinued operations	(388)	211

Net decrease in cash and cash equivalents	(631)	(187)

Net cash provided by (used in) operating activities from continuing operations

Net cash provided by operating activities from continuing operations was 329 million for the six months ended March 31, 2010, and reflected mainly income from continuing operations of 35 million, excluding non-cash charges for depreciation and amortization of 203 million and total losses from the deconsolidation of ALTIS of 73 million recognized during the six months ended March 31, 2010. Net cash provided by operating activities from continuing operations in the six months ended March 31, 2010 was

also positively impacted by changes in operating assets and liabilities of 58 million due to continued tight working capital management, and negatively impacted by income taxes paid and interest paid, net in the total amount of 34 million.

Net cash provided by (used in) investing activities from continuing operations

Net cash used in investing activities from continuing operations was 522 million for the six months ended March 31, 2010, and primarily relates to the purchases of 375 million of available-for-sale financial assets and cash used for the purchases of property, plant and equipment, intangible assets and other assets in the total amount of 111 million, as well as decreases in cash and cash equivalents of 88 million as a result of the deconsolidation of ALTIS. This was partly offset by proceeds from sales of available-for-sale financial assets of 27 million.

Net cash used in financing activities from continuing operations

Net cash used in financing activities from continuing operations was 205 million and primarily relates to the repurchase of notional amounts of 190 million of our convertible subordinated notes due June 2010 and loan repayments in the net amount of 14 million in the six months ended March 31, 2010.

Change in cash and cash equivalents from discontinued operations

Net cash provided by discontinued operations amounted to 211 million for the six months ended March 31, 2010, primarily reflecting net cash provided by investing activities from discontinued operations of 220 million, which primarily relates to the cash received at the closing of the sale of our Wireline Communications business of 223 million in November 2009. Cash flow provided by operating activities from discontinued operations from the Wireline Communications business amounted to 33 million in the six months ended March 31, 2010 before the closing of the sale and subsequent net pay-outs of current liabilities, and was offset by payments made of 42 million with respect to potential liabilities in connection with the insolvency of Qimonda, including the last installment of the settlement with the DOJ during the first quarter of the 2010 fiscal year.

Free Cash Flow

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

Free cash flow includes only amounts from continuing operations and is determined as follows from the condensed consolidated statements of cash flows:

	Six months ended March 31,	
	2009	2010
	(in millions)	
Net cash provided by (used in) operating activities from continuing operations	(83)	329
Net cash provided by (used in) investing activities from continuing operations	20	(522)

Purchases (sales) of available-for-sale financial assets, net	(10)	348
Free cash flow	(73)	155

Free cash flow was positive 155 million for the six months ended March 31, 2010, compared to negative 73 million for the six months ended March 31, 2009, an improvement of 228 million. Free cash flow during the six months ended March 31, 2010 reflects primarily the improved net cash provided by operating activities of positive 329 million compared to negative 83 million for the same period in the prior year, which was partly offset by the decrease in cash and cash equivalents of 88 million from the deconsolidation of ALTIS and higher net cash used in investing activities for investments in property, plant and equipment and intangible assets of 111 million compared to 89 million in the same period last year. The net cash used in investing activities for the six months ended March 31, 2010 also reflects net

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purchases of 348 million of available-for-sale financial assets, which are excluded from the free cash flow determination.

Net Cash Position

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

	September 30, 2009	March 31, 2010
	(in millions)	
Cash and cash equivalents	1,414	1,228
Available-for-sale financial assets	93	439
Gross cash position	1,507	1,667
Less: Short-term debt and current maturities of long-term debt	521	378
Long-term debt	329	294
Net cash position	657	995

Our gross cash position as of March 31, 2010, representing cash and cash equivalents and available-for-sale financial assets, was 1,667 million, an increase from 1,507 million as of September 30, 2009. The increase of 160 million primarily reflects the positive cash flow from operating activities from continuing operations of 329 million and the cash received of 223 million from the sale of our Wireline Communications business, partly offset by a 88 million reduction in cash and cash equivalents resulting from the deconsolidation of ALTIS and investments in property, plant and equipment and intangible assets of 111 million. During the six months ended March 31, 2010, we also repurchased notional amounts of 190 million of our convertible subordinated notes due June 2010 and repaid other debt in a net amount of 14 million.

Our net cash position as of March 31, 2010, defined as gross cash position less short-term debt and current maturities of long-term debt, and long-term debt, increased to 995 million, compared to 657 million as of September 30, 2009, primarily reflecting the increase in free cash flow and proceeds from the sale of the Wireline Communications business described above.

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

With a combined Segment Result margin of 10.6 percent for the three months ended March 31, 2010, we have begun to meet the targets we set with our IFX10+ cost reduction and efficiency program back in the 2008 fiscal year. We will now make sure that we build on that foundation as we seek to reach similar or higher margins going forward.

As of March 31, 2010, our debt to equity ratio is 28 percent and our net cash position amounts to 995 million compared to a debt to equity ratio of 36 percent and a net cash position of 657 million as of September 30, 2009. This also demonstrates the progress we made in the six months ended March 31, 2010 and should give us a strong foundation to meet future obligations and achieve our strategic objectives.

Employees

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

	As of September 30, 2009	As of March 31, 2010	Change
Function:			
Production	17,338	16,794	(3)%
Research & Development	5,971	5,510	(8)%
Sales & Marketing	1,681	1,506	(10)%
Administrative	1,474	1,406	(5)%
Total	26,464	25,216	(5)%
Region:			
Germany	9,160	8,730	(5)%
Europe	4,676	3,333	(29)%
North America	687	628	(9)%
Asia/Pacific	11,803	12,400	5 %
Japan	138	125	(9)%
Total	26,464	25,216	(5)%

During the first half of the 2010 fiscal year, Infineon s workforce decreased as a result of the sale of our Wireline Communications business and the deconsolidation of ALTIS. This decrease was partially offset by increases in employees as a result of higher capacity utilization in our factories, in particular in Asia/Pacific.

Outlook

Industry Environment

The world economy continued to recover in the first quarter of the 2010 calendar year. It is expected that global economic growth in the 2010 calendar year will be above 3 percent, after a contraction of almost 2 percent in the 2009 calendar year.

The global economic recovery also positively affected the global semiconductor market in the first quarter of the 2010 calendar year. Overall, for the 2010 calendar year, market experts expect a strong increase in revenues and have repeatedly revised their revenue growth expectations upwards for the global semiconductor market. For the 2010 calendar year, iSuppli Corporation currently projects growth of 23 percent in worldwide semiconductor revenues. The latest forecasts of reputable market research firms range between plus 20 percent (Gartner, Inc.) and plus 28 percent (IC Insights, Inc.). In 2011, market research firms generally expect revenues will further rise in line with a growing world economy.

Outlook for the third quarter of the 2010 fiscal year and updated outlook for the 2010 fiscal year

Outlook for the third quarter of the 2010 fiscal year

Assuming a U.S. dollar/Euro exchange rate of 1.40, we expect revenues for the third quarter of the 2010 fiscal year to increase by a high single-digit percentage sequentially. Third quarter combined Segment Result margin is anticipated to increase by between two and four percentage points compared to the second quarter.

The sequential increase in revenues is anticipated to be driven by the Wireless Solutions and Industrial & Multimarket segments, while revenues in the Automotive and Chip Card & Security segments are likely to stay at the same level as in the second quarter.

Updated outlook for the 2010 fiscal year

Given the results of the first half of the 2010 fiscal year and current visibility, we are again raising our guidance for the 2010 fiscal year as a whole.

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We now expect full year revenues to grow by a high 30 s percentage compared with the 2009 fiscal year, at an assumed U.S. dollar/Euro exchange rate of 1.40 for the second half of the 2010 fiscal year. We anticipate that the year-over-year increase will be generated by increases in revenues in all of the company s operating segments, mostly in the Automotive, Industrial & Multimarket, and Wireless Solutions segments, with lower revenue growth anticipated in the Chip Card & Security segment. Revenues in Other Operating Segments, mainly from product supply agreements with Lantiq, are still anticipated to total a low triple-digit million Euro amount.

We expect combined Segment Result in the 2010 fiscal year to improve considerably from the 2009 fiscal year, with combined Segment Result margin now anticipated to be more than ten percent.

In light of the dynamic revenue growth, fully loaded production facilities and planned development milestones, we anticipate that capital expenditures, including capitalized intangible assets, will now exceed 300 million for the 2010 fiscal year, compared to the previous 2010 guidance of up to 250 million and reported capital expenditures, including capitalized intangible assets, of 154 million in the 2009 fiscal year. As previously announced, depreciation and amortization is expected to decrease to approximately 400 million in the 2010 fiscal year compared to 513 million in the 2009 fiscal year.

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, broader economic developments, including the sustainability of recent improvements in the market environment; trends in demand and prices for semiconductors generally and for our products in particular, as well as for the end-products, such as automobiles and consumer electronics, that incorporate our products; the success of our development efforts, both alone and with partners; the success of our efforts to introduce new production processes at our facilities; the actions of competitors; the continued availability of adequate funds; the outcome of antitrust investigations and litigation matters; the effects of currency fluctuations, primarily between the U.S. dollar and the Euro; the outcome of Qimonda s insolvency proceedings, including potential 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 on Form 20-F for the fiscal year 2009.

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 on Form 20-F for the fiscal year 2009.

In February 2009, the *Deutsche Prüfstelle für Rechnungslegung e. V.* (DPR), a German government-appointed private institution, began a routine review of Infineon s IFRS financial statements for the year ended September 30, 2008 (our first year of reporting under IFRS). In the course of this review, we have responded to the DPR s comments on a number of accounting issues with respect to our financial statements. In this regard, the only remaining concern raised by the DPR relates to our accounting for certain deferred tax assets as of September 30, 2008, particularly with respect to tax strategies and the forecasting period for the utilization of tax credits that formed the basis for a material portion of our deferred tax assets. We continue to maintain that our accounting for deferred tax assets is and was correct, and intend to maintain our position in our further discussions with the DPR. In the event that we are unable to reach an agreement with the DPR in this regard, the review in this matter would be continued by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or BaFin). If the BaFin were to determine that our accounting for certain deferred tax assets should be changed, we may be required to adjust our opening accumulated deficit, to reflect a partial reduction of the deferred tax assets recorded. Such adjustment would reduce

our total assets and shareholder s equity, but would have no impact on our statement of operations or available tax loss carry-forwards and tax effected credit carry-forwards, would require no cash expenditure, and would not result in a breach of any financial covenants under our outstanding lending facilities or bonds. Moreover, we believe that, in light of our anticipated future operating results, we will be able to utilize a significant portion of our unrecognized deferred tax assets in future periods. Consequently, we believe that the ultimate resolution of this matter will not have a material adverse impact on our operating results or cash position.

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended March 31, 2009 and 2010
(in millions, except for per share data)

	March 31, 2009 (millions)	**March 31, 2010 (millions)**	**March 31, 2010 ($ millions)**
Revenue	669	1,035	1,400
Cost of goods sold	(581)	(682)	(923)
Gross profit	88	353	477
Research and development expenses	(110)	(136)	(184)
Selling, general and administrative expenses	(100)	(115)	(155)
Other operating income	15	3	4
Other operating expense	(39)	4	5
Operating income (loss)	(146)	109	147
Financial income	20	8	11
Financial expense	(31)	(30)	(40)
Income from investments accounted for using the equity method	2	1	1
Income (loss) from continuing operations before income taxes	(155)	88	119
Income tax benefit (expense)	3	(7)	(9)
Income (loss) from continuing operations	(152)	81	110
Loss from discontinued operations, net of income taxes	(106)	(2)	(3)
Net income (loss)	(258)	79	107
Attributable to:			
Non-controlling interests	(19)		
Shareholders of Infineon Technologies AG	(239)	79	107
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	(0.19)	0.07	0.09
Basic and diluted earnings (loss) per share from discontinued operations	(0.10)		

Basic and diluted earnings (loss) per share	(0.29)	0.07	0.09

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 six months ended March 31, 2009 and 2010
(in millions, except for per share data)

	March 31, 2009 (millions)	March 31, 2010 (millions)	March 31, 2010 ($ millions)
Revenue	1,411	1,976	2,673
Cost of goods sold	(1,200)	(1,309)	(1,771)
Gross profit	211	667	902
Research and development expenses	(242)	(266)	(360)
Selling, general and administrative expenses	(203)	(221)	(299)
Other operating income	18	9	12
Other operating expense	(50)	(92)	(124)
Operating income (loss)	(266)	97	131
Financial income	80	19	26
Financial expense	(87)	(68)	(92)
Income from investments accounted for using the equity method	3	2	3
Income (loss) from continuing operations before income taxes	(270)	50	68
Income tax expense	(1)	(15)	(21)
Income (loss) from continuing operations	(271)	35	47
Income (loss) from discontinued operations, net of income taxes	(391)	110	149
Net income (loss)	(662)	145	196
Attributable to:			
Non-controlling interests	(49)	1	1
Shareholders of Infineon Technologies AG	(613)	144	195
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	(0.33)	0.03	0.04
Basic and diluted earnings (loss) per share from discontinued operations	(0.42)	0.10	0.14
Basic and diluted earnings (loss) per share	(0.75)	0.13	0.18

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Financial Position (Unaudited)
September 30, 2009 and March 31, 2010

	September 30, 2009 (millions)	March 31, 2010 (millions)	March 31, 2010 ($ millions)
Assets:			
Current assets:			
Cash and cash equivalents	1,414	1,228	1,661
Available-for-sale financial assets	93	439	594
Trade and other receivables	514	557	753
Inventories	460	504	682
Income tax receivable	11	18	24
Other current financial assets	26	26	35
Other current assets	114	126	171
Assets classified as held for sale	112	21	28
Total current assets	2,744	2,919	3,948
Property, plant and equipment	928	804	1,088
Goodwill and other intangible assets	369	375	507
Investments accounted for using the equity method	27	36	49
Deferred tax assets	396	400	541
Other financial assets	124	121	164
Other assets	18	18	24
Total assets	4,606	4,673	6,321
Liabilities and equity:			
Current liabilities:			
Short-term debt and current maturities of long-term debt	521	378	511
Trade and other payables	393	490	663
Current provisions	436	523	707
Income tax payable	102	113	153
Other current financial liabilities	50	38	51
Other current liabilities	147		